



Bank of Valletta

Office of the Company Secretary

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BOV/301

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

The Board of Directors of Bank of Valletta p.l.c. (the Bank) has today, the 28 October 2016, approved the audited financial statements for the financial year ended 30 September 2016. The Board resolved that these audited financial statements be submitted for the approval of the shareholders at the forthcoming Annual General Meeting which is scheduled for Friday, 16 December 2016. A preliminary statement of annual results is being attached herewith in terms of the Listing Rules.

The Board of Directors further resolved to recommend for the approval of the Annual General Meeting:

1. The payment of a final gross dividend of €0.0852 per share making for a final net dividend of €0.0554 per share which, if approved by the Annual General Meeting, would make for a total gross dividend for the year of €0.1243 per share (total net dividend per share €0.0808).
2. A bonus share issue of one (1) share for every thirteen (13) shares held which will be allotted to shareholders on the Bank's share register as at close of business on Monday, 16 January 2017¹. The bonus issue will be funded by a capitalisation of reserves amounting to €30 million.

Application will be made for the necessary authorisations concerning the listing of the bonus share issue on the Malta Stock Exchange.

Shareholders on the Bank's share register at the Central Securities Depository of the Malta Stock Exchange, as at the close of business on Wednesday, 16 November 2016², will receive notice of the Annual General Meeting together with the Financial Statements for the financial year ended 30 September 2016.

The final dividend, if approved at the Annual General Meeting, will be paid on the 16 December 2016 to the shareholders on the Bank's share register at the Central Securities Depository of the Malta Stock Exchange as at the close of business on Wednesday, 16 November 2016.

Unquote

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

28 October 2016

- ¹ Monday, 16 January 2017 will include trades undertaken up to and including Thursday, 12 January 2017.
- ² Wednesday, 16 November 2016 will include trades undertaken up to and including Monday, 14 November 2016.



**PRELIMINARY STATEMENT
OF ANNUAL RESULTS**

SEPTEMBER 2016

Statements of profit or loss for the year ended 30 September 2016**Basis of preparation:**

These figures have been extracted from the Bank of Valletta Group's audited financial statements for the year ended 30 September 2016, as approved by the Directors on 28 October 2016, and are being published in terms of MFSA Listing Rule 5.54.

	The Group		The Bank	
	2016 €000	2015 €000	2016 €000	2015 €000
Interest and similar income				
- on loans and advances, balances with Central Bank of Malta and treasury bills	160,195	158,180	160,195	158,180
- on debt and other fixed income instruments	54,063	57,432	54,063	57,432
Interest expense	(65,429)	(70,834)	(65,429)	(70,834)
Net interest income	148,829	144,778	148,829	144,778
Fee and commission income	75,021	70,922	66,840	62,919
Fee and commission expense	(8,936)	(8,346)	(8,936)	(8,346)
Net fee and commission income	66,085	62,576	57,904	54,573
Dividend income	1,901	2,352	9,635	12,151
Trading profits	24,724	34,067	24,724	34,068
Net gain on investment securities and hedging instruments	9,046	3,098	9,046	3,098
Gain on Visa transaction	27,511	-	27,511	-
Operating income	278,096	246,871	277,649	248,668
Employee compensation and benefits	(64,168)	(61,700)	(62,036)	(59,994)
General administrative expenses	(40,103)	(38,651)	(39,085)	(37,347)
Amortisation of intangible assets	(3,539)	(2,574)	(3,539)	(2,574)
Depreciation	(4,968)	(5,107)	(4,899)	(5,022)
Net impairment losses	(23,142)	(32,710)	(23,147)	(32,666)
Operating profit	142,176	106,129	144,943	111,065
Share of results of equity-accounted investees, net of tax	3,730	11,786	-	-
Profit before tax	145,906	117,915	144,943	111,065
Income tax expense	(50,708)	(37,971)	(50,760)	(38,715)
Profit for the year	95,198	79,944	94,183	72,350
Attributable to:				
Equity holders of the Bank	94,742	79,378	94,183	72,350
Non-controlling interest	456	566	-	-
	95,198	79,944	94,183	72,350
Earnings per share	24c3	20c4	24c1	18c6

Statements of profit or loss and other comprehensive income for the year ended 30 September 2016

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Profit for the year	95,198	79,944	94,183	72,350
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments				
- change in fair value	33,777	9,968	33,777	9,968
deferred tax thereon	(11,822)	(3,488)	(11,822)	(3,488)
- change in fair value transferred to profit or loss	(34,876)	(3,747)	(34,876)	(3,747)
deferred tax thereon	12,206	1,311	12,206	1,311
Items that will not be reclassified to profit or loss:				
Property revaluation	960	1,319	960	1,319
deferred tax thereon and effect of changes in property tax rates	44	718	44	718
Remeasurement of actuarial losses on defined benefit plans	(1,448)	(1,451)	(1,448)	(1,451)
deferred tax thereon	508	508	508	508
Other comprehensive income for the period, net of tax	(651)	5,138	(651)	5,138
Total comprehensive income	94,547	85,082	93,532	77,488
Attributable to:				
Equity holders of the Bank	94,091	84,516		
Non-controlling interest	456	566		
	94,547	85,082		

Statements of financial position as at 30 September 2016

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	171,050	126,652	171,050	126,652
Financial assets at fair value through profit or loss	392,430	417,522	391,292	415,558
Investments	3,736,272	3,376,305	3,736,272	3,376,305
Loans and advances to banks	2,098,439	1,656,346	2,098,439	1,656,346
Loans and advances to customers at amortised cost	4,001,656	4,001,839	4,001,656	4,001,839
Investments in equity-accounted investees	97,041	96,904	52,870	52,870
Investments in subsidiary companies	-	-	6,230	1,230
Intangible assets	13,272	12,722	13,272	12,722
Property and equipment	89,574	89,801	89,452	89,651
Current tax	16,061	965	15,091	-
Deferred tax	67,188	86,654	67,188	86,654
Assets held for realisation	11,973	11,601	11,973	11,601
Other assets	4,818	2,990	4,809	2,990
Prepayments and accrued income	23,077	21,661	22,697	22,094
Total Assets	10,722,851	9,901,962	10,682,291	9,856,512
LIABILITIES				
Financial liabilities at fair value through profit or loss	20,327	25,077	20,327	25,077
Amounts owed to banks	250,155	197,760	250,155	197,760
Amounts owed to customers	9,181,047	8,559,731	9,184,470	8,563,107
Debt securities in issue	95,400	95,400	95,400	95,400
Current tax	-	-	-	71
Deferred tax	4,318	4,382	4,318	4,382
Other liabilities	173,988	172,905	173,803	172,743
Accruals and deferred income	16,215	21,317	15,802	20,725
Derivatives designated for hedge accounting	20,649	35,201	20,649	35,201
Subordinated liabilities	231,591	120,000	231,591	120,000
Total Liabilities	9,993,690	9,231,773	9,996,515	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	35,332	35,217	35,220	35,105
Retained earnings	302,841	272,713	259,568	225,953
Total Equity attributable to equity holders of the Bank	729,161	668,918	685,776	622,046
Non-controlling interest	-	1,271	-	-
Total Equity	729,161	670,189	685,776	622,046
Total Liabilities and Equity	10,722,851	9,901,962	10,682,291	9,856,512
MEMORANDUM ITEMS				
Contingent liabilities	225,407	251,670	225,407	251,670
Commitments	1,590,156	1,612,122	1,590,156	1,612,122

Statements of changes in equity for the year ended 30 September 2016

	Attributable to Equity holders of the Bank						Total Equity €000
	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000	Non- Controlling Interest €000	
	The Group						
At 01 October 2014	330,000	988	29,136	253,245	613,369	1,100	614,469
Profit for the year	-	-	-	79,378	79,378	566	79,944
Other comprehensive income							
Available-for-sale investments							
- change in fair value, net of tax	-	-	6,480	-	6,480	-	6,480
- change in fair value transferred to profit or loss, net of tax	-	-	(2,436)	-	(2,436)	-	(2,436)
Property revaluation, net of tax	-	-	2,037	-	2,037	-	2,037
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(943)	(943)	-	(943)
Total other comprehensive income / (loss)	-	-	6,081	(943)	5,138	-	5,138
Total comprehensive income for the year	-	-	6,081	78,435	84,516	566	85,082
Transactions with owners, recorded directly in equity:							
Bonus issue	30,000	-	-	(30,000)	-	-	-
Dividends to equity holders	-	-	-	(28,967)	(28,967)	(395)	(29,362)
	30,000	-	-	(58,967)	(28,967)	(395)	(29,362)
At 30 September 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

Statements of changes in equity for the year ended 30 September 2016 (continued)

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
The Bank					
At 01 October 2014	330,000	988	29,024	213,513	573,525
Profit for the year	-	-	-	72,350	72,350
Other comprehensive income					
Available-for-sale investments					
- change in fair value, net of tax	-	-	6,480	-	6,480
- change in fair value transferred to profit or loss, net of tax	-	-	(2,436)	-	(2,436)
Property revaluation, net of tax	-	-	2,037	-	2,037
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(943)	(943)
Total other comprehensive income / (loss)	-	-	6,081	(943)	5,138
Total comprehensive income for the year	-	-	6,081	71,407	77,488
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	-
Dividends to equity holders	-	-	-	(28,967)	(28,967)
	30,000	-	-	(58,967)	(28,967)
At 30 September 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

Statements of cash flows for the year ended 30 September 2016

	The Group		The Bank	
	2016 €000	2015 €000	2016 €000	2015 €000
Cash flows from operating activities				
Interest and commission receipts	237,321	259,455	229,154	251,459
Interest, commission and compensation payments	(77,205)	(93,171)	(77,026)	(93,294)
Payments to employees and suppliers	(103,563)	(80,704)	(99,601)	(79,677)
Operating profit before changes in operating assets and liabilities	56,553	85,580	52,527	78,488
(Increase)/decrease in operating assets:				
Loans and advances	(53,038)	(322,100)	(53,038)	(322,056)
Reserve deposit with Central Bank of Malta	(8,643)	(15,731)	(8,643)	(15,731)
Fair value through profit or loss financial assets	97,902	122,279	97,902	122,279
Fair value through profit or loss equity instruments	1,303	2,930	477	600
Treasury bills with original maturity of more than 3 months	-	3,999	-	3,999
Other assets	(311)	2,823	(302)	2,823
Increase in operating liabilities:				
Amounts owed to banks and to customers	752,337	1,300,337	752,384	1,302,569
Other liabilities	(33,187)	8,790	(33,120)	8,737
Net cash from operating activities before tax	812,916	1,188,907	808,187	1,181,708
Tax paid	(44,862)	(64,799)	(44,955)	(64,351)
Net cash from operating activities	768,054	1,124,108	763,232	1,117,357
Cash flows from investing activities				
Dividends received	5,628	5,808	9,636	12,151
Interest received from held-to-maturity debt and other fixed income instruments	59,783	58,998	59,783	58,998
Acquisition of non-controlling interest	(5,000)	-	(5,000)	-
Purchase of equity instruments	-	(100)	-	(100)
Purchase of debt instruments	(1,257,546)	(1,560,089)	(1,257,546)	(1,560,089)
Proceeds from sale or maturity of debt instruments	869,184	706,613	869,184	706,613
Proceeds from sale of equity instruments	3,043	-	3,043	-
Proceeds from VISA transaction	22,042	-	22,042	-
Purchase of property and equipment and intangible assets	(8,111)	(9,132)	(8,070)	(9,119)
Proceeds from disposal of property and equipment	598	-	598	-
Net cash used in investing activities	(310,379)	(797,902)	(306,330)	(791,546)
Cash flows from financing activities				
Proceeds from issue of subordinated bonds	111,591	-	111,591	-
Dividends paid to Bank's equity holders	(29,802)	(28,967)	(29,802)	(28,967)
Dividends paid to non-controlling interests	(773)	(395)	-	-
Net cash from/(used in) financing activities	81,016	(29,362)	81,789	(28,967)
Net change in cash and cash equivalents	538,691	296,844	538,691	296,844
Effect of exchange rate changes on cash and cash equivalents	-	64	-	64
Net change in cash and cash equivalents after effect of exchange rate changes	538,691	296,780	538,691	296,780
Net change in cash and cash equivalents	538,691	296,844	538,691	296,844
Cash and cash equivalents at 1 October	1,309,347	1,012,503	1,309,347	1,012,503
Cash and cash equivalents at 30 September	1,848,038	1,309,347	1,848,038	1,309,347

Review of Performance

Bank of Valletta Group reports a profit before tax of €145.9 million for the financial year ended on 30 September 2016. These results include a one off gain arising on the disposal of BOV's interest in VISA Europe which was acquired by VISA Inc. This transaction resulted in a receipt of an upfront cash consideration, preference shares and a deferred cash payment. The total income on this transaction, recognised in Profit for the year, amounts to €27.5 million. As this is a significant one off event, its impact on performance, is excluded in the review of performance.

Profit for the year before the VISA gain of €118.4 million, is marginally higher than the comparative period. Key performance indicators were satisfactory with a pre-tax Return on Equity of 16.9% and a Cost/Income ratio of 44.3%. (FY 2015: 18.4% and 41.8% respectively). These results were achieved during a period where high levels of liquidity continued to be experienced coupled with persisting low interest rates and within a context of steady economic growth on the local scene which contrasted with a more subdued economic scenario in the euro area.

Operating results comprise both core and non-core items. Gains attributed to external non-core factors, namely fair value gains and share of profit from the insurance business, amount to €17.1 million, or €9.4 million less than those recognised last year. The decrease is attributable both to market movement, which was not as favourable as last year, as well as to lower share of income from our insurance interests. The improvement in net interest income and commissions were offset by lower exchange earnings and a higher cost base. The prudent view towards impairment has been retained. The BOV Group's results for the financial year are summarised in the following table.

	Sep-16	Sep-15	Change	
	€million	€million	€ million	%
Net interest income	148.8	144.8	4.0	3
Net commissions	66.1	62.6	3.5	6
Exchange and dividend income	22.2	24.7	(2.5)	(10)
Costs	(112.8)	(108.0)	(4.8)	4
Impairment charge	(23.1)	(32.7)	9.6	29
Core Profit	101.2	91.4	9.8	11
Fair value movement	13.5	14.8	(1.3)	(9)
Share of profit from associates	3.7	11.7	(8.0)	(68)
	118.4	117.9	0.4	0.4
Gain on VISA transaction	27.5		27.5	
Profit before tax	145.9	117.9	27.9	24

Net interest margin for the year of €148.8 million is up by 3% over last year. The persisting low interest rate scenario impacted all segments of the balance sheet. The retail margin reflects a lower effective interest rate on advances, following rate cuts and the changing mix of the loan book. This was offset by a reduction in interest payable, as customers' preference for short-term deposits continued. The pressure on the margin earned on the treasury business continued despite higher volumes of investments and compounded by higher liquidity and negative rates.

Net commissions of €66.1 million represents an increase of 6% over last year and was driven by satisfactory growth in investment related products, including bancassurance, and the card business. Earnings from foreign exchange are below last year as lower volumes were transacted reflecting the Bank's strategy of de-risking its business model.

Operating costs for the year of €112.8 million are 4% over last year. The higher cost base reflects the impact of the new collective agreement signed in early 2016 and the continued investment in human resources, primarily in control functions. Higher IT related costs were also recorded as the Bank continued with its programme to replace its core banking system. During the year an extensive gap analysis was carried out to ensure that the short listed solution meets all business requirements.

The impairment charge of €23.1 million this year arises on specific exposures, where the prudent view towards recovery and the valuation of collateral held was retained. It also includes a reversal of the collective impairment allowance. The higher comparative charge was due to the new provisioning methodology adopted in FY 2015 which had a greater emphasis on the assessment of individual exposures deemed to have specific risks.

Review of Financial Position

Total assets as at 30 September 2016 stood at €10.7 billion (September 2015: €9.9 billion), while equity attributable to the shareholders of the Bank increased by a further 9% to reach €729.2 million.

BOV's Common Equity Tier 1 (CET 1) ratio stands at 12.8% up from 11.3% last year while the Group's liquidity position remains strong with a net advances to deposit ratio of 45%.

Gross loans and advances to customers, at €4.3 billion, are very much in line with September 2015. During the year a write off exercise was carried out whereby long outstanding exposures, which were mostly provided for, were written off. The demand for mortgages persisted and home loans, which represent 43% of the total loan book, grew by 5% as first time buyers continued to benefit from Government concessions on stamp duty.

Customer deposits at the year end stand at €9.2 billion, an increase of €0.6 billion, or 7% over September 2015. This growth occurred in short term deposits, and originated primarily from the retail and corporate customer segments. As part of the strategy to lower the Bank's risk profile, a number of exercises were carried out during the year which saw tighter AML procedures being put in place as well as the termination of a number of institutional deposits which were not considered to be in line with the lower risk business model.

Incoming funds not applied to lending were invested into good quality short dated securities and liquid assets. Cash and short term funds at the year end amounted to €2.3 billion, an increase of €0.5 billion over last year.

Dividend and Bonus Issue

While the current levels of capital are considered adequate, the need for more capital remains as evolving regulation is expected to require additional capital requirements to meet higher risk weights on assets. The conservation and the generation of capital remain high on the Bank's agenda. Its strategy is to build reserves through a higher profit retention and determine the dividend payout ratio with reference to the CET 1 ratio. The Board of Directors will, at the forthcoming Annual General Meeting, be recommending a final gross dividend of €0.0852 per share which, taken together with the gross interim dividend of €0.0391 per share paid in May 2016, results in a total gross dividend of €0.1243 per share for FY 2016. While this results in a lower payout ratio when compared to last year, the total dividend for the year represents a gross yield of 5.5% by reference to the closing share price of €2.26 per share at 30 September 2016 and a net dividend cover of 3 times.

Similar to previous years, the Board is also recommending a bonus issue of 1 share for every 13 shares held on 16 January 2017 by capitalisation of reserves amounting to €30 million increasing the issued capital from €390 million to €420 million.

Looking Ahead

While the results for FY 2016 are considered to be satisfactory, the coming years are expected to remain challenging as the strengthening of capital levels remains a top priority so as to safeguard the long term sustainability of the Bank. This will be achieved through a strategy which looks at the de-risking of the business model as long term stability is given priority over the shorter term profitability. The build up of capital, which started in 2016 through the issuance of subordinated debt on the local

market, will continue in the coming years as part of the Bank's multi-year capital planning programme.

During 2017 the Bank expects to sign the contract with the supplier of the solution chosen to replace its core banking system. While this in itself is a major challenge, coupling it with the initiative to "Change the Bank Together" makes this a truly demanding project to achieve the objectives of innovation and more efficient operations for an enhanced customer service while meeting the ever increasing regulatory requirements and addressing process risks.

The strengthening of the corporate governance model remains another area of focus as priority will be given to strengthen the Bank's risk management framework, particularly the anti-financial crime area as well as an overhaul of the risk appetite framework.

The Maltese economy is expected to remain resilient with further growth in GDP forecasted for 2017 and BOV's remains entwined with the local economy. This, together with the continued custom and support provided to BOV by the various stakeholders, should augur well when facing the challenges in the coming years.

By Order of the Board
28 October 2016

Notice is hereby given that Wednesday 16 November 2016 is the "record date" for the purposes of Article 2 (f) of the Bank's Articles of Association.

All shareholders appearing on the Bank's Register of Members as at the close of business on Wednesday 16 November 2016 will:

- i) receive notice of and be entitled to attend and vote at the Bank's Annual General Meeting scheduled for Friday 16 December 2016, and
- ii) be paid, on Friday 16 December 2016, the final dividend as approved at the Annual General Meeting.

Pursuant to the Malta Stock Exchange Bye-Laws, the Bank's Register of Members as at close of business on Wednesday 16 November 2016 will include trades undertaken up to and including Monday 14 November 2016.