Registration Document
dated 30 October 2017

This Registration Document is issued in accordance with the provisions of Chapter 4 of the Listing Rules issued by the Listing Authority and in accordance with the provisions of Commission Regulation (EC) No. 809/2004 of 29 April 2004, as amended (the "**Prospectus Regulation**").

BANK OF VALLETTA P.L.C.

(a public limited liability company registered under the laws of Malta with company registration number C 2833)

THE LISTING AUTHORITY ACCEPTS NO RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS, MAKES NO REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THE PROSPECTUS INCLUDING ANY LOSSES INCURRED BY INVESTING IN SECURITIES ISSUED BY THE BANK.

A PROSPECTIVE INVESTOR SHOULD SEEK INDEPENDENT FINANCIAL ADVICE BEFORE DECIDING TO INVEST IN ANY LISTED FINANCIAL INSTRUMENTS. A PROSPECTIVE INVESTOR SHOULD BE AWARE OF THE POTENTIAL RISKS IN INVESTING IN THE NEW SHARES AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER CAREFUL CONSIDERATION AND CONSULTATION WITH HIS OR HER OWN INDEPENDENT FINANCIAL ADVISER.

APPROVED BY THE BOARD OF DIRECTORS

Taddeo Scerri

Signing in his capacity as Chairman and Director of the Issuer and as a duly appointed agent of all the other Directors of the Issuer.

Legal Counsel
CAMILLERI PREZIOSI
ADVOCATES

Joint Sponsors
RIZZO FARRUGIA
YOUR INVESTMENT CONSULTANTS
Jesmond Mizzi
FINANCIAL ADVISORS

Manager & Registrar
BOV
Bank of Valletta

BACKGROUND TO THE ISSUER'S CAPITAL INCREASE

The balance sheet growth of Bank of Valletta p.l.c. (the "**Bank**") to €10.7 billion as at the financial year ended 30 September 2016 and its status as an other systemically important institution ("**O-SII**") drives the need for the Bank to maintain increased capital buffers that will allow it a higher capacity to continue developing its business and to absorb any unexpected losses that may be incurred. As an O-SII, the Bank is considered by supervisory banking authorities as an institution whose failure would have a significant impact on domestic financial stability and therefore is required, under the banking regulatory framework, to maintain capital buffers over and above those required of banks that are not considered to be O-SIIs; a measure calculated to absorb higher levels of losses from operations.[1]

In meeting the challenges that are posed, amongst others, by these regulatory requirements, the Bank has developed a strategy that is aimed at actively managing its capital requirements, in the light of the conduct of its future business and its positioning within the Maltese economic landscape.

Centrefold to this strategy is the Bank's intention to increase its share capital through a rights issue of approximately €150,000,000. The capital increase is one of the main measures of the Bank's capital management plan and is aimed at enabling the Bank's future capital level to comply with, and indeed exceed, regulatory requirements following the implementation of the measures in the Bank's Strategic Initiatives for the period 2018 to 2020. The said Strategic Initiatives, details of which are set out in the Registration Document, are characterised by measures that will have an impact on the on-going capital requirements of the Bank, which the Bank will seek to manage by:

i. Maintaining a prudent dividend payout ratio that will seek to balance the dividend expectations of Shareholders with the need to re-invest a proportion of profits into the business;

ii. Managing the consumption of capital through control over the risk density of its assets. This strategy involves the winding down of certain business segments, such as the trusts services business, as well as re-dimensioning certain other business segments with a view to lowering their risk profiles, and improving the quality of its assets. The reduced risk profile of certain business lines will allow the Bank to lower the amount of capital required to support these lines, thereby freeing up capital to augment buffers; and

iii. Ensuring sustainability of earnings through undertaking new business initiatives that are aimed at:
    a. supplementing its traditional core income streams by expanding high yielding business lines such as personal finance, asset management, pensions and savings plans;
    b. ensuring charges and tariffs that better reflect the real cost of service delivery to customers; and
    c. developing and executing a robust digitalization strategy together with a comprehensive review of business processes with the aim of rendering the Bank's operations and processes more functional and efficient.

Additional demand for capital will however continue to increase in the short to medium term from the Bank's on-going Core Banking Transformation Programme, a multi-million Euro programme aimed at the replacement of the Bank's core banking system and related business processes. The current system, which has been in operation for seventeen years, will be replaced by a leading global solution provided by Oracle. It will be accompanied by a bank-wide change programme that will transform business processes with the aim of providing higher quality of service through robust delivery channels, thus enhancing the Bank's customer experience. The new core system will also provide a solid foundation for developing the Bank's future strategy to digitalise its services.

The new Core Banking System will be treated on the Bank's balance sheet as an intangible asset, and consequently, will be deducted from the Bank's regulatory capital. The result will be a diminution of regulatory capital available to the Bank to apply in satisfaction of its regulatory requirements.

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[1] The O-SII capital buffer is a macro-prudential tool legally embedded in the CRD IV/CRR framework which in turn has been implemented in Malta in Directive no.11 issued by the Central Bank of Malta and MFSA Banking Rule 15.

Unless the Bank can improve its capital base, through additional CET1, its ability to sustain further growth and implement its Strategic Initiatives within the parameters of the new regulatory framework, may be curtailed. Failure to improve the capital base would also have an adverse impact on the Bank's ability to sustain its current dividend pay-out approach, and result in the Bank's ability to proceed with the payment of dividends to Shareholders being curtailed, if not altogether prohibited, until the new capital requirements are met to the satisfaction of the supervisory authorities. This could have a significant impact on its overall business, operational results and financial and capital condition. Accordingly, the new regulatory framework has created the need for the Bank to take a fresh look at its strategy and to improve its CET1 to avoid possible intrusive actions by Regulatory Authorities. In such an event, the Bank could also be subject to measures by the Regulatory Authorities including the imposition of restrictions or limits on assets and/or the sale of assets that are deemed to present higher risks to the financial stability and strength of the Bank.

IMPORTANT INFORMATION

THIS REGISTRATION DOCUMENT CONTAINS INFORMATION IN RELATION TO THE BANK AND ITS BUSINESS, AND IS DRAWN UP IN ACCORDANCE WITH THE REQUIREMENTS OF THE LISTING RULES, THE ACT AND THE PROSPECTUS REGULATION.

NO BROKER, DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORISED BY THE BANK OR ITS DIRECTORS TO ISSUE ANY ADVERTISEMENT OR TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE BANK OTHER THAN THOSE CONTAINED IN THE PROSPECTUS AND IN THE DOCUMENTS REFERRED TO THEREIN, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE ISSUER OR ITS DIRECTORS.

IT IS THE RESPONSIBILITY OF ANY PERSON IN POSSESSION OF THIS DOCUMENT AND ANY PERSON WISHING TO ACQUIRE SECURITIES ISSUED BY THE BANK TO INFORM THEMSELVES OF, AND TO OBSERVE AND COMPLY WITH, ALL APPLICABLE LAWS AND REGULATIONS OF ANY RELEVANT JURISDICTION. PROSPECTIVE INVESTORS SHOULD INFORM THEMSELVES AS TO THE LEGAL REQUIREMENTS OF ACQUIRING AND HOLDING SECURITIES ISSUED BY THE BANK AND ANY APPLICABLE EXCHANGE CONTROL REQUIREMENTS AND FISCAL OBLIGATIONS IN THE COUNTRIES OF THEIR NATIONALITY, RESIDENCE, OR DOMICILE.

SECURITIES ISSUED PURSUANT TO THIS PROSPECTUS HAVE NOT BEEN, NOR WILL THEY BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT, 1933 AS AMENDED, OR UNDER ANY FEDERAL OR STATE SECURITIES LAW, AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, IN THE UNITED STATES OF AMERICA, ITS TERRITORIES OR POSSESSIONS, OR ANY AREA SUBJECT TO ITS JURISDICTION (THE "**U.S.**"), OR TO OR FOR THE BENEFIT OF, DIRECTLY OR INDIRECTLY, ANY U.S. PERSON (AS DEFINED IN REGULATION "S" OF THE SAID ACT). FURTHERMORE, THE BANK WILL NOT BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT, 1940, AS AMENDED, AND INVESTORS WILL NOT BE ENTITLED TO THE BENEFITS SET OUT THEREIN.

THE CONTENTS OF THE BANK'S WEBSITE OR ANY WEBSITE DIRECTLY OR INDIRECTLY LINKED TO THE BANK'S WEBSITE DO NOT FORM PART OF THIS DOCUMENT. ACCORDINGLY, NO RELIANCE OUGHT TO BE MADE BY ANY INVESTOR ON ANY INFORMATION OR OTHER DATA CONTAINED IN SUCH WEBSITES AS THE BASIS FOR A DECISION TO INVEST IN ANY SECURITIES ISSUED BY THE BANK.

ALL THE ADVISERS TO THE ISSUER HAVE ACTED AND ARE ACTING EXCLUSIVELY FOR THE BANK IN RELATION TO THIS PROSPECTUS AND HAVE NO CONTRACTUAL, FIDUCIARY OR OTHER OBLIGATION OR RESPONSIBILITY TOWARDS ANY OTHER PERSON. NONE OF THE ADVISERS ACCEPT ANY RESPONSIBILITY TO ANY INVESTOR OR ANY OTHER PERSON WHOMSOEVER IN RELATION TO THE CONTENTS OF AND ANY INFORMATION CONTAINED IN THE PROSPECTUS, ITS COMPLETENESS OR ACCURACY OR ANY OTHER STATEMENT MADE IN CONNECTION THEREWITH.

THE DIRECTORS OF THE ISSUER CONFIRM THAT WHERE INFORMATION INCLUDED IN THIS PROSPECTUS HAS BEEN SOURCED FROM A THIRD PARTY, SUCH INFORMATION HAS BEEN ACCURATELY REPRODUCED, AND AS FAR AS THE DIRECTORS OF THE ISSUER ARE AWARE AND ARE ABLE TO ASCERTAIN FROM INFORMATION PUBLISHED BY THAT THIRD PARTY, NO FACTS HAVE BEEN OMITTED WHICH WOULD RENDER THE REPRODUCED INFORMATION INACCURATE OR MISLEADING.

THE VALUE OF INVESTMENTS CAN RISE AS WELL AS FALL AND PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFOMANCE. INVESTORS MAY LOSE ALL OR PART OF THEIR CAPITAL INVESTED BY INVESTING IN ANY SECURITIES ISSUED BY THE BANK. PROSPECTIVE INVESTORS SEEKING TO INVEST IN THE SAID FINANCIAL INSTRUMENTS ARE URGED TO CONSULT A LICENSED STOCKBROKER OR AN INVESTMENT ADVISER LICENCED UNDER THE INVESTMENT SERVICES ACT (CAP. 370 OF THE LAWS OF MALTA) PRIOR TO MAKING AN INVESTMENT DECISION.

STATEMENTS MADE IN THIS DOCUMENT ARE, EXCEPT WHERE AND AS STATED OTHERWISE, BASED ON THE LAW AND PRACTICE CURRENTLY IN FORCE IN MALTA AND ARE SUBJECT TO CHANGES THERETO.

A COPY OF THIS DOCUMENT HAS BEEN SUBMITTED TO THE LISTING AUTHORITY IN SATISFACTION OF THE LISTING RULES AND TO THE MSE IN SATISFACTION OF THE MSE BYE-LAWS, AND HAS BEEN DULY FILED WITH THE REGISTRAR OF COMPANIES IN ACCORDANCE WITH THE REQUIREMENTS OF THE ACT.

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1. DEFINITIONS

In this Registration Document, the following words and expressions shall bear the following meanings whenever such words and expressions are used in their capitalised form, except where the context otherwise requires:

Act	The Companies Act (Cap. 386 of the laws of Malta);
Articles	The articles of association of the Issuer;
Associated Companies	Each of MAPFRE Middlesea p.l.c. (C 5553) and MAPFRE MSV Life p.l.c. (C 15722);
Bank or **Issuer**	Bank of Valletta p.l.c., a credit institution licenced by the MFSA and registered as a public limited liability company under the laws of Malta with company registration number C 2833;
Banking Act	The Banking Act (Cap. 371 of the laws of Malta);
Banking Union	The banking union in the EU which was initiated in 2012 as a response to the Eurozone crisis and which entails the transfer of responsibility for banking policy from the national to the EU level in several countries of the EU for the purpose of ensuring that EU banks are stronger and better supervised;
BBR	The Bank's base rate which is the basis, established by the Bank from time to time, on which the rate of interest payable generally on all Bank lending is determined;
Board or **Board of Directors** or **Directors**	The board of directors of the Issuer whose names are set out in section 12.1.1 of this Registration Document;
BOV Asset Management Limited or **BOVAM**	Means BOV Asset Management Limited, bearing company registration number C 18603 and with registered address at 58, Zachary Street, Valletta VLT 1130, Malta;
BOV Fund Services Limited or **BOVFS**	Means BOV Fund Services Limited, bearing company registration number C 39623 and with registered address at 58, Zachary Street, Valletta VLT 1130, Malta;
CRD IV	Directive 2013/36/EU of the European Parliament and Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC;
CRR	Regulation (EU) No 575/2013 of the European Parliament and Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012;
EU	The European Union;

EU Member States	The member states of the EU;
Euribor	The Euro Interbank Offered Rate which is a daily reference rate based on the averaged interest rates at which Eurozone banks offer to lend unsecured funds to other banks in the euro wholesale money market (or interbank market);
Euro or **€**	The lawful currency of the Eurozone;
European Commission	An institution of the EU, responsible for proposing legislation, implementing decisions, upholding the EU treaties and managing the day-to-day business of the EU;
External Auditors or **Statutory Auditors**	The external auditors of the Issuer, details of which are set out in section 4.1 of this Registration Document;
FIAU	The financial intelligence analysis unit established under the Prevention of Money Laundering Act (Cap. 373 of the laws of Malta) which is the national agency responsible for prevention of money laundering and financing of terrorism;
Fitch	Refers to Fitch Ratings which is a global rating agency committed to providing the world's credit markets with independent and prospective credit opinions, research and data;
Group	The Issuer and the Subsidiaries;
Group CEO	The Chief Executive Officer of the Group;
IFRS or **IAS** or **International Accounting Standards**	All the International Financial Reporting Standards, all the International Accounting Standards (IAS), all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC), adopted by the European Union;
Listing Authority	The Board of Governors of the MFSA, appointed as 'Listing Authority' for the purposes of the Malta Financial Services Authority Act (Cap. 330 of the laws of Malta);
Listing Rules	The listing rules issued by the Listing Authority as may be amended and/or supplemented from time to time;
Memorandum	The memorandum of association of the Issuer;

Memorandum and Articles	The memorandum & articles of association of the Issuer;
MFSA	The Malta Financial Services Authority, established in terms of the Malta Financial Services Authority Act (Cap. 330 of the laws of Malta);
Moody's	Refers to Moody's Investors Service which is a leading provider of credit ratings, research, and risk analysis;
MSE	Malta Stock Exchange p.l.c., as originally constituted in terms of the Financial Markets Act (Cap. 345 of the laws of Malta), having its registered office at Garrison Chapel, Castille Place, Valletta VLT 1063, Malta, and bearing company registration number C 42525;
Prospectus	Collectively this Registration Document, the Securities Note and the Summary Note, as such documents may be amended, updated, replaced and/or supplemented from time to time;
Registration Document	This document in its entirety;
Registrar of Companies	Means the person appointed as registrar of companies in accordance with the provisions of the Act;
Regulatory Authorities	Collectively, the MFSA and the ECB;
Resolution Authority	Means the authority appointed for the purposes of the BRRD and which is empowered to apply the resolution tools and exercise the resolution powers;
Resolution Committee	Means the committee established within the MFSA through the Malta Financial Services Authority Act (Cap. 330 of the laws of Malta) and which is responsible for the resolution of credit institutions and investment firms;
Securities Note	The securities note dated 30 October 2017, forming part of the Prospectus;
Senior Management	The management board of the Issuer, details of which appear in section 12.3 of the Registration Document;
Shareholders	The persons registered in the Company's register of members as holding shares in the Company from time to time;
SRM Regulation	Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010;
SSM Regulation	Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions;

S&P	Refers to S&P Global Ratings which is the world's leading provider of credit ratings;
Strategic Initiatives	The strategic initiatives described in section 7.3 of this Registration Document;
Subsidiaries	Each of BOV Asset Management Limited and BOV Fund Services Limited;
Summary Note	The summary note dated 30 October 2017, forming part of the Prospectus; and
UniCredit	UniCredit S.p.A. having its registered office in Rome, Via A. Specchi 16, and Head Office in Milan, Piazza Gae Aulenti 3 – Tower A.

2. GLOSSARY

The following technical terms are used in this document as a means of explaining *inter alia* the regulatory framework within which the Issuer operates. The terms are explained in this glossary to facilitate the reading and understanding of this document.

Basel II	An international agreement on capital requirements for banks in relation to the risks that they assume;
Basel III	An international agreement modifying Basel II adopted in December 2010, containing amendments to the prudential regulations on bank capital and liquidity, with the new prudential requirements gradually coming into force from 1 January 2014 until 31 December 2019;
Basic Indicator Approach	An operational risk measurement technique used to calculate the capital charge for operational risk under the CRR which uses the Group's total gross income as a risk indicator for the Group's operational risk exposure and sets the required level of operational risk capital as 15% of the Group's annual positive gross income averaged over the previous three years;
Basic Method	The method used to determine the capital charge for foreign exchange risk by the Bank, which, as at the date of this Prospectus, is calculated at 8% of the higher of the sum of all the net short positions and the sum of all the net long positions in each foreign currency;
BRRD or **BRRD Regulations**	The Recovery and Resolution Regulations (subsidiary legislation 330.09 of the laws of Malta) implementing Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms;
CBM or **Central Bank of Malta**	The Central Bank of Malta established by the Central Bank of Malta Act (Cap. 204 of the laws of Malta);
Common Equity Tier 1 or **CET1** or **Tier 1**	The primary component of capital under Basel III rules, consisting principally of paid-up ordinary share capital, related premium reserves, profit for the period, reserves, shareholders' equity attributable to minority interests (which can be included within limits set by the rules) and such other components as may be detailed in the CRR from time to time, as the same may be amended and/or updated;
Core Banking Transformation Programme or **Core Banking System** or **CBT Programme** or **CBT**	The replacement of the Issuer's core IT system and the simultaneous upgrade of other key systems used by the Issuer. The IT implementation will be complemented by a thorough review of business processes with the aim of improving efficiency in customer service;
EBA	The European Banking Authority established through Regulation (EC) No 1093/2010 of the European Parliament and of the Council of 24 November 2010;
ECB	The European Central Bank, namely the central bank of the 19 EU Member States which have adopted the Euro;

ICAAP	Is the acronym of Internal Capital Adequacy Assessment Process, the independent process for evaluating capital adequacy, current and prospective, in relation to the risks undertaken and corporate strategies. The ICAAP makes it possible to calculate the internal capital level adequate to deal with all types of risk;
ILAAP	The Internal Liquidity Adequacy Assessment Process, the process for evaluating the adequacy of internal liquidity, with reference to the processes for identifying, measuring, managing and monitoring internal liquidity implemented pursuant to Article 86 of the CRD IV;
IMF	The International Monetary Fund;
JST	The joint supervisory team established for the Issuer, which is led by the ECB and comprises staff from the ECB and the MFSA;
Maximum Distributable Amount	Is the maximum amount of profit which may be distributed as dividends, which amount is calculated on the basis of Article 141(4) of CRD IV;
Oracle	Oracle Hellas Distribution of Software and Information Systems SMLLC;
ROE	An acronym of ‘return on equity’, the ratio between net income and the average of share capital, share premium reserves, reserves and valuation reserves;
Single Supervisory Mechanism or **SSM**	The European financial supervisory system composed of the ECB and competent national authorities of the participating EU Member States, established pursuant to Regulation (EU) No 1024 of the Council of 15 October 2013 and later supplemented by the implementation provisions pursuant to Regulation (EU) No 468/2014 of the ECB;
SRB	Refers to the Single Resolution Board. The Single Resolution Board is a key element of the SRM. Its mission is to ensure the orderly resolution of failing banks, with as little impact as possible on the real economy and public finances of the EU Member States participating in the SSM;
SRM	Refers to the Single Resolution Mechanism and applies to banks covered by the SSM. It is the second pillar of the Banking Union;

SREP	The Supervisory Review and Evaluation Process governed by the CRD IV to which banks are subject, with an annual frequency, conducted by the Regulatory Authorities. The SREP is comprised of the following main phases: (i) analysis of the exposure to all the significant risks undertaken and the organisational safeguards for their governance, management and control; (ii) evaluation of the robustness of the stress tests conducted internally, also by carrying out similar exercises on behalf of the Regulatory Authorities based on regulatory methods; (iii) analysis of the impact of the stress tests conducted in a macro prudential situation on the technical situation of the banks; (iv) verification of compliance of the capital requirements and other prudential rules; (v) evaluation of the corporate process for calculating the overall internal capital and adequacy of the overall capital in relation to the bank's risk profile (revision of the ICAAP); (vi) allocation of special ratings to each type of risk and an overall score for the corporate position; and (vii) identification by the Regulatory Authorities of any supervisory measures to be implemented;
Standardised Approach	A credit risk measurement technique involving the application of risk weights based on the exposure class to which the exposure is assigned and its credit quality, determined in accordance with the CRR; and
Tier 2 Capital	Tier 2 capital constitutes supplementary capital under the Basel III rules and primarily consists in capital instruments and subordinated loans where certain conditions are met and share premium accounts related to capital instruments (which can be included within limits set by the rules) and such other components as may be detailed in the CRR Regulation from time to time, as the same may be amended and/or updated.

3. PERSONS RESPONSIBLE

3.1 PERSONS RESPONSIBLE FOR INFORMATION

The Issuer, with registered office as set out in section 7.1.4 of this Registration Document, and its Directors, whose names are set out in section 12.1.1 of this Registration Document, assume responsibility for the completeness of the data and information contained in the Prospectus.

3.2 DECLARATION OF RESPONSIBILITY

The Directors hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus for which they are responsible is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

4. STATUTORY AUDITORS AND ADVISERS

4.1 STATUTORY AUDITORS OF THE ISSUER

The Bank appointed KPMG of Portico Building, Marina Street, Pieta' PTA 9044, Malta jointly with KPMG LLP, of 15 Canada Square, Canary Wharf, London E14 5GL, United Kingdom as the Statutory Auditors of the Issuer by virtue of a Shareholders' resolution at the annual general meeting of the Issuer on the 17 December 2014, and their re-appointment has ever since been approved during subsequent annual general meetings. KPMG is registered as a partnership of certified public accountants holding a practising certificate to act as auditors in terms of the Accountancy Profession Act (Cap. 281 of the laws of Malta). KPMG LLP is a limited liability partnership incorporated in England and is a member of the Institute of Chartered Accountants in England and Wales.

The consolidated financial statements of the Issuer as at 30 September 2016, as at 30 September 2015 and as at 30 September 2014, have been audited by the Statutory Auditors. There were no adverse opinions on the part of the Statutory Auditors with respect thereto. The consolidated interim financial statements of the Issuer for the periods ended 31 March 2017 and 31 March 2016 were reviewed by the Statutory Auditors.

4.2 RELATIONS WITH THE EXTERNAL AUDITORS

As at the date of this Registration Document there was no revocation of the engagement given by the Issuer to the Statutory Auditors, nor any renunciation of that engagement by the Statutory Auditors. The current engagement of the Statutory Auditors is subject to the approval of the next annual general meeting of the Issuer.

4.3 ADVISERS

LEGAL COUNSEL	Name: Address:	**Camilleri Preziosi** Level 3, Valletta Buildings, South Street, Valletta VLT 1103, Malta.
JOINT SPONSORS	Name: Address:	**Jesmond Mizzi Financial Advisors Ltd.** 67, Level 3, South Street, Valletta VLT 1105, Malta.
	Name: Address:	**Rizzo, Farrugia & Co. (Stockbrokers) Ltd.** Airways House, Third Floor, High Street, Sliema SLM 1549, Malta.
MANAGER & REGISTRAR	Name: Address:	**Bank of Valletta p.l.c.** 58, Zachary Street, Valletta VLT 1130, Malta.

5. SELECTED FINANCIAL INFORMATION

5.1 INTRODUCTION AND PRESENTATION OF CERTAIN FINANCIAL INFORMATION

Historically the Issuer's and the Group's financial year ended on the 30 September in each year. As from the current year (2017), the Issuer's and the Group's financial year shall end on the 31 December in each year.

The historical financial information of the Issuer and the Group is included in: (a) the consolidated audited financial statements of the Issuer for each of the financial years ended 30 September 2014, 30 September 2015 and 30 September 2016; and (b) the interim consolidated financial statements of the Issuer for the six-month financial periods ended 31 March 2016 and 31 March 2017, all of which are incorporated by reference into this Registration Document and extracts of which are reproduced in this Registration Document. The aforementioned financial statements are available for inspection at the registered office of the Issuer (as set out in section 27 of this Registration Document).

5.2 KEY FINANCIAL INFORMATION

5.2.1 Key Consolidated Financial Figures

The following table depicts key financial information extracted from the audited consolidated annual financial statements of the Group for the financial years ended 30 September 2016, 30 September 2015 and 30 September 2014 and unaudited consolidated interim financial statements of the Issuer for the six months ended 31 March 2017, 31 March 2016, 31 March 2015 and 31 March 2014.

	31 Mar-17	30 Sep-16	31 Mar-16	30 Sep-15	31 Mar-15	30 Sep-14	31 Mar-14
Authorised share capital (ordinary shares of €1.00 each) ('000)	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Ordinary shares in issue of €1.00 each ('000)	420,000	390,000	390,000	360,000	360,000	330,000	330,000
Total assets (€'000)	11,305,810	10,722,851	10,496,201	9,901,962	9,042,441	8,296,791	7,734,102
Total liabilities (€'000)	10,552,945	9,993,690	9,790,094	9,231,773	8,401,521	7,682,322	7,148,690
Total equity (€'000)	752,865	729,161	706,107	670,189	640,920	614,469	585,412
Common Equity Tier 1 ratio	13.1%	12.8%	12.3%*	11.3%	11.8%	11.7%	11.3%
Total Capital Ratio	16.8%*	16.8%	16.6%*	13.4%	14.3%	14.5%	16.0%

** This ratio does not feature in the unaudited consolidated interim financial statements of the Group, but has been included in the above table for comparative purposes.*

5.2.2 Key References

The table below sets out the various references to key sections of the consolidated audited financial statements of the Issuer for each of the financial years ended 30 September 2014, 30 September 2015 and 30 September 2016.

	Page number in Annual Reports		
Information incorporated by reference in this Prospectus	**Financial year ended 30 September 2016**	**Financial year ended 30 September 2015**	**Financial year ended 30 September 2014**
Consolidated Statements of Profit or Loss	40	41	46
Consolidated Statements of Profit or Loss and other Comprehensive Income	41	42	47
Consolidated Statements of Financial Position	42	43	48
Consolidated Statements of Changes in Equity	43	44	49
Consolidated Statements of Cash Flows	45	46	51
Consolidated Notes to the Financial Statements	46 to 112	47 to 114	52 to 115
Independent Auditors' Report	113	115	44

6. RISK FACTORS

6.1 GENERAL

PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER WITH THEIR OWN INDEPENDENT FINANCIAL AND OTHER PROFESSIONAL ADVISERS THE FOLLOWING RISK FACTORS AND OTHER INVESTMENT CONSIDERATIONS, AS WELL AS ALL THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS, BEFORE MAKING ANY INVESTMENT DECISION WITH RESPECT TO ANY OF THE LISTED FINANCIAL INSTRUMENTS THAT WILL BE OFFERED BY THE ISSUER PURSUANT TO THIS REGISTRATION DOCUMENT. SOME OF THESE RISKS ARE SUBJECT TO CONTINGENCIES WHICH MAY OR MAY NOT OCCUR AND THE ISSUER IS NOT IN A POSITION TO EXPRESS ANY VIEWS ON THE LIKELIHOOD OF ANY SUCH CONTINGENCIES OCCURRING. THE SEQUENCE IN WHICH THE RISKS BELOW ARE LISTED IS NOT INTENDED TO BE INDICATIVE OF ANY ORDER OF PRIORITY OR OF THE EXTENT OF THEIR CONSEQUENCES.

IF ANY OF THE RISKS DESCRIBED BELOW WERE TO MATERIALISE, THEY COULD HAVE A SERIOUS EFFECT ON THE BANK'S FINANCIAL RESULTS, FINANCIAL CONDITION AND TRADING PROSPECTS. THE RISKS AND UNCERTAINTIES DISCUSSED BELOW ARE THOSE IDENTIFIED AS SUCH BY THE DIRECTORS, BUT THESE RISKS AND UNCERTAINTIES MAY NOT BE THE ONLY ONES THAT THE BANK FACES. ADDITIONAL RISKS AND UNCERTAINTIES, INCLUDING THOSE WHICH THE DIRECTORS ARE NOT CURRENTLY AWARE OF, MAY WELL RESULT IN A MATERIAL IMPACT ON THE FINANCIAL CONDITION AND OPERATIONAL PERFORMANCE OF THE BANK.

THIS REGISTRATION DOCUMENT IS NOT INTENDED TO CONSTITUTE, AND SHOULD NOT BE CONSTRUED AS CONSTITUTING, A RECOMMENDATION BY THE ISSUER, THE ADVISERS LISTED IN SECTION 4.3 OR ANY AUTHORISED FINANCIAL INTERMEDIARY TO PURCHASE ANY OF THE LISTED FINANCIAL INSTRUMENTS THAT WILL BE OFFERED BY THE ISSUER PURSUANT TO THIS REGISTRATION DOCUMENT. PROSPECTIVE INVESTORS SHOULD MAKE THEIR OWN INDEPENDENT EVALUATION OF ALL RISK FACTORS AND SHOULD CONSIDER ALL OTHER PARTS OF THE PROSPECTUS. THE RISK FACTOR DESCRIPTIONS GIVEN BELOW SHOULD BE READ IN CONJUNCTION WITH THE OTHER INFORMATION CONTAINED IN THE REGISTRATION DOCUMENT, INCLUDING THE DOCUMENTS AND INFORMATION REFERRED TO THEREIN, AS WELL AS THE INFORMATION AND OTHER RISK FACTORS DESCRIBED IN THE SECURITIES NOTE RELATING TO THE LISTED FINANCIAL INSTRUMENTS THAT THE ISSUER MAY OFFER PURSUANT TO THIS REGISTRATION DOCUMENT.

FORWARD-LOOKING STATEMENTS AND FINANCIAL FORECASTS

The Prospectus includes statements that are, or may be deemed to be, ''forward-looking statements''. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms ''believes'', ''estimates'', ''anticipates'', ''expects'', ''intends'', ''may'', ''will'' or ''should'' or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places within the Prospectus and include statements regarding the intentions, beliefs or current expectations of the Bank and/or the Directors concerning, amongst other things, the Bank's strategy and business plans, results of operations, financial condition, liquidity, prospects, dividend pay-out approach of the Issuer and the market in which it operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and should therefore not be construed as such. The Issuer's actual results of operations, financial condition, liquidity, dividend pay-out approach and the development of its Strategic Initiatives may differ materially from the impression created by the forward-looking statements contained in the Prospectus. In addition, even if the results of operations, financial condition, liquidity and dividend pay-out approach of the Bank are consistent with the forward-looking statements contained in the Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that may cause these differences include, but are not limited to, changes in economic conditions, legislative and regulatory developments, changes in fiscal regimes and the availability of suitable financing.

In addition, the financial forecasts which are being presented in this Registration Document may differ materially from the actual financial statements, once issued. Accordingly, there is no guarantee that the figures as forecasted in the statement of profit and loss for the 3-month period ending 31 December 2017 as well as the statement of financial position as at 31 December 2017, will materialise.

Potential investors are advised to read the Prospectus in its entirety, and, in particular, all the risk factors set out in this Prospectus, for a description of the factors that could affect and/or vary the Bank's future performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur. All forward-looking statements contained in this document are based on information available as at the date of the Prospectus. Subject to applicable legal and regulatory obligations, the Bank and its Directors expressly disclaim any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

6.2 RISK FACTORS RELATING TO THE ISSUER AND THE GROUP

6.2.1 Risks Relating to the Strategic Initiatives

The increase in share capital is one of the main measures of the Bank's Strategic Initiatives and is aimed at enabling the Bank's capital requirements to be maintained in excess of regulatory requirements following the implementation of the Bank's Strategic Initiatives.

The Strategic Initiatives are based on a number of factors, not least of which a number of assumptions with respect to the future, which may or may not occur. These include, but are not limited to, the Directors taking a view on the general socio-economic environment in Malta, the situation in the banking sector both in Malta and in the rest of the world, and not least the anticipated regulatory environment. Each of these factors has a significant impact on the Bank, its business and overall operations and financial performance. There can be no guarantee that the assumptions made by the Directors in devising the Strategic Initiatives will materialise, nor indeed that if they do materialise, the Strategic Initiatives will have the overall effect that they are expected to have. The Bank's results of operations, financial condition, liquidity and its development strategy may differ materially from the expectations of the Directors.

In line with the Bank's Strategic Initiatives, unless the Bank can strengthen its capital buffers through additional CET1, its ability to sustain further growth within the parameters of the new regulatory framework, may be significantly curtailed. Failure to improve the capital base would also have an adverse impact on the Bank's ability to sustain its current dividend pay-out approach and would entail that the Bank's ability to proceed with the payment of dividends to Shareholders would be curtailed, if not altogether prohibited, until the new capital requirements are met to the satisfaction of the Regulatory Authorities. This could have a significant impact on the Issuer's overall business, operational results and financial and capital condition.

In such an event, the Bank could also be subject to measures by the Regulatory Authorities involving its management, including the imposition of restrictions on assets and/or the sale of assets should this result in serious risks to the financial condition of the Bank.

6.2.2 Credit Risk and Risk of Credit Quality Deterioration

The activity, financial and capital strength and profitability of the Issuer also depend on the creditworthiness of its customers, among other things.

In carrying out its credit activities, the Issuer is exposed to the risk that an unexpected change in the creditworthiness of a counterparty may generate a corresponding change in the value of the associated credit exposure and give rise to the partial or total write-down thereof. This risk is always inherent in the traditional activity of providing credit, regardless of the form it takes.

In the context of credit activities, this risk involves, among other things, the possibility that the Issuer's contractual counterparties may not fulfil their payment obligations, as well as the possibility that the Issuer may, based on incomplete, untrue or incorrect information, grant credit that otherwise would not have been granted or that would have been granted under different conditions.

The main causes of non-fulfilment relate to the borrower's loss of its autonomous capacity to service and repay the debt (due to a lack of liquidity and/or insolvency, amongst others), the emergence of circumstances not related to the economic/financial conditions of the debtor, (such as country risk), and the effect of operating risks.

Credit risk is the most significant risk and represents the Bank's largest regulatory capital requirement.

Credit risk also includes concentration risk[2]. The latter arises through a high level of exposure to individual issuers or counterparties (single-name concentration) or a group of connected clients or a high level of exposure within industry sectors and geographical regions (sectoral concentration).

Other banking activities, besides the traditional lending and deposit activities, can also expose the Issuer to credit risks. Non-traditional credit risk can, for example, arise from the Issuer: (i) entering into derivative contracts; (ii) buying and selling securities and/or currencies; or (iii) custody of third-party securities. The counterparties of said transactions or the issuers of securities held by the Issuer could fail to comply with their payment obligations due to insolvency, political or economic events, a lack of liquidity, operating deficiencies, or other reasons.

6.2.3 Counterparty Credit Risk on Derivatives

Counterparty credit risk arising from over-the-counter derivatives is the risk that a counterparty to a transaction may default before completing the satisfactory settlement of the transaction. This risk, which is increased by the volatility of the financial markets, may also manifest itself when netting agreements and collateral arrangements are in place, if such arrangements provided by the counterparty in favour of the Issuer in connection with exposures in derivatives are not realised or liquidated at a value that is sufficient to cover the exposure relating to said counterparty.

An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default.

6.2.4 Risks associated with Capital Adequacy

The Issuer is required to adhere to capital adequacy regulations which require it to maintain appropriate capital resources both in terms of quantity and quality. The Issuer has been assessed as an other systemically important institution ("O-SII") by European banking authorities. Accordingly, as an O-SII, the Issuer must fulfil supplementary requirements concerning the amount of CET1 capital it must hold as a buffer. These buffers aim to address the potential negative effects that systemically important banks, such as the Issuer, may have on the domestic financial system. In addition, as a result of the SREP which banks within the EU, including the Issuer, are subjected to once a year, the applicable prudential limits setting out the specific measures which every bank needs to implement in the following year, including the minimum amount of capital, are communicated by the Regulatory Authorities.

The rules on capital adequacy for banks define the prudential minimum capital requirements, the quality of capital resources, and risk mitigation instruments. Non-compliance with these capital requirements may have a significant impact on the Bank's operations and future sustainability.

6.2.5 Liquidity Risk

Liquidity risk refers to the possibility that the Issuer may find itself unable to meet its current and future, anticipated and unforeseen cash payment and delivery obligations without impairing its day-to-day operations or financial position. The activity of the Issuer is subject in particular to funding liquidity risk, market liquidity risk, mismatch risk and contingency risk.

Funding liquidity risk refers to the risk that the Issuer may not be able to meet its payment obligations, including financing commitments, when due. In light of this, the availability of the liquidity needed to carry out the Issuer's various activities and the ability to access long-term funding are essential for the Issuer to be able to meet its anticipated and unforeseen cash payment and delivery obligations, so as not to impair its day-to-day operations or financial position.

[2] See also section 6.2.7 below.

As regards market liquidity risk, sudden changes in market conditions (interest rates and creditworthiness in particular) can have significant effects on the time to sell securities, including high-quality assets such as government securities, without incurring losses. Moreover, the consequences of a possible downgrade of issuers of securities in which the Issuer is invested could make it difficult to guarantee that such financial instruments can be easily liquidated under favourable economic terms.

In this context, due to economic and market conditions or due to unforeseen risks which the Issuer might be faced with, the Issuer's access to deposits and other forms of funding could be curtailed. In view that a significant portion of the Issuer's financing is derived from local customer deposits, the Issuer is therefore exposed to risks that are typically associated with retail deposits. For example, a decrease in customer confidence could limit the Issuer's capacity to access retail funds, both through the deposits channel or through the issue of financial instruments. This could limit the Issuer's capacity to access the liquidity required to meet regulatory requirements, with consequent negative effects on the operating results and capital and/or financial position of the Issuer and/or of the Group.

In addition to risks closely connected to funding risk and market liquidity risk, an additional risk that could impact day-to-day liquidity management is represented by differences in the amounts or maturities of incoming and outgoing cash flows (mismatch risk). Furthermore, the Issuer must also manage the risk that (potentially unexpected) future requirements (i.e. use of credit lines, withdrawal of deposits, increase in guarantees offered as collateral) may use a greater amount of liquidity than that considered necessary for day-to-day activities (contingency risk).

6.2.6 Market Risk

Market risk involves the risk that the Bank's earnings or capital will be adversely affected by the volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. It arises from both customer and discretionary business and is managed by a variety of different techniques.

The discretionary investment portfolio of the Issuer consists mainly of debt securities. The Bank's strategy is to manage these instruments as an investment portfolio rather than as a trading portfolio. In fact, the Bank's exposure towards the trading book is nil and it is therefore exempted from the trading book capital requirements as set by the CRR.

In the event that any of the market risks specified above were to occur, the Issuer may experience significant losses in the value of its investment portfolio, that would consequently have a significant adverse impact on the operations and financial performance of the Bank as well as the value of its assets. The following are the principal identifiable market risks:

Interest Rate Risk

Interest rate risk is defined as the current or prospective risk of the Issuer's financial position arising from unfavourable movements in interest rates.

The Issuer is exposed to interest rate risk in its banking book ("IRRBB"), arising from the mismatch between interest sensitive assets and liabilities held in the banking book.

Changes in interest rates affect the sensitivity of earnings in the short term by changing the Issuer's net interest income and the level of other interest sensitive income and expenses.

Furthermore, interest rate risk arises from the different re-pricing characteristics of the Bank's interest-sensitive assets and liabilities and from the mismatch between interest rate-sensitive assets and liabilities. Variations in interest rates also affect the present value and timings of future cash flows. This in turn changes the underlying value of the Bank's assets, liabilities and off-balance sheet items. For this reason, movements in interest rates not only have an effect on the net interest margin, but also on the economic value effect on the Bank.

Foreign Exchange Risk

Foreign exchange risk arises on monetary assets and liabilities not denominated in the base currency of the Issuer. The Issuer's base currency is the Euro and since it conducts the principal part of its activities in Euro, it is not exposed to material foreign exchange risk.

6.2.7 Concentration Risk

Concentration risk arises due to a high level of exposure by the Bank to individual issuers or counterparties (single name concentration) or a group of connected clients or a high level of exposure within industry sectors and geographical regions (sectoral concentration). Consequently, due to concentration risk, the credit risks associated with such clients could be significantly greater than those where no such high levels of exposure or connections exist.

Given the size and nature of the domestic financial sector and the local economy, the Bank is exposed to concentration risk in its credit business. Concentration in the credit business results when the Bank has a high level of exposure to a single name or to a related group of borrowers, to credit exposures secured by a single security, or to credit exposures with common characteristics within an industry sector.

The Bank's investment portfolio may also be exposed to concentration risk derived from excessive reliance on the same country, counterparty, sector or currency.

In addition, the deposit base of the Issuer primarily consists of customers located in Malta and other EU countries. As a result, the Issuer is highly exposed to any economic trends affecting Malta specifically and the EU generally, which if negative may have an adverse effect on the Issuer, its business and results of operations and financial condition.

Any major downturn in economic activity in those markets where the Bank has a concentration risk could have a significant adverse impact on the financial performance and financial condition of the Bank.

Move from BBR to Euribor

The high liquidity present in the local market generated mainly by the increased economic activity, coupled with low-for-long interest rates as well as the internationalisation of the business environment, are all resulting in increased competition for credit within the local sector. This increase in competition is leading to pressure on the Bank to move from its BBR in pricing its loans to Euribor. This situation, if material, would have an effect on the net interest margin of the Bank and would therefore impact the financial position of the Group.

6.2.8 Operational Risk

Operational risk is the risk of loss due to errors, infringements, interruptions and damages caused by inadequate internal processes, failures/errors of personnel or systems or caused by external events.

Operational risk and consequent losses can result from a wide range of factors, including but are not limited to fraud, errors by employees, employment practices and workplace safety, client claims, failure of the Issuer's system of internal controls, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with increasingly complex regulatory requirements and conduct of business rules, systems and equipment failures, damage to the Bank's physical assets, natural disasters or the failure of external systems (for example, those of the Issuer's counterparties or vendors).

Any losses arising from the above failures, could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects and could materially adversely affect its reputation.

Operational risk specific to the Issuer's IT systems is described below.

6.2.9 Risks relating to Information Technology

The Issuer depends on its information technology systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Issuer's business and operating data. The proper functioning of the Issuer's core client banking system, risk management tools, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, are critical to the Issuer's business and ability to compete effectively. The Issuer's business activities would be materially disrupted if there were a partial or complete failure of any of these information technology systems or communication networks.

Such failures can be caused by a variety of factors, many of which are wholly or partially outside the Issuer's control including natural disasters, extended power outages and computer viruses. The proper functioning of the Issuer's information technology systems also depends on accurate and reliable data and other system inputs, which are subject to human errors. In addition, given the Issuer's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, any failure or delay in recording or processing the Issuer's transaction data could subject the Issuer to claims for losses and regulatory fines and penalties.

6.2.10 Information Security Risk

Information security risk refers to the risk of loss caused by deliberate or accidental loss, alteration, falsification or leakage of information, or by destruction, disruption, errors or misuse of information systems. The Group applies various international standards in its integrated approach, which has the fundamental objective of ensuring the confidentiality, integrity and availability of its information assets. Loss or leakage of confidential information could have a material adverse effect on the operations and performance of the Issuer.

6.2.11 Reputational Risk

Reputational risk is the current or future risk of a loss or decline in profits or share value as a result of a negative perception of the Issuer's image by customers, counterparties, shareholders, investors or regulators. The Issuer believes that if any of these risks were to occur it could result in a material adverse effect on the operations and performance of the Issuer.

6.2.12 Business Risk

Business risk is defined as a measurement of the variance between unanticipated unfavourable changes in future profit margins of the Issuer and those forecasted. It can lead to serious losses and therefore impact the Issuer's capital. Business risk concerns the impact of future unanticipated impairment over a period of one year. In more detail, within the context of business risk, margins are defined as the difference between revenue and expense in such a way that they do not overlap with other risks (e.g. credit, market and operational).

Business risk may originate from a significant deterioration of the relevant market, changes in the scenario, alternative customer conduct, and even changes in the relevant regulatory framework.

6.2.13 Strategic Risk

Strategic risk is the risk of suffering potential losses due to decisions or radical changes in the business environment, improper implementation of decisions, lack of responsiveness to changes in the business environment, with negative impact on the risk profile and consequently on capital, earnings as well as the overall direction and scope of the Bank in the long run.

The quantifiable component of the risk, including the changes in the competitive scenario and the legal framework are incorporated in the business risk.

6.2.14 Risks connected with Legal Proceedings in Progress and Supervisory Authority Measures

As at the date of this Registration Document, the Bank and the Group companies are defendants in several legal proceedings. Moreover, from time to time, past and present directors, officers and employees may be involved in civil and/or criminal proceedings, the details of which the Group may not lawfully know about or communicate.

The Group is also required to deal appropriately with various legal and regulatory requirements in relation to certain aspects of its activity, such as conflicts of interest, ethical issues, anti-money laundering laws, client assets, competition law, privacy and information security rules and others. Actual or alleged failure to do so may lead to additional litigation and investigations and could subject the Group to claims for damages, regulatory fines, other penalties and/or reputational damages. Periodically, the status of each significant loss contingency is reviewed to assess the potential financial exposure.

In many cases, there is substantial uncertainty regarding the outcomes of the proceedings and the amount of any possible losses. However, if it is possible to reliably estimate the amount of possible losses and the loss is considered likely, provisions are made in the financial statements to the extent deemed appropriate by the Bank, or any of the Group companies involved, based on the circumstances and consistent with International Accounting Standards. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, a liability for the estimated loss is provided for. Due to the uncertainties inherent in these matters, provisions are based on the best information available at the reporting date. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed and, if required, estimates are revised. Such revisions in the estimates of the potential liabilities could have a material impact on results of operations and the financial position of the Group.

6.2.15 Risks related to the Distribution of Dividends

The capacity of the Issuer to distribute dividends depends on the compliance of the minimum applicable capital requirements based on the regulations in force, specifically the overall capital requirements, where failure to comply involves the need to calculate the Maximum Distributable Amount. Therefore, albeit the Issuer may have distributable profits pursuant to its statutory financial statements, the Issuer would not be able to pay dividends in the case of failure to comply with these prudential regulatory provisions.

The distribution of dividends could, also, in the future, be excluded or limited by the need to comply with capital requirements laid down by legal and/or regulatory rules applicable to the Group and/or imposed by the rules concerning the Maximum Distributable Amount. Further, despite there being the availability of distributable profits, the ECB, through the Recommendation of 13 December 2016, required all banks to adopt dividend distribution policies that are based on conservative and prudent assumptions that allow them to maintain, at individual and consolidated level, conditions of capital adequacy, current and prospective taking into account the fully loaded capital ratios, consistent with the combination of risks assumed, suitable for facilitating alignment to the prudential requirements established by the CRD IV and by the CRR and for guaranteeing the coverage of the internal capital levels calculated under the scope of the SREP.

In line with the CRR, Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act, 1994', requires additional buffers: capital conservation buffer; countercyclical buffer; other systemically important institutions (O-SII) buffer; and systemic risk buffer. These buffers are aimed to strengthen the resilience of the Group and have entered into force as from January 2016, with full application by January 2019. Automatic restrictions on capital distributions apply if the Group's CET1 capital falls below the level of its CRD IV combined buffer.

6.2.16 Risks associated with Borrowings and Evaluation Methods of the Issuer's Assets and Liabilities

In conformity with the framework dictated by International Accounting Standards, the Issuer should formulate evaluations, estimates and theories that affect the application of accounting standards and the amounts of assets, liabilities, costs and revenues reported in the financial statements, as well as information relating to contingent assets and liabilities. The estimates and related hypotheses are based on past experience and other factors considered reasonable in the specific circumstances and have been adopted to assess the assets and liabilities whose book value cannot easily be deduced from other sources.

The application of IAS by the Issuer reflects the interpretation and decisions made with regard to the said principles. In particular, the measurement of fair value is regulated by IFRS 13 "*Fair Value Measurement*".

In addition to the risks implicit in the market valuations for listed instruments (also with reference to the sustainability of values over a period of time, for causes not strictly related to the intrinsic value of the actual asset), the risk of uncertainty in the estimate is essentially inherent in calculating the value of: (i) the fair value of financial instruments not listed on active markets; (ii) receivables, equity investments and, in general, all other financial assets/liabilities; (iii) severance pay and other employee benefits; (iv) provision for risks and charges and contingent assets; (v) goodwill and other intangible assets; (vi) deferred tax assets; and (vii) real estate.

The quantification of the above-mentioned items subject to estimation can vary quite significantly in time depending on trends in: (i) the national and international socio-economic situation and consequent reflections on the profitability of the Issuer and the solvency of customers; (ii) the financial markets, which influence the fluctuation of interest and foreign exchange rates, prices and actuarial bases; (iii) the real estate market, with consequent effects on the real estate owned by the Group and received as collateral; and (iv) any changes to existing regulations.

The quantification of fair value can also vary in time as a result of the corporate capacity to effectively measure this value based on the availability of adequate systems and methodologies and updated historical-statistical parameters and/or series.

In addition to the above-mentioned explicit factors, the quantification of the values can also vary as a result of changes in managerial decisions, both in the approach to evaluation systems and as a result of the revision of corporate strategies, also following changed market and regulatory contexts.

6.2.17 Risks arising from the Issuer's Custody Business

The Issuer acts as custodian to a number of professional investor funds ("PIFs"), UCITS funds and alternative investment funds ("AIFs") (collectively "CISs"). As custodian, the Issuer provides safekeeping services to CISs and also performs monitoring and oversight functions in respect of such CISs, amongst other services. The Issuer has global custody network access by means of a custody agreement entered into with RBC Investor Services Trust, London Branch (the UK branch of a trust company incorporated under the laws of Canada), further to which the Issuer delegates certain of its safekeeping functions.

When acting as custodian of UCITS, AIFs and PIFs marketed to experienced investors, the Issuer is (broadly) in terms of applicable regulation: (a) liable for loss of financial instruments held in custody (unless it can prove that the loss arose as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary); and (b) is also liable for all other losses suffered by such investment funds and unit holders therein as a result of the Issuer's negligent or intentional failure to properly fulfil its obligations pursuant to applicable law. The liability of the Issuer is not affected by any delegation of services. Investors should note that unit holders in UCITS funds, AIFs and PIFs targeting experienced investors may invoke liability of the Issuer, as custodian, directly or indirectly through the management company or the fund.

When acting as custodian of PIFs marketed to qualifying and extraordinary investors, the Issuer is, in terms of applicable regulation (broadly) liable for any loss or prejudice suffered by the PIF or the unit-holders due to the Issuer's fraud, wilful default or negligence including the unjustifiable failure to perform in whole or in part the custodian's obligations arising pursuant to applicable law and the relevant custody agreement in place. With respect to PIFs marketed to qualifying and extraordinary investors, the Issuer's liability is similarly not affected by delegation of safekeeping functions, however it may (in certain instances) be varied or reduced with the written consent of the PIF or the manager acting on behalf thereof.

In providing custody services, liability of the Issuer (as described above) could materialise due to, amongst others, the loss of financial instruments held in custody (including due to fraud and possible failures of the Issuer in segregating assets of the CISs), negligence of the Issuer in performing its custody functions, failures in clearing and settlement systems and/or the insolvency, negligence or fraudulent conduct of the Issuer's sub-custodian (or delegates thereof). In the event that such liability arises, this could impact the financial performance of the Issuer.

6.2.18 Risks arising from the Issuer's Trusts Business

The Bank's trust unit was established in 2005, when the Bank was granted authorisation by the MFSA to offer trustee services in terms of the Trusts and Trustees Act (Cap. 331 of the laws of Malta).

It is inherent in the creation of a trust that ownership of assets passes from the existing owner (settlor) to the trustee which effectively means complete transfer of control of the trust assets to the trustee. In addition, settlors setting up discretionary trusts implies that the trustee has discretion on what to distribute to beneficiaries. Also, setting up and maintaining a trust involves certain costs. In addition, in very limited scenarios, the income which is generated by the asset under trust may suffer a higher rate of tax than if the income remained in the hands of the settlor.

As set out in section 8.1.1 of this Registration Document, the Issuer has decided to wind down its trust business. However, until such time as the trust business is wound down and, possibly even thereafter, liability of the Issuer could materialise in respect of the Bank's trust business due to (amongst others), negligence of the Issuer in the performance of its functions, loss of assets settled on trust and any breaches of the Issuer's contractual obligations. In the event that such liability arises, this could impact the financial performance of the Issuer. Such liabilities in relation to the trust business are taken into account in the capital allocation of the Issuer.

6.2.19 Risks arising from the Bank's International Corporate Centre

The Issuer's international corporate centre ("ICC") houses a large number of deposit accounts held by the Issuer's international corporate clients.

International corporate clients present a higher degree of risks than is normally associated with local clients. This is particularly pronounced in the level of information required in order for the Issuer to comply with know-your-customer and other due diligence requirements which may be very cumbersome when international corporate clients are comprised of complex corporate structures. In such instances, the identification of the ultimate beneficial owners and/or the sources of funds and wealth may be difficult to determine.

Such situations present serious legal, regulatory and reputational risks for the Issuer and potential financial risks due to the fact that the Issuer may not be able to detect money laundering and terrorist financing in respect of its international clients.

6.2.20 Risks connected with the Collection, Storage and Processing of Personal Data

The activity conducted by the Group is subject to the rules governing the processing of personal data in terms of the Data Protection Act (Cap. 440 of the laws of Malta) and subsidiary legislation issued thereunder (the "DPA").

In terms of the DPA, the Group is subject to a number of obligations concerning the processing of personal data, as a result of which the Issuer and the Subsidiaries must ensure, amongst others, that: (i) personal data is processed fairly and lawfully; (ii) personal data is always processed in accordance with good practice; (iii) personal data is only collected for specific, explicitly stated and legitimate purposes; (iv) all reasonable measures are taken to complete, correct, block or erase data to the extent that such data is incomplete or incorrect, having regard to the purposes for which they are processed; and (v) personal data is not kept for a period longer than is necessary. Additionally, prior to processing personal data, the Issuer and the Subsidiaries must ensure that the person to whom the personal data relates has unambiguously given his consent for such processing, unless the processing of personal data as aforesaid validly take places without such consent in the circumstances set out in the DPA.

The Group has adapted its internal procedures to comply with the DPA. However, the Group remains exposed to the risk that data collected could be damaged or lost, disclosed or processed for purposes other than as permitted in the DPA. The possible damage or loss of customer data, in the same way as its unauthorised processing or disclosure, would have a negative impact on the activity of the Issuer, in reputational terms too, and could lead to the imposition of fines.

In addition, any changes to the applicable laws and/or regulations, even at an EU level, could have a negative impact on the Group's activities, because it could create the need to incur costs for adapting to the new regulations. In this regard, prospective investors should note, among other things, that in June 2016 Regulation (EU) 2016/679 on the protection of physical persons with regard to the processing of personal data, as well as the free circulation of this data, came into force. This regulation, which will apply from May 2018, introduced more restrictive provisions and more onerous obligations on data controllers and processors as far as the processing of personal data is involved, also in relation to the methods of obtaining consent from the parties concerned. It also created more stringent sanctions applicable to the data controllers and processors if the provisions of the regulation are violated.

6.2.21 Risks connected with the Performance of the Property Market

The Issuer is exposed to the risks of the property market, both as a result of investments held directly in properties owned and through which it operates, and as a result of loans granted to companies operating in the property sector where the cash flow is generated mainly by the rental or sale of properties (commercial real estate), as well as due to granting loans to individuals where the collateral is immovable property.

Any downturn in the property market could result in the Group having to make impairments to the real estate it owns at a value that is higher than the recoverable value, with consequent negative effects, including significant ones, on the operating results and capital and financial position of the Issuer and/or the Group.

In addition, the Issuer is also exposed to, commercial real estate through loans granted to businesses operating in the property sector. Any downturn in the real estate market could lead to a fall in market prices and a consequent fall in the demand for real estate. As a result, the Issuer's customers operating in this sector could well have to deal with a decrease in transaction volumes and margins, an increase in commitments resulting from financial expenses, as well as greater difficulties in refinancing, with negative consequences on the profitability of their activities, which could have a negative impact on their ability to repay the loans granted by the Issuer.

On the other hand, with regard to loans granted to private individuals and collateralised by real estate, a fall in property prices could translate into a reduction in the value of the collateral that could potentially be realised in the case of enforcement if the debtor defaults.

Specifically, poor market conditions and/or, more generally, a protracted economic or financial downturn could lead to a fall in value of the collateral properties as well as create significant difficulties in terms of monetisation of the said collateral under the scope of enforcement procedures, with possible negative effects in terms of realisation times and values, as well as on the operations and financial position of the Issuer and/or the Group.

7. INFORMATION ABOUT THE ISSUER

7.1 HISTORY AND DEVELOPMENT OF THE ISSUER

7.1.1 Legal and Commercial Name of the Issuer

The Issuer's legal name is **Bank of Valletta p.l.c.** and, in shortened form, it is commercially referred to as **BOV.**

7.1.2 Place of Registration of the Issuer and its Registration Number

The Issuer is duly registered in Malta with company registration number C 2833.

7.1.3 The Date of Incorporation and the Length of the Issuer

The Issuer was first registered on 21 March 1974 for an indefinite period.

7.1.4 The Domicile and Legal Form of the Issuer, Legislation under which it operates, its Country of Incorporation, Telephone Number and its Registered Address

Registered address:	58, Zachary Street, Valletta VLT 1130
Place of registration and domicile:	Malta
Legal form:	Public limited liability company
Telephone number:	+356 2275 3556
Fax number:	+356 2275 3711
Email:	iro@bov.com
Website:	www.bov.com

The Issuer is established and registered under the Act.

7.2 RATING

The Issuer is currently rated by Fitch. The Issuer's long-term issuer default rating assigned by Fitch is 'BBB' with a stable outlook. A 'BBB' rating indicates that "*expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity*"[3].

7.3 STRATEGIC INITIATIVES 2018 - 2020

The Board of Directors has articulated clear corporate goals for the Bank. These goals, which describe what the Bank aims to achieve in the long term, are:

- Financial stability and sustainability;
- Protection of the interests of depositors; and
- Provision of a sustainable and equitable return to Shareholders.

The Board has further identified a number of corporate strategies, which dene the ways in which the Bank plans to achieve its goals. The principal strategies are:

1. Consolidation of long term financial sustainability;
2. Strengthening corporate governance;
3. The adoption of IFRS 9
4. Revision of the business model; and
5. Reinforcement of HR and IT resourcing.

Each strategy is discussed in more detail below.

1. Consolidation of Long Term Financial Sustainability

The Issuer is a local systemically important institution, and is consequently required to hold capital buffers which are higher than those which would be required of less significant banks. One of the objectives of the planned equity issue by the Bank in the fourth quarter of 2017 is, in fact, to build up such buffers, with the aim not only of compliance with supervisory demands, but also to ensure the long-term viability of the Issuer as a stable institution with sufficient capital to absorb any future unexpected losses.

[3] Source: https://www.fitchratings.com/site/definitions

The equity issue will significantly strengthen capital buffers, allowing the Bank to:

- Attain and exceed regulatory capital buffers required by supervisory authorities;
- Absorb the costs of the Core Banking Transformation Programme;
- Absorb the impact of IFRS 9 adoption; and
- Allow capacity and flexibility to implement the Strategic Initiatives relating to the revised business model.

The Issuer has relied exclusively on the plough-back, or re-investment, of profit to increase its capital. The effectiveness of this source depends on articulating and executing a prudent and sustainable dividend pay-out approach. Such policy has always sought to provide the Bank with a steady stream of re-invested profit, while taking into account the legitimate expectations of Shareholders of a fair and sustainable dividend.

The Bank is currently actively following developments to determine the impact of the BRRD on the level of liabilities required as being eligible for "bail-in". Concurrently, a capital optimisation exercise is being conducted, led by external consultants, with the aim of optimising efficiency in the use of regulatory capital.

2. Strengthening Corporate Governance

The Bank is taking steps to continue improving its governance framework, including through changes to its Memorandum and Articles, with the aim of enhancing Board effectiveness and continuity. Other steps which have recently been taken include:

- A thorough review of the terms of reference of board committees;
- The embedding of a nomination and governance committee in the Articles;
- An increase in the number of members on the audit, risk and compliance committees from three to four, thereby widening participation and giving new Directors the opportunity to form part of these important committees;
- The strengthening of reporting from Board committees to the Board through quarterly reports;
- The introduction of a detailed induction course to Board members covering areas such as corporate governance, risk management, risk appetite, capital management, anti-money laundering and specialised business areas (funds, trust, custody etc.);
- The appointment of Directors for a term of three years, rather than re-appointment on a yearly basis;
- The appointment of two executive directors (on an *ex officio* basis), being the Group CEO and the Chief Risk Officer; and
- The introduction of a risk appetite framework based on the "three lines of defence" model, comprising defined appetite and tolerance levels that set out the separate roles of the Board of Directors and of key executives, through quantitative and qualitative limits and statements.

The Bank's risk appetite framework will be complemented by an exhaustive risk register, which will identify and classify all risks which the Bank expects to face in its daily operations.

Another strategic focus for the Bank is the strengthening of its anti-money laundering and countering of financing of terrorism defences. In this regard, the Bank is strengthening and standardising procedures relating to customer on boarding, customer file reviews and transaction monitoring.

Compliance with regulation is another key area contemplated by Bank strategy. There can be no good governance without a robust compliance culture. Regulation is a constantly evolving field to which the Bank allocates significant resources.

A key regulatory development which the Bank is in the process of implementing is the new financial reporting standard known as IFRS 9 (*Financial Instruments*).

3. The adoption of IFRS 9

IFRS 9 introduces new requirements for how an entity should classify and measure financial assets, requires changes to the reporting of ‘own credit’ with respect to issued debt liabilities that are designated at fair value, replaces the current rules for impairment of financial assets and amends the requirements for hedge accounting. IFRS 9 was endorsed and published in the Official Journal of the EU in November 2016 and will be applicable in the EU for annual periods beginning on or after 1 January 2018, with earlier application being permitted.

The adoption of IFRS 9 may have a material impact on the Group’s financial statements. The Group has already carried out an initial assessment on the impact of the new standard and is in the process of implementing a software solution in the coming months.

4. Revision of the Business Model

The Bank is in the process of reviewing its business model, with a view to:

- Diversifying its sources of revenue;
- Reducing reliance on core interest margin; and
- De-risking.

The Bank aims to maintain and develop a diversified portfolio of businesses, such that excessive concentration on any single area is controlled. Although interest margin will remain the Bank’s core revenue source, it is desirable to diversify away from this source, especially in the present context of a “low-for-long” interest rate environment. Rates at historical lows, coupled with the imposition of negative deposit rates by the ECB and other institutions, are putting revenues under pressure. The Bank has reacted by setting up three strategic committees to draw up long-term plans relating to a number of business areas where the Bank sees good growth potential.

The Bank is also focusing on a thorough review of its distribution channels, whether physical or digital. A branch reconfiguration exercise, with the aim of rationalising the branch network in accordance with contemporary needs and expectations is under way. Concurrently, the Bank is stepping up its digitalisation strategy, which has the aim of facilitating the electronic distribution of products and services through different channels. The objective is to make the Bank into the most accessible financial services provider on the local market in the digital age.

Another area of strategic importance is the maintenance and improvement of asset quality, through which the Bank aims to minimise credit losses and optimise recovery of doubtful debts.

Finally, the Bank is carrying out an ongoing review of business lines where the risk assumed is either not justified by the reward, or where the risk lies at the periphery of the Bank’s risk appetite. Certain business lines are earmarked to be wound down, while others are being reconfigured in the context of the Bank’s risk appetite.

5. Reinforcement of HR and IT Resourcing

Human resources and information technology are the two principal resources available to the Bank in carrying out its operations. It is therefore inevitable that the Bank’s strategy should give prime consideration to these two areas.

The principal change initiative being carried out by the Bank today is the Core Banking Transformation Programme. The Bank is in the course of replacing its core IT system. The significant investment being made in CBT demonstrates the Bank’s determination to modify its business processes around the functionality offered by the new system, in order to maximise the benefits from this strategic initiative.

The Bank has chosen an Oracle IT platform, and is engaged with external consultants that will bring best practices and methodologies to assist the Bank in the transformation process. The CBT implementation is progressing on time with no major delays currently anticipated.

CBT is not solely an IT project. Indeed, it is an exhaustive change programme affecting all aspects of the Bank’s operations, policies and procedures. The IT implementation will be complemented by a thorough review of business processes, the aim of which is to improve efficiency in the provision of service. The ultimate focus of the CBT Programme is improved customer service.

Concurrently, the Bank will be building up a data management function, which will manage the quality, completeness and controlled accessibility of all data held by the Bank.

The other core resource available to the Bank is Human Resources ("**HR**"). The building blocks of the Bank's new HR strategy are currently being laid. The first building block was the conclusion of a new and innovative collective agreement with the recognised employees' union, which was concluded in December 2015. This was followed by a comprehensive role assessment exercise, which abolished the old "grade" system and rationalised all roles within the organisation structure. This exercise has now been rolled out, and its outcome communicated to all concerned.

The principal features of the future HR strategy include:

- A new training philosophy, supported by the opening of new state-of-the-art training facilities;
- A focus on ethics, backed by a revised and updated code of ethics and a conflict of interest policy; and
- The setting up of an HR steering committee to oversee roll-out of the remaining Strategic Initiatives, including:-
    - o The determination of an optimal headcount at institutional and departmental level;
    - o A career progression strategy; and
    - o Succession planning.

7.4 2016 SREP

In 2017 the Group was subjected to the annual SREP conducted by the JST. SREP 2016 was conducted on the basis of the quantitative data extracted from the Issuer's consolidated financial statements as at 31 December 2016. In addition, JST also carried out the following analysis/assessments to arrive at their conclusions:

- An analysis of the Issuer's business model;
- An assessment of the Issuer's internal governance and institution wide control;
- The risk to capital assessment; and
- The risk to liquidity and funding assessment.

Following this process, the Issuer was notified by JST of the prudential requirements that the Group is required to comply with. In line with the CRR, Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act, 1994', the applicable fully loaded capital conservation buffer for the Group is 2.5% (1.25% in 2017, according to the transitional provisions) and the fully-loaded O-SII buffer for the Group is 2.0% (1.0% in 2017, according to the transitional provisions). These buffer requirements (or what are referred to as Pillar II requirements) will be fully provided by the end of 2019 and will be met with CET1 capital.

The Board of Directors, having evaluated:

(i) The SREP conclusions; and
(ii) The required capital for the five financial years commencing FY 2016 after factoring in the Bank's strategy and budgets for the said five-year period;

resolved to increase the CET1 capital of the Issuer by an additional €150 million by way of a renounceable rights issue.

7.5 PRINCIPAL INVESTMENT

In March 2015, the Bank embarked on a programme to replace the existing IT core banking system that had been in place since 1998, with a new core system as part of the Core Banking Transformation Programme. The Core Banking Transformation Programme is key to the Bank's future sustainability and ability to implement its key business initiatives aimed at creating an organization with a long-term view to gradual and steady growth, with a lower level of overall business risk. The Bank has selected the Oracle IT platform as the IT backbone for this project and has engaged external consultants to improve the systems and processes that the new functionalities afforded by the Core Banking System offer.

The Bank's investment in the Core Banking System is estimated to cost the Issuer around €44.5 million, which cost will be expensed over a five-year period from FY 2017 to FY 2021. Part of the funds that will potentially be raised through the Issuer's (approximate) €150 million equity issue in the fourth quarter of 2017, are expected to make good for this capital expense.

8. BUSINESS OVERVIEW

8.1 PRINCIPAL ACTIVITIES OF THE GROUP

8.1.1 Introduction

The Issuer is a commercial bank, operating, together with its Subsidiaries, predominantly in Malta, with an average number of employees of 1,814 and 37 branches as at 31 August 2017. The Group offers banking, financial and investment services and connected activities within the domestic Maltese market. The Group has three representative offices in each of Milan, Brussels and Libya. In the latter case, the Bank has retained its licence to operate the office, but has temporarily suspended operations in view of the prevailing situation in Libya. The Issuer does not operate any licensable activities in any of these jurisdictions.

The principal activities of the Issuer comprise the following:

- The receipt and acceptance of customers' monies for deposit in current, savings and term accounts which may be denominated in Euro and other major currencies.
- The provision of loans and advances to a wide array of customers, ranging from the private individual, businesses and industries, including also trade finance services to exporters, importers and traders. Loans and advances include: (i) short-term and longer-term loans; and (ii) overdrafts.
- The provision of investment services, covering a comprehensive suite of investment products and services that meet the customers' needs throughout their lifecycle, including stockbroking, advisory and discretionary portfolio management services. Such services are offered to both retail as well as institutional clients.

The Issuer also provides a number of other services, including:

Bancassurance:	The Bank acts as a tied intermediary to the Associated Companies to offer insurance and life assurance products to its customers;
Corporate Advisory:	Investment banking, including underwriting, advisory, management and registrar services for capital market transactions in the domestic market;
Custody, Fund Management and Fund Administration:	The Bank also provides custody services to alternative investment funds, UCITS funds and professional investor funds. Fund management and administration services are also offered respectively through BOVAM and BOVFS;
Other services:	Including 24-hour internet banking service, issue of major credit cards, night safe facilities, automated teller machines, foreign exchange transactions, outward and inward payment transfers.

The Issuer has a well-developed worldwide network of correspondent banks that provide it with the necessary backbone to service its customers in international banking and trade transactions.

In most part, the activities of the Issuer are licensable activities regulated under the domestic and EU financial regulatory framework. In this respect, the Issuer is licensed by the MFSA:

- As a credit institution under the Banking Act; and
- As a category 3[4] and 4A[5] licence holder in terms of the Investment Services Act (Cap. 370 of the laws of Malta), authorising it to provide a number of investment services to retail, professional and eligible counterparties.

The Issuer is also authorised to act as a trustee or co-trustee by the MFSA in terms of the Trusts and Trustees Act (Cap. 331 of the laws of Malta). Notwithstanding that the Issuer still holds this licence, pursuant to a decision of the Board it was resolved to wind down this business and the Bank has appointed an *ad hoc* steering committee with the task of conducting the process of winding down this area of activity.

In conducting its bancassurance business, the Issuer is a regulated tied insurance intermediary of MAPFRE MSV Life p.l.c and MAPFRE Middlesea p.l.c under the Insurance Business Act (Cap. 403 of the laws of Malta).

The Issuer is the direct parent of the Group, which consists of two (2) subsidiaries, namely BOV Asset Management Limited and BOV Fund Services Limited. BOV Asset Management Limited is a Maltese licensed UCITS management company and is in possession of a category 2 investment services licence under the Investment Service Act (Cap. 370 of the laws of Malta) authorised to provide management services to collective investment schemes, professional clients and eligible counterparties. BOV Fund Services Limited is a recognised fund administrator under the Investment Services Act (Cap. 370 of the laws of Malta) and is registered to act as a company service provider in terms of the Company Service Providers Act (Cap. 529 of the laws of Malta).

8.1.2 Description of the Group Business Segments

At the date of this Registration Document, the activities of the Group were broken down into the segments briefly described in section 8.1.1. Below is a description of each of the aforementioned business segments and the key financial indicators of same. The tables below for each business segment relate to the income statement data and key indicators at the end of 30 September 2016 compared with the same period of the previous years.

[4] A category 3 licence authorises the holder thereof to provide any investment service contemplated by the Investment Services Act (Cap. 370 of the laws of Malta), including discretionary management, investment advice, execution only services and dealing on own account. A category 3 license also allows the holders thereof to hold and control clients' money or customers' assets and to deal for its own account or underwrite.

[5] A category 4A licence allows the Issuer to act as custodian for all types of collective investment schemes.

Principal Business Segments

Deposit Taking activities

The Bank accepts deposits from customers principally at call and for various maturities, and seeks to earn interest margins through lending operations or by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank applies the liquidity created through its deposit taking activities and seeks to increase its interest margins principally through lending to both commercial and personal borrowers with a range of credit standings. Such exposures involve principally on-balance sheet loans and advances, as well as guarantees and other commitments such as performance and other bonds and letters of credit.

The total amount of term deposits and deposits repayable on demand as at 30 September 2015 and 30 September 2016 is set out hereunder.

	30 September 2016 €000	**30 September 2015 €000**	**30 September 2014 €000**
AMOUNTS OWED TO CUSTOMERS			
Term deposits	2,084,220	2,248,019	2,479,797
Repayable on demand	7,096,827	6,311,712	4,639,733
	9,181,047	**8,559,731**	**7,119,530**

Loans and other Advances

Another principal activity of the Bank is the provision of finance through loans and advances, trade finance facilities and other credit products to customers. This business segment includes the provision of finance to both corporate and personal customers of various credit standings and different maturities. In the business segment, the Bank is highly involved in all market sectors and provides business finance to customers ranging from large corporate customers as well as smaller business ventures, ranging from project finance to overdraft facilities financing working capital requirements. With respect to personal customers the Bank provides a suite of products aimed principally at consumer lending; with home finance being another important pillar in this business segment for the Bank. During the financial year ended 30 September 2016 drawdowns on new business lending exceeded €360 million, while drawdowns on consumer loans, including home loans, exceeded €340 million.

The Bank's net advances portfolio to customers stood at €4.1 billion as at end September 2016, representing an increase of 1.8% over September 2015. During the financial year ended 30 September 2016, growth was driven principally by the increase in the home loan segment, while the business and the personal segments decreased. Tight control of the loan book and the dual sanctioned process resulted in an overall improvement in credit quality of the advances portfolio with 84.6% of the total portfolio classified in the regular category (81.3% as at end September 2015).

Below are some key figures in respect of the Issuer's loans and advances business, some of which reflect the information provided above.

	The Group		
	2016	2015	2014
	€000	€000	€000
Repayable on call and at short notice	504,272	564,017	611,156
Term loans and advances	3,683,096	3,676,132	3,461,230
	4,187,368	4,240,149	4,072,386
Less impairment losses	(185,712)	(238,310)	(210,854)
Net loans and advances at amortised cost	4,001,656	4,001,839	3,861,532
Loans and advances designated at fair value through profit or loss	121,316	49,221	48,596
Total loans and advances	4,122,972	4,051,060	3,910,128

Investment Services

Investment services is considered as one of the pillars generating commission income for the Bank. The Bank considers investment services as one of the potential growth areas going forward. In fact, it is one of the strategic areas in which the Bank will be investing in the coming months. This will involve investment in our two core distribution channels, namely the physical as well as the digital channels.

The main investment services can be segmented between those offered to retail clients and services offered to institutional clients. Set out hereunder is a description of the stockbroking and wealth management services offered by the Issuer.

Stockbroking

The Bank's stockbroking unit handles the processing and execution of all local and international secondary market transactions relating to equities, bonds, ETFs and other funds. On the local scene, the Bank is a member of the MSE, and is one of the largest brokers (excluding the CBM as market maker for government stocks). The Bank's customers can also trade on the major global exchanges, where the Bank has direct market access to some of the main international brokers both for equities and fixed income securities. Customers are also able to place orders electronically *via* the Bank's 24x7 internet portal. For the more discerning and frequent trader, the Bank has partnered with Saxo Bank A/S to offer direct trading *via* the eTrader+ platform.

Wealth Management services

The Bank provides a select strata of its customers with an investment advisory service through its six Investment Centres located across Malta and Gozo. The financial advisers located within these Centres are constantly provided with the necessary tools and market-led information to enable them to provide professional investment advice to customers on the various array of instruments and products. These include a comprehensive range of investment funds, bancassurance products as well as the ability for investors to invest directly in bonds and equities in the world's capital markets.

For the more discerning and affluent investors, the Bank has a fully-fledged wealth management centre that provides a highly personalised service driven by professionalism, trust and long-term relationship. In view of the highly bespoke nature of this service, the financial advisers at the Bank's wealth management arm invest time and effort to get to know their customers, adopting a structured approach which consists of a fact-finding exercise followed by a detailed planning process to ensure that the ultimate investment portfolio is tailored to fully meet the objectives and needs of the customer. This approach is followed by a carefully designed open architecture product strategy which acts as a blue print for structuring the portfolio. The commitment of the financial advisers working within the wealth management arm is solely to focus on customer needs, and to proactively provide financial advice as well as discretionary management services within the parameters agreed with clients.

With a view to enhance its service offering in this segment, the Bank has over the past few months further strengthened its house view committee as well as its research and analysis committee, considered to be two key structures to the overall investment services proposition across the Bank's various customer touchpoints.

Other Important Business Segments

Bancassurance

The Bank acts as a tied intermediary to the Associated Companies to offer insurance and life assurance products to its customers. All policies sold through the Bank's branch network are issued and underwritten by the Associated Companies. The life assurance products fall under two main categories, mainly policies related to savings/ investments, and policies related to pensions and cater for the different phases of a customer's life cycle. On the insurance side, the Bank provides home block policies and finance gap block policies. Bancassurance products contribute positively to non-interest income by providing it with both up-front and trailing fees. Such income is considered as risk free since the Bank is only acting as agent to the insurance company.

Corporate Advisory

The corporate advisory team at the Bank is considered as one of the major players on the local market for IPOs and primary bond issues. It can offer the whole spectrum of services for an entity intending to list on the local exchange. The team can assist an entity to seek alternative funding sources to traditional bank borrowing by offering the services of manager, registrar and/or sponsor. Although this business is dependent on the number of companies tapping the local market to raise finance, demand has been steady during the last couple of years. Consequently, this line of business has gained importance as an alternative source of non-interest income.

Custody

The Bank is authorised by the MFSA to provide custody and safekeeping services to a number of clients as regulated by the Investment Services Act (Cap. 370 of the laws of Malta) and relative amendments as published by the MFSA. The services offered through the custody unit include compliance monitoring, valuation analysis, corporate action services, settlement and reconciliation and are offered to collective investment schemes (UCITS, alternative investment funds and professional investor funds), retail clients and institutional clients. The Bank has also partnered with a renowned global custodian, Royal Bank of Canada, to safe keep clients' assets in foreign jurisdictions. Given the nature of this business, the unit will only attract new funds and business after it has successfully identified and assessed the risks raised by taking on each particular client.

Fund Management and Discretionary Management

BOVAM offers investment management services to collective investment schemes which qualify as UCITS Funds. Over the past twenty years, BOVAM has launched a wide range of domestic and international investment funds providing income and growth opportunities, thus offering clients a varied range of investment solutions to address their investment needs. Currently BOVAM manages 17 sub-funds, 14 of which are sub-funds of Vilhena Funds SICAV p.l.c and 3 of which are sub-funds of BOV Investment Funds. The total value of assets under management across all of the aforementioned sub-funds amounts to approximately €887 million as at 30 September 2017. As at the date of this Prospectus, the said sub-funds have over 34,000 unit holders.

Earlier this year, BOVAM had its licence extended to offer asset management service offering beyond collective investment schemes, in order to tap the growing demand for bespoke portfolio management services to professional institutional clients. BOVAM offers discretionary portfolio management services to local and foreign institutional clients such as insurance companies, credit institutions, investment firms, pension funds and captives.

Fund Administration Services

BOVFS is the largest fund administrator in Malta providing its services to numerous funds, with the total assets under administration amounting to over 30% of the local market as at 30 September 2017. BOVFS has always been at the forefront on the island in ensuring that additional services required by funds and fund managers arising out of the spate of new regulations can be fully catered for. This is possible thanks to a pro-active stance in understanding the implications of new directives and regulations, investing in state-of-the-art infrastructure and on-going training to its workforce. This continues to ensure full compliance of our customer base to the new directives and regulations upon going live, and concurrently creates additional revenue streams to the company.

Breakdown of revenues

Below is a breakdown of revenues of the Group divided into:

(A) Interest and similar income (i) on loans and advances; (ii) balances with Central Bank of Malta; and (iii) treasury bills; and

(B) Other revenues generated by the Group.

(A) INTEREST AND SIMILAR INCOME

	The Group		
	2016	2015	2014
	€000	€000	€000
On loans and advances to banks	1,984	1,067	755
On loans and advances to customers	158,211	157,096	151,460
On balances with Central Bank of Malta			993
On treasury bills	-	17	222
	160,195	158,180	153,430

(B) OTHER REVENUES

	The Group		
	2016	2015	2014
	€000	€000	€000
Fees and commissions on loans and advances, similar activities and local business	31,678	30,045	27,949
Stockbroking	4,931	3,898	4,555
Wealth management services	1,759	1,274	658
Bancassurance	5,858	4,821	3,301
Other investment services	278	165	212
Custody	1,554	1,650	1,292
Fund management and discretionary management	5,448	6,779	5,744
Fund administration services	4,887	3,350	3,235
On other activities	9,692	10,594	9,016
	66,085	**62,576**	**55,962**

8.1.3 Distribution Network

The distribution strategy of the Group is based on a multi-faceted approach that allows the Group to establish itself as the operator of choice in the markets in which it operates, by combining the responsibility for customer relations to the management of the localised branches or specialised departments, co-ordinated through centralised strategies and policies at head office level.

The Group offers its products and services through both traditional channels and virtual channels.

More particularly the Group offers its services through a diffused network of branches and ATMs located in various areas of Malta and Gozo, a network of investment centres dispersed throughout Malta and Gozo that provide select and limited wealth management services to customers. The Group also provides corporate and advisory service to corporate customers wishing to raise capital in the domestic capital markets through a specialised unit as well as a full range of wealth management services to high net worth customers through its wealth management unit.

As at the date of this Registration Document, the Group's distribution network comprised 37 branches and 95 ATMs in Malta and Gozo and three representative offices in Milan, Brussels and Libya (operations at the latter office are currently suspended), the purpose of which is to manage relations with local multinational and large corporate customers.

In addition to traditional channels, the Group provides its services through virtual channels such as home banking through its 24x7 home banking service and mobile banking, introduced following the market success of smart phones/tablets and apps developed for these devices, and it features dedicated applications such as BOV Mobile Banking and the E-Trader+, an application connected to the transactional platform powered by Saxo Bank A/S that allows live trading in investment instruments by customers.

8.2 RISK MANAGEMENT

The Group is exposed to the risks inherent to the nature of its activities. A significant part of the Group's activities consists of internally identifying, measuring, controlling and monitoring the risks associated with the transactions performed by the Group. These risks generally include, credit risk, market risk, liquidity risk and operating risk as well as other significant risks, such as, business risk, real estate risk, financial investment risk, strategic risk and reputational risk.

The Board of Directors establishes the strategic guidelines for taking the risks defining the capital allocation parameters for the Issuer and other Group companies, in conformity with the respective risk appetite and objectives for the creation of value in relation to the risks taken.

The Issuer's risk management department oversees and controls the risks of the Group directing, coordinating and controlling the risks in particular through the officers responsible for competency risks from the Group's perspective.

Since November 2014 the Bank, being a systematically significant financial institution, has been placed under the supervision of the Single Supervisory Mechanism. In compliance with Pillar II requirements of the CRD, the Bank prepares the ICAAP on an annual basis. The Board of Directors and Senior Management strongly believe that the ICAAP will continue to act as an important contribution to the strengthening of the risk management practices and capital adequacy of the Bank.

This section sets out a brief outline of the risk management functions within the Bank and the principal risk management policies and tools adopted by the Bank with respect to the main risks inherent in the business.

8.2.1 Risk Management Functions

The Bank assumes some risks consciously with the aim of managing them to achieve a return. Other risks are not deliberately assumed, but are the inevitable consequence of undertaking banking and other financial services business. Within this context, the Bank's organisational structure is constructed upon a framework that promotes a transparent and efficient risk culture.

The Bank adopts different layers of defence and segregates duties to reinforce the currently implemented risk control mechanisms. Such approach is embraced through the application of the three lines of defence model.

The first line of defence is executed by the functions that own and manage risks, namely the business units. The second line is executed by the functions that oversee risks, namely risk management, compliance and anti-financial crime departments; and the third line is executed by Group internal audit, which is the function that provides independent assurance to the Board.

Accordingly, responsibility for risk management resides at all levels within the Bank.

The risk management department, within the second line of defence, falls under the responsibility of the Chief Risk Officer ("CRO") who is responsible for the following departments: credit risk sanctioning, risk management, legal services, anti-financial crime and compliance. The Bank's risk governance structure is explained below:

The *Credit Risk Sanctioning Department* ("**CRSD**") is responsible for conducting independent financial and risk analysis of lending and investment proposals that fall under the dual-voting system and to ensure that these are within the risk appetite communicated by the Board of Directors.

The *Risk Management Department* is responsible for the overall risk management of the Bank. In order to ensure integrity, the risk control department operates independently of the Bank's business activities. This Department has a number of units, including:

- Credit Risk Management Unit ("CRMU"). The Unit's objective is to safeguard the soundness of the loan portfolio, to ensure sustainable credit growth, and to enable a diversified portfolio aligned with the Bank's risk appetite. CRMU is responsible for the development and maintenance of the credit policy, which sets out the Bank's core values governing the provision of credit. The unit is also responsible for measuring and managing asset quality in line with the prevailing banking rules.

- Enterprise Risk Management Unit ("ERMU"). ERMU takes a holistic enterprise-wide view of the risks taken on by the Bank in carrying out its business and ensures that these are consistent with the overall risk appetite framework. It is a central unit which is responsible for the management of risk reporting, risk data governance and portfolio risk management. ERMU acts as the group's liaison with the JST. The unit is responsible for regulatory and internal stress tests, including the periodic stress tests conducted by the ECB and/or by the EBA. The Unit is also actively involved in the compilation and submission of the ICAAP and ILAAP reports of the Bank.

- Economics & Risk Research Unit. The unit brief includes the monitoring of the Bank's economic environment with special focus on the local and European economy. The unit is responsible for conducting all mathematical, statistical and economic research that is required by the Bank.

- Operational Risk Management Unit. The core operational risk function is responsible to coordinate and oversee the identification, assessment, management and reporting of operational risks. The unit is also responsible for the mitigation of operational risks events through the procurement of adequate and cost-effective insurance cover. The unit is also responsible for the implementation of the operational risk management framework. The operational risk management framework reflects the core elements that the Group will apply to manage operational risk. It includes all the processes and tools which are used to identify, assess and manage operational risk within the Group. The risk assessment will determine the level of management required and what form of risk mitigation, if any, will be applied. The risk assessment will also determine the level of reporting required. Any identified high risks are reported to the Issuer's risk committee together with a recommended line of action for mitigation. In addition, the unit has an information security function which analyses, communicates information security risks, and evaluates their potential impact on the business processes. Business continuity also falls within the responsibility of this unit.

- Risk Coordination Unit. The objective of the unit is to be the direct link between the first and the second line of defence by increasing the awareness of risk responsibilities and cultivating a risk culture so that risk can be owned and managed within the business unit.

The *Legal Services Department* ensures that the Bank's interests are duly protected and that the Bank is kept duly updated with all legislative developments. This enables the Bank to map the way forward and to be prepared from a legal perspective even in terms of the Bank's processes.

*Anti-Financial Crime Department ("***AFCD***")*. The AFCD's key role within the Bank's enterprise risk management framework is that of acting as the Bank's second line of defence in relation to the prevention of money laundering and counter terrorism financing. The AFCD is responsible for the development and implementation of policies, procedures, systems and controls to counteract financial crime, money laundering, counter terrorism financing, bribery and corruption, and fraud. AFCD also ensures that the applicable sanctions are implemented. AFCD is the Group's liaison with the FIAU.

Compliance Department. This department is responsible to ensure that the Bank and its Subsidiaries operate in line with regulatory requirements. The compliance department monitors regulatory developments and assesses the impact and applicability of rules and regulations. It also carries-out specific and thematic reviews on various functions, while ensuring that the Group has effective policies that mitigate reputational and conduct risk. It provides regular training on regulatory obligations and requirements emanating from internal policies and procedures.

8.2.2 Management of Credit Risk

Considerable resources are dedicated by the Bank to manage credit risk. Indeed, as at 30 September 2016 the Bank had allocated €332.3 million in regulatory capital against credit risk. Notwithstanding credit risk mitigation processes, credit risk monitoring and management activities, there remains the risk that, the Group's credit exposure may exceed pre-determined levels pursuant to the procedures, rules and principles it has adopted. Therefore, the deterioration of certain particularly important customers' creditworthiness and, more generally, any defaults or repayment irregularities, the launch of bankruptcy proceedings by counterparties, the reduction of the economic value of guarantees received and/or the inability to execute said guarantees successfully and/or in a timely manner, as well as any errors in assessing customers' creditworthiness, could have negative effects on the activity, operating results and capital and financial position of the Issuer and/or the Group.

The credit risk management function is responsible for ensuring that the Bank's credit risk is properly managed. The main objectives of credit risk management are to:

- Maintain a framework of controls to ensure that credit risk-taking is based on sound credit risk management principles;
- Identify, assess and measure credit risk clearly both on an individual facility level as well as on a portfolio basis avoiding undesirable concentrations; and
- Monitor credit risk whilst ensuring that risk-reward objectives are met.

The Bank adopts various measures to achieve the above. These include the application of:

a) High-level credit policies designed to facilitate the identification and mitigation of credit risk;
b) Lending guidelines defining the responsibilities of lending officers while holding them accountable for their decisions;
c) Limits on investment, settlement and contingent liability exposures by country and counterparty;
d) Independent reviews (hindsight overviews) of credit exposures;
e) Scoring systems which make use of quantitative modelling based on historical data to generate key predictive figures;
f) An internal rating system based on the counterparty's track record and ability to meet the agreed repayment schedule;
g) Large exposures and loan loss allowance policies in accordance with regulatory requirements;
h) High level reporting giving a holistic overview of the Bank's credit portfolio quality; and
i) Communication and provision of general guidelines including training on all credit-related risk issues, including regulatory changes, to promote consistency and best practice throughout the Bank.

The Group has also adopted valuation policies for customer loans and receivables that take into account write-downs recorded on asset portfolios for which no particular impairment has been identified. In the event of a deterioration in economic conditions and a consequent increase in non-performing loans, it cannot be ruled out that there may be significant increases in the write-downs to be performed on the various categories of such loans, and that credit risk estimates may need to be amended. Finally, there is a possibility that losses on loans may exceed the amount of the write-downs performed, which could have a negative impact on the operating results and capital and financial position of the Issuer and/or of the Group.

8.2.3 Management of Counterparty Credit Risk in the Investment Portfolio

The Bank is exposed to credit risk through its investment activities. Credit risk in the issuer's proprietary investment portfolio is mitigated through limits set in the Bank's treasury management policy (TMP). The Bank sets limits on the level of credit risk undertaken in relation to any counterparty exposure in accordance with external ratings issued by major rating agencies. Limits on the level of credit risk applicable to different ratings are reviewed and approved by the Board of Directors at regular intervals.

The Bank only enters into investment transactions with authorised counterparties, and invests in financial instruments of a credit quality that falls within specific parameters stated in the TMP. Actual exposures are monitored against limits on an on-going basis, while changes in credit ratings and future outlook are monitored daily. Every quarter, ERMU also monitors closely the Credit Default Swap (CDS) movements of the largest counterparties in the investment portfolio, since a general increase in CDS would normally lead to a widening of credit spreads which in turn implies a decline in the market values of securities.

8.2.4 Management of Counter Party Credit Risk on Derivatives

The TMP limits the use of derivatives to hedge a balance sheet position, to satisfy customers' requests and for the use of structured wealth management products. Counterparty risk related to derivatives is subject to prior approval from the appropriate sanctioning authority as stipulated by the Bank's policies. Derivative instruments must be denominated in the local currency or in hard foreign currencies.

Wrong way risk arises when the probability of default of a particular counterparty is positively correlated to the exposure with the same counterparty, so that the mark-to-market exposure increases at the same time as the riskiness of the counterparty increases. Wrong way risk is addressed by the Bank through the setting up of internal limits and its collateral management procedure. The TMP, which sets the limits on the maximum exposures held in derivatives, assumes that the business relationship with most counterparties is an on-going one; therefore, the limits are primarily based on the most conservative long-term credit rating of the counterparty.

For requests falling outside the TMP, these are also reviewed by CRSD and approved by the CRO or the Board of Directors according to the limit of the exposure. Limits are reviewed annually or more frequently in the event of a downgrade of the counterparty. Prior to effecting a transaction, the Bank ensures that an ISDA agreement[6] with respective counterparties is in place and that the agreement covers the deal in question. It is the Bank's policy to revalue all traded transactions and associated collateral positions on a regular basis.

To measure the derivative exposure value in accordance with CRR article 271, the Bank uses the mark-to-market method where the exposure value is taken as the sum of current replacement cost and potential future credit exposure, taking into consideration the netting arrangement in place as per CRR article 298.

[6] The term 'ISDA' refers to the International Swaps and Derivatives Association which inter alia publishes standard form contracts which are used in a widespread manner by market players in the derivatives markets. The Bank uses the standard form ISDA master agreement as a starting point in negotiating all derivatives contracts with counterparties.

8.2.5 Management of Capital Adequacy Risks

The Group's capital base is composed of CET1 and Tier 2 Capital. In line with new regulations the Issuer is placing much of its emphasis on monitoring its CET1 capital. This capital is the highest form of quality capital, thus providing the greatest level of protection against losses. The Group uses the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method with respect to the Group's foreign exchange risk. No capital is allocated for market risk as the Bank does not operate a trading book.

In addition to the risks above, a minimum capital requirement is also determined for non-credit obligation assets (i.e. 'other assets' on the balance sheet) in line with the CRD IV.

In line with the CRR, Banking Rule BR/15: '*Capital Buffers of Credit Institutions authorised under the Banking Act, 1994*', requires additional buffers: capital conservation buffer; countercyclical buffer; O-SII buffer; and systemic risk buffer. These buffers are aimed to strengthen the resilience of the Group and entered into force as from January 2016, with full application by January 2019. Automatic restrictions on capital distributions apply if the Group's CET1 capital falls below the level of its CRD IV combined buffer.

The leverage ratio was introduced into the Basel III framework as a non-risk-based backstop limit, to supplement risk-based capital requirements. Its purpose is to limit the leverage effects in the balance sheet as it is a volume based measure calculated as Tier 1 capital divided by total exposure calculated as the total on-balance sheet assets, plus off-balance sheet exposures, such as undrawn commitments, less amounts permitted to be deducted for Tier 1 capital. The Group's leverage ratio is determined and monitored on a regular basis, and as at 30 September 2016 stood at 5.34%.

8.2.6 Management of Liquidity Risk

In order to ensure that maturing funds are always available to meet expected demand for cash, the Board sets parameters within which maturities of assets and liabilities may be mismatched. In fact, the Bank's asset-liability committee ("**ALCO**") monitors the Bank's liquidity gap on a monthly basis. ALCO also maintains an on-going oversight of forecast and actual cash flows, by monitoring the availability of funds to meet commitments associated with financial instruments.

The following risk indicators are presented on a regular basis to ALCO in order to enable the evaluation of the resilience of the Bank's liquidity position and to maintain a constant state of readiness should an exceptionally high demand for liquidity arise at any time:

- Loan-to-Deposit ratio ("LtD")

  The LtD ratio assesses the Bank's liquidity position by dividing the Bank's total advances by its total deposits. The LtD ratio (net of interest in suspense) has been decreasing throughout this year, standing at 46.3% (September 2015: 49.2%). This shows that the Bank was highly liquid during FY2016, with its loan portfolio fully funded by deposits and with no dependence on the wholesale market. The decrease in the LtD ratio was the result of a significantly higher rise in customer deposits when compared to the increase in the lending portfolio. The Group maintains a stable base of "core deposits".

- Liquidity Coverage Ratio ("LCR")

  The LCR requires credit institutions to hold sufficient unencumbered high-quality liquid assets ("HQLA") to withstand severe liquidity outflows that could be expected to accumulate over a 30-day stressed period. During such a period, a credit institution should be able to convert quickly its liquid assets into cash without recourse to central bank liquidity or public funds, which may result in its liquidity coverage ratio falling temporarily below the 100% level.

  As at 30 September 2016 the Bank's calculated LCR was in line with the EU delegated act regulation and stood at 131%. This is above the minimum level of 100% which will be required at EU level when the rule is fully implemented in 2019.

- Net Stable Funding Ratio ("NSFR")

  The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. The NSFR is subject to an observation period and shall be introduced as a binding minimum standard in 2018.

Albeit it is not yet a binding regulatory standard, the Bank already calculates the NSFR, and the results indicate that the institution meets and exceeds the 100% threshold. The Bank officially reports the LCR to the Regulatory Authorities on a monthly basis whilst the NSFR is reported on a quarterly basis. The Bank also participated in the Basel III Quantitative Impact Study (QIS) exercise, which is repeated semi-annually.

Complementing the above, liquidity risk is also mitigated through adequate measures found in the:

- *TMP* - The TMP sets out the risk appetite of the Bank and sets out limits and controls that ensure a highly liquid investment portfolio;

- *Liquidity Risk Management Policy* - This policy outlines the liquidity management framework of the Bank developed to identify, evaluate, monitor, manage and report the Bank's liquidity position. The policy also outlines the governance and controls available to manage liquidity risk and oversee the liquidity position of the Bank;

- *ILAAP* - The ILAAP is designed to ensure that the Bank has a robust liquidity risk management and to demonstrate the Bank's overall liquidity adequacy. The document contains detailed qualitative and quantitative information of the Bank's processes and methodology used to measure and manage liquidity and funding risk. The assessment aims to ensure that the Bank has sufficient liquidity to ensure that liabilities are met in both normal and stressed scenarios. This document is reviewed by the ECB and MFSA.

- *Contingency Funding Plan* - This plan sets out the strategies that will be activated in case of excessive liquidity demand. It includes an outlined process and action plan for responding to severe disruptions to a bank's ability to fund some or all of its activities.

8.2.7 Management of Market Risk

The objective of the Bank is to manage and control market risk exposures in order to optimise return and minimise risk. Market risk is subject to strict controls under the TMP, which sets out the markets and instruments in which risk can be assumed, the types of positions which can be taken and the limits which must be complied with. The TMP also sets out the hedging policy, and also the pricing and validation policy.

ALCO regularly reviews high level market risk exposures and also makes recommendations to the Board of Directors concerning the overall market risk appetite and market risk policy. Exposures at lower levels of delegation are monitored at various intervals according to their volatility. ERMU regularly monitors the levels of exposures compared to set limits and where appropriate, escalation procedures are in place.

The Bank uses a number of tools to mitigate market risk including:

- *TMP* - Articulates the Bank's appetite for market risk by setting limits on the basis of credit ratings assigned by eligible external credit assessment institutions, namely, Fitch, Moody's and S&P's. The TMP is reviewed at least annually by ERMU in co-ordination with the Issuer's treasury department, and is approved by ALCO and the Board of Directors;

- *Hedging instruments* - Limit exposures on interest rate and currency positions resulting from trading activities. Positions resulting from trading activities which exceed these limits are closed either by entering into equal and opposite trades, or through the use of derivative instruments, mainly interest rate swaps and forward currency exchange deals;

- *Investment authorisation* - Sets out a 'four-eye' approach when an investment proposal falls outside the criteria set out in the Bank's TMP. CRSD undertakes an independent analysis of proposals which are then approved by the Chief Risk Officer or the Board as appropriate;

- *Review of limits* – Credit exposures are regularly reviewed upon changes in credit ratings or outlook with a view to taking early mitigating action. When there is a change in rating and in the outlook, CRSD undertakes an independent analysis, which is then presented to the Board. Exposures which are above TMP limits are reviewed annually by Treasury in order to reassess the credit risk and align the investment criteria as necessary;

- *Interest rate risk in the banking book* - Interest rate risk is defined as the current or prospective risk towards a bank's financial position arising from unfavourable movements in interest rates. The Bank's exposure towards the trading book is nil and it is therefore exempted from the trading book capital requirements as set by the CRR. The Bank is exposed to interest rate risk in the banking book ('IRRBB'), arising from the mismatch between interest sensitive assets and liabilities held in the banking book. The Bank has a detailed interest rate risk policy which clearly describes the approaches in which the Bank identifies, evaluates, monitors, manages, and reports its interest rate position. The policy also outlines the structure, responsibilities, and controls to manage and oversee the interest rate positions of the Bank. The Board of Directors is ultimately responsible for the interest rate risk assumed by the Bank and the manner in which this risk is managed to ensure that it is aligned with the interest rate risk strategy and risk appetite. ALCO is the main forum wherein, on a monthly basis, the exposure to interest rate risk is monitored and evaluated. ALCO assesses this risk with the objective of limiting potential adverse effects of interest rate movements on net interest income and on equity.

- *The measurement of interest rate risk* - Risk management processes are in place to control and limit the interest rate risk exposure without negatively affecting the profitability of the Bank. The Bank considers a dual, yet complementary perspectives in the process of controlling and assessing IRRBB. These include the earnings perspective and the economic value perspective.

8.2.8 Management of Operational Risk

The Operational Risk Management Unit ("**ORMU**") is responsible to develop and implement policies and procedures to ensure that operational risks are managed effectively. Although ownership and accountability for operational risk resides with the business level, the ORMU co-ordinates, supervises and drives forward the identification, assessment and monitoring of operational risks and controls.

Operational risks within the Group are covered by the Bank's operational risk management framework which includes risk identification, loss database, key risk indicators ("**KRIs**") and business continuity management ("**BCM**"). The Bank has also in place a reputation risk policy which was launched during FY2016 to establish an effective structure for managing the Group's reputation and to protect the Group's name and goodwill.

ORMU supports the business units in identifying and assessing the operational risk exposure. Risk assessments involve risk identification, risk evaluation and recommendations for managing and mitigating the risks. For the risk identification process, the Bank uses audit findings, internal loss data analysis and process mapping. The Bank is also compiling a Group risk register. A loss database has been created and maintained since 2009 and is updated regularly through risk event reporting on internal loss events and near misses. KRIs and thresholds have been identified at generic enterprise-wide level and are reported regularly.

Business continuity supporting documentation at unit level is in place throughout the organisation. A BCM programme is maintained and the Group is implementing a robust enterprise-wide business continuity plan ("**BCP**"). BCPs for critical activities and IT systems are regularly tested, thus ensuring timely response to disruptions and effective restoration. The Group's incident management team works in liaison with the ORMU to effectively manage the organisation's efforts where widespread threats require a more coordinated approach.

The Group currently uses the Basic Indicator Approach to apportion capital for operational risk and accordingly allocates 15% of the average gross income over three years in line with Basel III guidelines. The operational risk regulatory capital requirement for the Group as at 30 September 2016 was €34.66 million (notional risk-weighted assets €433.19 million).

The Bank addresses identified risks where these are not aligned with stated risk appetite by improving processes, investing in technology changes and, where necessary, tackling human resource vulnerabilities. As part of its BCP, the Bank maintains and periodically tests contingency facilities to validate the effectiveness of the plan in the event of a disaster. It also mitigates the possibility of higher impact risk events through comprehensive insurance coverage on selected business risks. Insurance cover is under on-going review by a specialised team within ORMU, which works in close liaison with the Group's insurance brokers and the different business units.

8.2.9 Management of Information Technology Risks

Information security risk refers to the risk of loss caused by deliberate or accidental loss, alteration, falsification or leakage of information, or by destruction, disruption, errors or misuse of information systems. The Group applies various international standards in its integrated approach, which has the fundamental objective of ensuring the confidentiality, integrity and availability of its information assets.

In order to fulfil the proper handling of information and prevent loss or leakage of information, the Group has developed a number of qualitative measures to reduce such risks through its organisational structure, with officials having specific responsibilities for information security issues, the establishment of information security policies, procedures and standards, awareness training and the implementation of a security infrastructure and systems to ensure a stable information security environment. The approach to the management of information security risks is in line with global standards, in particular ISO 27001. During FY2016, the information security policy was reviewed and updated extensively, establishing a framework of governance and accountability for information security within the Group.

8.2.10 Risk Management in Subsidiary Companies

Risk management and compliance are core functions of the Group's culture and operations and each of the Subsidiaries has a robust governance model which includes various documented policies and procedures and key internal control principles that enable the portfolio managers to carry out their work in an efficient and diligent way. Moreover, BOVAM has in place a risk and compliance programme together with a comprehensive risk register identifying primary and consequential risks. The BOVAM risk and regulatory committee is tasked with the responsibility to manage, develop and operate an appropriate risk control infrastructure. The combination of the qualitative and quantitative risk assessments aims to ensure that BOVAM operates a robust risk management process to protect it in both normal and stressed environments.

On the other hand, BOVFS was set up in 2006 as a fully owned subsidiary of the Bank to provide asset managers with a comprehensive range of administration services to investment funds. In providing its services, BOVFS is exposed to both operational and reputation risks and, to a lesser extent, also market risks. To mitigate these risks, BOVFS has in place compliance and risk monitoring internal audit programmes aimed at reviewing the processes and the corresponding control procedures. In addition, periodic audits of BOVFS's various operations are undertaken by the Group's internal audit department. BOVFS has also engaged an independent audit firm to perform an ISAE 3402 examination of its processes and controls on a biennial basis, which consists of an evaluation of the design and operating effectiveness of its controls. With respect to the management of reputation risks, BOVFS carries out an extensive due diligence process on its potential clients and has in place the necessary procedures to ensure that the business is compliant with prevailing prevention of money laundering regulations.

Lastly, in view of the dependence of BOVFS on its various IT systems, there is in place a detailed business continuity plan in order to appropriately manage the incidence of business interruptions and disaster recovery.

9. REGULATORY FRAMEWORK

9.1 OVERVIEW

The Issuer is regulated and supervised by the ECB and the MFSA in relation to licensing, capital adequacy, liquidity, risk concentration, conduct of business as well as organisational, governance and reporting requirements.

In reaction to the crisis in financial markets, the regulatory environment has undergone, and is still undergoing, significant changes. In December 2010, the Basel Committee on Banking Supervision ("**BCBS**") proposed revised minimum capital adequacy and liquidity standards that were significantly more stringent than the then-existing requirements. The set of comprehensive changes to the capital adequacy framework published by the BCBS, known as Basel III, was implemented into EU law by a legislative package referred to as 'CRR/CRD IV'. This package includes the CRR which is directly enforceable as law in every member state of the EU including Malta, and the CRD IV which has been implemented into national law through amendments to the Banking Act and applicable regulations thereunder. CRR/CRD IV contains, among other things, detailed rules on regulatory banking capital, increased capital requirements and the introduction of additional capital buffers, tightened liquidity standards and a non-risk based leverage ratio. Most of the new rules came into effect on 1 January 2014, whilst certain other regulatory requirements will be gradually phased-in by 1 January 2019.

On 23 November 2016, following a routine review of the CRR/CRD IV legislative package and other measures in the area of banking regulation and supervision, the European Commission published a comprehensive set of reforms to further strengthen the resilience of EU credit institutions (through what is known as CRR II and CRD V or the CRD-V package). The amendments proposed in CRD V and the CRR II aim to address a number of identified areas of improvements to the CRD IV package but also implement a number of reforms that have only recently been finalised by the BCBS and the Financial Stability Board. These include: (i) a binding leverage ratio, which will prevent institutions from excessively increasing balance sheet leverage; (ii) a binding net stable funding ratio, which will improve institutions' funding profiles and resilience against market and funding stresses; (iii) more risk sensitive own funds requirements for institutions that actively trade in securities and derivatives; (iv) a revised framework for capturing interest rate risk in the banking book (IRRBB) which will entail a common approach and supervisory prescribed shock scenarios; and (v) new standards on the total loss-absorbing capacity (TLAC) of globally systemically important institutions (also referred to as G-SIIs), which will require more loss-absorbing and recapitalisation capacity. The proposed amendments will start entering into force in 2019 at the earliest and are tightly inter-linked with other provisions in the CRR and the CRD IV, which have been in effect since January 2014.

In addition to the continued implementation and refinement of the CRR/CRD IV package, the EU is pursuing a deeper integration and harmonisation of banking regulation and supervision by the establishment of the Banking Union. Currently, the Banking Union consists of two pillars, the SSM and the SRM for credit institutions domiciled in the Eurozone as well as for credit institutions domiciled in other EU Member States that decide to participate in the SSM and SRM. Under the SSM, the ECB is the primary supervisor of 'significant' credit institutions (such as the Issuer) and their banking affiliates in the relevant EU Member States. The SSM is based on the SSM Regulation which is directly enforceable as law in every participating member state including Malta. The SRM centralises at a European level the key competences and resources for managing the failure (or likely failure) of any credit institution in the participating EU Member States. Under the SRM, broad resolution powers with respect to credit institutions domiciled in the participating EU Member States, are granted to the SRB as the central European resolution authority and to the competent national resolution authorities. The SRM is based on the SRM Regulation, which is directly enforceable as law in Malta and the BRRD, which has been implemented into national law through the BRRD.

The reforms adopted also include the introduction of IFRS 9 (please refer to the section headed 7.3 for further information in this regard).

Further changes continue to be under consideration. While the extent and nature of these changes cannot be predicted now, they may include a further increase in regulatory oversight and enhanced prudential standards relating to capital, liquidity, leverage, conduct of business, and other aspects of the Issuer's operations that may have a material effect on the Issuer's business and the services and products that it will be able to offer.

9.2 COMPETENT AUTHORITIES

The Issuer is authorised to conduct banking business and to provide ancillary financial services as set forth in the Banking Act and is subject to comprehensive regulation and supervision by the ECB, the MFSA, the Listing Authority, the FIAU and the CBM.

As a 'significant' credit institution within the meaning of the SSM Regulation, the Issuer is directly supervised by the JST. The responsibilities of JST include, but are not limited to, performing the SREP, proposing the supervisory examination programme, including a plan of on-site inspections, implementing the approved supervisory examination programme as well as ensuring coordination with the on-site inspection teams and the MFSA.

The MFSA is the Issuer's principal supervisor for regulatory matters with respect to which the Issuer is not supervised by the JST, including the rules on business conduct in the investment services market. Further, the MFSA also supervises the Issuer with respect to those requirements under the Banking Act that are not based on EU law. The CBM supports the MFSA and the ECB and closely cooperates with them, including through the ongoing review and evaluation of reports submitted by the Issuer. Other competent authorities include the Listing Authority, which supervises the Issuer in relation to its compliance with the Listing Rules applicable to the issuance and trading of the Issuer's own securities, and the FIAU, which is the competent authority for matters relating to the regulation of anti-money laundering and the countering of terrorist financing.

These competent authorities have extensive supervisory and investigatory powers, including the ability to issue requests for information, to conduct regulatory investigations and on-site inspections, to impose monetary and other sanctions, to request the replacement of members of the Issuer's management or Board of Directors, or to repeal or suspend the licence of the Issuer.

9.3 BANKING LEGISLATION

The Banking Act and the CRR contain the principal rules for Maltese credit institutions, including the requirements for a banking licence, and regulate the business activities of Maltese credit institutions. Significant parts of the regulatory framework for credit institutions in the EU are governed by the CRR, which sets forth the requirements applicable to the Issuer relating to regulatory capital, risk-based capital adequacy, monitoring and control of large exposures, leverage, liquidity and public disclosure. Certain other requirements, including those on capital buffers, organisational and risk management requirements, are set forth in the Banking Act and other rules and regulations issued thereunder, partly implementing EU directives such as the CRD IV.

9.4 FINANCIAL MARKETS LEGISLATION

Under the Financial Markets Act (Cap. 345 of the laws of Malta), the Listing Authority is responsible for, *inter alia*: authorising the admissibility of financial instruments to a regulated market; establishing and updating the Listing Rules; and ensuring compliance with any requirements or conditions set out in the Listing Rules for listed financial instruments to remain listed and monitor the timely disclosure of information by issuers.

On 3 July 2016, a new legal regime on market abuse entered into force consisting of a directly applicable EU regulation on market abuse (the Market Abuse Regulation (EU) No 596/2014 or "**MAR**") and an EU directive on criminal sanctions for market abuse (Directive 2014/57/EU or "**MAD II**") which has been implemented into national law *via* amendments to the Prevention of Financial Markets Abuse Act (Cap. 476 of the laws of Malta). The MAR establishes a common EU framework for, *inter alia*, insider dealing, the public disclosure of inside information, market manipulation, and managers' transactions. The Prevention of Financial Markets Abuse Act (Cap. 476 of the laws of Malta), which had contained rules on markets abuse prior to the entering into force of the MAR, continues to supplement the MAR including by, for example, setting out the sanctions in case of violations of the MAR.

The EU has enacted several legislative proposals which result in further regulation of securities trading and the trading in derivatives in particular. Notable, the EU adopted the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 or "**EMIR**"), which became effective on 16 August 2012 and which introduced requirements for standardised over-the-counter derivatives to be centrally cleared and derivative transactions to be reported to trade repositories. Further legislative measures such as the overhauled Markets in Financial Instruments Directive (Directive 2014/65/EU or "**MiFID II**") and the new Markets in Financial Instruments Regulation (Regulation (EU) No

600/2014 or "**MiFIR**") and corresponding delegated legislation, which will be applicable as from 3 January 2018, provide for, among other things, greater regulation and oversight and greater sanctioning powers.

Further, European securities regulation is to a large extent based on technical standards, guidelines and recommendations developed by the European Securities and Markets Authority ("**ESMA**").

9.5 CAPITAL ADEQUACY REQUIREMENTS

9.5.1 Minimum Capital Adequacy Requirements (Pillar I)

The minimum capital adequacy requirements for credit institutions are primarily set forth in the CRR. Pursuant to the CRR, the Issuer is required to maintain an adequate level of regulatory capital in relation to its risk position. Risk positions (also referred to as 'risk-weighted assets') include credit risks, market risks and operational risks. The most important type of capital for compliance with the CRR capital requirements is CET1 capital, which primarily consists of share capital, retained earnings and other reserves, subject to certain regulatory adjustments. Another component of regulatory capital is 'Additional Tier 1' capital, which includes certain unsecured subordinated perpetual capital instruments and related share premium accounts. Tier 1 capital requirements are aimed at ensuring the ability to absorb losses on a 'going concern' basis. The other type of regulatory capital is 'Tier 2' capital which generally consists of long-term subordinated debt instruments and must be able to absorb losses on a 'gone concern' basis. Tier 1 and Tier 2 capital together constitute 'own funds'.

Under the CRR, credit institutions are required to maintain a minimum ratio of Tier 1 capital to risk-weighted assets of 6% and a minimum ratio of CET1 capital to risk-weighted assets of 4.5%. The minimum total capital ratio of own funds to risk-weighted assets is 8%. The Issuer's CET1 ratio as at 31 March 2017 stood at 13.1% up from 12.8% on 30 September 2016. Total capital ratio as at 30 September 2016 stood at 16.8%. However, the need for capital continues to grow, as evolving regulation is expected to impose higher capital requirements as well as higher risk weightings on assets.

9.5.2 Capital Buffers

Banking Rule 15 of 2015, *Capital Buffers of Credit Institutions Authorised Under the Banking Act 1994*, requires credit institutions to build up a mandatory capital conservation buffer and institution-specific countercyclical capital buffer, whilst having regard to any additional domestic counter-cyclical capital buffer which may be set by the CBM. The Issuer, in virtue of its classification as an O-SII, is to maintain an additional O-SII buffer, which buffer consists of, and is supplementary to, CET1 capital. The CBM is further empowered, by the Central Bank of Malta Act (Appointment of Designate Authority to implement Macro-Prudential Instruments) Regulations (S.L. 204.06) to require credit institutions to build up a systemic risk buffer to prevent and mitigate long-term, non-cyclical systemic or macro-prudential risks not otherwise covered by the CRR/CRD IV. If a credit institution fails to build up the required capital buffers, it will be subject to restrictions on the pay-out of dividends, share buybacks and discretionary compensation payments. Also, the ECB may require credit institutions to maintain higher capital buffers than those required by national competent authorities.

9.5.3 Supervisory Review and Evaluation Process (SREP) (Pillar II)

The ECB may impose capital requirements on individual significant credit institutions within the SSM, such as the Issuer, which are more stringent than the statutory minimum requirements set forth in the CRR, the Banking Act, or the related rules and regulations. In this context, the European Banking Authority published its final guidance for common procedures and methodologies for the SREP (which has been reflected in Banking Rule 12 of 2014, *The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act)*, in terms of which competent supervisory authorities, including the ECB, are required to review the arrangements, strategies, processes and mechanisms of supervised credit institutions on a regular basis, in order to evaluate risks to which they are or might be exposed, risks they could pose to the financial system, and risks revealed by stress testing, taking into account the nature, scale and complexity of their activities. At the end of the process, the competent supervisory authority takes a SREP decision in relation to each relevant credit institution setting out, depending on the outcome of the SREP, specific capital and liquidity requirements for each affected credit institution. Any additional bank-specific capital requirements resulting from the SREP are referred to as 'Pillar II' requirements and must be fulfilled in addition to the statutory minimum capital and buffer requirements. Also based on the outcome of the SREP, the competent supervisory authority may take a range of other measures in response to shortcomings in a credit institution's governance and risk management processes as well as its capital or liquidity position, such as prohibiting dividend payments to shareholders or distributions to bondholders of regulatory capital instruments.

9.6 INTERNAL CONTROLS

Under Pillar II, credit institutions are also required to establish robust governance arrangements, including a clear organisational and committee structure, well-defined lines of responsibility, effective risk management processes, control mechanisms, remuneration policies, and succession plans for key members of the board and senior management. The internal governance arrangements are to be appropriate to the nature, scale and complexity of the credit institution and the main responsibility for internal governance lies with the board of directors, which is subject to specific suitability requirements.

Pillar III disclosure obligations of credit institutions cover disclosures to the public regarding capital adequacy, exposure to risks and general characteristics of the related management and control systems, aimed at promoting a more accurate assessment of capital solidity and exposure to risks. Specifically, the CRR/CRD IV disclosure framework which credit institutions are subjected to, requires information of a quantitative and qualitative nature that must be published in accordance with the proportionality principle. The framework identifies the frequency of the publication, exemptions, as well as the checks to be carried out to information which is made public.

9.7 LIMITATIONS ON LARGE EXPOSURES

The CRR also contains the primary restrictions on large exposures, which limit a credit institution's concentration of credit risks. Under the CRR, the Issuer's exposure to a customer (and any customers affiliated with it) is deemed to be a 'large exposure' when the value of such exposure is equal to or exceeds 10% of the Issuer's eligible regulatory capital (defined as the sum of Tier 1 and Tier 2 capital which may not exceed one third of Tier 1 capital). In general, no large exposure may exceed 25% of the Issuer's eligible regulatory capital. If the customer is a credit institution or an investment firm, the exposure is limited to the higher of 25% of the Issuer's eligible regulatory capital or €150 million, provided that competent authorities may set a lower limit than €150 million.

9.8 LIQUIDITY REQUIREMENTS

The CRR introduced a new liquidity coverage requirement intended to ensure that credit institutions have an adequate stock of unencumbered HQLA that can be easily and quickly converted into cash to meet their liquidity needs for a 30-calendar day liquidity stress scenario. The required LCR is calculated as the ratio of a credit institution's liquidity buffer to its net liquidity outflows. The liquidity coverage requirement is being gradually phased in through 1 January 2018, with a minimum required level of liquidity of 80% in 2017 which will be increased to 100% in 2019. Whilst the Issuer is a highly liquid credit institution, with a LCR of 131% as at 30 September 2016, and thus, exceeds all levels of liquidity required by regulatory ratios, the Issuer has to ensure that it maintains a minimum stock of unencumbered, HQLA which have to be available to cover the net outflow expected to occur in a severe stress scenario.

As far as long-term liquidity is concerned, the regulations propose the introduction of a liquidity structural equilibrium requirement, that is, the NSFR, calculated as the ratio between the amount of available stable funding and the amount of required stable funding. The CRR contains interim reporting requirements on stable funding but does not yet include substantive provisions relating to NSFR. The NSFR is subject to an observation period and shall be introduced as a binding minimum standard in 2018. Although it is not yet a binding regulatory standard, the Issuer already calculates the NSFR whose results indicate that the Bank meets and exceeds the 100% threshold.

National liquidity requirements under the Banking Act and Banking Rule 5 of 2007, *Liquidity Requirements of Credit Institutions Authorised under the Banking Act 1994*, generally require credit institutions to invest their funds so as to maintain adequate liquidity at all times. The ECB and the MFSA may impose on individual credit institutions, liquidity requirements which are more stringent than the general statutory requirements if such credit institution's continuous liquidity would otherwise not be ensured.

9.9 LEVERAGE RATIO REQUIREMENTS

The Basel III framework proposes a non-risk based leverage ratio as a complement to the risk-based capital requirements. While the CRR, as currently in effect, does not require credit institutions to comply with a specific leverage ratio, credit institutions are required to report and publish their leverage ratios for a future assessment and calibration of the leverage ratio. The European Commission is proposing to introduce a binding minimum leverage ratio requirement of 3% of Tier I capital into the CRR.

9.10 RECOVERY AND RESOLUTION PLANNING, RESTRUCTURING POWERS

Malta participates in the SRM which centralises, at a European level, the key competences and resources for managing the failure of credit institutions in EU Member States participating in the Banking Union. The SRM Regulation and the BRRD Regulations require the preparation of recovery and resolution plans for credit institutions and grant broad powers to public authorities to intervene in a credit institution which is failing or likely to fail.

Resolution measures that could be imposed upon a failing credit institution may include a range of measures, such as the transfer of shares, assets or liabilities of the credit institution to another legal entity; the reduction, including to zero, of the nominal value of shares; the dilution of shareholders of a failing credit institution or the cancellation of shares outright; or the amendment, modification or variation of the terms of the credit institution's outstanding debt instruments, for example by way of deferral of payments or a reduction of the applicable interest rate.

To prevent credit institutions from structuring their liabilities in a way that impedes the effectiveness of the bail-in or other resolution tools, the SRM Regulation and the BRRD Regulations introduced a requirement for credit institutions to meet minimum requirements for own funds and eligible liabilities ("**MREL**"). The MREL shall be determined by the Resolution Committee, which is the competent resolution authority in Malta appointed by the Resolution Authority.

The SRF has also been established by the SRM Regulation. The SRF kicks in if, exceptionally, the contributions by shareholders and creditors are not sufficient to finance resolution. The SRF would, however, only finance support measures for the resolution tools and would not directly absorb any losses or recapitalise a bank. Most financial institutions within the EU, including the Issuer, are required to contribute to the SRF by way of making *ex ante* contributions to the SRF so that within eight years (starting 2016 to 2023), the SRF would amount to 1% of the protected deposits of all banks within the Banking Union (approximately €55 billion). Extraordinary *ex post* contributions become due if the financial means of the SRF are not sufficient to cover support measures.

9.11 DEPOSITOR AND INVESTOR COMPENSATION

The Depositor Compensation Scheme Regulations (S.L. 371.09, "**DCSR**") and the Investor Compensation Scheme Regulations (S.L. 370.09, "**ICSR**") provide for a mandatory deposit protection and investor compensation scheme in Malta.

The DCSR requires that each Maltese credit institution participates in the Depositor Compensation Scheme (the "**DCS**"), which collects and administers the contributions of the member credit institutions, such as the Issuer, and settles any compensation claims of depositors in accordance with the DCSR. Under the DCSR, the DCS is liable for obligations resulting from deposits denominated in any currency in an amount of up to €100,000 per depositor and credit institution, subject to such deposits being classified as 'eligible deposits' under the DCSR. Contributions and commitments made to the DCS by Maltese credit institutions are also governed by Banking Rule 18 of 2016, '*Risk-Based Method' and the 'Compensation Contribution Method' under the Depositor Compensation Scheme Regulations,* and Banking Rule 19 of 2016, *Payment Commitment under the Depositor Compensation Scheme Regulations*.

Under the ICSR, in the event that the MFSA ascertains a compensation case, the Investor Compensation Scheme (the "**ICS**") is required to compensate 90% of any investor's aggregate claims arising from securities transactions denominated in euro or in a currency of any other EU member state up to an amount of the equivalent of €20,000, subject to the claim meeting the requirements imposed in the ICSR as may be applicable.

On 24 November 2015, the European Commission proposed a regulation to establish a European Deposit Insurance Scheme ("**EDIS**") for deposits of all credit institutions which are members of any of the current national statutory depositor compensation schemes of EU Member States participating in the Banking Union. The European Commission's proposal envisages a progressive integration of existing national schemes in three stages, from a re-insurance of national depositor compensation schemes, to a co-insurance system, and then to the final stage, which would be reached in 2024, when the EDIS would fully insure all relevant national depositor compensation schemes in case of failure of a credit institution. The EDIS would be administered by the SRB in all stages jointly with participating national depositor compensation schemes. The proposal is currently being negotiated at EU level and the ultimate impact on the Issuer is uncertain.

9.12 PREVENTION OF MONEY LAUNDERING REGULATIONS

The Issuer is subject to the money laundering regime aimed at preventing money laundering and the funding of terrorism, contained mainly in the Prevention of Money Laundering Act (Cap. 373 of the laws of Malta), the Prevention of Money Laundering and Funding of Terrorism Regulations (S.L. 373.01), and the Criminal Code (Cap. 9 of the laws of Malta). Collectively, these legislative instruments implement Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

Specifically, pursuant to this regime, credit institutions are obliged, *inter alia*, to:

- Adequately identify and verify customers and ultimate beneficial owners where applicable, through rigorous identification and verification procedures, subject to adopting a risk-based approach;
- Conduct ongoing monitoring of business relationships, proportionate to the risk posed by such relationships;
- Appoint a money laundering reporting officer (referred to as the MLRO);
- Record and keep the identification data and other information on relationships and transactions with customers in a durable and accessible repository;
- Respond to requests for information from the FIAU and other competent authorities;
- Report suspicious transactions to the FIAU; and
- Set up internal control measures and ensure the adequate training of employees at regular intervals.

9.13 PAYMENT SERVICES DIRECTIVE II FOR FINANCIAL INSTITUTIONS

Directive (EU) 2015/2366 (known as the Payment Services Directive or PSDII) will be formally implemented on 13 January 2018. This is the deadline for national governments to transpose PSDII into local legislation. PSDII seeks to enhance consumer protection when effecting online payments, whilst at the same time promoting the use of innovative online and mobile payment solutions. The major change envisaged by PSDII envisages opening up by the payments industry through the "account information service" rule and the "payment initiation service" rule which oblige banks to provide third party payment service providers access to customer account information subject to customer approval.

The opportunities presented under PSDII is that banks can position themselves as the preferred payment service provider in view of their first mover advantage and can partner with non-bank technology payment providers. However, this will require banks to change their business model together with reorganising their internal IT infrastructures. The account information rule would also place obligations on banks, that maintain the customer account, to implement adequate customer protection measures. The extent and impact of PSDII on the Maltese market will need to be assessed over the coming years. Either way it will alter the way the Issuer's payments business will be run in the medium to long term.

10. TREND INFORMATION

10.1 TREND INFORMATION - MARKETS, REGULATIONS AND BUSINESS

There has been no material adverse change in the prospects of the Issuer since 30 September 2016 (date of the Issuer's last published audited financial statements). Further, there has been no significant change in the financial or trading position of the Issuer subsequent to the period covered by the historical financial information.

At the date of publication of the Prospectus, with the exception of the macroeconomic conditions and market conditions generally, as well as the impact of legislation and regulations applicable to the Issuer[7] and to other financial institutions within the Eurozone, the Issuer does not anticipate any trends, uncertainties, demands, commitments or events outside the ordinary course of business that could be deemed likely to have a material effect on the upcoming prospects of the Issuer's business for at least up to the end of the current financial year.

Global and Local Economic Outlook

Global economic recovery is on a much firmer footing than it has been in the last couple of years. This has been confirmed by the IMF who are anticipating global growth to rise to 3.6% in 2017 and to increase to 3.8% in 2018. Growth is expected in all major developed and emerging economies, although performance will vary between the different regions. The US economy is expected to be the outperformer in developed markets, with growth forecasted at an average of 2.5% for 2017 and 2018. In the Eurozone, economic growth is expected to continue its positive trend and should average 1.7% in 2017 and 2018, especially now that most political risks have receded. The only exception is the United Kingdom and Brexit. This bodes well for the local economy, which continues to outstrip other European economies in terms of GDP growth and employment growth. In the first quarter of 2017, Malta experienced an annualised GDP growth rate of 4.2%, mainly driven by domestic demand. Such momentum is expected to be maintained in the foreseeable future, and this should leave a positive impact on the Issuer given its reliance on the local economy.

The improving economic situation is leading central banks to start normalising their unprecedented monetary policy stimulus which resulted in policy rates being cut to all-time lows. In the coming months the US Federal Reserve (the "**Fed**") is expected to start shrinking its balance sheet, whereas the ECB is expected to start tapering its quantitative easing ("**QE**") programme. Furthermore, the Fed has also hiked interest rates three times since December 2016. So far, only the Bank of Canada has followed the Fed in increasing its interest rates. However, there is a clear gradual shift towards a tightening of monetary policy across the board. Although the ECB is expected to slowly exit QE, it is not expected to hike interest rates before the latter part of 2019. This means that the Issuer will continue to face pressures on its interest rate margins, and hence the emphasis on its strategic shift to enhance non-interest income.

The pace of balance sheet reduction and interest hikes by major central banks will depend on the rate of inflation growth. While inflation started picking up in the last couple of months, it still remains below targets for major economies. The main factor behind the tepid inflation figures is that wage growth has been insignificant despite a tightening labour market. The fall in oil prices and increased globalisation are also contributing to low inflation expectations. Undoubtedly, this will change once central banks become more hawkish, although its timing will be difficult to predict. Although local inflation has picked up during 2017, price pressures still remain contained. Local inflation reached 1% in June as against the EU average of 1.3%. Furthermore, unit labour costs remain moderate and this should maintain our competitiveness on an international level.

Regulatory Reforms

Regulatory reforms in response to the weaknesses in the global financial sector, together with increased regulatory scrutiny, have had and are expected to continue to have a substantial impact on financial institutions, including the Issuer. For further details on the reforms that have been or may be adopted, please refer to the section headed *Regulatory Framework* above.

[7] Amongst others, the impact of legislation and regulations has resulted in the Issuer having to increase its share capital to meet regulatory requirements.

Core Banking Transformation Programme

The Core Banking Transformation Programme is key to the Bank's future sustainability and ability to implement its key business initiatives aimed at creating an organisation with a long-term view to gradual and steady growth, with a lower level of overall business risk. This initiative, which is currently underway, should place the Bank in a position to implement a comprehensive digitalisation strategy that would render the Bank more accessible by customers by providing the platform to enhance the provision of certain services and the introduction of new services which the Bank's current systems do not permit. For further details on the Core Banking Transformation Programme and its impact on the Issuer's capital, please refer to the sub-section headed *Reinforcement of HR and IT Resourcing* of section 7.3 of the Registration Document.

10.2 TREND INFORMATION AND FORECASTS

Forecasted figures for the period from 1 October 2017 to 31 December 2017 presented against interim unaudited results for the twelve months ended 30 September 2017 and unaudited final results for the financial year ended 30 September 2016:

Statements of Profit or Loss For the year/period	1 October 2015 to 30 September 2016 (Audited)	1 October 2016 to 30 September 2017 (Unaudited)	1 October 2017 to 31 December 2017 (Unaudited)
	€'million	€'million	€'million
	Actual	Actual	Forecast
Net Interest margin	**149**	**147**	**37**
Commissions and trading income	**88**	**89**	**22**
Costs	(113)	(120)	(30)
Impairment	(23)	8	(2)
CORE PROFIT	**101**	**124**	**27**
Share of profit of equity-accounted investees	4	14	-
Gain on Visa transaction	28	-	-
Fair value movement	13	6	1
Profit before tax	**146**	**144**	**28**

Statements of Financial Position As at	30 September 2016 (Audited)	30 September 2017 (Unaudited)	31 December 2017 (Unaudited)
	€'million	€'million	€'million
	Actual	Actual	Forecast
Treasury assets	6,277	6,931	7,299
Advances	4,123	4,313	4,363
Other assets	323	355	355
Total assets	**10,723**	**11,599**	**12,017**
Customer deposits	9,181	10,082	10,329
Subordinated debt	327	327	327
Banks & Swaps	291	199	188
Other liabilities	195	202	213
Equity	729	789	960
Total liabilities & equity	**10,723**	**11,599**	**12,017**

Financial Commentary

Profit before tax for the twelve-month period ended 30 September 2017 was in line with that of FY2016. However, the comparative period September 2016 included a one-off gain of €28 million on the disposal of the Bank's membership interest in Visa Europe[8].

The Issuer will be changing its reporting year end from September to December. As a result, the Issuer has issued interim financial statements for the twelve-month period ended September 2017 which will be followed by the publication of full and final results for a fifteen-month period October 2016 to December 2017. The Group expects that the trends experienced up to September 2017 will continue for the last three months of 2017.

[8] https://www.bov.com/documents/company-announcement-293

Key ratios

The following table depicts a number of key ratios for the historical financial year 2016, for the 12-month period ended 30 September 2017 and the forecasted 3-month period ending 31 December 2017.

Analysis as at:	30 September 2016 (Audited) Actual	30 September 2017 (Unaudited) Actual	31 December 2017 (Unaudited) Forecast
Return on equity (This ratio takes into consideration profit before tax as a percentage of equity)	16.9%*	19.0%	12.8%
Return on assets (This ratio takes into consideration profit before tax as a percentage of Total Assets)	1.1%*	1.3%	1.0%
Cost to income (This ratio takes into consideration expenses as a percentage of operating income [interest margin plus fee and trading income])	44.3%*	46.8%	49.6%
Loans to deposits (This ratio takes into consideration net advances [advances as per statement of financial position, i.e. net of impairment allowances] as a percentage of customer deposits)	44.9%	42.8%	42.2%

* Excludes gain on VISA

Introduction to the Forecasts

The forecasts for the period 1 October 2017 to 31 December 2017, which comprise the forecast statement of profit or loss and forecast statement of financial position (“**Forecasts**”) are intended to show a possible outcome based on assumptions relating to anticipated future events which the Directors expect to take place, and on actions the Directors expect to take. Events and circumstances frequently do not occur as expected, and therefore, actual results may differ materially from those included in the Forecasts.

Attention is drawn, in particular, to the risk factors set out in this Registration Document, which describe the primary risks associated with the business to which the Forecasts relate.

The Forecasts, including the principal assumptions upon which they are based, are not intended to and do not provide all the information and disclosures necessary to give a true and fair view of the financial results, financial position, and cash flows of the Group, in accordance with International Financial Reporting Standards as adopted by the EU.

The Directors have exercised due care and diligence in adopting the assumptions set out below. The Forecasts were formally approved on 19 October 2017 by the Directors, and the stated assumptions reflect the judgments made by the Directors at that date.

The assumptions that the Directors believe are significant to the prospective financial information are described below.

Significant Accounting Policies

The significant accounting policies of the Bank are set out in the audited financial statements of the Bank for the financial year ended 30 September 2016. Where applicable, in so far as they relate to recognition and measurement criteria, they have been consistently applied in the preparation of the Forecasts.

Basis of Preparation and Principal Assumptions

The following are the key assumptions which the Issuer has taken into consideration in preparing the forecasts for the 3-month period ending 31 December 2017. The assumptions are divided into two segments:

i. Assumptions based on factors outside the influence of the Issuer's Directors; and

ii. Assumptions based on factors within the influence of the Issuer's Directors.

Factors outside the influence or control of the BOV directors:

- The Group will continue to enjoy the confidence of its customers throughout the period under consideration;
- There will be no changes to existing prevailing worldwide macroeconomic conditions as well as changes to the local economy during the period of the Forecasts;
- The Group will be able to continue with its business and will not be materially interrupted by any unforeseeable events including the occurrence of natural disasters;
- There will be no changes in interest rates, bases of taxes, legislation or regulatory requirements that would have a material impact on the Group;
- No material abnormal or extraordinary items will occur during the period covered by the Forecasts;
- The Group will enjoy good relations with its employees throughout the period under consideration;
- The Bank will retain its current employees and, if necessary, will recruit any additional employees necessary to meet its forecast level of activity under similar terms and conditions;
- There will be no material change to the Board of Directors or Senior Management during the period covered by the Forecasts;
- No significant fluctuations will occur in the fair values of fair value to profit and loss and available-for-sale investments;
- The rate of inflation throughout the period under consideration will not exceed that experienced in the last few years;
- Exchange rates will not change significantly over the period covered by the Forecasts.

Factors within the influence or control of the Issuer's Directors:

The Issuer does not expect the profit forecast for the 3-months ending 31 December 2017 to be materially different, on a proportionate basis from the profit statements for the 12-month period ended 30 September 2017.

The principal assumptions related to the environment in which the Group operates and the factors which the Directors can influence and which underlie the Forecasts, are the following.

Net Interest Margin

Interest margin for the twelve months to September 2017 remained on the same level of September 2016. The lower interest cost on customer deposits, driven by low rates and customers' preference for short term deposit products, was offset by a decrease in interest receivable on the Bank's assets. This reflects the persistent low yields and negative interest rates on balances with banks, which are placing significant pressures on banks' interest margins. This environment is expected to persist for the forecasted period.

Commissions and trading income

The Bank's strategy is to supplement pressure on its interest margin with other revenue streams. This is evidenced by the satisfactory growth in fee income, which emanates from increases in all major product lines. The forecasted number is based on this strategy.

Costs

The substantial investment which started this year to replace the Bank's Core Banking System is resulting in a higher IT expenditure. While the Bank will continue controlling discretionary expenses, the estimated increase in total expenditure reflects also the higher cost of compliance. This situation is expected to continue during the forecast period.

Impairment

The Bank is adopting a more pro-active approach especially when dealing with legacy debt. This has resulted in the reversal of impairment losses following the settlement of a number of non-performing loans. The decrease in non-performing exposures resulted in an improvement in the credit quality of the loan book. A prudent view was adopted and the forecast is based on the assumption that the settlements to September 2017 will not be repeated during the forecast period.

Non-core items

Non-core items include, share of profit of insurance interests, fair value movement and the one-off Visa gain in 2016.

Given that the Bank does not exercise control over its associates, the share of profit for the three months forecast is not expected to be material in this context and forecasts of the associates are not readily available, the Share of profits of Equity Accounted Investees has been excluded from the forecast.

The lower fair value gains during the 12 months to September 2017 resulted mostly from the lower level of quantitative easing activities when compared to 2016. This trend is expected to continue to end December 2017.

Financial position

Group total assets as at 30 September 2017 increased as the inflow of deposits continued. This reflects the current local economic activity and increased customer and investor confidence during the period. The level of subordinated debt is expected to remain unchanged during the forecast period.

Loans and advances to customers reflect a satisfactory demand for credit with growth in both the mortgage and corporate loan books.

The excess of incoming funds is driven by customer deposits, is mainly deployed into liquid short-term assets. As a result, the already conservative LtD ratio has decreased and is expected to decrease slightly to end December 2017.

Total equity as at 30 September 2017 reflected the need to strengthen capital buffers required to meet the onerous prudential requirements while meeting Shareholders' expectations of a fair return on their investment.

Total equity forecasted as at 31 December 2017 assumes a full take up of the €150 million rights issue which will take place in the fourth quarter of 2017.

Report prepared by the independent auditors

The independent accountant's report on the Forecasts set out above is contained in Annex 4 of this Prospectus.

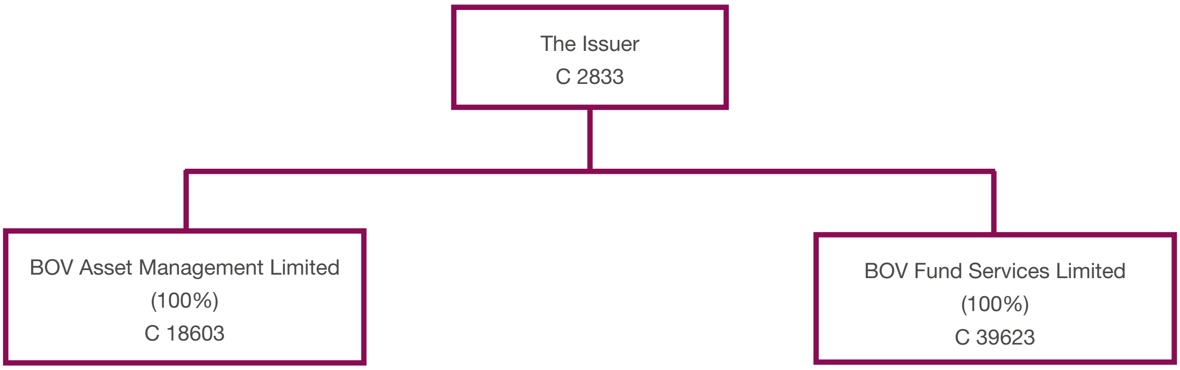
11. ORGANISATIONAL STRUCTURE

11.1 GROUP COMPANIES AND ASSOCIATED COMPANIES

11.1.1 The Subsidiaries

The Issuer is the parent company of the Group and as the parent company, in addition to banking activity, it carries out strategic and coordination functions over the banking, financial and instrumental subsidiary companies that make up the Group.

The Issuer is the sole direct shareholder of the two subsidiary companies forming part of the Group, these being BOV Asset Management Limited and BOV Fund Services Limited. The organisational chart for the companies of the Group as at the date of this Prospectus is below.

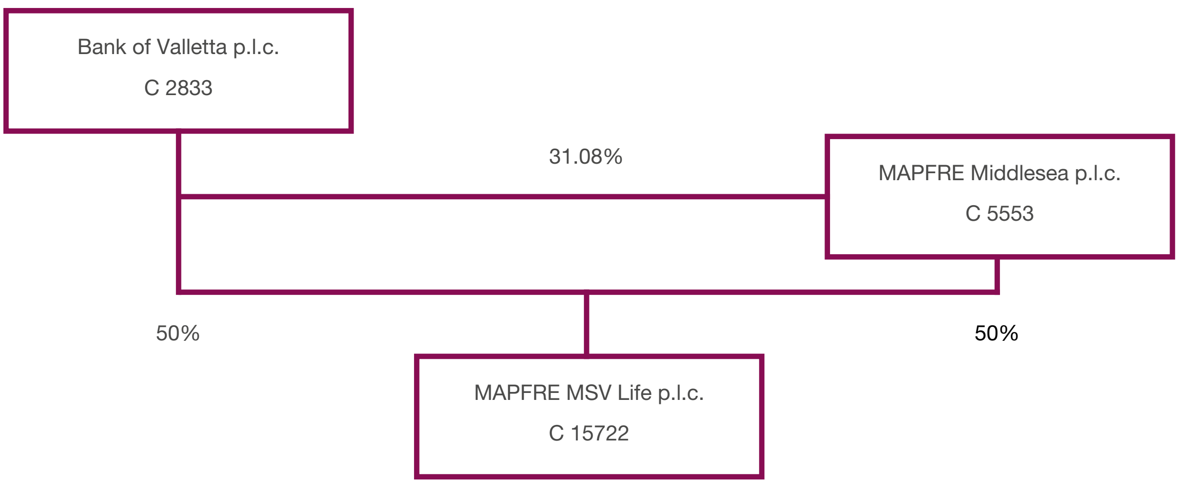


BOV Asset Management Limited (formerly known as Valletta Fund Management Limited) provides management services to collective investment schemes as well as portfolio management services to institutional clients. The company was registered in Malta under the Act and is licensed to carry on investment services under the Investment Services Act (Cap 370 of the laws of Malta).

BOV Fund Services Limited (formerly known as Valletta Fund Services Limited) was registered in Malta under the Act and is: (a) recognised by the MFSA to provide fund administration services; and (b) is registered to act as company service provider in terms of the Company Service Providers Act (Cap. 529 of the laws of Malta).

11.1.2 The Associated Companies

The following organisation chart depicts the relationship between the Issuer and the Associated Companies:



The Issuer holds a 50 per cent equity interest in MAPFRE MSV Life p.l.c., a company that operates as a life assurance business and which is licensed under the Insurance Business Act (Cap. 403 of the laws of Malta). MAPFRE MSV Life p.l.c. is registered as a public limited liability company in Malta under the Act with registration number C15722 and has its registered office at Level 7, The Mall, Floriana FRN 1420, Malta.

The Issuer also holds 31.08% equity interest in MAPFRE Middlesea p.l.c, a company that operates the business of insurance, including group life assurance and which is licensed under the Insurance Business Act (Cap. 403 of the laws of Malta). MAPFRE Middlesea p.l.c is registered as a public limited liability company in Malta under the Act with registration number C 5553 and has its registered office at Middlesea House, Floriana FRN 1442, Malta. The company's equity securities are also admitted to listing and trading on the MSE.

12. BOARD OF DIRECTORS AND SENIOR MANAGEMENT

12.1 THE BOARD OF DIRECTORS

12.1.1 Introduction

The Board of Directors is the corporate organ which is ultimately collectively responsible for the Issuer's business and its supervision. Following an extraordinary general meeting held on 27 July 2017, the Shareholders approved a number of amendments to the Memorandum and Articles most of which were intended to address governance issues amongst which are: (i) the requirement for a nominations and governance committee; (ii) the process for the approval of directors and senior executive management by the nominations; and (iii) governance committee as well as the mix of directors on the Board.

The Board of Directors is entrusted with the overall direction and oversight of the Issuer and is endowed with all the powers required for the board to conduct the direction and oversight of the business, with the exception of the powers reserved by law to the shareholders' meeting, to be exercised in accordance with the provisions of the Act, and other regulatory provisions in force, the Articles, as well as other applicable principles and criteria indicated in The code of principles of good corporate governance in the Listing Rules.

The Board meets regularly to establish and review the policies and strategies of the Issuer and to monitor the implementation thereof and the overall performance of the Issuer.

For further information about the practices of the Board of Directors refer to sections 12.1.2 to 12.1.6 of this Registration Document.

As at the date of publication of the Prospectus, the Board of Directors is composed of the following persons:

Taddeo Scerri (Chairman and Non-Executive Director)
Taddeo Scerri was appointed Chairman of the Bank in December 2016. Previously, he was a director of the Issuer following his appointment in April 2013. Mr Scerri currently chairs the Board's nominations and governance committee, the remuneration committee and the credit committee. He is a qualified accountant. Mr Scerri was the managing partner of RSM Malta until his retirement in 2015. He was the chairman of the local UEFA clubs licencing board and was also a member of the Malta Football Association's finance committee.

Alfred Lupi (Non-Executive Director)
Appointed to the Board in December 2015. Mr Lupi is currently a member of the credit committee and the compliance and crime prevention committee. Mr Lupi also chairs the audit committee. He is a professional accountant with an economics degree and currently engaged in consultancy services. Mr Lupi was chief financial officer in two major companies and the executive chairman of Pavi Shopping Complex p.l.c. He was a director of the Central Bank of Malta and served as acting governor. Mr Lupi chaired the accountancy board and was a member of its quality assurance oversight committee. Mr Lupi has held a number of board appointments mainly in the financial sector.

Joseph M Zrinzo (Non-Executive Director)
Appointed to the Board in December 2013. Mr Zrinzo currently chairs the Board's risk management committee. Mr Zrinzo is a member of the audit committee, of the nominations and governance committee and of the credit committee. Mr Zrinzo currently serves as managing director of a group of family companies, as board director of other local companies, committee member of the cultural heritage advisory and as an active member of the philanthropic associations. Over the years, Mr Zrinzo served as director on boards of various local and international companies, as director of the Issuer between 1996 and 1998, as member of audit, remuneration and compliance committees and was founder member of the Malta shareholders association. Mr Zrinzo has a vast experience of international trade having operated businesses with European, North African and Middle- East companies.

James Grech (Non-Executive Non-Independent Director)
Mr Grech was appointed to the Board in December 2014. He is the head of foreign bank relationships, sits on the audit committee and the compliance and crime prevention committee. He also serves as a member of the board of trustees of the BOV employees' foundation, a position he has held since August 2010. Professionally, James' career commenced as a management accountant with a local accounting firm. He then joined the Bank in 1998 and served as director on the board of the Issuer from January 2004 until December 2008. During his tenure, he occupied senior managerial positions at various branches and departments within the Bank and served as a member of the Bank's operational risk management and compliance committees. James is a director of other local companies, and a recognised member of the institute of directors UK. James holds an honours degree in management and a masters in business administration from Henley Management College, UK.

Stephen Agius (Non-Executive Director)
Appointed to the Board in December 2016. Stephen Agius is currently a member of the risk management committee and the nominations and governance committee. Mr Agius works as a chief of information and development with the national telecom regulatory authority. Apart from his role in strategic information management, he is currently coordinating a number of national initiatives aimed at supporting E-inclusion and digital participation. For 5 years, Mr Agius served as member of the board of directors of Enemalta p.l.c and Engineering Resources Limited.

Prior to his current role, Mr Agius occupied various positions where he was responsible for a number of large scale projects both locally and abroad in areas related to enterprise resource planning, billing, integration, business intelligence and data warehousing and process modelling. Mr Agius is also a visiting senior lecturer at the University of Malta where he lectures 'Digital Analytics for Marketing Professionals' and 'Digital Marketing'. He studied computer science and information systems and gained an honours Bachelor degree from the University of Greenwich UK followed by an MBA in e-Business from the University of Malta.

Alan Attard (Non-Executive Non-Independent Director)
Appointed to the Board in December 2016. Mr Attard is currently a member of the compliance and crime prevention committee. He joined the Bank in 1987. For the past twelve years, he has held various managerial positions including serving as branch manager of several branches. At present, Mr Attard is the branch manager of BOV's Floriana branch which is classified as one of the Bank's premier branches. In July 2015, he was elected as trustee on the board of trustees of the BOV employees' foundation and has since served as secretary to said board.

Paul V Azzopardi (Non-Executive Director)
Appointed to the Board in December 2016. Mr Azzopardi is currently the chairman of the compliance and crime prevention committee and a member of the risk management committee. He set up and managed Azzopardi Financial Services between 1989 and 2006 and subsequently worked in investments in Ontario, Canada, as director and portfolio manager, managing private clients' portfolios and investment funds.

Mr Azzopardi was sponsoring and corporate stockbroker of the Issuer from its initial listing on the Malta Stock Exchange in 1992 until 2006, and also served in the same roles for the funds of BOVAM and several other companies. Paul is the author of "Behavioural Technical Analysis" and two other books on investments, and contributes regularly to the press. He lectured at the University of Malta and the School of Continuing Studies, University of Toronto.

Mr Azzopardi holds a first degree in accountancy from the University of Malta, an MBA from the University of British Columbia, is a Fellow of the Malta Institute of Accountants, and a Certified Public Accountant.

Mr Azzopardi is also Director of BOV Asset Management Limited and BOV Fund Services Limited.

Anita Mangion (Non-Executive Director)
Appointed to the Board in December 2016. Anita Mangion is currently a member of the audit committee and remuneration committee. Ms Mangion is an experienced business and IT consultant. Her area of specialisation is technology intrapreneurship where she exploits innovative ways to restructure existing processes and create new business within organisations. During the last 15 years she consulted to such effect different local and international entities in various sectors; financial, ICT, banking, telecoms, NGOs, manufacturing, food and beverage as well as start-ups, where she successfully drove critical projects to completion and implemented sustainable profitable frameworks.

Ms Mangion graduated in Executive MBA (eBusiness); B.Com. Management Hons; and B.Sc. Business and Computing from the University of Malta. She also studied Business and IT at Indiana University (USA) and Technology Intrapreneurship and New Business Operations at the University of Malta in joint collaboration with Oxford University (UK). She also holds a Diploma in Sports Coaching from TK University (Hungary) in joint collaboration with Malta Olympic Committee.

Ms Mangion was a director at Malta Industrial Parks Limited (MIP) from May to September 2013. At MIP she was also entrusted to oversee the tenders committee, is a member of the audit committee and chairs the ICT steering committee.

Antonio Piras (Non-Executive Director)
Appointed to the Board in December 2016. Mr Antonio Piras is currently a member of the risk management committee and a member of the remuneration committee.

Mr Piras occupies the role of director of the board of Lacobucci Aerospace HF SpA and until recently was vice chairman of Eurofidi Soc. Consortile Garanzia Fidi s.c.a.r.l. (Turin). Until 2014, Antonio used to be the CEO of Equitalia Centro S.p.A (Florence) and chairman and CEO of others companies of Equitalia Group. In 1971 he started his career at UniCredit Group, former Credito Italiano, holding various key roles in the Italian commercial network until 1997.

In 1998 he was appointed as CEO of UniCredit Factoring (Milan), Deputy General Manager of Banca dell'Umbria, Chairman and CEO of Pekao Leasing Sp.z.o.o (Warsaw) and Leasing Fabryczny Sp.z.o.o (Lublin), CEO of UniRiscossioni S.p.A (Tourin), all companies held by UniCredit, and from where he ended his career as Senior Executive Vice President in 2009.

Mario Mallia (Executive Director)
Mario Mallia joined the Bank in September 1979. Mario Mallia was appointed as the Bank's Chief Executive Officer in January 2016. In October 2014, he had been appointed as the Bank's first chief operations officer. He carried out various other roles at the Bank, the most recent being those of chief finance officer and chief risk officer. Mr Mallia is chairman of the asset and liability management committee (ALCO) and of the management board. Mr Mallia is also director on the boards of MAPFRE MSV Life p.l.c. and BOV Fund Services Limited. He chairs the MAPFRE MSV Life risk committee and is currently chairman of the Malta Bankers Association.

Mr Mallia graduated in accountancy from the University of Malta, holds the Certified Public Accountant warrant and is a Fellow of the Malta Institute of Accountants. Mr Mallia's appointment as Executive Director is subject to regulatory approval by the MFSA as well as the ECB.

Miguel Borg (Executive Director)
Miguel Borg joined the Bank in November 2007. Mr Borg was appointed chief risk officer of the Group in November 2014 and is a member of the management board. In his role as chief risk officer, he is responsible for overseeing the measurement and management of the Group's financial and non-financial risk. He is responsible for maintaining the Bank's relationship with regulators and supervisors. Risk management, compliance, anti-financial crime, legal services and credit risk sanctioning departments report to the chief risk officer. Mr Borg is a director of BOVAM and chairs the risk and regulatory committee of BOVAM. He is a member of the Bank's asset and liability management committee and the risk committee of MAPFRE MSV Life p.l.c. Mr Borg is also chairman of the Central Co-Operative Fund.

Mr Borg holds a Masters in Economics from the University of Malta and lectures at the University of Malta. Mr Borg's appointment as Executive Director is subject to regulatory approval by the MFSA as well as the ECB.

12.1.2 Group Company Secretary

Ruth Spiteri Longhurst
Appointed Group company secretary in April 2016. Previously she occupied the post of executive head of the compliance unit within the Issuer. Dr Spiteri Longhurst is also the company secretary of MAPFRE MSV Life p.l.c., BOV Asset Management Limited and BOV Fund Services Limited. Dr Spiteri Longhurst graduated Doctor of Laws from the University of Malta in 2001 and obtained Master of Arts in Financial Services in 2004. Dr Ruth Spiteri Longhurst has been employed with the Bank for the past 15 years.

The business address of the Directors and the Group company secretary is that of the Issuer.

12.1.3 Composition and Appointment

The Board of Directors consists of a minimum of seven (7) and a maximum of twelve (12) individuals. A maximum of three (3) are to be appointed as executive Directors whilst the remaining nine (9) are to be non-executive Directors.

The appointment of executive Directors is regulated by article 24 of the Articles. In accordance with said article the Chief Executive Officer of the Issuer shall *ex officio* become an executive Director by virtue of his office and shall remain in office until the tenure of office as Chief Executive Officer. The non-executive Directors shall appoint at least one other executive Director on the Board from amongst the Senior Management and may also appoint a third executive Director if the non-executive Directors consider it in the best interests of the collective knowledge and competence of the Board to do so. Currently, only one of the optional executive Directors has been appointed and that position is held by the Chief Risk Officer, which is in line with the Issuer's Strategic Initiatives to highlight risk management even at board level.

The appointment of the nine (9) non-executive Directors is governed by article 25 of the Articles and appointments may be made as follows:

(a) By qualifying Shareholders – namely members holding at least 10 per cent of the issued share capital of the Issuer having voting rights, that are entitled to nominate for the approval of the nominations and governance committee one person for each 10 per cent voting shares held; and

(b) By other Shareholders not having a qualifying shareholding, but who individually or in aggregate hold not less than €50,000 in nominal value of shares having rights in the Issuer and who are entitled to make recommendations for the approval of the nominations and governance committee; or

(c) The nominations and governance committee itself seeking the recruitment of fit and proper persons having the right attributes that can add value to the Board of Directors.

All directors, irrespective of the manner in which they are proposed can only take office following the approval of their nomination by the nominations and governance committee. In this context the nominations and governance committee is the organ that, having scrutinised the list of candidates to ensure that the board will have the appropriate collective knowledge, experience and competence, will then place the list of approved candidates for election at a general meeting.

12.1.4 Removal and Rotation of Directors

The rotation, removal and retirement of Directors is contemplated in articles 28 and 30 of the Articles.

Removal
Any Director may be removed at any time by the ordinary resolution of the Shareholders in accordance with the Act, or in accordance with any other applicable law. In addition, the office of director shall '*ipso facto*' be vacated:

(a) if, by notice in writing to the Issuer, he resigns from the office of director; or

(b) if he absents himself from the meetings of the Directors for a continuous period of three calendar months without leave of absence from the Directors and the Directors pass a resolution that he has, by reason of such absence, vacated office; or

(c) if he violates any of the undertakings made by such Director to the Issuer in the applicable contract of service, any form pursuant to which such Director shall have submitted his application to become a director, or the declaration of secrecy required of him under the Articles and the Directors pass a resolution that he has so violated the declaration of secrecy; or

(d) if he is prohibited by applicable law from being a Director; or

(e) if he is removed by ordinary resolution from office pursuant to, or otherwise ceases to be a Director by virtue of, the Act; or

(f) should he become of unsound mind, is convicted of any crime punishable with imprisonment, or is declared bankrupt during his term of office.

Any vacancy among the Directors, may be filled by: (a) the co-option of another person to the office of director, made by the Board of Directors on the recommendation of the nominations and governance committee; or (b) in the event that the retiring Director is appointed by a qualifying shareholder, by the appointment of another person nominated by such qualifying shareholder, subject to approval by the nominations and governance committee.

Any vacancy among the Directors filled by virtue of a co-option, is valid until the next annual general meeting.

Executive Directors may be removed by the Board on just cause being shown to the satisfaction of the nominations and governance committee, provided that the Group CEO may only be removed in the event that his term of office as Group CEO expires or is terminated, in which case any person occupying the office of Group CEO shall *ex ufficio* be appointed as an executive Director.

Rotation

Following the amendments adopted by the extraordinary general meeting of Shareholders in July 2017, the Issuer has adopted a system of rotation of Directors that is aimed at ensuring a certain level of continuity within the Board of Directors. The system of rotation of Directors contemplates the retirement of one-third of the non-executive Directors in each year, with the remaining two-thirds of the Board retaining office. This is aimed at providing stability of policy-making and implementation by retaining a majority of the Board in place for a period of at least two years at any time. Directors whose turn it is to retire from office, pursuant to the rotation system, will be eligible for re-appointment, subject to approval by the nominations and governance committee.

The rotation mechanism is also intended to cater for the proper management of the nominations and governance committee, whereby the members from time to time appointed to this committee, to the extent practicable, will be directors whose term of office does not expire during that year and therefore who would have no personal interest in the appointment of directors during that particular year.

The Directors to retire first shall be determined as follows:

(a) First those non-executive Directors who wish to retire and not to seek re-appointment prior to the full term of his appointment;

(b) To the extent that there are less than three non-executive Directors who intimate their willingness to retire and not seek re-appointment, by agreement between the non-executive Directors;

(c) In the absence of agreement, those to retire first shall be the non-executive Directors who have been longest in office, including by virtue of re-election, since their first election, but as between persons who became Directors on the same day or in the event that the duration in office cannot be properly determined those to retire shall (unless they otherwise agree among themselves) be determined by lot.

A retiring Director shall only be eligible for re-election provided that such person did not occupy the office of non-executive Director for an aggregate period of more than 12 years in any period of 15 years.

12.1.5 Date of Expiration of the term of Office of Directors

The Directors currently in office have been appointed in December 2016. They shall all retire at the next annual general meeting but shall be subject to re-appointment in accordance with the Articles, subject to the rotation mechanism explained above. All Directors, all as from the next annual general meeting, be appointed for a term of three (3) years, to expire in 2020.

During each of the annual general meetings of the year 2018, 2019 and 2020, three (3) out of the nine (9) non-executive Directors' term of office, shall expire pursuant to the rotation mechanism in the Articles (set out above), subject to such person being eligible for re-appointment.

12.1.6 Powers of Directors

The Directors are empowered to act on behalf of the Issuer and, in this respect, have the authority to enter into contracts, sue and be sued in representation of the Bank. The Directors may transact all business of whatever nature of the Bank not expressly reserved by the Memorandum and Articles to the Shareholders in general meeting or by any provision contained in any law for the time being in force. According to the Memorandum and Articles, the Directors may from time to time delegate any of their powers and authorities to one or more of their number and/or to one or more committees as well as to management.

12.1.7 Potential Conflicts of Interest

As at the date of this Registration Document, there are no conflicts of interest between the duties of the Directors towards the Issuer and their private interests and/or other duties. Conflicts of interest may, however, arise in respect of certain future transactions, such as the granting of credit facilities by the Issuer to any of the Directors and/or any companies in which they may be involved. In such instances, such conflicts will be managed in the best interests of the Issuer in accordance with the procedures set out in section 12.1.8 below.

12.1.8 Code of Ethics and Conflicts of Interest Policies

The Bank has in place:
(i) A code of ethics policy ("CoEP"): and
(ii) A conflicts of interest policy ("CoIP");

for its Directors, Senior Management and employees.

The **CoEP** covers essentially the following:

- Confidentiality of information
- Proprietary information
- Gifts received or given by employees or directors
- Computer and equipment use
- Improper transactions and payments
- Personal Relationships
- Authority (to implement policy and related procedures)

The **CoIP** aims to ensure that Directors, Senior Management and employees administer their affairs in a manner well above criticism, particularly those affairs involving a Bank's employee, Director, Senior Management, client, borrower, vendor, competitor or other party to avoid situations that may lead to a conflict or the appearance of a conflict.

12.1.9 Other Directorships

The table below indicates the list of directorships of the Directors and Senior Management, during the past five years prior to the date of this Prospectus.

Name & Surname	Current Directorships	Past Directorships
Board of Directors		
Taddeo Scerri	Bank of Valletta p.l.c. TAD Consultancy Limited MSD Nominee Services Limited - (submitted resignation in respect of this post)	MSD Consulting Limited MSD IT Co Limited MSD Tax & Corporate Limited Pas It Limited CSG Sports Media Limited MSD Holding Limited Fortina Contracting Limited Fortina Developments Limited
Alan Attard	Bank of Valletta p.l.c.	n/a
Alfred Lupi	Bank of Valletta p.l.c. TUI Cruises MS Mein Schiff Limited	Multi Risk Limited Multi Risk Benefits Limited Multi Risk Indemnity Co Limited Argus Insurance Agency Limited Katla Funds SICAV p.l.c Blue Papillon Limited Eden Limited Zammit Finance Limited FP & Co SVP & Co Dark Cover Limited Pale Cover Limited SC Malta SICAV p.l.c. PAVI Shopping Complex p.l.c PAVI Supermarkets Limited
Anita Mangion	Bank of Valletta p.l.c.	Malta Industrial Parks Limited
Antonio Piras	Bank of Valletta p.l.c.	Equitalia Group Eurofidi
James Grech	Bank of Valletta p.l.c. Energy Solutions & Services Limited Hompesch Pharmacy Limited	n/a
Joseph M Zrinzo	Bank of Valletta p.l.c. C.I.P. Limited	GlobalCapital Funds SICAV p.l.c GlobalCapital p.l.c GlobalCapital Life Insurance Limited Axel Telecom (Malta) Limited (in dissolution)
Paul V Azzopardi	Bank of Valletta p.l.c. BOV Fund Services Limited BOV Asset Management Limited Pinna Publishing Inc (domiciled in Ontario, Canada)	Azzopardi and Azzopardi Limited
Stephen Agius	Bank of Valletta p.l.c.	ARMS Limited Enemalta p.l.c Engineering Resources Limited

Senior Management

Mario Mallia	Bank of Valletta p.l.c MAPFRE MSV Life p.l.c. BOV Fund Services Limited Church Wharf Properties Limited	BOV Investments Limited
Albert Frendo	N/A	Valletta Cruise Port (VCP) p.l.c.
Elvia George	BOV Fund Services Limited Gozo Channel (Operations) Limited	n/a
Ernest John Agius	n/a	n/a
Joseph Noel Agius	Malta Information Technology Agency Malta Electronic Certification Services Limited	n/a
Kenneth Farrugia	BOV Asset Management Limited Malita Investments p.l.c. Attard & Co Limited Finance Malta	n/a
Miguel Borg	Bank of Valletta p.l.c BOV Asset Management Limited Central Co-Operative	Media Centre Limited Provisional Board of the Central Cooperative Fund

12.1.10 Composition and Functions of Board of Directors' Committees

The Issuer has established a number of committees that provide the Board with the support necessary for the on-going management and oversight of the Issuer and its business. Below is a summary of each committee and its function within the organisational structure of the Issuer and the Group.

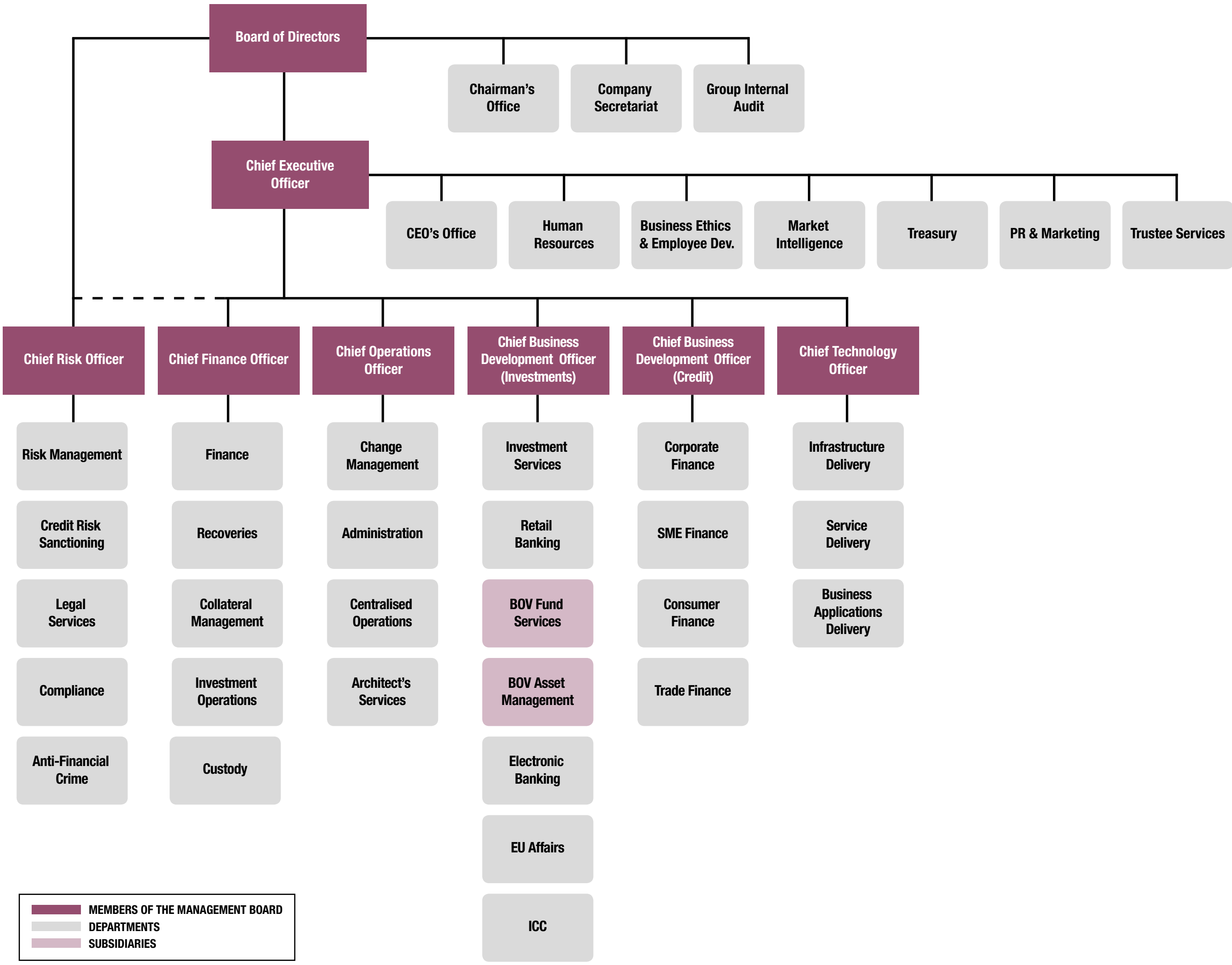
The Audit Committee	The audit committee is composed of Mr Alfred Lupi (Chairman), Ms Anita Mangion (member), Mr Joseph M Zrinzo (member) and Mr James Grech (member), all being non-executive directors. The audit committee's terms of reference include the monitoring of the financial reporting process, the effectiveness of the Bank's internal control, internal audit and risk management systems and the audit of the annual and consolidated accounts. The audit committee also scrutinizes and approves related party transactions. In so doing the audit committee considers the materiality and the nature of the related party transactions carried out by the Bank to ensure that the arms' length principle is adhered to at all times. The audit committee is also responsible for managing the Board's relationships with internal and external auditors.

The Remuneration Committee	The remuneration committee is composed of Mr Taddeo Scerri (Chairman), Ms Anita Mangion (member) and Mr Antonio Piras (member). The remuneration committee is charged with overseeing the development and implementation of the remuneration and related policies of the Group.
The Nominations and Governance Committee	The main purposes of the nominations and governance committee (NGC) are to support and advise the Board in ensuring that it is comprised of individuals who are best able to discharge the duties and responsibilities of directors. The NGC focuses primarily on the composition, appointments, succession and effectiveness of the Board, but also oversees the adoption of appropriate internal policies on the assessment of the suitability of members of the management board and individuals that are key function holders. The NGC keeps the Board's governance arrangement under review and makes appropriate recommendations to the Board to ensure that such arrangements are consistent with high corporate governance standards and best practice.
The Risk Management Committee	The risk management committee assists the Board in assessing the different types of risks to which the organisation is exposed. The committee is responsible for the proper implementation and review of the Group's risk policies, related mainly, but not restricted to credit, market and operational risks. It reports to the Board on the adequacy, or otherwise, of such policies. The committee is also responsible to review delegated limits, together with an oversight of the Group's monitoring and reporting systems, to ensure regular and appropriate monitoring and reporting on the Group's risk positions.
The Compliance and Crime Prevention Committee	The primary objective of the compliance and crime prevention committee is to assist and guide the Board of Directors in ensuring the Bank's compliance with regulations and the maintenance of adequate systems and procedures for the avoidance of financial crime. The compliance and crime prevention committee is authorised and empowered to make such recommendations to the Board of the Bank as it may deem expedient and to deal with any compliance or anti-financial crime matter referred to it by management or by the Board of the Bank.
The Credit Committee	The primary purpose of the credit committee is to approve or otherwise any proposals for credit facilities or investment limits or write-offs on loan Bank balances.

12.2 MANAGEMENT

At the date of this Registration Document, the organisational structure of the Group is based on the Group CEO, who has direct control over the implementation of the Group's strategy, associated risks, compliance, human resources, the optimisation of the cost structure and the main operating activities.

Below is an organogram, depicting the internal organisational structure of the Issuer.



12.3 MANAGEMENT COMMITTEES

The Board of Directors has approved the following management committees to support the Group CEO and Senior Management in their management functions.

Management Board

The management board is composed of the Senior Management and is the highest executive organ of the Group. It meets on a regular basis, around once weekly, and is primarily responsible for the operational management of the Group and for the execution of its strategy as approved by the Board of Directors. The management board monitors the financial performance at Group and at business segment levels, the management of risk, the resourcing of the Bank, including human resources, financial resources and information technology, business strategies, new business opportunities, and the development and effective functioning of policies, processes and procedures.

As at the date of this Prospectus the management board of the Issuer is composed of the following persons:

Mario Mallia	Chief Executive Officer
Albert Frendo	Chief Business Development Officer – Credit
Elvia George	Chief Finance Officer
Ernest John Agius	Chief Operations Officer
Joseph Noel Agius	Chief Technology Officer
Kenneth Farrugia	Chief Business Development Officer – Investments
Miguel Borg	Chief Risk Officer

Brief CVs of Mr Mario Mallia and Mr Miguel Borg are set out above (*vide* section 12.1 of the Registration Document). Brief CVs of the other persons which form part of the management board are set out hereunder:

Albert Frendo (Chief Business Development Officer – Credit)

Albert Frendo is an accountant by profession and currently occupies the post of chief credit business development officer within Bank of Valletta p.l.c. His career at the Bank spans over 30 years with wide ranging experience in cost management and financial reporting, risk management and credit finance (both commercial and retail finance). During the last 12 years, he headed the Bank's risk management department and was later assigned with the management of the Bank's overall credit portfolio, responsible for a number of key credit areas including corporate, SME, consumer and trade finance, collections and collateral management. Albert was entrusted with the successful launching and management of the first risk sharing instruments aimed at SMEs in Malta including JEREMIE, CIP SMEG and SME Initiative (JAIME). He is a member of the Bank's management board, provisions committee, the Bank's asset and liability committee and IT steering committee. Albert holds a Masters in Business Administration, with specialization in Management Consulting, from Grenoble Graduate School of Business in France.

Elvia George (Chief Finance Officer)

Elvia George, is a certified public accountant, graduating with first class honours in accountancy from the University of Malta in 1988. She is also a Fellow of the Malta Institute of Accountants. Elvia joined the Issuer in 1981 and has occupied various roles within the organisation. She is a member of the management board, the asset and liability management committee) and also attends meetings of the credit board, the audit committee and the risk management committee as well as delivering presentations to the Board of Directors. Elvia sits on the MSV Life audit committee. She is also a member of the Malta Chamber of Commerce (Enterprise and Industry) and a member of the 100 Women in Hedge Funds. She is a member of the board of the Dar tal-Providenza, a residential home for persons with special needs and The Marigold Foundation - BOV in the Community, an umbrella charity set up by the Bank and primarily responsible for the social arm of the Bank's corporate social responsibility programme. In October 2016, Elvia was appointed as a director of BOV Fund Services Limited.

Elvia occupies the role of the chief finance officer of the Group, a post she has occupied since May 2008, and is responsible for published Group financial statements, supervisory reporting, management reporting, budgeting and forecasts, tax, cost management and investment appraisal and product evaluation. Besides the core areas of finance, Elvia is also responsible for the areas of custody services, settlement of treasury and investment operations, debt management and collateral management.

Besides lecturing at the University of Malta, where her area of expertise is accounting for financial institutions, she also supervises a number of students in their dissertation during their final year of the professional degree of the Masters in Accountancy or for an MA in Financial Services. She is involved with the Malta University examination panel and has also served as a member of the accountancy board for a number of years.

Ernest John Agius (Chief Operations Officer)

Ernest John Agius has been working in the banking services for over 30 years, starting his career with Mid Med Bank p.l.c on 20 March 1987, later on with HSBC Bank Malta p.l.c. where he held a number of executive management positions. He joined the Bank, in June 2015 as change management executive leading the Core Banking Transformation Programme. Ernest was appointed as BOV's chief operations officer and a management board member, in June 2016. As chief operations officer, Ernest is responsible for the management and delivery of change projects within the Bank. This includes the Core Banking Transformation Programme project across the whole Bank. Ernest is responsible for the management of all operational functions and the delivery of the Bank's overall transformation programme, which includes the CBT Project representing the business, change management, facilities, procurement, health and safety, security, architect's services and centralised operations.

Joseph Noel Agius (Chief Technology Officer)

Joseph Agius was appointed chief technology officer in October 2014, and became a member of the Bank's management board in October 2016. Since joining the Bank in 1985, Mr Agius has garnered over 30 years' experience in IT and financial services. In this time, he has been actively involved in the implementation of various mission critical projects. In his role as chief technology officer, Mr Agius is responsible for driving the Bank's IT strategy. He is a strong proponent for modernisation in IT, and running IT as a business with its inherent business value. Presently, his primary focus is on leading the Bank's Strategic Initiatives on core retailing banking transformation and digital banking. In his role as chief technology officer, Mr Agius chairs the Bank's IT steering committee. Joseph Agius is currently a non-executive director on the Board of the Malta Information Technology Agency. Mr Agius holds an honours degree in computer science from the University of Reading and an MBA in eBusiness from Grenoble Graduate School of Business. He is also a Chartered Engineer and member of the British Computer Society.

Kenneth Farrugia (Chief Business Development Officer – Investments)

Kenneth Farrugia was appointed chief business development officer in November 2014. He is responsible for the improvement of the Bank's market position and the achievement of financial growth. Kenneth was previously chief officer for BOVFS and BOVAM. Kenneth is also a director on the Board of BOVAM.

Kenneth joined the Bank in October 1985 and has occupied various posts within the Bank. He also serves as Chairman of the Malta Funds Industry Association and is the Chairman of Finance Malta, Malta's national promotional body for the financial services industry. He is also the Chairman of Malita Investments p.l.c. which is listed on the Malta Stock Exchange.

Asset and Liability Management Committee

The asset and liability management committee ("**ALCO**") is responsible for managing the Group's balance sheet, so as to achieve an optimal balance between risk and return. This committee meets at least once a month to review balance sheet risks and ensures their prudent management. The ALCO monitors the capital adequacy of the Group on a continuous basis, making use of capital forecasts to ensure that enough capital is readily available at all times to meet the demand arising from business expansion and regulation. It takes an integrated view of asset and liability cash flows, their uncertainties, and the management of such integrated exposures at a consolidated level, to enable it to give strategic direction to the business. Consideration is given, *inter alia*, to solvency, liquidity and interest rate risks. ALCO provides guidance in respect of risk and return to the business, and exercises executive authority in the area of interest rate management by setting base rates payable on retail deposit products. It monitors hedging strategies and hedge effectiveness in respect of the risks mentioned above, as well as asset mix, liabilities and balance sheet growth.

Provisions Committee

The provisions committee is responsible to develop and maintain a provisioning methodology in line with best practice and regulatory expectations. The committee meets on a monthly basis unless further meetings are required.

IT Steering Committee

The IT steering committee is responsible for the effective and cost-efficient application of information technologies, related personnel resources and funding in support of the objectives and needs of the Bank. The committee meets on a monthly basis unless further meetings are required.

Procurement Committee

The procurement committee is responsible for the approval of procurement of goods and services that exceed limits afforded to management and to make recommendations to the Board on the award of contracts that exceed a defined value.

The Core Banking Transformation Committee

The core banking transformation committee is responsible for the overseeing of the identification and implementation of a new core banking solution that will enhance the customer experience. In addition, the committee takes into consideration current banking practices that need to be transformed in order to adopt the solution selected.

The Anti-Financial Crime Committee

The anti-financial crime committee (the "**AFCC**") is responsible to discuss and ensure legal, regulatory and other developments related to money laundering, counter-funding of terrorism and other financial crime matters, are implemented in the Bank's policies and procedures. This Committee is also tasked to set risk appetite for financial crime for the Bank and to ensure that the Bank follows best practice in connection with money laundering, counter-funding of terrorism and other financial crime. When required, the AFCC also holds discussions concerning the regulators' position on certain matters.

The New Product Approval Committee

The new product approval committee ("**NPAC**") ensures the enhancement of long-term value creation for the benefit of all stakeholders. The aim is to ensure adequate due diligence before a product is launched by understanding and vetting the product or service. The committee identifies and mitigates risks which impact both product and Group. The NPAC makes the final decision to either approve, decline or recommend changes. The committee also provides guidance and recommendations in case of a new business line. The NPAC is appointed by the Board to ensure a risk adequate approach and the necessary degree of intervention in relation to product development.

The Property Committee

The property committee was set up by the Bank in May 2017. The primary role of the property committee is of ensuring that the Group's property management and capital projects related to property are carried out in accordance with adopted policies, principles and strategies, and to make recommendations to the Board of Directors.

The Custody Committee

The role of the custody committee is of creating a framework to regulate the custody services offered, establishing the Bank's risk appetite for this line of business, setting of clear guidelines on the acceptance of new mandates and ongoing monitoring and termination of existing mandates.

The Trustee Services Steering Committee

The trustee services steering committee is responsible for the monitoring and supervision of the closure or winding down of the Bank's trust business. The committee is also responsible to guide, oversee, monitor and, where applicable and necessary in line with and subject to the Board's approved policy, to take decisions related to the existing trust business.

12.4 SHARES HELD BY DIRECTORS AND SENIOR MANAGEMENT

The table below sets out the number of shares held by the Directors and Senior Management in the Issuer as at the 15 September 2017:

Directors	Holdings of Ordinary Shares in the Issuer
Alan Attard	11,826
Paul V Azzopardi	7,323
Miguel Borg	5,385
Alfred Lupi	12,062
Joseph M Zrinzo	154,613

Senior Management	Holdings of Ordinary Shares in the Issuer
Ernest John Agius	5,988
Joseph Noel Agius	16,674
Miguel Borg	5,385
Kenneth Farrugia	20,693
Albert Frendo	12,544
Elvia George	37,003

12.5 STATEMENT IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

None of the Directors or members of Senior Management referred to in sections 12.1 and 12.3 of this Registration Document have, in the last five years:

i. Been the subject of any convictions in relation to fraudulent offences;

ii. Been associated with bankruptcies, receiverships or liquidations in respect of entities in respect of which they were members of administrative, management or supervisory bodies, partners with unlimited liability (in the case of a limited partnership with a share capital), founders or members of senior management;

iii. Been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies); or

iv. Been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

13. REMUNERATION AND BENEFITS

13.1 EMOLUMENTS FOR THE FINANCIAL YEAR ENDED 2016

Total emoluments received by Directors and Senior Management for the financial year ended 30 September 2016 are as follows:

	Fixed remuneration	Variable remuneration	Share Option	Others
Management board	€578,142	€12,000	N/A	Non-cash benefits as follows: health insurance and refund of out-of-pocket expenses
Directors	€267,298	N/A	N/A	Non-cash benefits as follows: health insurance and refund of out-of-pocket expenses

13.2 SERVICE CONTRACTS

The Directors have service contracts with the Issuer, none of which provide for severance payments upon termination of their directorship. In terms of the said service contracts, the Directors are entitled to certain benefits after the termination of their directorship, including discounts on products and services offered by the Group.

Senior Management are in full employment with the Bank on an indefinite contract but their appointment on the Management Board is on a definite contract. They enjoy the health insurance arrangements and death in service benefits as all bank employees. Certain members of the Management Board have a clause in their contract wherein should their contract be terminated without due reason, they may be eligible for monetary compensation.

13.3 RESTRICTIONS ON THE DISPOSAL OF THE ISSUER'S SECURITIES

Pursuant to the Bank's code of ethics, directors are precluded from trading in the Issuer's securities during the month immediately preceding the publication of the Bank's interim and annual financial statements (the "**Closed Period**"). Directors have to notify the company secretary/Chairman before trading in the Issuer's securities outside the Closed Period. Moreover, Directors are precluded from trading in the Issuer's securities if they are in possession of price sensitive information about the Bank's securities.

Senior Management are designated as 'Persons Discharging Managerial Responsibilities' and also insiders and thus are bound by the prevailing market abuse rules and regulations. Senior Management and persons closely associated with them are:

- Precluded from trading (buying/selling) in any securities when they are privy to price-sensitive information related to any listed company/ies when that same information may have an impact on the market once that information is made public. They are precluded from trading solely prior to that same information being disseminated to the market;
- Bound to notify the Listing Authority whenever they trade in the Issuer's securities within 3 business days after the transaction;
- Bound by the Bank's code of ethics which requires pre-notification to the compliance executive or in his absence the company secretary at least 24 hours before trading in any of the Issuer's securities;
- Cannot trade in the Issuer's securities during the Closed Period (as defined above), except when circumstances are of an exceptional nature in which case the prior approval of the Listing Authority is required prior to any submission of orders on the market during the Closed Period.

13.4 AMOUNTS FOR PENSIONS, RETIREMENT OR SIMILAR BENEFITS

The amount set aside by the Issuer for post-employment and termination liabilities, as at 31 March 17, stood at €26.3 million

14. CORPORATE GOVERNANCE

General

Pursuant to the Listing Rules, the Issuer, as a company whose equity securities are listed on the MSE, should endeavour to adopt the Code of Principles of Good Corporate Governance (the "**Code**") contained in Appendix 5.1 to Chapter 5 of the Listing Rules.

The Board is committed to the values of truth, transparency, honesty and integrity in all its actions. The Board strongly believes that the Issuer benefits from having in place more transparent governance structures and from improved relations with the market which enhance market integrity and confidence.

The Board acknowledges that the Code recommends principles for the Board and the Bank's management to pursue objectives that are in the interest of the Bank and its Shareholders. The Board has adopted a corporate decision-making and supervisory structure that is tailored to suit the requirements of the Bank's constitutional documents as well as its size, nature and operational needs. In addition, while the structure provides flexibility and an efficient decentralisation of selective decision-making, it concurrently provides a system of checks and balances. The Board believes that any structure which is adopted must be geared to meet the necessary standards of accountability and probity and considers that the structure which it has adopted does so.

Compliance with Code as at date of this Registration Document

As at the date of this Registration Document, the Issuer believes that it complies with the provisions of the Code, save with respect to Code provision 9.3 which, as reported in the consolidated annual financial statements of the Issuer for the financial year ending 30 September 2016 (which are incorporated by reference into this document), does not apply to the Issuer for the reasons set out in said financial statements.

Instances of non-compliance which have been addressed

Prior to the date of this Registration Document, there were certain instances of non-compliance in respect of principle 3, principle 4 (Code provision 4.2.7) and Principle 7 of the Code (apart from Code provision 9.3 mentioned above). The reasons for the Issuer's previous non-compliance are explained in the 'corporate governance statement of compliance' contained in the consolidated annual financial statements of the Issuer for the financial year ending 31 September 2016 (which financial statements are incorporated by reference into this document).These instances of non-compliance have been addressed in the manner set out hereunder through, amongst others, amendments to the Bank's Memorandum and Articles which were approved during the Bank's extraordinary general meeting held on the 27 July 2017.

Principle 3: *(Executive and non-executive directors on the Board)* and Principle 4 (*Code Provision 4.2.7*)

With respect to Principle 3 and Principle 4 (Code Provision 4.2.7), the revisions to the Memorandum and Articles (adopted at the above mentioned extraordinary general meeting) now address the following:

a. The appointment of the CEO, on an *ex officio* basis, as the first executive Director of the Bank. (*The CEO has been duly appointed which appointment is still subject to regulatory approval*).
b. The appointment by the non-executive Directors of another executive director from amongst the senior officers of the Bank. The non-executive Directors appointed the CRO as the second executive director. (*The appointment of the CRO is also still subject to regulatory approval*).
c. The possibility for non-executive directors to appoint a third executive director.
d. With effect from the next Annual General Meeting of the Bank following the EGM held in July 2017, non-executive Directors will be appointed for a period of three (3) years. A rotation process has also been introduced to ensure continuity at Board level. The Memorandum and Articles now provide that one third of the non-executive Directors have to submit their resignation during every financial year. They may however be re-appointed following a recommendation to this effect by the nominations and governance committee to the Board.
e. The formal entrenchment of the nominations and governance committee in the Memorandum & Articles.

Principle 7: (Evaluation of the Board's Performance)

The nominations and governance committee will be conducting the first evaluation of the performance of the Board and Board committees during the fourth quarter of financial year ending 31 December 2017 in line with principle 7 of the Code.

15. EMPLOYEES

15.1 NUMBER OF EMPLOYEES

The table below provides details on the number of employees employed by the Group as at August 2017 and as at each of the financial years ended 30 September 2016, 30 September 2015 and 30 September 2014 broken down by category:

	The Group				The Bank			
	Aug -17 No. of persons	2016 No. of persons	2015 No. of persons	2014 No. of persons	Aug-17 No. of persons	2016 No. of persons	2015 No. of persons	2014 No. of persons
Managerial	554	521	544	547	519	501	527	530
Supervisory and clerical	1,215	949	877	852	1,172	906	843	821
Others	45	48	51	54	41	43	46	50
	1,814	1,518	1,472	1,453	1,732	1,450	1,416	1,401

15.2 BOV EMPLOYEES FOUNDATION

The BOV Employees' Foundation (**the "Foundation"**) was set up in March 1995 for the benefit of all then present and future employees of the Issuer and its Subsidiaries who are on an indefinite contract of employment (**the "Beneficiaries"**).

The Foundation is managed by a board of trustees who are responsible for the management and administration of the Foundation and exercise all such powers as set out in the Foundation's deed and bye-laws.

Based on the length of service with the Bank, the Beneficiaries are entitled to receive units in the Foundation representing their participation and interest in the Foundation. Subject to certain provisions as more fully described in the Foundation's deed and bye-laws, Beneficiaries are entitled to receive the redemption value of the units held in their name upon the attainment of pensionable age.

The Foundation has a legal personality, separate and distinct from the Issuer and the Beneficiaries.

16. OPERATING AND FINANCIAL REVIEW

16.1 INTRODUCTION

Below are the Group's consolidated statements of financial position, profit and loss and cash flows in respect of the financial years ended 30 September 2016, 30 September 2015, 30 September 2014 and the six-month periods ended 31 March 2017 and 31 March 2016.

The data for each of the years ended 30 September 2016, 30 September 2015, 30 September 2014 was extracted from the consolidated financial statements as at each of those dates, prepared in accordance with IFRSs. This data has been audited by the External Auditors, who issued their reports on the respective years on each of 2016, 2015 and 2014.

The data for the six-month periods ended 31 March 2017 and 31 March 2016 has been extracted from the consolidated interim report for the period ended 31 March 2017 prepared in accordance with the International Accounting Principle applicable to Interim Financial Reporting (IAS 34). This data has been reviewed by the External Auditors, who issued their report on 27 April 2017.

16.2 FINANCIAL CONDITION

16.2.1 Historic Financial Information of the Group

Statements of profit or loss for the year ended 30 September	2016	2015	2014
	€000	€000	€000
Interest and similar income			
- on loans and advances, balances with Central Bank of Malta and treasury bills	160,195	158,180	153,430
- on debt and other fixed income instruments	54,063	57,432	59,466
Interest expense	(65,429)	(70,834)	(86,893)
Net interest income	**148,829**	**144,778**	**126,003**
Fee and commission income	75,021	70,922	64,112
Fee and commission expense	(8,936)	(8,346)	(8,150)
Net fee and commission income	**66,085**	**62,576**	**55,962**
Dividend income	1,901	2,352	1,372
Trading profits	24,724	34,067	25,654
Net gain on investment securities and hedging instruments	9,046	3,098	814
Gain on Visa transaction	27,511	-	-
Operating income	**278,096**	**246,871**	**209,805**
Employee compensation and benefits	(64,168)	(61,700)	(57,537)
General administrative expenses	(40,103)	(38,651)	(28,644)
Amortisation of intangible assets	(3,539)	(2,574)	(2,202)
Depreciation	(4,968)	(5,107)	(5,116)
Net impairment losses	(23,142)	(32,710)	(19,431)
Operating profit	**142,176**	**106,129**	**96,875**
Share of results of equity-accounted investees, net of tax	3,730	11,786	7,227
Profit before tax	**145,906**	**117,915**	**104,102**
Income tax expense	(50,708)	(37,971)	(34,718)
Profit for the year	**95,198**	**79,944**	**69,384**
Attributable to:			
Equity holders of the Bank	94,742	79,378	68,945
Non-controlling interest	456	566	439
	95,198	79,944	69,384
Earnings per share	**24c3**	**20c4**	**19c2**

Statements of financial position as at 30 September	2016	2015	2014
	€000	€000	€000
ASSETS			
Balances with Central Bank of Malta, treasury bills and cash	171,050	126,652	130,966
Financial assets at fair value through profit or loss	392,430	417,522	527,774
Investments	3,736,272	3,376,305	2,422,237
Loans and advances to banks	2,098,439	1,656,346	1,045,988
Loans and advances to customers at amortised cost	4,001,656	4,001,839	3,861,532
Investments in equity-accounted investees	97,041	96,904	88,553
Investments in subsidiary companies	-	-	-
Intangible assets	13,272	12,722	11,642
Property and equipment	89,574	89,801	88,117
Current tax	16,061	965	-
Deferred tax	67,188	86,654	78,550
Assets held for realisation	11,973	11,601	9,755
Other assets	4,818	2,990	7,659
Prepayments and accrued income	23,077	21,661	24,018
Total Assets	**10,722,851**	**9,901,962**	**8,296,791**
LIABILITIES			
Financial liabilities at fair value through profit or loss	20,237	25,077	44,903
Amounts owed to banks	250,155	197,760	86,579
Amounts owed to customers	9,181,047	8,559,731	7,119,530
Debt securities in issue	95,400	95,400	95,400
Current tax	-	-	16,090
Deferred tax	4,318	4,382	5,100
Other liabilities	173,988	172,905	130,168
Accruals and deferred income	16,215	21,317	27,643
Derivatives designated for hedge accounting	20,649	35,201	36,909
Subordinated liabilities	231,591	120,000	120,000
Total Liabilities	**9,993,690**	**9,231,773**	**7,682,322**
EQUITY			
Called up share capital	390,000	360,000	330,000
Share premium account	988	988	988
Revaluation reserves	35,332	35,217	29,136
Retained earnings	302,841	272,713	253,245
Total Equity attributable to equity holders of the Bank	**729,161**	**668,918**	**613,369**
Non-controlling interest	-	1,271	1,100
Total Equity	**729,161**	**670,189**	**614,469**
Total Liabilities and Equity	**10,722,851**	**9,901,962**	**8,296,791**
MEMORANDUM ITEMS			
Contingent liabilities	225,407	251,670	233,451
Commitments	1,590,156	1,612,122	1,647,091

Statements of cash flows as at 30 September

	2016 €000	2015 €000	2014 €000
Cash flows from operating activities			
Interest and commission receipts	237,321	259,455	260,915
Interest, commission and compensation payments	(77,205)	(93,171)	(94,418)
Payments to employees and suppliers	(103,563)	(80,704)	(87,908)
Operating profit before changes in operating assets and liabilities	56,553	85,580	78,589
(Increase)/decrease in operating assets:			
Loans and advances	(53,038)	(322,100)	(245,922)
Reserve deposit with Central Bank of Malta	(8,643)	(15,731)	(8,108)
Fair value through profit or loss financial assets	97,902	122,279	52,835
Fair value through profit or loss equity instruments	1,303	2,930	(616)
Treasury bills with original maturity of more than 3 months	-	3,999	33,977
Other assets	(311)	2,823	(2,008)
Increase in operating liabilities:			
Amounts owed to banks and to customers	752,337	1,300,337	861,532
Other liabilities	(33,187)	8,790	29,266
Net cash from operating activities before tax	812,916	1,188,907	799,545
Tax paid	(44,862)	(64,799)	(32,658)
Net cash from operating activities	768,054	1,124,108	766,887
Cash flows from investing activities			
Dividends received	5,628	5,808	4,926
Interest received from held-to-maturity debt and other fixed income instruments	59,783	58,998	45,394
Acquisition of non-controlling interest	(5,000)	-	-
Purchase of equity instruments	-	(100)	(200)
Purchase of debt instruments	(1,257,546)	(1,560,089)	(1,167,952)
Proceeds from sale or maturity of debt instruments	869,184	706,613	475,452
Proceeds from sale of equity instruments	3,043	-	-
Proceeds from Visa transaction	22,042	-	-
Purchase of property and equipment and intangible assets	(8,111)	(9,132)	(14,649)
Proceeds from disposal of property and equipment	598	-	8
Net cash used in investing activities	(310,379)	(797,902)	(657,021)
Cash flows from financing activities			
Proceeds from issue of subordinated bonds	111,591	-	-
Dividends paid to Bank's equity holders	(29,802)	(28,967)	(34,466)
Dividends paid to non-controlling interests	(773)	(395)	-
Net cash from/(used in) financing activities	81,016	(29,362)	(34,466)
Net change in cash and cash equivalents	538,691	296,844	75,400
Effect of exchange rate changes on cash and cash equivalents	-	64	-
Net change in cash and cash equivalents after effect of exchange rate changes	538,691	296,780	75,400
Net change in cash and cash equivalents	538,691	296,844	75,400
Cash and cash equivalents at 1 October	1,309,347	1,012,503	937,103
Cash and cash equivalents at 30 September	**1,848,038**	**1,309,347**	**1,012,503**

16.2.2 Performance Review for the Group for the Financial Year ended 30 September 2016

Below is some commentary on the 2016 figures set out above.

- Profit before taxation amounted to €145.9 million for the financial year ended 30 September 2016. This figure incorporates a one-time gain of €27.5 million arising from the acquisition of the Bank's shares in VISA Europe. Consequently, the Group's profit adjusted for this windfall profit, amounted to €118.4 million, as compared to the profit of €117.9 million registered during the previous financial year.

- Net interest income increased by almost 3% to €148.8 million over the previous financial year 2015.

- Net fee and commission income for the year rose by 6% over 2015, driven by strong performances on investment services, wealth management and cards. On the other hand, trading and dividend income reduced by 10%, due to lower fair value gains on investments, and lower exchange earnings. Overall, operating income rose by an aggregate of 2%*.

- Non-interest expense rose by 4%, driven by HR costs which increased as a result of two factors: firstly, the new collective agreement signed during end 2015, which sought to align salaries with current market rates; and secondly, due to further recruitment in the Bank's control functions. Higher IT related costs were also recorded as the Bank continued with its programme to replace its IT core banking system.

- The impairment charge of €23.1 million was lower by 29% compared to financial year 2015, when the charge had spiked due to the adoption of a more prudent provisioning methodology.

- Group total assets stood at €10.7 billion, up by €821 million, or 8.3%, over September 2015. This growth was financed primarily by incoming customer deposits, which increased by €621 million, or 7%, to reach €9.2 billion; and by the issue of €112 million worth of subordinated debt.

- Net total advances have grown by 1.8% to reach €4.1 billion, while equity is up by 8.8% and amounts to €729.2 million.

- The Group's Core Equity Tier 1 (CET1) ratio, which is the standard regulatory ratio measuring the capital adequacy of banks, rose to a robust 12.8% for financial year 2016, up from 11.3% during financial year 2015.

- The liquidity coverage ratio as at September 2016 stood at 131% (above the minimum level of 100% which will be required in 2019).

- The loan-to-deposit ratio (LtD) stood at 46.3% (49.2% as at FY September 2015). This shows that the Bank kept its highly liquid position during financial year 2016, with its loan portfolio fully funded by deposits and with no dependence on the wholesale market. The decrease in the LtD ratio was the result of a significantly higher rise in customer deposits when compared to the increase in the lending portfolio.

- Earnings per share increased from €0.204 for the financial year 2015 to €0.243 for the financial year 2016.

- A final gross dividend of €0.0852 per share was declared which together with the gross interim dividend of €0.0391 per share results in a total gross dividend of €0.1243 per share for financial year 2016; a bonus share issue of 1 share for every 13 shares held was also declared.

* For comparative purposes, ratios exclude the impact of the gain on the VISA transaction.

16.2.3 Interim Financial Information of the Group

Statements of profit or loss for the six months ended 31 March	2017 €000	2016 €000
Interest and similar income		
- on loans and advances, balances with Central Bank of Malta and treasury bills	79,003	79,170
- on debt and other fixed income instruments	25,482	28,085
Interest expense	(31,773)	(32,377)
Net interest income	72,712	74,878
Fee and commission income	38,595	36,409
Fee and commission expense	(4,793)	(4,470)
Net fee and commission income	33,802	31,939
Dividend income	499	294
Trading profits	13,518	16,652
Net gain on investment securities and hedging instruments	2,682	10,717
Operating income	123,213	134,480
Employee compensation and benefits	(32,618)	(31,467)
General administrative expenses	(26,686)	(22,896)
Amortisation of intangible assets	(1,583)	(1,541)
Depreciation	(2,515)	(2,540)
Net impairment losses	5,344	(8,092)
Operating profit	**65,155**	**67,944**
Share of results of equity-accounted investees, net of tax	8,875	539
Profit before tax	**74,030**	**68,483**
Income tax expense	(23,377)	(23,648)
Profit for the period	**50,653**	**44,835**
Attributable to:		
Equity holders of the Bank	50,653	44,557
Non-controlling interest	-	278
	50,653	**44,835**
Earnings per share	12c1	10c6

Statements of financial position as at	31 March 2017	30 September 2016
	€000	€000
ASSETS		
Balances with Central Bank of Malta, treasury bills and cash	188,462	171,050
Financial assets at fair value through profit or loss	360,618	392,430
Investments	3,767,010	3,736,272
Loans and advances to banks	2,551,102	2,098,439
Loans and advances to customers at amortised cost	4,103,682	4,001,656
Investments in equity-accounted investees	100,143	97,041
Investments in subsidiary companies	-	-
Intangible assets	21,756	13,272
Property and equipment	91,043	89,574
Current tax	12,260	16,061
Deferred tax	59,030	67,188
Assets held for realisation	13,188	11,973
Other assets	6,509	4,818
Prepayments and accrued income	31,007	23,077
Total Assets	**11,305,810**	**10,722,851**
LIABILITIES		
Financial liabilities at fair value through profit or loss	16,442	20,327
Amounts owed to banks	329,998	250,155
Amounts owed to customers	9,667,825	9,181,047
Debt securities in issue	95,400	95,400
Deferred tax	4,318	4,318
Other liabilities	179,541	173,988
Accruals and deferred income	13,590	16,215
Derivatives designated for hedge accounting	14,240	20,649
Subordinated liabilities	231,591	231,591
Total Liabilities	10,552,945	9,993,690
EQUITY		
Called up share capital	420,000	390,000
Share premium account	988	988
Revaluation reserves	29,830	35,332
Retained earnings	302,047	302,841
Total Equity	752,865	729,161
Total Liabilities and Equity	**11,305,810**	**10,722,851**
MEMORANDUM ITEMS		
Contingent liabilities	**243,002**	**225,407**
Commitments	**1,586,531**	**1,590,156**

Statements of cash flows for the six months ended 31 March	2017	2016
	€000	€000
Cash flows from operating activities		
Interest and commission receipts	118,727	132,139
Interest, commission and compensation payments	(36,001)	(39,080)
Payments to employees and suppliers	(59,304)	(54,363)
Operating profit before changes in operating assets and liabilities	23,422	38,696
(Increase)/decrease in operating assets:		
Loans and advances	28,821	33,275
Reserve deposit with Central Bank of Malta	(2,518)	(4,829)
Fair value through profit or loss financial assets	34,955	14,054
Fair value through profit or loss equity instruments	7,101	(131)
Treasury bills with original maturity of more than 3 months	(3,006)	(15,010)
Other assets	(2,906)	(241)
Increase/(decrease) in operating liabilities:		
Amounts owed to banks and to customers	337,191	372,434
Other liabilities	(578)	(26,024)
Net cash from operating activities before tax	422,482	412,224
Tax paid	(8,537)	(8,977)
Net cash from operating activities	413,945	403,247
Cash flows from investing activities		
Dividends received	6,274	2,794
Interest received from held-to-maturity debt and other fixed income instruments	22,876	24,431
Proceeds from sale of equity instruments	4,350	3,043
Purchase of debt instruments	(495,487)	(794,903)
Proceeds from sale or maturity of debt instruments	500,313	531,849
Purchase of property and equipment and intangible assets	(14,013)	(3,571)
Proceeds from disposal of property and equipment	-	538
Net cash from/(used in) investing activities	24,313	(235,819)
Cash flows from financing activities		
Proceeds from issue of subordinated liabilities	-	111,591
Dividends paid to Bank's equity holders	(21,598)	(19,890)
Dividends paid to non-controlling interests	-	(773)
Net cash (used in)/from financing activities	(21,598)	90,928
Net change in cash and cash equivalents	416,660	258,356
Effect of exchange rate changes on cash and cash equivalents	954	5,081
Net change in cash and cash equivalents after effect of exchange rate changes	415,706	253,275
Net change in cash and cash equivalents	416,660	258,356
Cash and cash equivalents at 1 October	1,848,038	1,309,347
Cash and cash equivalents at 31 March	**2,264,698**	**1,567,703**

Financial Performance of the Issuer for the Interim period ended March 2017

- Profit before taxation amounted to €74 million for the six months ended on 31 March 2017, an increase of 8% over the €68.5 million reported for the same period ended on 31 March 2016.

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

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

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

- Total overheads amounted to €63.4 million, as against €58.4 million for March 2016, an increase of €5 million. Most of this increase arose on HR costs (which rose by €1.2 million), occupancy costs and IT. The increase in HR costs is attributable to additional recruitment personnel in IT-related and anti-financial crime roles, and to regular salary increases agreed upon in the Collective Agreement signed in December 2015.

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

- Customer deposits rose by €487 million to reach €9.7 billion, accounting for 86% of the Group's balance sheet.

- Net total advances for the period ended March 2017 have grown by €102 million, split equally between business and personal loans, and stand at €4.1 billion. The excess of new deposits over new lending was deployed into liquid and investment assets.

- Total assets stand at €11.3 billion, an increase of €583 million over September 2016, while equity amounts to €753 million, an increase of €24 million.

- The Group's Core Equity Tier 1 (CET1) ratio rose to 13.1%, up from 12.8% in September 2016.

- Earnings per share increased from €0.106 for the interim period ended March 2016 to €0.121 for the period ended March 2017.

A gross interim dividend of €0.045 per share was declared, an increase of 24% over the €0.0363 per share declared during the previous period ended March 2016, as adjusted for the bonus share issue made in January 2017.

16.3 OPERATING RESULTS

16.3.1 Information regarding Significant Factors materially affecting the Group's Income from Operations

There were no significant factors, including unusual or infrequent events or new developments that materially affected the Issuer's income from operations.

16.3.2 Material Changes in Net Sales or Revenues

Material revenue was recorded for financial year ended 30 September 2016. This was a €27.5 million gain on

Visa transaction arising on the disposal of the Bank's membership interest in Visa Europe. In June 2016 Visa Inc, completed the acquisition of Visa Europe. This transaction resulted in a receipt of an upfront cash consideration, preference shares and a deferred cash payment. The total income of this transaction, (€27.5 million), was recognised in profit for FY 2016. The preference shares have been recognised at the value provided to all holders by Visa and adjusted by a haircut of 50%, to reflect litigation and liquidity risks.

16.3.3 Governmental, Economic, Fiscal, Monetary or Political Policies or Factors

Please refer to section 9 *Regulatory Framework* and section 10 *Trend Information* for information in this regard.

17. CAPITAL RESOURCES

17.1 THE ISSUER'S CAPITAL RESOURCES AS AT 30 SEPTEMBER 2016

	€ ' 000 Sep-16
CET1 capital	**589,602**
Common Equity Tier 1 capital: instruments and reserves	**663,385**
Capital instruments and the related share premium accounts	390,988
Retained earnings	232,559
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	35,333
Funds for general banking risk	4,505
Common Equity Tier 1 (CET1) capital: regulatory adjustments	**(73,783)**
Intangible assets (net of related tax liability) (negative amount)	(13,272)
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related liability where the conditions in 38 (3) are met, negative amount)	(6,991)
Amount exceeding the 17.65% threshold (negative amount)	(6,820)
of which: Deferred tax assets arising from temporary differences	(3,631)
of which: Significant direct and indirect holdings by the institution of the *CET1instruments of financial sector entities*	(3,189)
Regulatory adjustments relating to unrealised gains and losses	(14,088)
Regulatory adjustments relating to deferred Tax	9,699
Regulatory adjustments relating to significant investment in financial entities	2,129
Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre-CRR	(44,440)
TIER 2 capital	**184,935**
Capital instruments and the related share premium accounts	187,065
Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out	(2,130)
TOTAL CAPITAL	**774,537**
TOTAL Risk Weighted Assets	**4,598,590**
of which deferred tax assets not deducted from CET1 capital	120,181
of which direct holdings by the institution of the CET1 instruments of financial sector entities not included in CET1 capital	105,554
Capital Ratios and buffers	
Tier 1 capital	12.82%
Total capital	16.84%

17.2 CASH FLOWS - SOURCES AND AMOUNTS

As depicted in the Bank's cash flow statement, the main sources of cash flows are from operations, with the largest source being customer deposits, (as at end September 2016 - €9.2 billion). The deposits are used primarily to fund loans and advances (as at end September 2016 - €4 billion) and secondly for the purchase of investment securities (as at end September 2016 €4.1 billion). The remaining funds are held in short term assets, mostly bank deposits (as at end September 2016 - €2.3 billion). Another source of funds is through the issue of subordinated capital, with the last issue held during FY2016 amounting to almost €111.6 million.

17.3 BORROWING REQUIREMENTS AND FUNDING STRUCTURE OF THE ISSUER

A significant portion of the Issuer's funding is derived from local customer deposits. The Bank has been successful in its drive to build and maintain a large and stable customer deposit base, helping to eliminate any reliance on wholesale funding. Even though the Bank has excess liquidity, the Bank maintains an ongoing presence in international funding markets and taps into as many unsecured credit lines to maintain a strong inter-bank relationship with the fund providers. The Bank also has in place a number of global master repurchase agreements with foreign banks that provide access to repo borrowing. The Bank has also raised funds from the local corporate bond market through the issuance of subordinated notes and senior debt.

The table below gives information relating to funding sources, other than capital and reserves, used by the Group for carrying out its activities, as at 30 September 2016, with the comparative data as at 30 September 2015 and as at 30 September 2014.

	The Group		
	FY2016	**FY2015**	**FY2014**
AMOUNTS OWED TO BANKS	**€'000**	**€'000**	**€'000**
Term deposits	118,202	95,608	56,533
Repayable on demand	131,953	102,152	30,046
	250,155	**197,760**	**86,579**
AMOUNTS OWED TO CUSTOMERS			
Term deposits	2,084,220	2,248,019	2,479,797
Repayable on demand	7,096,827	6,311,712	4,639,733
	9,181,047	**8,559,731**	**7,119,530**
DEBT SECURITIES IN ISSUE			
4.80% Euro debt securities	55,400	55,400	55,400
4.25% Euro debt securities	40,000	40,000	40,000
	95,400	**95,400**	**95,400**
SUBORDINATED LIABILITIES			
5.35% Euro subordinated unsecured bonds	50,000	50,000	50,000
4.80% Euro subordinated unsecured bonds	70,000	70,000	70,000
3.50% Euro subordinated unsecured bonds	111,591	-	-
	231,591	**120,000**	**120,000**

17.4 RESTRICTIONS ON THE USE OF CAPITAL RESOURCES THAT COULD MATERIALLY IMPACT THE BANK'S OPERATIONS

The Issuer, being classified as an O-SII, is required by the supervisory authorities to hold an O-SII capital buffer, in addition to the other normal buffers. Such capital buffers are of great significance, since failure to attain them could impact the Issuer's ability to take on new investments and the sanctioning of new credit facilities.

The Issuer has always relied exclusively on the plough-back of profits to increase its capital. In view, however, of increasingly onerous supervisory capital requirements, as well as of the planned significant investment in the core

IT system and other important initiatives, the Group is anticipating a situation when the retention of profit will not suffice, and must be supplemented by fresh issues of capital.

17.5 ANTICIPATED SOURCES OF FUNDS REQUIRED FOR CERTAIN INVESTMENTS

The funds potentially raised through the Issuer's (approximately) €150 million renounceable rights offer are expected to make good for the deduction to capital (CET1) as a result of the Bank's investment in the Core Banking System, which investment, is estimated will cost around €44.5 million, over a five year period from FY2017 to FY2021.

18. THE GROUP'S FIXED ASSETS

18.1 TANGIBLE FIXED ASSETS

The Group classifies property and equipment into land and buildings IT infrastructure and equipment and other, consisting principally of furniture and fittings.

The table below summarises total investments in tangible fixed assets of the Group for each of the financial years ended 31 December 2014, 31 December 2015, and 31 December 2016.

Property and Equipment

	Land and buildings €000	IT infrastructure and equipment €000	Other €000	Total €000
The Group				
Cost or valuation				
30 September 2014	85,391	18,239	26,979	130,609
Additions	1,685	2,365	1,428	5,478
Disposals	-	-	(5)	(5)
Revaluation	1,319	-	-	1,319
30 September 2015	88,395	20,604	28,402	137,401
Additions	931	2,211	880	4,022
Disposals	(532)	-	-	(532)
Revaluation	960	-	-	960
30 September 2016	89,754	22,815	29,282	141,851
Accumulated depreciation				
30 September 2014	12,827	10,749	18,917	42,493
Provision for the year	825	2,642	1,640	5,107
30 September 2015	13,652	13,391	20,557	47,600
Provision for the year	865	2,597	1,506	4,968
Disposals	(291)	-	-	(291)
30 September 2016	14,226	15,988	22,063	52,277
Carrying amount at:				
30 September 2014	72,564	7,490	8,062	88,116
30 September 2015	74,743	7,213	7,845	89,801
30 September 2016	75,528	6,827	7,219	89,574

	The Group		The Bank	
	2016 €000	2015 €000	2016 €000	2015 €000
Carrying amount of land and buildings occupied for own use	75,528	74,743	75,582	74,797

18.2 PROPERTY AND EQUIPMENT

The Group's investments involve both property and equipment held for practical use and assets held for re-sale following foreclosure on certain loans and advances, which are to be disposed of at the first available opportunity. In terms of Maltese banking legislation, the Issuer cannot hold real estate for investment purposes or for the purpose of collecting rental and/or for the appreciation of invested capital.

Land and buildings are revalued by a professionally qualified architect on a regular basis such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. The carrying amounts of land and buildings that would have been included in the financial statements, had these assets been carried at cost less accumulated depreciation are: 2016: Group and Bank €43.8 million; 2015: Group and Bank €43.7 million.

Property valuations are mainly conducted using the 'comparative investment approach' whereby market value is arrived at by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties.

18.3 ENVIRONMENTAL ISSUES

As at the date of this Registration Document, also in consideration of the activity conducted by the Group, there are no environmental problems that would significantly affect the use of the tangible fixed assets.

19. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES

In light of the business sector in which it operates, the Issuer does not consider research and development a main area of activity.

Refer to section 8.1.1 above of the Registration Document for a description of the nature of the licenses held by the Group.

20. MAJOR SHAREHOLDERS

To the extent known by the Issuer, direct or indirect control of the Issuer is not vested in any one single entity or person. As at the date of the Prospectus, the Issuer is not aware of any arrangements, the operation of which may, at a subsequent date, result in a change of control of the Issuer.

The following shareholders hold in excess of 5% of the share capital of the Issuer having voting rights:

Government of Malta	25.23%
UniCredit S.p.A.	14.55%

21. RELATED-PARTY TRANSACTIONS

21.1 INTRODUCTION

It is the established practice of the Issuer, in the performance of its activities, to respect at all times the criteria of transparency, substantial and procedural correctness in transactions, directly or *via* its Subsidiaries, with related-parties (as defined by the Listing Authority in the Listing Rules and in accordance with applicable laws and regulations from time to time, hereinafter "**Related Party/ies**").

During the course of 2016, the Issuer has adopted strict policies and a process of monitoring and notifying the Board (and the audit committee) of important, atypical and/or unusual transactions, as well as transactions concluded with Related Parties. This process, aimed at systematising the information flow destined for the audit committee, has ensured appropriate information is provided regularly in the report on operations that accompanies the financial statements.

The Issuer has a related party transactions policy in place. This policy seeks to ensure the proper management of related party transactions and prevent potential abuses arising from such transactions. The policy document sets out the policy of the Issuer for handling of potential conflict of interest in relation to Related Party transactions which can present potential or actual conflicts of interest.

In addition, the Issuer has in place a code of ethics policy and a conflicts of interest policy, brief details of which are set out in section 12.1.8 above.

21.2 RELATED PARTY TRANSACTIONS

During the current and the prior year, the Group entered into transactions during the course of their normal business, with key management personnel, the equity-accounted investees, the Government of Malta (the "**Government**") (which has a 25.23% holding in the Bank), Government related entities and other related parties. Government related entities are those where, in the opinion of the Bank, the Government is either deemed to exercise control, that is, it has the power to govern the financial and operating policies of the entity or linked to the Government but not controlled by the Government.

Key management personnel include the Chairman, Directors, Senior Management and their respective spouses, spousal equivalent and dependents.

Transactions with Related Parties are made on an arm's length basis.

The Bank also entered into Related Party transactions on an arm's length basis with its Subsidiaries and equity-accounted investees. Transactions between the Bank and its Subsidiaries have been eliminated on consolidation.

(i) The amounts due to or from Related Parties are settled in cash and the amount of Related Party transactions and outstanding balances are disclosed below:

The Group	September 2017 Related Party transactions		September 2016 Related Party transactions		September 2015 Related Party transactions	
	€000	% of total	€000	% of total	€000	% of total
Interest and similar income:						
- on loans and advances, balances with Central Bank of Malta and treasury bills						
The Government	2,139		636		577	
Government related entities	14,251		16,251		16,941	
Key management personnel	54		4		6	
Other related parties	98		376		1,009	
	16,542	10%	17,267	11%	18,533	12%
Interest and similar income:						
- on debt and other fixed income instruments						
The Government	14,123	29%	26,322	49%	29,213	51%
Interest expense						
Equity-accounted investees	534		1,073		2,172	
The Government	8,992		4,655		1,145	
Government related entities	112		220		367	
Key management personnel	32		11		10	
Other related parties	4		4		9	
	9,674	16%	5,963	9%	3,703	5%
Fee and commission income						
Equity-accounted investees	6,303		5,895		4,851	
The Government	190		68		45	
Government related entities	358		416		685	
Key management personnel	4		2		1	
Other related entities	14		10		15	
	6,869	9%	6,391	9%	5,597	8%
Employee compensation and benefits						
Key management personnel	1,458	2%	1,002	2%	869	1%
General administrative expenses						
Equity-accounted investees	74		123		77	
Key management personnel	30		38		36	
Other related parties	4		199		108	
	108	0%	360	1%	221	1%
Movement in impairment allowances						
The Government	(25)		(20)		(3)	
Government related entities	(722)		1,789		8,823	
Key management personnel	1		-		-	
Other related parties	(5)		(398)		253	
	(751)	10%	1,371	6%	9,073	28%

The Group	September 2017 Related Party transactions		September 2016 Related Party transactions		September 2015 Related Party transactions	
	€000	% of total	€000	% of total	€000	% of total
Balances with Central Bank of Malta, treasury bills and cash						
The Government	112,643	71%	126,796	74%	85,286	67%
Financial assets at fair value through profit or loss						
The Government	50,150	14%	56,238	14%	70,809	17%
Investments						
The Government	598,521	17%	664,252	18%	734,709	22%
Loans and advances to customers						
The Government	70,079		16,597		16,192	
Government related entities	412,188		464,658		499,773	
Key management personnel	2,953		1,433		764	
Other related entities	2,129		5,393		20,904	
	487,349	12%	488,081	12%	537,633	13%
Loans and advances to banks						
The Government	2,617,376	87%	1,619,029	77%	887,629	54%
Impairment allowances						
The Government	(80)		(146)		(166)	
Government related entities	(11,080)		(11,808)		(10,019)	
Other related parties	(62)		(20)		(418)	
	(11,227)	7%	(11,974)	6%	(10,603)	4%
Amounts owed to customers						
Equity-accounted investees	287,475		229,000		209,977	
The Government	237,454		298,137		86,171	
Government related entities	66,023		110,393		178,995	
Key management personnel	4,445		2,034		1,312	
Other related parties	17,939		6,036		9,464	
	613,336	6%	645,600	7%	485,919	6%
Total Assets less Liabilities						
Equity-accounted investees	(287,475)		(229,000)		(209,977)	
The Government	3,211,235		2,184,630		1,708,288	
Government related entities	335,085		342,457		310,759	
Key management personnel	(1,497)		(601)		(548)	
Other related parties	(15,872)		(663)		11,022	
	3,241,476		2,296,823		1,819,544	
Commitments						
Equity-accounted investees	390		378		4,329	
The Government	43,632		13,809		5,448	
Government related entities	78,787		106,803		212,962	
Key management personnel	763		492		731	
Other related parties	9,567		9,248		7,569	
	133,139	8%	130,730	8%	231,039	14%

	The Group		
	September 2017 €000	**September 2016 €000**	**September 2015 €000**
All outstanding balances are secured except for the following:			
Loans and advances to customers:			
- Key management personnel	125	21	32
- Other related parties	202	5	1,179
	327	26	1,211
Details of guarantees received are disclosed below:			
Loans and advances to customers:			
- Amounts guaranteed by the Government	540,553	528,441	521,215

(ii) Loans to and commitments on behalf of Directors and Senior Management (including connected persons):

	The Group	
	Loans and advances €000	**Commitments €000**
Directors		
At 1 October 2015	230	349
Additions	365	87
	595	436
Less reductions/repayments	(186)	(240)
At 30 September 2016	409	196
Additions	1,299	188
	1,708	384
Less reductions/repayments	(303)	(81)
At 30 September 2017	1,405	303
Other key management personnel (chief officers)		
At 1 October 2015	534	382
Additions	640	47
	1,174	429
Less reductions/repayments	(150)	(133)
At 30 September 2016	1,024	296
Additions	659	193
	1,683	489
Less reductions/repayments	(135)	(29)
At 30 September 2017	1,548	460

The above facilities do not involve more than the normal risk of repayment or present other unfavourable features and were made in the ordinary course of business on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, other employees.

22. DIVIDEND PAY-OUT APPROACH

In determining dividend pay-outs, the Group adopts a prudent approach which aims to ensure that an adequate amount of earnings is retained to strengthen the Tier 1 capital base. Indeed, as from FY 2016, the Bank's approach to dividend pay-outs is to determine the same with reference to a target CET1 ratio such that sufficient earnings are retained to enable the Bank to reach the aforementioned target ratio, with the remaining profit then being deemed eligible for distribution.

The amount of the dividend per share for each financial year for the period covered by the historical financial information adjusted, where the number of shares in the Issuer has changed, to make it comparable.

RE-STATED for BONUS ISSUES

	Bonus 1:10	Bonus 1:11	Bonus 1:12
Gross Dividend	2014	2015	2016
	€	€	€
Interim	3.34	3.34	3.63
Final	7.27	7.29	7.91
Total Euro cents per share (restated for bonus issues)	10.61	10.63	11.54

23. SIGNIFICANT CHANGE IN THE ISSUER'S FINANCIAL OR TRADING POSITION

There are no significant changes in the financial or trading position of the Group which have occurred since the end of the last interim financial period.

24. LEGAL AND ARBITRATION PROCEEDINGS

Save as stated hereunder, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during a period covering twelve months prior to the date of the Prospectus which may have, or have had, in the recent past significant effects on the financial position or profitability of the Issuer and/or the Group, taken as whole.

1) In November 2014, court action was instituted against the Bank by the curator of a failed group whilst under the trust of the Bank, by virtue of which a claim of €363 million was made against the Bank. On the basis of legal opinions, the Directors concluded that the Bank has a strong legal position and accordingly assessed the risk of an economic outflow from such claim to be improbable;

2) In June 2017 the Issuer received a judicial letter from an investor, which is invested in a number of sub-funds of a Maltese UCITS umbrella fund, of which the Issuer was the appointed custodian. In such letter, it was alleged that the Issuer is liable for damages allegedly suffered by the investor as a result of certain alleged failures in its role as custodian. These allegations were repeated in another letter sent to the Bank in July 2017. The Issuer considers the allegations contained in both letters to be unfounded both in fact and at law. Indeed, the Issuer replied to the aforementioned letters, rebutting the allegations raised in full and denying that it was in any way responsible for the damages allegedly suffered by the investor.

3) A number of complaints were filed before the arbiter for financial services (the "Arbiter") (established in terms of Cap. 555 of the laws of Malta) against the Issuer relating to the La Valette Multi Manager Property Fund. The Issuer filed replies to the aforementioned complaints, rebutting the allegations in full. Proceedings before the Arbiter are ongoing.

25. ADDITIONAL INFORMATION - MEMORANDUM AND ARTICLES

25.1 OBJECTS OF THE ISSUER

The objects of the Issuer essentially comprise the carrying on of the business of banking in all aspects including, without limitation, the transacting of all financial, monetary, investment and other business usually carried on by credit institutions. The full set of objects of the Issuer are set out in clause 3 of the Memorandum, which is available for inspection at the registered office of the Issuer.

25.2 CLASSES OF SHARES: RIGHTS, PREFERENCES AND RESTRICTIONS

The Issuer has only one class of ordinary shares in issue. Each share has the same rights and entitlements as all other Ordinary Shares currently in issue in the Bank. The issued shares of the Bank are classified as a CET1 instrument for the purposes of Article 28 of the CRR.

25.3 NUMBER OF SHARES ISSUED AND VALUE

As at the date of this Registration Document, the Issuer has an issued share capital of €420,000,000 divided into 420,000,000 ordinary shares of a nominal value of €1.00 per share, each fully paid-up. Through a resolution taken at an extraordinary general meeting held on the 27 July 2017, the Board of Directors was authorised to increase the Issuer's issued share capital up to a total of €580,000,000 divided into 580,000,000 shares of €1.00 per share, through the issue of new shares.

25.4 CHANGE OF SHARES FROM ONE CLASS TO ANOTHER AND CHANGES TO RIGHTS OF SHAREHOLDERS

If at any time the share capital is divided into different classes of shares, the change of any shares from one class into another or the variation of the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class which is to be changed or the rights attached to which are to be varied, according to the case) may, whether or not the Issuer is being wound up, be made with the consent in writing of the holders of three-fourths of the issued shares of that class, and the holders of three-fourths of the issued shares of any other class affected thereby. Such change or variation may also be made with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the issued shares of that class and of an extraordinary resolution passed at a separate general meeting of the holders of the issued shares of any other class affected thereby.

25.5 GENERAL MEETINGS

Subject to the provisions of the Act, annual general meetings of the Issuer shall be held at such time and place as the Directors shall appoint. The Directors may convene an extraordinary general meeting whenever they think fit.

A general meeting of the Issuer shall be deemed not to have been duly convened unless at least twenty-one (21) days' notice has been given in writing, to all those members entitled to receive such notice. Notwithstanding the aforesaid, a general meeting of the Issuer may be called by shorter notice as may be permitted by the Listing Rules and/or any other applicable law in force from time to time. The notice shall contain the information required by the Listing Rules and/or any other applicable law in force from time to time and in case of extraordinary business, the general nature of the business, and shall be accompanied by a statement regarding the effect and scope of any proposed resolution in respect of such extraordinary business. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting, by any person entitled to receive notice shall not invalidate the proceedings of a meeting.
A Shareholder who cannot participate in the general meeting can appoint a proxy by written or electronic notification to the Bank. Every Shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the general meeting and to have such questions answered by the Directors or by such persons as the Directors may delegate for that purpose.

At any general meeting a resolution put to the vote shall be determined and decided by a show of hands, unless a poll is demanded, in the instances set out in the Articles. Unless a poll is demanded in accordance with the provisions of the Articles, a declaration by the chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost and an entry to that effect is made in the minute book, it shall be conclusive evidence of the fact without need for the proof of the number or proportion of the votes recorded in favour of or against such resolution PROVIDED that where a resolution requires a particular majority in value, the resolution shall not be deemed to have been passed on a show of hands by the required majority unless there be present at that meeting, whether in person or by proxy, a number of members holding in the aggregate the required majority as aforesaid.

For further detail on general meetings of the Bank, please refer to the section entitled *General Meetings* in the Articles.

25.6 CHANGE IN CONTROL OF THE ISSUER/CHANGE IN CAPITAL OF THE ISSUER

In terms of clause 4.3 of the Articles, no person may at any time, whether directly or indirectly and in any manner whatsoever: (i) acquire such number of shares in the Issuer as would in aggregate be in excess of five per cent (5%) of the issued share capital of the Issuer; or (ii) with the exception of existing large shareholders[9], hold such number of shares in the Issuer as would in aggregate be in excess of five per cent (5%) of the issued share capital of the Issuer.

However, the terms of clause 4.3 (referred to above) do not apply in a number of instances including, amongst others, the following cases: (i) where an underwriter or sub-underwriter becomes a large Shareholder by virtue of an underwriting or sub-underwriting arrangement; (ii) to the Issuer, where the Issuer purchases any of its own shares in accordance with the Act; (iii) to any Shareholder whose holding of shares in the Issuer shall come to exceed five per cent (5%) of the issued share capital of the Issuer solely as a result of the Shareholder electing to exercise, in whole or in part, as may be applicable, a scrip dividend option declared by the Issuer; (iv) to any Shareholder whose holding of shares in the Issuer shall come to exceed five per cent (5%) of the issued share capital of the Issuer solely as a result of either: (a) the cancellation of shares and the subsequent reduction of share capital of the Issuer; or (b) the exercise by a Shareholder of its rights to subscribe for its proportionate share of a rights issue made by the Issuer.

The provisions of clause 4.3 (referred to above) also do not apply in cases where a large Shareholder[10],being a bank, credit institution or financial institution wishes to offer for sale or otherwise dispose of, such number of shares in excess of five per cent (5%) of the issued share capital of the Issuer provided that only persons being themselves banks, credit institutions or financial institutions shall, subject to obtaining the necessary authorisations from the competent authorities in terms of law in Malta, be entitled to acquire (and hold) any of such shares on offer by a large Shareholder as aforesaid.

[9] The term “large shareholder” means any shareholder holding in aggregate five percent (5%) or more of the issued share capital of the Issuer on the date of adoption of the Articles, being 27 July 2017.

[10] Ibid

26. MATERIAL CONTRACTS

The Bank has entered into an agreement with Oracle for the provision and implementation of a number of software deliverables in relation to the Issuer's new Core Banking System (the "**Agreement**"). Under the Agreement, the solution that the Bank will be implementing is the Oracle FLEXCUBE Universal Banking solution.

The Agreement lays out the obligations of the Issuer in terms of the provision of hardware, software licences and data required by Oracle for the proper implementation thereof of the Core Banking System as well as the provision by the Issuer of technical and business resources with adequate skills and knowledge to support Oracle in the provision of its services. The Agreement also specifies that the failure by the Issuer to meet its obligations under the Agreement may result in unnecessary delays and costs which will be incurred by the Issuer itself. The Agreement also refers to the limitations on the part of Oracle in the provision of its services.

The Agreement sets out the costs and expenses of the new Core Banking System. The Agreement has been duly executed by both parties and implementation thereof of the CBT is in progress.

The Bank's investment in the core banking technology is estimated will cost around €44.5 million, over a five year period from financial year 2017 to financial year 2021.

27. INCORPORATION BY REFERENCE/DOCUMENTS ON DISPLAY

The following documents (the "**Reference Documents**") are incorporated by reference into this Registration Document and are available in the English language:

a) The Memorandum and Articles of the Issuer;

b) The annual reports including the consolidated audited financial statements of the Issuer for each of the financial years ended 30 September 2014, 30 September 2015 and 30 September 2016;

c) The consolidated interim financial statements of the Issuer for the period ended 31 March 2016 and 31 March 2017; and

d) The second consolidated interim financial statements of the Issuer for the period 1 October 2016 to 30 September 2017.

The following documents are available for inspection at the registered office of the Issuer for the life of this Prospectus:

a) The documents numbered (a), (b), (c) and (d) above described as being Reference Documents;

b) The Prospectus; and

c) KPMG's Accountant's Report.