Bank of Valletta p.l.c.

Annual Report & Financial Statements

2015

BOV
Bank of Valletta

CONTENTS

BOARD OF DIRECTORS

John Cassar White (Chairman)
Alicia Agius Gatt
Joseph Borg
Roberto Cassata
James Grech
Mario Grima
George Portanier
Taddeo Scerri
Joseph M Zrinzo

COMPANY SECRETARY

Catherine Formosa

MANAGEMENT BOARD

Charles Borg (Chief Executive Officer)
Mario Mallia (Chief Operations Officer)
Miguel Borg (Chief Risk Officer)
Kenneth Farrugia (Chief Business Development Officer)
Elvia George (Chief Finance Officer)

Kenneth B Micallef (Secretary)

AUDITORS

KPMG

LEGAL ADVISORS

Camilleri Preziosi

NOTICE OF MEETING

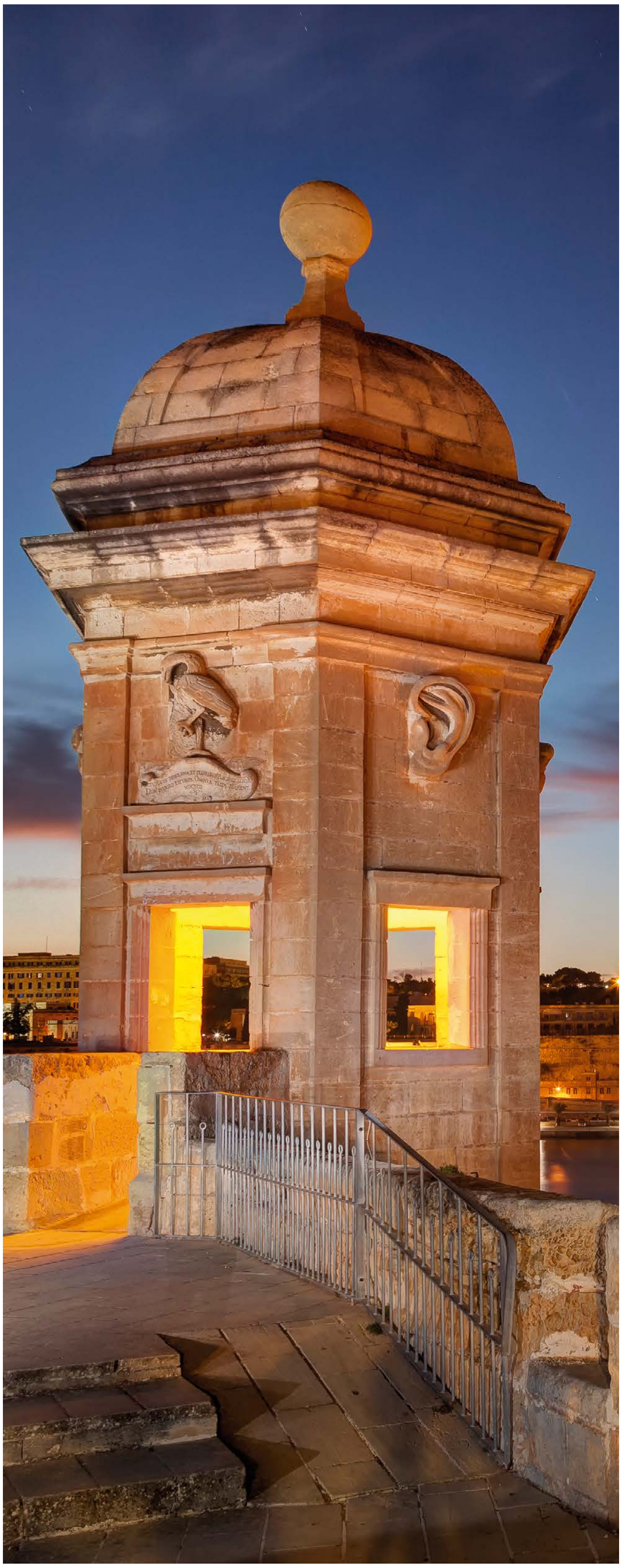
The Annual General Meeting of the Bank will be held at the Grand Master Suite, Hilton Malta, St Julians, on Thursday 17 December 2015 at 10.00a.m.

Bank of Valletta p.l.c.
Head Office: BOV Centre
Triq il-Kanun
Sta Venera, SVR 9030
Malta

Tel: (+356) 2275 3000
Fax: (+356) 2275 3711
www.bov.com
E-mail: customercare@bov.com

Bank of Valletta p.l.c.
Registered Office:
58, Triq San Żakkarija
Il-Belt Valletta VLT 1130, Malta
Registration Number C 2833

Board of Directors & Secretary



John Cassar White

Chairman

R&N NED *

John Cassar White was appointed Chairman of Bank of Valletta Group in April 2013. He also chairs the boards of MSV Life p.l.c., Valletta Fund Management Limited and Valletta Fund Services Limited, and is a member on the board of Mapfre Middlesea p.l.c. Mr. Cassar White worked with the Bank of Valletta for thirty seven years until 2008. He also served on the board on a number of state-owned enterprises and was a director of various investment companies. Until recently he was a lecturer at the Institute of Business and Commerce of MCAST. He holds a BA in Humanities Studies from the University of Malta and is an Associate of the Institute of Financial Services (UK). He has a special interest in business education and financial journalism.

Alicia Agius Gatt

C RM NED *

Appointed to the Board in December 2014. Alicia Agius Gatt is currently a member of the Bank's Compliance Committee and a member of the Risk Management Committee. Dr Agius Gatt graduated Bachelor of Arts in Legal and Humanistic Studies in 2005 and obtained a Diploma in Notarial Studies in 2006. She started practicing as a trainee Notary, and in May 2008, obtained her Warrant to practice the Notarial profession in Malta. Dr Agius Gatt was awarded a Doctorate in Laws in December 2008. Since May 2008, Dr Agius Gatt has set up her own notarial practice and has dealt with contracts, wills, inheritances, property law, loans and other related legal advice.

Joseph Borg

A RM NED *

Appointed to the Board in December 1998. Mr Borg currently chairs the Board's Risk Management Committee. He is also a member of the Audit Committee. For a number of years, he chaired the Board's Audit Committee and was a member of the Remuneration Committee. Mr Borg is the managing director of FXB Group of Companies. He was a director of the Malta Development Corporation and chairman of Gozo Channel Co Ltd. Presently he is the vice-president of the Gozo Business Chamber. He has also been a director of the Oasi Foundation since its inception.

Roberto Cassata

NED *

Appointed to the Board in September 2003. Dr Cassata is an auditor and accountant by profession and also studied Economics at the Palermo State University. Throughout his career Dr Cassata held various senior positions within the UniCredit Group where he is presently Deputy Regional Manager Sicilia and Head of Public Sector and territorial development Sicilia of UniCredit S.p.A. Dr Cassata has also worked with PricewaterhouseCoopers where he was, amongst others, responsible for the Sicilian Operational Department.

James Grech

C RM NED

Appointed to the Board in 2014. James Grech's career commenced as a management accountant with a local accounting firm. He joined BOV in 1998 and was a member of the BOV Board between January 2004 and December 2008. During this period he was a member of the Bank's Operational Risk Management Committee and Compliance Committee. Within BOV, he occupied managerial positions at various branches and senior managerial positions within various departments. He is currently Head – Foreign Bank Relationships. Since August 2010, he is also a member of the Board of Trustees of the BOV Employees' Foundation. Mr Grech is currently a member of the Risk Management Committee and the Compliance Committee. Mr Grech is also Secretary and Committee member of the ACI Malta and treasurer of the PTA committee of De La Salle College. James Grech lectured in Financial Services at the Malta College of Arts, Science and Technology and on Corporate Governance at the University of Malta. He also served as a consultant for local companies. Mr Grech is a graduate with Honours in Management and also holds a Masters in Business Administration from Henley Management College, UK. His dissertation focused on developing a board scorecard to measure the effectiveness of corporate governance and board performance for the Maltese retail banking industry.

Mario Grima

C RM NED *

Appointed to the Board in December 2013. Mr Grima chairs the Compliance Committee and is also a member of the Risk Management Committee. He had served on the BOV Board between 1996 and 2001 and was employed with the Bank for thirty-seven years. He retired from the Bank in 2011 and his last post was that of Executive Head Operations. He also served on the boards of Middlesea Insurance p.l.c., Middlesea Valletta Life Assurance Co Limited and Malta Freeport Corporation. At BOV he chaired various committees and was a Trustee Founder Member of the BOV Employees' Foundation for several years. His academic qualifications include a Masters Degree in Business Management from Henley Management College, UK.

George Portanier

C RM NED *

Appointed to the Board in 2014. George Portanier also served as a BOV Board Member between 1992 and 2013. Mr Portanier chaired the Board's Compliance Committee for a number of years. He was also a member of the Executive Committee, a member of the Risk Management and Compliance Committee and the Remuneration and Nominations Committee. Mr Portanier was formerly a director of Portanier Brothers Limited and served as a member of the Local Manufacturers' Committee of the Federation of Industries, as well as a member of the Council of the Federation of Industries. He sits on the Board of other companies and is currently the CEO of the Malta Institute of Taxation.

Taddeo Scerri

A R&N NED *

Appointed to the Board in April 2013. Mr Scerri currently chairs the Bank's Audit Committee and is a member of the Bank's Remuneration and Nominations Committee and of the Bank's Asset and Liability Committee (ALCO). He is a qualified accountant and is the Managing Partner of RSM Malta. He is Chairman of the Malta Football Association Members Club Licencing Board and is also a member of the Association's Finance Committee.

Joseph M Zrinzo

A R&N NED *

Appointed to the Board in December 2013. Mr Zrinzo is currently a member of the Board's Audit Committee and a member of the Remuneration and Nominations Committee. Mr Zrinzo served as a BOV Board member between 1996 and 1998 and was founder member of The Malta Shareholders Association. Mr Zrinzo at present serves as managing director of a group of family companies, as board director of other local companies, committee member of The Cultural Heritage Advisory Committee and as an active member of philanthropic associations. Mr Zrinzo has a vast experience of international trade having operated businesses with European, North African, Middle-East and multi-national companies.

Catherine Formosa

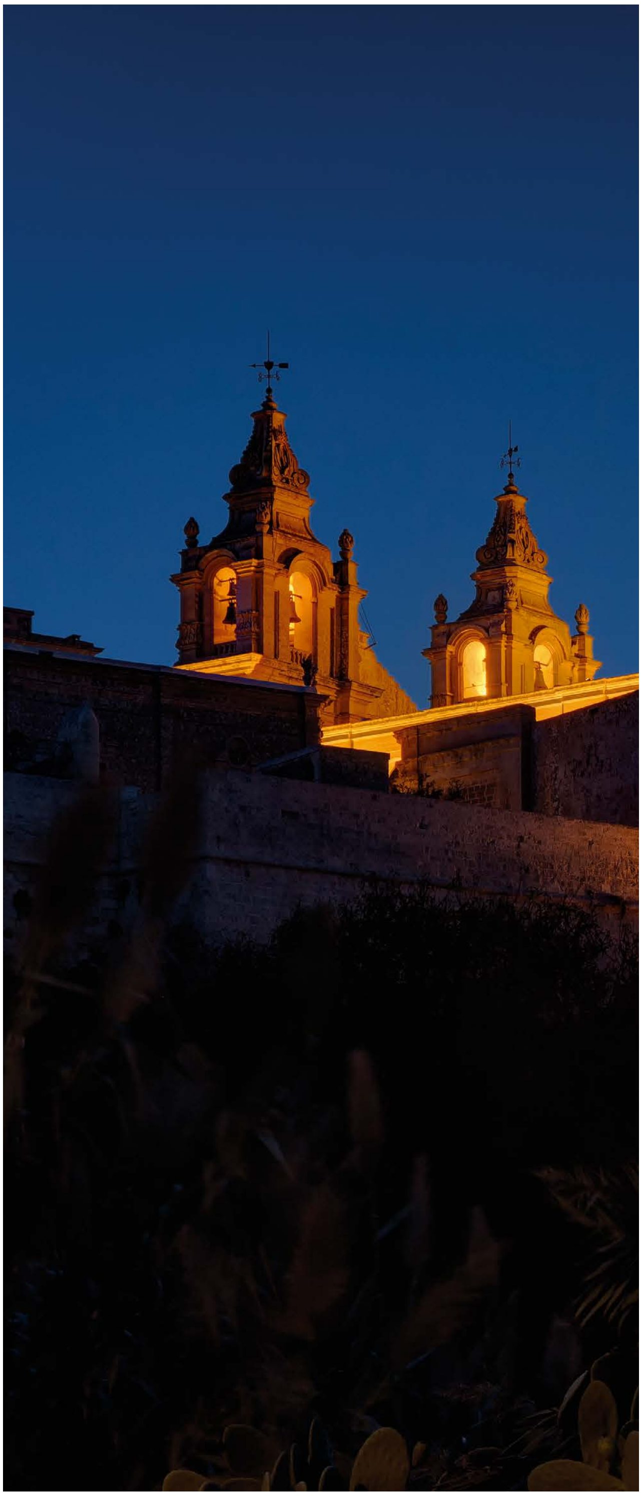
Group Company Secretary

Appointed BOV Group Company Secretary in October 2009. Dr Formosa is also the company secretary of MSV Life p.l.c. (MSV) and secretary to BOV's, MSV's and VFM's Board Committees. Dr Formosa read law at the University of Malta and joined the Bank in June 2000 where she headed the Legal Advice Section at the Bank's Legal Office. Before joining the Bank, Dr Formosa worked at the Tax and Legal Department of PricewaterhouseCoopers. She is also a visiting lecturer at the Faculty of Laws at the University of Malta.

A	Member of the Audit Committee
C	Member of the Compliance Committee
R&N	Member of the Remuneration and Nominations Committee
RM	Member of the Risk Management Committee
NED	Non-executive Director
*	Independent

Chairman's Statement

John Cassar White



In 2015 the Maltese economy continued to perform well with strong economic growth and low unemployment. This year the Bank of Valletta achieved satisfactory results. Profits before tax reached €117.9 million with an increase in profitability in both core and non-core business.

While we continue to apply more cautious provisioning charges, our cost to income ratio improved to 41.8%. The lending book grew by 4% while our deposits increased by 20%. This has made the management of the bank's liquidity a high priority for our executive team.

The equity base increased by 9% while our capital adequacy reached 13.4%, with the Core Equity Tier 1 capital ratio amounting to 11.3%. We will continue to strengthen our capital base in the coming months through higher retention of profits and issues of both Tier 1 and Tier 2 capital.

In October 2014, BOV as a systemically important bank for the Maltese economy completed successfully the stress test and the Asset Quality Review conducted by the European Central Bank. As from 4th November 2014 the ECB assumed prudential supervision jointly with the local regulator as the Single Supervisory Mechanism came into force. During the past several months we have met with our Banking Supervisors on a regular basis. We plan to implement various recommendations aimed at strengthening the governance of the bank.

The robust and consistent supervision of the Single Supervisory Mechanism will ensure that BOV will continue to upgrade its governance structure, strengthen its capital base, and manage the risks inherent in its business more effectively. The bank has identified a number of initiatives to reach its strategic objectives in 2016 and beyond.

Our first priority is to strengthen our capital bases by increasing our Tier 1 and Tier 2 capital. This should ensure that every line of business of the bank is well supported by adequate levels of capital.

Another priority is the de-risking of certain business operations of the bank where the risk/reward mix is not favourable. We are already dealing with some legacy issues to ensure that the bank does not take on or continue to service business lines that are characterised by a high risk profile. Our Risk Appetite Framework will be reviewed on a regular basis to help us achieve the right risk/reward trade off.

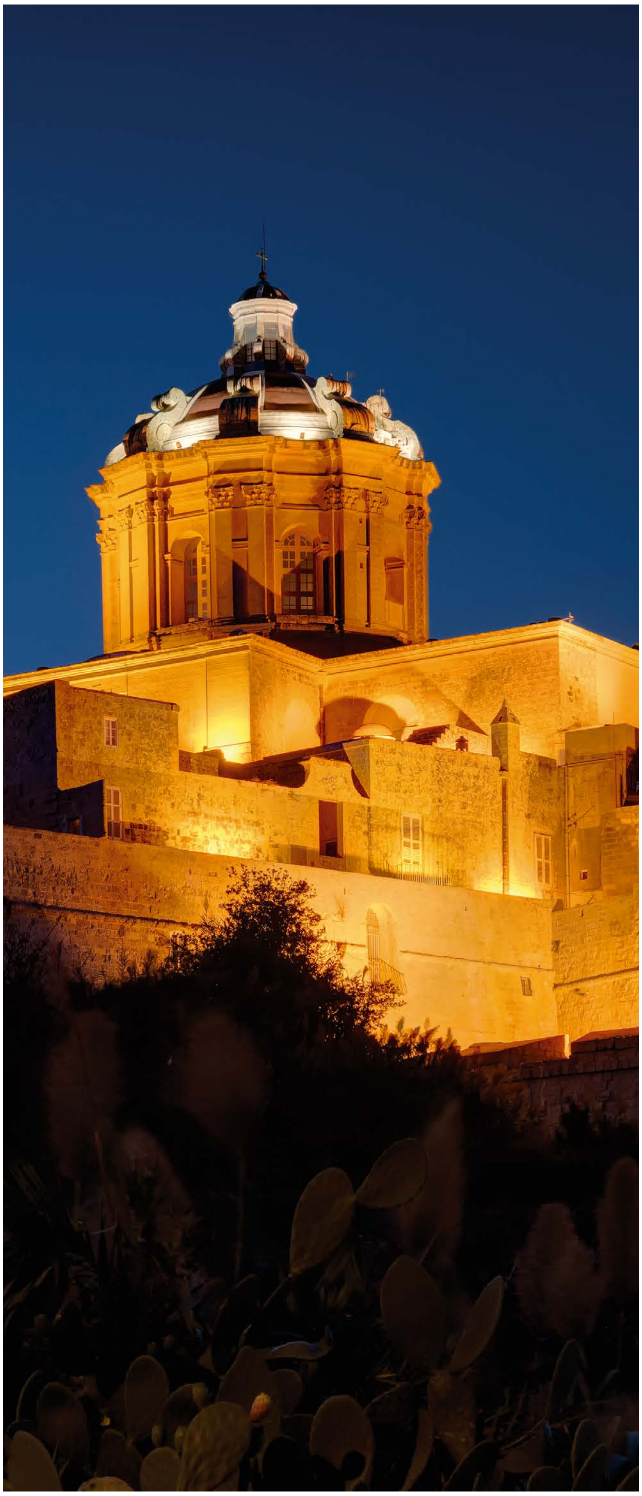
Equally important is the objective of strengthening our IT and human resources infrastructure. In 2015 we started the process of replacing our core IT banking system to ensure that the bank's IT infrastructure is robust enough to help us serve our customers better and satisfy our regulatory obligations. The project will take three to four years to complete, but it will improve the data availability, quality and governance in a substantial way.

We are also committed to strengthen our human resources infrastructure by providing our employees with more training opportunities while at the same time employing more staff in internal control functions particularly in the areas of IT security, internal audit and risk management. These initiatives as well as the overall increasing regulatory costs are likely to impinge on our profitability in the coming years, but we believe that this is an investment that will make our bank safer for depositors as well as shareholders.

The Board of Directors, together with the executive team, are engaging in an in-depth review of our business model as new regulatory as well as business realities are evolving. Our aim remains that of protecting our depositors' and shareholders' interests while continuously improving the service we give to our customers. We are also looking at new opportunities to increase our business in areas that offer the right risk/reward balance in the context of our defined risk appetite framework.

The banking industry is going through a phase of rapid change both as a result of changing competition dynamics and a more effective approach in banking supervision. Geo-political issues will continue to pose challenges on the economic front. These changes may understandably create tensions between the different stakeholders, but I am, however, confident that the Board of BOV will continue to lead the organisation effectively to achieve more success in the coming years thanks to our dedicated staff and to our customers.

John Cassar White
Chairman
30 October 2015



CEO Review

Charles Borg

INTRODUCTION

Similar to previous years, Financial Year 2015 was characterised by low interest rates and severe geo-political tensions. This notwithstanding, I am pleased to report that Bank of Valletta continued to perform well in all areas of its operations.

In fact, for the Financial Year ended 30 September 2015, the Bank of Valletta Group has registered a profit before tax of €117.9 million - an increase of 13% when compared to the figures achieved in the previous year.

Concurrently, we have continued to support the Bank's infrastructure, strengthening it through a number of initiatives which have been implemented during the year. Balance sheet growth was sustained and the Bank continued to register positive increases in all areas of commission and fee income.

We continue to invest in our governance structures in order to ensure the long term sustainability of the Bank of Valletta Group.

THE ECONOMIC ENVIRONMENT

In last year's statement, I had reported that in 2014, the Maltese economy grew at an average pace of 3.5 percent in real terms which was well above the EU average. This positive trend persisted between January and June of 2015 where the real Gross Domestic Product (GDP) stood at 5.1 percent. Positive growth trends were observed across a number of economic segments, namely the accommodation and food service activities, the information and communication sector and the professional, scientific and technical sector.

The local average inflation rate for the period under review stood at 1.0 percent compared to a zero percent average rate in both the EU and Euro area. The European Central Bank aims for an inflation rate of close to 2.0 percent.

As at end September 2015, the unemployment rate in Malta stood at a record low of 5.4 percent.

REVIEW OF PERFORMANCE

The Bank of Valletta Group reported profit before tax of €117.9 million for the financial year ended 30 September 2015. This represents an increase of 13% when compared to the pre-tax profit of €104.1 million reported last year. These results were achieved notwithstanding the challenges which were brought about by the new regulatory regime of the Single Supervisory Mechanism which came into force in November 2014. The period under review was characterised by steady economic growth on the local scene, a depressed international economic scenario and persistently low interest rates.

Fair value gains and share of profit from the Group's insurance business amounted to €26.6 million, signifying an increase of €10.4 million when compared to the same period last year. Excluding these items, profit for the period of €91.3 million is up by €3.4 million. Key performance indicators were satisfactory with a Return on Equity (ROE) of 18.4% and a Cost/Income ratio of 41.8%, compared to 17.5% and 43.1% respectively for FY 2014.

The BOV Group's results for the financial year 2015 are summarised in the table below:

	Sep-15 € million	Sep-14 € million	Change € million	%
Net interest income	144.7	126.0	18.7	15%
Net commission and trading income	87.3	74.8	12.5	17%
Operating expense	(108.0)	(93.5)	(14.5)	(16%)
Impairment charge	(32.7)	(19.4)	(13.3)	(69%)
Core profit	91.3	87.9	3.4	4%
Fair value movement	14.8	9.0	5.8	64%
Share of profit from equity-accounted investees	11.8	7.2	4.6	64%
Profit before tax	117.9	104.1	13.8	13%

The results for the year showed an improved margin, primarily driven by a reduction in interest expense as preference for short term deposits continued, higher levels of liquidity and satisfactory growth in commission and trading income. The new regulatory regime and continued investment in HR and IT resulted in a higher cost base. During the year, the Bank revised its provisioning approach which now includes wider consideration of risk factors in the assessment of individual exposures. Previously these factors were considered in the collective provision. This is in line with the recommendation of the ECB.

a. Net Interest Income

The net interest margin for the year of €144.7 million is up by 15% over the previous year. The persistently low interest rate scenario impacted both the Retail and the Treasury segments. The retail margin reflects a lower effective interest rate on advances, which is partly due to the changing mix of the loan book. This was offset by a reduction in interest payable as the preference for short term deposits continued. While the pressure on the margin earned on the Treasury business continued, it was partly mitigated by higher volumes of investments.

b. Net Commission and Trading Income

Net commission and trading income of €87.3 million represents an increase of 17% over last year. Products and services offered across all the main business lines performed satisfactorily especially investment related services, including bancassurance, while growth continued to be experienced in the card business. Earnings from foreign exchange transactions are also up, year on year, primarily due to higher volumes.

c. Operating Expenses

Operating costs for the year amounted to €108.0 million, an increase of 16% over the previous year. The introduction of a new regulatory reporting regime as well as the amounts provided for the Deposit Guarantee Scheme and the Single Resolution Fund resulted in a substantial increase in regulatory costs. Increases arising from the continued investment in human resources and IT costs were partly offset by the curtailment of the discretionary spend. The replacement of the core banking system project was launched during the year and in the coming years substantial investment in our IT infrastructure is expected to be made to ensure that BOV's technology platforms are able to meet the ever-increasing needs of our customers.

d. Net Impairment Charge

The Asset Quality Review and the stress tests carried out by the ECB last year emphasised the need for banks to adopt a more conservative approach towards provisioning, an approach applied consistently by BOV over these past few years. In line with the recommendations made by the Regulators, during the year the Bank revised its approach. Those exposures deemed to have specific risks are now individually assessed rather than being treated on a collective basis. In fact, the impairment charge for FY 2015 of €32.7 is mostly specific in nature. During the year, the cautious view in the valuation of collateral held was retained.

e. Fair Value Movement & Share of Profit from Equity-Accounted Investees

The price gains of the €14.8 million included in this year's profit reflect the positive performance of local holdings and include the profit realised from the sale of Government bonds arising from BOV's participation in the quantitative easing programme set forth by the European Central Bank. Another gain of €4.0 million, net of tax, was recognised in Equity. The satisfactory performance on the sale of insurance products by our equity-accounted investee companies, Mapfre Middlesea and MSV Life, resulted in a share of profit for FY 2015 of €11.8 million, compared to the €7.2 million recognised last year.

f. Review of Financial Position

Total assets as at 30 September 2015 stood at €9.9 billion (September 2014: €8.3 billion), while equity attributable to the shareholders of the Bank increased by a further 9% to reach €670.2 million. BOV's common equity Tier 1 ratio stands at 11.3% while the Group's liquidity position remains strong with an advances to deposit ratio of 50%.

REVIEW OF BUSINESS OPERATIONS

The Group's business consists of business lines which are customer oriented and those arising from the Group's proprietary business and comprise Credit, deposit taking and other retail and Financial Markets, Investments and Non-Retail. The key elements of these segments are discussed below.

Customer Deposits

For yet another year, Bank of Valletta is reporting an unprecedented increase in its deposit base. During FY 2015, the Bank attracted an increase of €1.4 billion, or 20% over September 2014, in customer deposits. The figure of deposits as at 30 September 2015 stood at an all-time high of €8.6 billion.

This increase is indicative that customer confidence remained high among depositors, both among the retail and the institutional sectors. It also reflects the importance the Bank gives to customer deposits as the nucleus of the funding base for its operations. Incoming funds not applied to lending were channelled into good quality short dated investments and liquid assets, in line with the Bank's conservative Treasury Management Policy.

The management of liquidity will be one of the main challenges for the Bank in the coming years.

Loans and Advances

The provision of credit remained a key pillar of the Bank's core operations, both in terms of business and consumer finance. Bank of Valletta played an active role throughout the year, sustaining the economic development and maintaining the supply of credit to the business community, both for major infrastructural and large projects as well as to support small and medium enterprises to extend their horizons.

The year under review was characterised by a healthy growth in home loans underpinned by highly competitive margins. Loans and advances at the end of FY 2015 stood at €4.29 billion, an increase of €168.4 million or 4.09% over 30 September 2014. Home loans were the key contributors to this year's growth driven by a highly effective and competitive

offering and an increase in demand experienced as a result of the fiscal measures adopted by the Government for first time buyers.

During FY 2015, more than €600 million were drawn down in business-related facilities across a number of economic sectors. The Bank took a leading role in ensuring that sustainable investment opportunities were embarked upon through appropriate financing tailored to specific business requirements. Facilities granted followed a rigorous risk assessment procedure at both micro and macro levels to ensure an acceptable risk return trade off, in line with regulatory and prudential requirements. The marginal decrease experienced in this segment was mainly attributable to marked repayments related to large facilities registered on our books, which netted off the amount of funds disbursed during the year.

The Bank's focus on SME finance remained unabated. It immediately filled the gap left in the market by the BOV JEREMIE Financing programme which was fully taken up in FY 2014. The BOV 4 SME was launched in October 2014 by leveraging on the European Central Bank's Targeted Longer-Term Refinancing Operations (TLTRO).

The quality of the loan book has slightly improved with non-Performing Loans representing 9.2% of the total loan book. This is marginally lower than the 9.5% mark outstanding at previous year end. The improvement in this metric coupled with a higher provision coverage reflects the conservative approach to risk management adopted by the Bank, as well as its strategy for more stringent credit management practices and strengthening of the debt collection function.

Payments and Cards

Cards business continued to perform well during FY 2015 with increasingly more customers using cards to pay for goods and services. As the card base continued to grow and turnover levels reached new highs, the Bank continued to invest in this business, refining its customer value proposition so as to continue to support and offer added value to its customers.

Security of internet payments was high on the agenda as the Bank rolled out the 3D Secure functionality on its debit cards. 3D Secure was implemented so as to offer a seamless customer experience whilst providing peace of mind to the cardholder through the authentication of internet transactions.

The BOV Loyalty Rewards Programme continued to gain in popularity as more outlets joined, providing the Bank's premium card holders with a range of attractive options where they can redeem their BOV points.

Electronic channels retained their popularity and continued to increase their importance in terms of the overall share of transactions handled. These channels, in particular, the internet and mobile, are today the preferred service point for our customers.

BOV Mobile continued to attract more customers with the number of logins during FY 2015 exceeding the 2 million threshold.

The Bank's Electronic Payments business also registered satisfactory results. The growth being registered in the volumes of payments processed is testament to the increased awareness of the efficiency and security offered by electronic payments over more traditional methods. The results achieved continue

to consolidate the Bank's market position as the ideal payments partner for our customers.

Bancassurance

During FY 2015, the Bank's Bancassurance arm recorded unprecedented business levels, registering a 45% increase in commission income when compared to the previous financial year.

This positive momentum is attributable to a well-designed strategy, ongoing employee training, customer-oriented products as well as a competitive bonus rate declared by our equity-accounted investee company, MSV Life.

Foreign Exchange

In spite of the competitive pressures, during the period under review, profits from foreign exchange dealing amounted to €22.4 million, primarily attributable to a year-on-year increase in volume of 28%.

Thus the Bank maintained its position as a market leader in the provision of foreign exchange services, both to its retail as well as its corporate and institutional customers.

Wealth Management

The Bank's Wealth Management arm enjoyed another successful year in terms of financial performance, client base and growth in assets under management. During the period under review, a state-of-the-art IT infrastructure was launched, enabling the Bank's Wealth Management customers to view and analyse their investments portfolio from BOV 24x7 Services, providing them real-time access to information with which to make their investment decisions. Meanwhile, preparations are underway in respect of the raft of regulation impacting the wealth and investment management industries. These developments should reaffirm the Bank's leading position as a provider of wealth and investment management in Malta.

Stockbroking

Bank of Valletta's stockbroking business registered another positive year, whilst retaining its position as a leading broker on the Malta Stock Exchange. Commissions generated by the Bank from local secondary market transactions during the reporting period increased by 58.5% over figures reported during the previous year. The Bank also registered an increase of 10% in international trading.

During the period under review, Bank of Valletta reached an agreement with a reputable financial institution for the provision of its online trading platform, and is in the final stages of discussions with the Regulator in order to launch this service. The platform will add yet another channel to the Bank's client base from which to service their stockbroking needs.

Funds Business

FY 2015 was a challenging year for Valletta Fund Management Ltd (VFM), driven by heightened investors' expectations, increased competition and regulatory compliance pressures. As at September 2015, funds managed by VFM increased by 10% to €792 million, servicing a client base of 32,844 shareholders. VFM has strengthened its investment and risk management process, making risk a pivotal function of the investment analysis and decision-making. VFM will continue spearheading quality educational initiatives, aimed at improving financial literacy, public understanding and confidence.

Concurrently, Valletta Fund Services Ltd (VFS) has continued with its positive trajectory with assets under administration reaching €3.3 billion by the end of the period under review covering the servicing of alternative investment funds, UCITS and private equity funds. VFS is currently providing its services to asset managers based in 12 different jurisdictions, managing a diverse range of asset classes and investment strategies. Valletta Fund Services Ltd continues to show strong growth potential for the BOV Group and we are committed to continue to invest in our fund services and related businesses, to attract more foreign business to Malta.

INVESTING IN TOMORROW

Change Management

During the year under review, Bank of Valletta set up its Change Management Function to ensure that all change initiatives introduced across the organisation are aligned to its corporate vision and mission, whilst ensuring that they complement its strategic objectives.

This Change Management Function will manage the Bank's overall change portfolio, including regulatory projects, whilst assuming responsibility for changes to technology, systems and business processes, including related changes in organisational structure and job roles. The Function will assess, identify and mitigate risks of ongoing projects, change initiatives and new products and services.

One of the main initiatives spearheaded by the Change Management Function is the Core Banking Transformation programme. This is a strategic initiative that seeks to create the optimal conditions for a smooth transition with the introduction of a standard and structured methodology that will make change a source of sustainable competitive advantage for the organisation.

The Initiatives Portfolio Committee will be an important element of the Core Banking Transformation project. This committee is being set up to ensure an optimal balance is maintained between the Bank's operations and its strategy, by categorizing the projects in terms of their criticality and impact. In this manner, the Committee will be in a better position to determine the allocation of scarce resources to initiatives undertaken, thereby ensuring the best return possible for the Bank's investment. The Initiatives Portfolio Committee is linked to investment

planning and includes initiatives prioritisation, benefits and cost management, resource allocation, monitoring and control.

Driven by Change Management and enabled by IT, the core banking system replacement will be the catalyst for change within the Bank. Whilst addressing the regulatory requirements, the core banking system replacement will lead to other benefits such as reduction in operational and technical costs, improvement in internal operations and maximization of efficiencies.

With the customer-centric strategy, the core banking system will ultimately deliver an enhanced omni-channel customer experience through the implementation of innovative solutions.

IT as an Enabler for Customer-Centric Innovation

Bank of Valletta continues to leverage the already extensive use of Information and Communication Technologies. During the past twelve months, a number of modernisation programmes were successfully completed, including an upgrade of the present core banking system. The investment solution already deployed at Wealth Management was also implemented across our retail outlets and virtually on the Bank's Internet Banking platform.

The Bank retained its focus to provide customers with innovative banking and payments solutions, both physical and digital, so as to facilitate seamless interactions that can adapt to clients' preferences. The BOV 3D Secure service has been extended across all BOV cards to provide a more secure environment for Internet-based payments to all the Bank's cardholders.

Mobile technology, data analytics, social media and cloud computing are central to the Bank's strategy. Mobile devices are enabling the biggest transformation in working practices seen in over a decade. The number of customers embracing BOV Mobile Banking continues to increase at a steady pace, with the Bank continuing to upgrade its offerings in this space to support the growing volume of transactions effected on the mobile.

One of the major components of the digital transformation is a secure, dedicated and fast performing infrastructure across the Maltese islands. Over the coming months the Bank will upgrade its nationwide network to a gigabit fibre network to meet the high expectations of its customers. This will enable fast information access across all the Bank's locations.

CUSTOMER EXPERIENCE AND INNOVATION

Over the course of the financial year under review, the Bank continued to invest in and introduce new initiatives in a number of areas within the organisation in order to strengthen the overall customer experience. These initiatives are consonant with the Bank's strategy to ensure that it remains constantly relevant to the changing needs of

its customers as they progress through the different stages of their lifecycle.

The main initiatives undertaken per area are the following:

a. Human Resource Development

Bank of Valletta considers its employees as the most important asset that provides the Bank with a competitive advantage in the market. The Bank's Human Resource function is focused to attract and retain talented employees, providing them with motivation and stimulus, whilst making them feel that they are an integral part of the company's mission.

Our people distinguish us as a caring, friendly and flexible Bank that is focused on supporting our customers and engaging on long term relationships that are mutually beneficial. In this context, HR plays a role of an important business partner, which has a significant impact on the business performance.

During the period under review, the Bank continued to work towards ensuring appropriate resourcing both in the retail sector as well as in various specialised bank functions and roles, in particular as required due to regulatory requirements.

Our aim remains that of being an employer of choice, providing equal opportunities, continuous professional development to our people, career growth and rewards based on performance. Our commitment to retain high levels of employees motivation and engagement is on-going and continues to develop career development strategies and opportunities.

The Bank has once again been recertified by the National Commission for the Promotion of Equality (NCPE) as an equal opportunities employer through the Equality Mark certification. This highlights our resolve to provide equal access to career opportunities and development irrespective of gender, status or caring responsibilities for our employees. The employment of people with different abilities was also given its due importance.

After a long process, the Bank is now in the final stages of concluding a new collective agreement with its union.

In view of the value that the Bank attributes to its relationship banking service model, human resources development has remained a perennial strategic investment. This has been achieved through the various training programmes that have been organised for the Bank's employees aiming to strengthen and further refine their existing skills and capabilities. A robust training programme, which sees the participation of both internal tutors and external consultants, has been put in place. Over two hundred employees attended intensive, tier-based programmes at Bank of Valletta's Training Academy.

b. Personal Customers

Insofar as the Bank's personal client business is concerned, the setting up of a dedicated Consumer Finance Division instilled a greater focus on the finance requirements of our customers through the provision of home and personal loans. The focus on the needs of this segment has enabled the Bank to establish itself as a key service provider in this field as evidenced by the market share statistics for this sector. Suffice to mention that over the course of this financial year, the Bank has managed to grow its loan book by €382 million gross worth of home loans.

The Bank's investment services proposition revolves around its capabilities to service the needs of its customers through the provision of managed investment funds, bancassurance products and brokerage services delivered through the various physical touch-points which consist of the Bank's branch network, Investment Centres and Wealth Management Centre. It is clear that the presence of the Bank's Investment Centres in Malta and Gozo have continued to gain customer loyalty. In fact, customer surveys clearly show that the specialist and dedicated service provided through these Centres, together with the professional office environment were features which were highly appreciated by the Bank's customers. Equally so, the Bank's Wealth Management Division has continued to enjoy the trust of its clients as evidenced by the strong results achieved by the Centre both in terms of new customer relationships, as well as assets under management which have now reached €1.3 billion.

c. Business Customers

The Bank's business clients equally remain pivotal and important in the Bank's overall business strategy. The setting up of a dedicated SME Finance Division which services the needs of the Bank's clients through dedicated Business Centres is in itself a reflection of the importance that the Bank attributes to its SME clients, start-ups and micro SMEs. Together with the presence of the Bank's Corporate Centre and Trade Finance Centre, the Bank has continued to extend its professional financing services to address the varied needs of this customer segment.

An important endorsement in this regard, was the achievement of the "Best Trade Finance Bank in Malta" Award for 2015 by the renowned Global Finance Magazine. The Bank was in fact selected as one of the best trade finance providers and evaluated in a number of areas involving trade finance services which included transaction volumes, scope of global coverage, customer service, competitive pricing and innovative technologies.

Over the course of this year, the Bank's educational initiatives were also directed to this important customer segment. In fact, following discussions with the Chamber of Commerce, Enterprise and Industry as well as the Gozo Business Chamber, the Bank organised two information seminars on Trade Finance Business. These seminars were very well attended and equally well received by the delegates present and turned out to be highly interactive sessions.

d. International Customers

The Bank's international personal customer segment has experienced strong growth over this period. This segment, which is serviced through the Bank's International Personal Banking Centre in Valletta, is provided with a wide array of banking services commensurate with their specific requirements.

On the international business front, the relocation of the Bank's International Corporate Centre to new offices in Valletta was consonant with the importance that the Bank attributes to international business and the positive contribution that this makes to the Maltese economy.

The Centre's new offices in Zachary Street Valletta, has in effect enabled the Bank to extend additional comfort to the Bank's international clients using this Centre's services. In addition, on this front, the Bank is currently investing in new IT capabilities aimed at inducing increased efficiency in the delivery of its banking services to this important segment of the market.

e. Investor Education

Within this context, customer education has remained central in the Bank's business strategy. In fact, over the course of this year, the Bank has undertaken numerous initiatives focused on strengthening the value of its business proposition with the objective of consolidating its position as the "Bank of Choice" for its customers.

Amongst others, the Bank organised various investment seminars aimed at providing financial planning information to customers together with numerous educational programmes on audio visual media, as well as educational initiatives organised through its branch network.

THE MALTESE BANK

With a history spanning more than four decades, it is almost a cliché to say that Bank of Valletta is the Maltese Bank. BOV is and will continue to be a responsible partner in the Maltese economy, aiming to maintain an open line of communication with all its stakeholders.

Through the BOV Community Programme, the Bank ensures that it actively supports a broad spectrum of areas within the Maltese society.

Bank of Valletta renewed its support towards the National Literacy Strategy that is now taking shape with the 'Read with Me', an early literacy and parental programme that promotes shared reading for children up to three years of age. Over the past year the programme reached out to 13,000 children and 14,000 parents.

Promoting a healthy work-life balance whilst exposing the general public to the fascinating world of sports is what prompts Bank of Valletta to continue supporting the major sporting associations in Malta. Concurrently, the Bank seeks to assist various disciplines to raise the bar, and improve their performance year on year. BOV has also maintained its commitment towards the conservation of heritage sites across Malta. Currently it is supporting two main projects, namely the restoration of the vault of the Sanctuary in Mellieħa and the restoration of the masterpieces in the old Parish Church at Għajnsielem.

The Bank's philanthropic arm is entrusted to the Marigold Foundation – BOV in the Community, while the BOV Joseph Calleja Foundation is a joint venture between the Maltese Tenor Joseph Calleja and Bank of Valletta, that provides assistance to exceptionally talented young persons to continue to develop in the field of performing arts and to children coming from difficult social backgrounds whose situations are not catered for by existing social support programmes.

There is no one route for Corporate Social Responsibility (CSR), however at Bank of Valletta we believe that it is an integral way of doing business. That is why we have continued and will continue to play a key role in our community.

A section focusing on the Bank's CSR Programme is included as part of this annual report.

INVESTMENT IN FACILITIES AND ENVIRONMENTAL MANAGEMENT

During the period under review, the Bank continued to invest in its customer facing and support infrastructure. One of the major projects undertaken in this regard is the construction of new premises in Gzira, which will enable the Bank to integrate various customer facing activities within one modern environment.

Another important project the Bank embarked upon during this period was the acquisition of the ex-Swan Laundry premises for the construction of the new Premium Banking

Centre to house the Bank's Wealth Management and Corporate Finance arms.

Bank of Valletta continued to invest in initiatives targeted at reducing the Bank's carbon footprint and minimising the impact of its operations on the environment. The Bank's PV panels installed in twenty one different locations, have generated more than 165,700 units of electricity resulting in a reduction of circa 144,650kg of CO_2 emissions.

The Bank has also embarked on a pilot project assessment in various branches to improve its performance in energy consumption. Meanwhile, efforts are also being made in relation to water conservation, waste separation, recycling and shredding.

RATING RESULTS

In December 2014, Bank of Valletta's long-term credit rating was reaffirmed by Fitch Ratings at BBB+, with a stable outlook.

This rating reflects the Bank's strength as a stand-alone institution, and does not take account of any potential external support. In its analysis, Fitch Ratings stated that this result reflects Bank of Valletta's position as the largest Bank in Malta, its robust customer funding base and liquidity, its good performance and sound capitalisation.

Later on during the financial year, as part of their review in relation to the issue of sovereign support for banks globally, Fitch announced a downward review of the Bank's Support Rating from "2" to "5".

The Support Rating evaluates the likelihood that a bank will receive extraordinary support in case of need. Such support typically comes from the national authorities of the country where the bank is domiciled.

Fitch's action does not reflect any concern about the ability or willingness of Governments to support financial institutions, but rather reflects the Agency's opinion that recent regulatory initiatives have reduced the likelihood of sovereign support for commercial banks worldwide. Within the European Union (EU), the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) provide a framework for resolving banks that are likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

This action did not in any way affect BOV's long-term credit rating of BBB+ with a stable outlook.

The BRRD and SRM form part of the EU project of the Banking Union, which will require banks to improve their loss-absorbing capability by increasing capital. In this context, BOV will continue to strengthen its capital buffers by embarking upon a programme of capital issuance in the medium term.

INTERNATIONAL AND LOCAL ACHIEVEMENTS

Bank of Valletta's performance throughout FY 2015 did not go unnoticed.

To remain at the forefront in the Trade Finance industry, an industry that is almost as old as banking itself, one must continuously strive to retain an intimate knowledge of both the markets and its customers' needs. For the third year running, Bank of Valletta succeeded in being named 'Best Trade Finance Bank in Malta' by the internationally renowned Global Finance.

This award is testimony to the Bank's achievements in this sector corroborating our commitment to be an enabler and a long-term partner to corporates and entrepreneurs who seek to grow their business, even in times of adversity. International trade has always been a fine balance of opportunity and risk particularly when trading across borders.

Meanwhile the Bank's Fund Services subsidiary, Valletta Fund Services Ltd, was awarded the ACQ Global Award as Malta's Fund Administration Specialist Firm of the Year for the second consecutive year. The ACQ Global Awards are the single largest programme of their kind in the market.

ACQ awards rise above the status of participation certificate and actually represent an endorsement of outstanding work. They recognise smaller market participants as well as larger firms adapting international models to unique geographies. The ACQ Global Awards set out to recognise the achievements of those who are responding most successfully to the demands being placed on them in the new post-recession business environment.

CONCLUSION

The Bank is a customer-centric organisation with a brand promise which endorses supportiveness and mutuality amongst its main principles. We are determined to remain the genuine and caring Bank that we are known to be and will continue to be true to our promise, delivering a straightforward and efficient service whilst continuously creating added value for our customers, stakeholders and the Maltese economy in a responsible and sustainable manner.

During the course of last year, the Bank had reported that it passed the rigorous test of the Asset Quality Review (AQR) conducted by the ECB and the EBA in 2014. Forming part of the Single Supervisory Mechanism means that the Bank is constantly being subjected to tough new regulation and very intensive supervision. The aim of all this is to ensure that banks are safe to deal with and economic stability is maintained.

We have turned this from a challenge into an opportunity. Indeed, the Bank has emerged stronger and has continued to establish itself as the Bank of first choice in the local market as evidenced by the constant growth in our customer base.

Conscious of the growing needs and expectations of our customers, we continue to focus our resources to strengthen our technology and support capabilities, invest in our employees to develop their professional skills and deliver a superior product offering.

With this objective in mind and in order to compliment the services provided through its various physical channels, the Bank has also continued with its strategy aimed at providing an omni-channel experience to its clients. In this regard, over the course of this year, the Bank has embarked on a multi-million Euro investment project which will see it transform its core banking system. As this system is implemented, our clients will be experiencing a highly improved banking service offering which is aimed at becoming much more tailored to their requirements and available through both the physical and other e-channel platforms.

The positive performance that we are reporting this year would not have been possible without the dedication and commitment of the whole BOV Team. First of all, I would like to thank my colleagues of the Management Board and the rest of the Executive Team for their unwavering commitment and dedication to steer our organisation forward and to achieve the ambitious objectives that were set out at the beginning of the financial year.

I would also like to thank all the Bank's employees for their loyalty, untiring efforts and constant dedication towards the organisation and its customers. We consider the effort of our staff as instrumental in the achievement of our goals.

My gratitude is also due to the Chairman and Board of Directors for their constant support and for their continuous provision of proper strategic direction.

Last but not least, I would also like to thank our customers who continue to believe and to place their trust and confidence in Bank of Valletta. I would like to reassure them that we shall continue to focus on the provision of an added value service whilst nurturing long term relationships built on mutuality and supportiveness.

Charles Borg
Chief Executive Officer
30 October 2015

Corporate Social Responsibility (CSR)

When Bank of Valletta committed itself to Corporate Social Responsibility (CSR) in 2006, the term was still relatively new, and there was a plethora of definitions around. Over the years, CSR became a more familiar term, though interpretations still proliferate.

The European Commission simplified its definition of CSR from "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" to "the responsibility of enterprises for their impact on society". The new definition reflects a drastic change in approach, and reflects the fact that CSR should reside across the organisation at both strategic and operational levels and is definitely not a peripheral concern to its core business.

The link between society and the performance of a corporate may not be obvious, but it is indissoluble.

Bank of Valletta firmly believes that there is no inherent facility between being profitable and being a responsible corporate citizen. 'No man is an island' is equally true for a company manned by human beings serving their equals in a marketplace made up of even more human beings. The impact of an organisation's operations on society is generally proportional to its footprint. For a company like ours being one of the largest employers on the islands, serving circa 300,000 customers and having a retail network spanning 37 branches and business centres, that footprint is considerable.

Bank of Valletta's Community Relations Programme is the executive arm of our CSR principles. It provides a framework through which the Bank re-invests into the community. Here is an outline of the highlights of our actions throughout the past financial year as we engaged with our major stakeholder.

The very first 'Malta Jousting Festival and Renaissance Fair' was organised at Fort Rinella through the collaboration between Bank of Valletta and Fondazzjoni Wirt Artna (FWA).

The Maltese Tenor, Joseph Calleja paid a visit to Senglea Primary School as part of the BOV Joseph Calleja Foundation's Growing through the Arts Programme launched this year.

Hands on in our community

BOV is inextricably linked to the Maltese community from which it generates its business, and from which it draws its workforce. By embarking on CSR, BOV makes a clear statement of wanting to take this commitment further.

During the financial year under review, the Bank gave its patronage to the world of Arts and Culture. The BOV Performing Arts Festival retained its annual appointment at the Teatru Manoel with the grand opera L'Elisir d'Amore, along with top performances at the two main theatres in Gozo. We also extended our support to the Maltese Tenor during his Summer concert. BOV gave its backing to the Malta Philharmonic Orchestra, and its sister ensemble - the Malta Youth Orchestra. Events that introduce young children to classical music, such as the Toi Toi programme were also supported. This year's BOV Retrospective Art Exhibition gave homage to the prolific artist Debbie Caruana Dingli.

This year saw the BOV Joseph Calleja Foundation extending its support to more scholars. In addition, the Foundation launched a second arm Growing through Arts which seeks to tap the therapeutic power of music to help children come to terms with challenging circumstances in their lives.

With our rich historical legacy, conservation is a shared responsibility. BOV supports a number of initiatives and partners NGOs on large-scale projects aimed at preserving our heritage. The Bank continued supporting the restoration at the Mellieha Sanctuary that is now moving to its second phase, as well as the conservation of art works at the Għajnsielem Chapel that houses no less than six Cali paintings. The Bank also supports the Fondazzjoni Wirt Artna that is now responsible for the restoration of 37 heritage sites.

One of the free sessions of the 'Read with Me' programme targeting children aged zero to three and their carers. Over 13,000 children reached in one year.

The education sector remains a big prerogative for the Bank that renewed its support of the National Literacy programme Read with Me. Aimed at children aged zero to three years, this programme seeks to instill a love for the book in very young children by involving their carers, through free sessions.

BOV promoted a healthy lifestyle by supporting various sporting associations and encourages the Maltese public to participate in sporting initiatives. The Bank renewed its support for football, basketball and waterpolo leagues, among others.

Several NGOs benefit from the Bank's philanthropic initiatives, primarily through the Marigold Foundation – BOV in the Community, with the major initiative being the BOV Volleyball Marathon for Id-Dar tal-Providenza which this year celebrated its 50th anniversary. The L-Istrina BOV Piggy Bank campaign was conducted successfully with BOV giving its full backing to the Malta Community Chest Fund and helping to instill the value of solidary in school children. Meanwhile the Bank also supported several other initiatives organised to raise funds by the Malta Community Chest Fund, including Rockestra, Paqpaqli għall-Istrina and the President's FunRun.

The Bank is committed to support the operations of business associations and bodies. Through strategic alliances, it networks with members of the main business organisations, such as the Malta Chamber of Commerce, Enterprise and Industry and the Malta Hotels and Restaurants Association.

The Marigold Foundation - BOV in the Community is entrusted with the philanthropic arm of the Bank's Community Programme.

Customer-driven

At Bank of Valletta, we recognize that our success depends on our ability to understand and anticipate our customers' needs.

Excellent customer service starts by first taking the time to get to know the customer, understand his concerns and believe in his goals. Only then, will we be in a position to provide solutions that are attractive and add value to the customer, as per our Brand Promise.

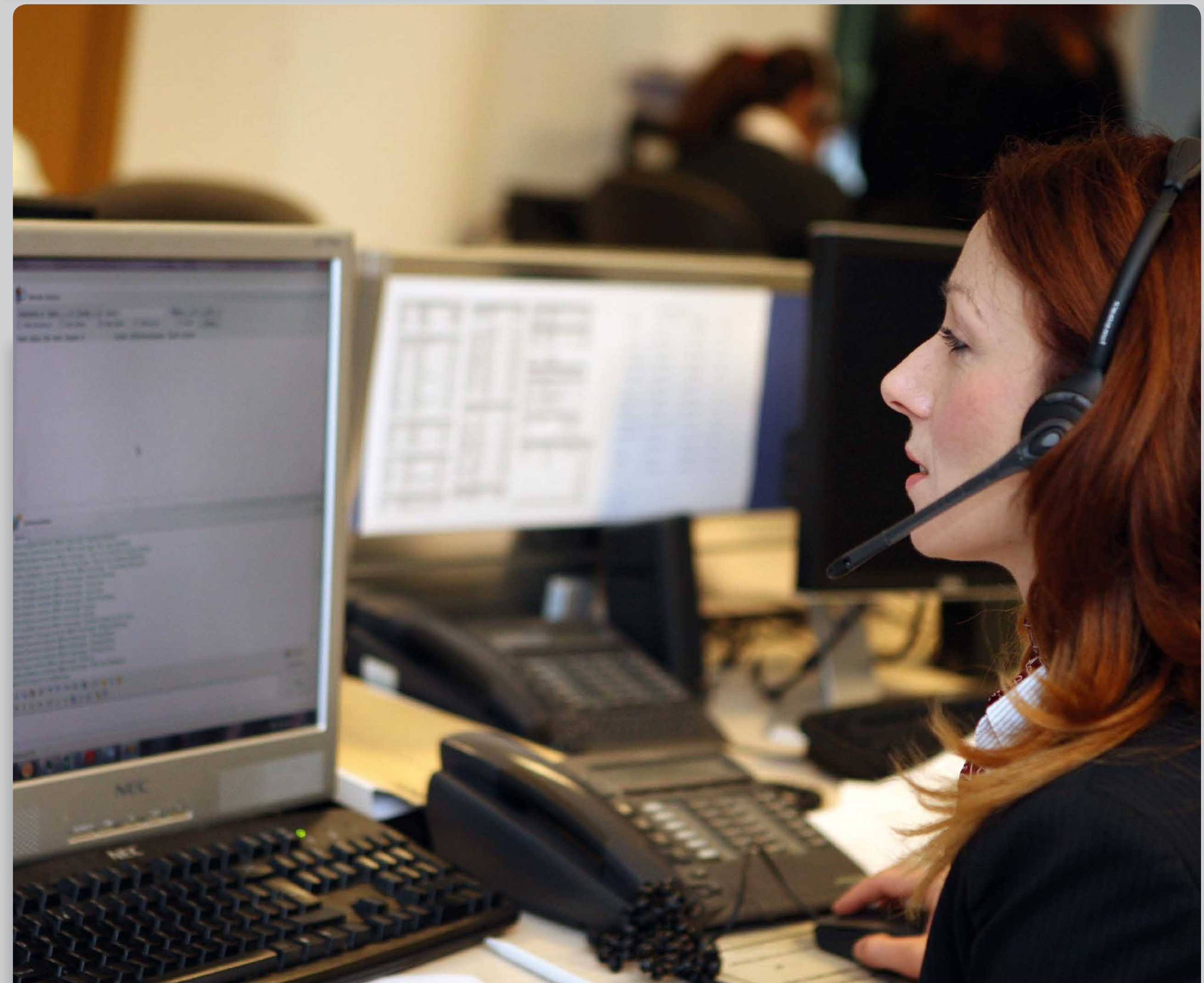
With this objective in mind, the Bank has this year embarked on an ambitious multiyear programme – the Core Banking Transformation, that will give it a fully-fledged digital core which will increase the competitiveness of the Bank in the digital economy, enabling it to reap opportunities by fully supporting digital business and provide clients with a seamless experience across channels.

During the year, the Bank's Customer Service Centre handled an average of 55,000 calls a month. For the Bank, every call is an opportunity to strengthen relationships with our customers by listening to them and seeking solutions to ensure the highest level of satisfaction.

Over the past five years, BOV positioned itself as the Maltese Bank for small and medium enterprises (SMEs). This was reinforced this year with the setting up of a dedicated SME Finance Division that services the needs of this sector through dedicated Business Centres. Following the BOV JEREMIE Financing Package, the Bank consolidated its position in this segment with the BOV Start Plus financial instrument which offers start-ups a small loan to kick-start their business idea with no obligation to provide collateral. The other tailor-made product for SMEs is the BOV4SME which has already assisted over 200 SMEs and microenterprises to grow.

Customer education retains a pivotal role in the Bank's value proposition to its clients. In addition to the BOV Investor Education Programme which is a series of public talks that serves as an induction into the world of finance, BOV undertakes various initiatives to organise seminars about financial planning both through its branch network and audio-visual media.

The Bank's educational initiatives were also directed to its business clients. We partnered with PwC to organise the third edition of the Family Business Forum and organised various seminars and conferences with third parties to educate and raise awareness about financial solutions.



BOV Customer Service Centre handles an average of 55,000 calls every month.

One of the dress down activities organised this year. By giving a small donation on the day, employees raise funds for a worthy cause.

Engaging with our people

Our people constitute our most valuable asset. Employees that are committed to the Bank's values and vision are critical to our success, and are an important element of the service offered to our customers.

As one of the largest employers in Malta, Bank of Valletta is committed to be the employer of choice for its people. This commitment is implemented through a spectrum of HR policies and training opportunities.

BOV's commitment towards gender equality is witnessed by the high number of female staff members in the Bank's employ. In addition, the Bank received the Equality Mark Certification last year. This certificate recognizes the Bank as a gender-equal organisation, where people are promoted on the basis of their value and potential, irrespective of gender and caring responsibilities.

The Bank has been managing a staff suggestion scheme since 1997. This scheme was completely overhauled and re-named the BOV Employee Engagement scheme (B.E.E) two years ago. It is a matter of pride for Bank of Valletta that during the past year, 888 suggestions were put forward by its people regarding different ways in which it could improve its processes and be more innovative. 25% of these suggestions were implemented.

The Bank's Training Academy ensures that all employees have access to tailor-made courses that enable them to develop both in their personal growth and in their career. Courses focusing on different areas of the financial horizon are delivered throughout the year, at various levels of specialization. Last year over 3,000 employees attended a wide spectrum of courses, meaning that on average every employee attended two courses.

Bank of Valletta appreciates the loyalty of its people. Last year, it celebrated with a group of 200 employees who together contributed over 5,000 years of loyal service to the Bank.

Blood donation drives have become a regular appointment in the Bank's events calendar.

Green Banking

The green agenda is becoming increasingly more important across the board. For us, being the Green Bank is an ongoing commitment to incorporate environmental responsibility in our operations, be they direct or indirect.

At Bank of Valletta, the green stakeholder is considered on a par with all other stakeholders. Being environmental-conscious is an on-going journey that requires commitment and a cultural change.

During 2015, the Bank continued implementing policies that incorporate the precepts of upholding and safeguarding the environment through the use of systems that are cost-effective and environmental-friendly, like the introduction of energy saving devices. This year, BOV launched a full-fledged waste management project across the organisation. Branches and non-branch units alike will be splitting organic waste from recyclable material, so that the latter is disposed of in an environmental-friendly manner.

This year BOV recycled circa twenty tonnes of equipment. In addition, it started collaborating with an organisation in relation to toner separation. As part of its energy saving measures, the Bank replaced the light fittings at 35 off-site ATMs to more energy-friendly alternatives. The fleet of PV Panels on the Bank's premises continued to grow, generating 170,000 kwh of energy, which signifies an increase of 16%. Likewise the Bank managed to improve its emissions by 16%. This year, BOV recycled the old fleet of 4,650 piggy banks which yielded 418 kilograms of shredded plastic.

In addition to the above long-term green measures, the Bank participated in a number of initiatives and projects in a bid to raise awareness about the importance of the green stakeholder. The major project undertaken was the Killifish Conservation Project. The killifish (bużaqq) is a small fish endemic to the Mediterranean. Genetic tests have shown that every population is different, making the local Maltese population unique.

Looking ahead, the Bank is undertaking a noise pollution metering exercise, on the basis of which measures will be undertaken. We are also currently undertaking an extensive energy audit across the organisation in line with Legal Notice 196.

BOV employees and their family members planting 600 trees at Forti Rinella.

Bank of Valletta commemorated Earth Hour, an event that helps raise awareness and collective consciousness about the immediacy of environmental issues.

Keen participation by BOV employees during the European Week for Waste Reduction.

Sea salt harvesting was one of the many activities organised for BOV employees and their families. These events serve a dual purpose – socialising and raising awareness about the environment.

Conclusion

There is no easy plug-in formula to implement CSR principles in an organisation. For us, at Bank of Valletta, CSR is gradually becoming a way of doing business. It is embedded into our mission statement, stressing our commitment towards sustainable development whilst tangibly proving ourselves to be responsible and caring citizens.

Directors' report as at 30 September 2015

The Directors present their 42nd Annual Report, together with the audited financial statements of the Bank of Valletta Group (the Group) and the Bank for the year ended 30 September 2015.

Principal Activities

The Bank of Valletta Group comprises Bank of Valletta p.l.c. (the Bank), Valletta Fund Management Limited and Valletta Fund Services Limited. The Group also has two equity-accounted investee companies, Mapfre Middlesea p.l.c. and MSV Life p.l.c. The Group's principal activities are set out below.

The Parent Company

Bank of Valletta p.l.c. is licensed to carry out the business of banking and investment services in terms of the Banking Act,1994 (Chapter 371, Laws of Malta) and the Investment Services Act,1994 (Chapter 370, Laws of Malta). The Bank is an enrolled tied insurance intermediary of MSV Life p.l.c. under the Insurance Intermediaries Act, 2006 (Chapter 487, Laws of Malta).

The Bank offers the entire range of retail banking services as well as the sale of financial products such as units in collective investment schemes. The Bank also offers investment banking services, including underwriting and management of Initial Public Offerings (IPOs) as well as custodianship and trustee services.

The Subsidiaries

Valletta Fund Management Limited (VFM) is 60% held by the Bank with the remaining 40% held by Insight Investment Management Limited, one of UK's largest asset managers. VFM provides management services for SICAV companies. Valletta Fund Services Limited (VFS), a fully owned subsidiary of the Bank, provides fund administration services.

The Associates

MSV Life p.l.c. operates as a life assurance company licensed under the Insurance Business Act,1998 (Chapter 403, Laws of Malta). Mapfre Middlesea p.l.c. is engaged in the business of insurance, including group life assurance.

Operational Overview

A review of the business of the Group for the year ended 30 September 2015 and an indication of future developments are provided in the Chairman's Statement and the Chief Executive Officer's Review, which can be found in the front section of this Annual Report.

Dividends

A gross interim dividend of €0.039 per share was paid on 27 May 2015. The Directors propose a final gross dividend of €0.085 per share, resulting in a total gross dividend for the year of €0.124 per share. The aggregate net dividend for the year is €0.0806 per share, amounting to €29.02 million (2014: €0.0804 net per share as adjusted for bonus issue resulting in a net payout of €28.90 million). The total dividend is analysed as follows:

	The Bank	
	2015	**2014**
	€	**€**
Gross	44,640,000	44,550,000
Tax at source	(15,624,000)	(15,592,500)
Net	29,016,000	28,957,500

Directors' report as at 30 September 2015 (continued)

Board of Directors

The following Directors served on the Board during the period from 1 October 2014:

John Cassar White
Alicia Agius Gatt *(appointed 17 December 2014)*
Joseph Borg
Roberto Cassata
James Grech (*appointed 17 December 2014*)
Mario Grima
George Portanier (*appointed 17 December 2014*)
Taddeo Scerri
Paul Testaferrata Moroni Viani (*resigned 17 December 2014*)
George Wells (*resigned 17 December 2014*)
Franco Xuereb (*resigned 17 December 2014*)
Joseph M Zrinzo

Directors' Responsibilities

The Directors are required by the Companies Act, 1994 (Chapter 386, Laws of Malta) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU which give a true and fair view of the state of affairs of the Group and the Bank as at the end of the financial year and of the profit or loss of the Group and the Bank for the year then ended. In preparing the financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Bank will continue in business as a going concern.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Group and the Bank, and which enable the Directors to ensure that the financial statements comply with the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Companies Act, 1995 (Chapter 386, Laws of Malta). This responsibility includes designing, implementing and maintaining such internal controls as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. The Directors are also responsible for safeguarding the assets of the Group and the Bank, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

After reviewing the Group's plans for the coming financial years, the Directors are satisfied that at the time of approving these financial statements, it is appropriate to continue adopting the going concern basis in preparing these financial statements.

Auditors

A resolution to re-appoint KPMG Malta jointly with KPMG United Kingdom as auditors of the Bank will be proposed at the forthcoming AGM. KPMG Malta and KPMG United Kingdom have expressed their willingness to remain in office.

Information pursuant to Listing Rule 5.64

The Bank has an authorised share capital of €500,000,000 divided into 500,000,000 ordinary shares with a nominal value of €1.00 each.

The issued shares of the Bank consist of one class of ordinary shares with equal voting rights attached.

Following the approval of the shareholders of the Bank during the 41st AGM held on 17 December 2014, on the 16 January 2015, the amount of €30,000,000 from the Bank's reserves were capitalised for the purpose of a bonus issue of 30,000,000 ordinary shares of a nominal value of €1.00 each fully paid up. Following this allotment, the issued share capital of the Bank increased from €330,000,000 to €360,000,000 divided into 360,000,000 ordinary shares with a nominal value of €1.00 each fully paid up.

At the forthcoming AGM, the Board of Directors is proposing a bonus issue on the 15 January 2016 of 1 share for every 12 shares held. This will result in the issue of an additional 30,000,000 shares and the increase in the issued share capital of the Bank from €360,000,000 to €390,000,000.

Clause 4 of the Bank's Memorandum of Association provides that, with the exception of existing large shareholders, presently the Government of Malta (25.23%) and UniCredit S.p.A. (14.55%), no person may at any time, whether directly or indirectly and in any manner whatsoever acquire such number of shares in the Bank as would in aggregate be in excess of 3% of the issued share capital of the Bank. As at 30 September 2015, Malta Government Investments Limited, a fully Government owned entity, had a shareholding in the Bank of 0.48%.

Directors' report as at 30 September 2015 (continued)

Any shareholder holding in excess of 50% of the issued share capital of the Bank or if no such shareholder exists, the shareholder holding the highest number of shares not being less than 25% of the issued share capital, may appoint the Chairman. As also explained in more detail below, shareholders with 10% or more of the shares in issue are entitled to appoint one Director for every 10% holding.

The Directors confirm that as at 30 September 2015, shareholding in excess of 5% of the issued share capital of the Bank was held by:

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

There were no changes in shareholders holding 5% or more of the issued share capital up to 30 October 2015.

Pursuant to the Bank's Articles of Association, the appointment of Directors to the Board is reserved exclusively to the Bank's shareholders. Shareholders with 10% or more of the shares in issue are entitled to appoint one Director for every 10% holding, whilst the other shareholders are entitled to appoint the remaining Board members at the AGM (by means of an election, if applicable) in accordance with the provisions of the Articles of Association. Shareholders with 10% or more of the shares in issue are not entitled to vote or to aggregate any unutilised excess of votes over 10% to vote at the election. The appointment of the Directors is subject to regulatory approval.

The nomination of a candidate by a shareholder is to be seconded by a shareholder or shareholders holding at least 5,000 shares.

The rules governing the appointment and replacement of the Bank's Directors are contained in Articles 60 to 64 of the Bank's Articles of Association.

An extraordinary resolution approved by the shareholders in general meeting is required to amend the Memorandum and Articles of Association.

The Board of Directors has the power to transact all business of whatever nature not expressly reserved by the Memorandum and Articles of Association of the Bank to be exercised by the Bank in general meeting or by any provision contained in any applicable laws.

The shareholders in general meeting authorised the Board to exercise during the Prescribed Period all the powers of the Bank to issue and allot shares up to an aggregate nominal amount equal to the Prescribed Amount. The Prescribed Period refers to a term of five years approved during the AGM held on the 19 December 2012 and which term expires on the 18 December 2017. This authority is renewable for further periods of five years each.

There are no agreements between the Bank and the Directors on the Bank's Board providing for compensation on termination or cessation of their office for any reason whatsoever.

The relative Collective Agreements regulate the compensation payable to employees in case of resignation, redundancy or termination of employment for other reasons.

It is hereby declared that as at 30 September 2015, information required under Listing Rules 5.64.5, 5.64.7 and 5.64.10 is not applicable to the Bank.

Information pursuant to Listing Rule 5.70.1

There were no material contracts to which the Bank, or any one of its subsidiaries was a party and in which anyone of the Bank's Directors was directly or indirectly interested.

Going concern – Listing Rule 5.62

The Directors, after due consideration of the Bank's profitability, liquidity, the statement of financial position, capital adequacy and solvency declare, pursuant to Listing Rule 5.62, that the Bank is in a position to continue operating as a going concern for the foreseeable future.

Shareholder Register Information pursuant to Banking Rule 7/2014

Directors' interests in the share capital of the Bank or in related companies as at 30 September 2015 are contained in the Corporate Governance Statement.

Directors' report as at 30 September 2015 (continued)

Number of shareholders analysed by range:

	30 October 2015	
Range of shareholding	**Total Shareholders**	**Shares**
1 – 500	1,157	325,953
501 – 1,000	2,093	1,509,976
1,001 – 5,000	8,421	23,068,066
5,001 and over	7,680	335,096,005
Total shareholding	**19,351**	**360,000,000**

Standard Licence Condition 7.35

Pursuant to Standard Licence Condition 7.35, it is hereby declared that during the reporting period, there were no breaches of Standard Licence Conditions or other regulatory requirements.

Statement by the Directors pursuant to Listing Rule 5.68

We, the undersigned, declare that to the best of our knowledge, the financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries included in the consolidation taken as a whole, and that this report includes a fair review of the performance of the business and the position of the Bank and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board of Directors and authorised for issue on 30 October 2015 and signed on its behalf by:

John Cassar White
Chairman

Joseph Borg
Director

Capital & Risk Management Report

30 September 2015

Contents

Capital & risk management report 30 September 2015 (continued)

Section 1: Risk Management

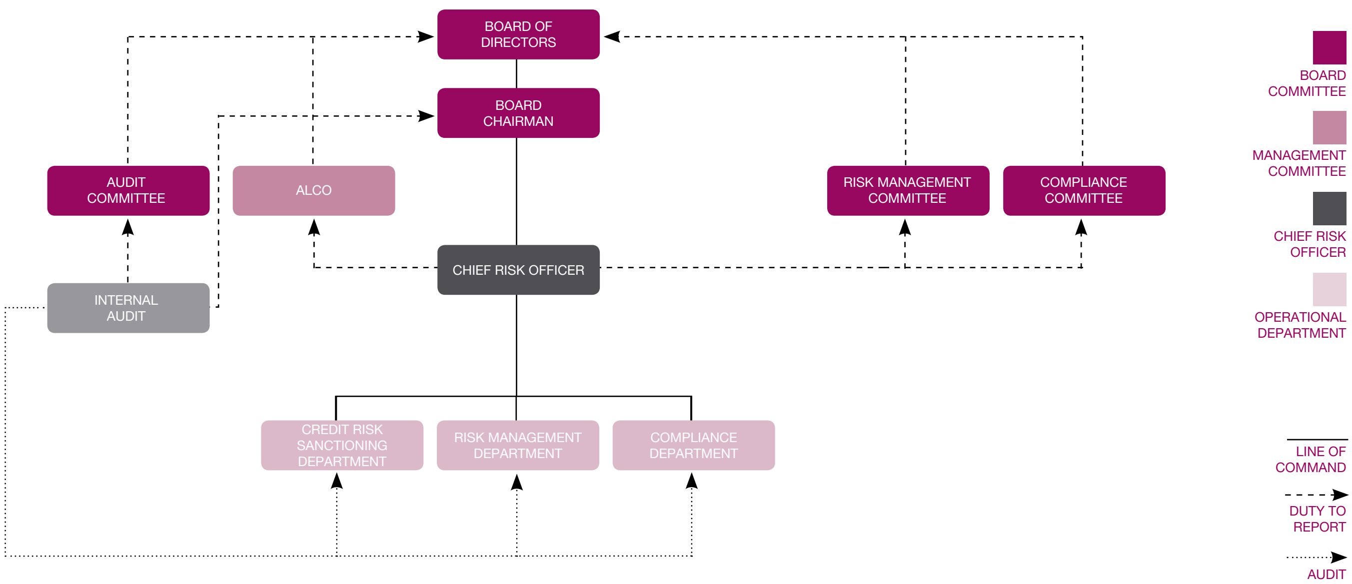
1.1 Overview of Risk Disclosures

This Capital and Risk Management Report has been prepared for the BOV Group in accordance with the Additional Regulatory Disclosures as governed by MFSA Banking Rule BR/07/2014 (Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994). This requires credit institutions to disclose information annually on risk and capital management under the Capital Requirements Regulation (CRR). The Bank publishes these disclosures on an annual basis as part of the Annual Report and Financial Statements in accordance with Article 433 of the CRR. As per banking regulations, this Capital and Risk Management Report is not subject to external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements which adhere to International Financial Reporting Standards (IFRS) as adopted by EU. Nonetheless, this Capital and Risk Management Report has been verified internally and was approved by the Bank's Audit Committee and the Board of Directors. The Bank is satisfied that internal verification procedures ensure that these Additional Regulatory Disclosures are presented fairly.

1.2 BOV Risk Management Function

All the Bank's activities involve, to varying degrees, taking on and managing a combination of risks. The Bank assumes some risks consciously with the aim of managing them to achieve a return. Other risks are not taken on deliberately, but are the inevitable consequence of being a financial services provider. The Bank adopts the three lines of defence model in risk management wherein the first line of defence is constituted by the functions that own and manage risks, namely the business units; the second line is constituted by the functions that oversee risks, namely Risk Management, Compliance and Credit Risk Sanctioning; and the third line is constituted by Internal Audit, which is the function that provides independent assurance to the Board. This means that 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). In addition to the Risk Management Department, the CRO is responsible for the Credit Risk Sanctioning Department and the Compliance Department. The Bank's Risk Governance is represented below:



The CRO reports directly to the Chairman of the Board of Directors and is a member of the Bank's Management Board. Miguel Borg was appointed CRO in November 2014.

The Credit Risk Sanctioning Department (CRSD) is responsible for conducting independent financial and risk analysis of all lending and investment proposals that fall under the dual-voting system. This Department is also responsible for sanctioning the same proposals within the risk appetite communicated by the Board of Directors.

The Compliance Department is responsible for the identification, implementation, monitoring and reporting of Compliance and Anti-Money Laundering obligations arising out of rules, regulations and directives.

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

Capital & risk management report 30 September 2015 (continued)

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. 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 Joint Supervisory team (JST). The Unit is also responsible for regulatory and internal stress tests, including the periodic stress tests conducted by the European Central Bank (ECB) and/or by the European Banking Authority (EBA).

Credit Risk Management Unit (CRMU). The Unit's objective is to safeguard the soundness of the loan portfolio, to ensure sustainable and quality 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.

Economics & Risk Research Unit. The Unit brief includes the monitoring of the Group'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 through the procurement of adequate and cost-effective insurance cover. The Information Security Risk function analyses and communicates information security risks and evaluates their potential impact on the business processes.

Regulatory Advisory Services Unit. The Unit brief includes the monitoring of the Group's regulatory environment with special focus on banking and investment regulation.

A detailed description of the functions of the Board of Directors and the Management Board including the various Board and Management Committees is included in the section Corporate Governance Statement of Compliance on page 29 of the Annual Report and Financial Statements.

1.3 Single Supervisory Mechanism (SSM)

The SSM, which officially entered into operation in November 2014, is a new system of financial supervision comprising the European Central Bank (ECB) and the National Competent Authorities (NCAs) of euro area countries. The ECB with the assistance of the NCAs directly supervises all institutions that are classified as significant including BOV. The day-to-day supervision is conducted by the Joint Supervisory Teams (JSTs), which comprise staff from both NCAs and the ECB.

The Bank Recovery and Resolution Directive (BRRD) mark another step by European authorities in improving the stability of the financial system. The new framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion while sharing the costs of resolution with bank shareholders and creditors. To achieve this objective, the BRRD includes explicit provisions for the 'bail-in' whereby Resolution Authorities are, amongst others, empowered to write down or convert into common equity certain liabilities of a failing bank including Tier 2 capital instruments.

Section 2: Capital Management

2.1 Capital Management and Forecasting

The prudent and efficient management of capital is one of the Group's top priorities and a fundamental objective of risk management. The role of capital is to provide the Group with loss-absorbing capacity and potential for growth. It is key to the Group's long-term sustainability. The Group's capital management approach aims to ensure a sufficient level of capitalisation to absorb unexpected losses from its risk exposures while supporting business growth and providing adequate return to shareholders. Capital management has clear Board visibility and is implemented primarily through the capital planning process that determines the optimal amount and mix of capital that should be held by the Group, subject to regulatory limits. Capital management is under the direct control of ALCO. As part of the risk management process, capital buffers are continuously monitored by the Board of Directors, ALCO and the Management Board. ERMU ensures that the Group is adequately capitalised in order to achieve the strategic objectives set by the Board of Directors while assisting ALCO in setting the capital management plan. The main aim of this exercise is to assess the level and quality of the capital buffer for the medium to long term.

2.2 Regulatory Capital

The Group's capital base is composed of Common Equity Tier 1 (CET1) and Tier 2, as defined in Part Two of the Capital Requirements Regulation (CRR). In line with new regulations BOV is placing much of its emphasis and monitoring on CET1 capital. This capital is the highest form of quality capital, thus providing the greatest level of protection against losses. The CRR required the creation of a conservation buffer and a countercyclical buffer to deal with excessive credit growth. Moreover, an additional buffer is required for systemically important banks. These requirements related to capital buffers will gradually enter into force as from January 2016, for full application by January 2019.

Capital & risk management report 30 September 2015 (continued)

In the coming months, BOV shall be issuing a subordinated debt programme, to further strengthen the Tier 2 capital as required by European banking regulations. The net proceeds from the issue of the Notes will also be used by the Group to meet part of its general financing requirements.

The Group continued to use the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk in order to calculate Pillar 1 minimum capital requirements in line with CRR regulation. No capital is allocated for market risk as the Bank does not operate a trading book. For credit risk, risk weights for the Treasury Portfolio are determined by taking the worst credit rating provided by eligible External Credit Assessment Institutions (ECAIs) – Fitch, Moody's and S&P. Regulatory risk weights are used for unrated exposures and the lending portfolio. Under the Basic Indicator Approach for operational risk the Group allocates capital by taking 15% of the average gross income of the preceding three years. 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 575/2013.

In line with Part Eight Article 437 of the CRR the following table discloses the main features and the terms and conditions of Tier 1 and Tier 2 instruments.

Capital Instruments Main Features	BOV Ordinary Shares	5.35% BOV Subordinated Bonds 2019	4.8% BOV Subordinated Bonds 2020
Unique identifier	MT0000020116	MT0000021262	MT0000021270
Governing Law(s) of the instrument	Maltese Law	Maltese Law	Maltese Law
Regulatory Treatment			
Transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2
Eligible at solo/(sub)consolidated / solo & (sub)consolidated	Solo & (Sub)consolidated	Solo & (Sub)consolidated	Solo & (Sub)consolidated
Amount recognised in regulatory capital	360,000,000	37,095,890	62,443,835
Nominal amount of instrument	360,000,000	50,000,000	70,000,000
Issue Price	N/A	At par (€100 per bond)	At par (€100 per bond)
Redemption Price	N/A	At €100	At €100
Accounting classification	Share Equity	Liability-amortised cost	Liability-amortised cost
Original date of issuance	26 August 1992	8 June 2009	15 March 2010
Perpetual or dated	N/A	Dated	Dated
Original maturity date	N/A	15 June 2019	15 March 2020
Issuer call subject to prior supervisory approval	No	No	No
Coupons/dividends			
Fixed or floating dividend coupon	Floating	Fixed	Fixed
Coupon rate and any related index	N/A	5.35%	4.80%
Existence of dividend stopper	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Mandatory	Mandatory
Existence of step up or other incentive to redeem	N/A	No	No
Noncumulative or cumulative	Non cumulative	Non cumulative	Non cumulative
Convertible or non-convertible	Non convertible	Non convertible	Non convertible
Write-down features	No	No	No
Position in subordination hierarchy in liquidation	Subordinated to BOV subordinated bonds	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
Non-compliant transitional features	No	No	No

Capital & risk management report 30 September 2015 (continued)

Subordinated bonds are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. Both the 5.35% and the 4.8% Euro subordinated bonds are redeemable at par on 15 June 2019 and 15 March 2020 respectively thus the amortised amount was included in the Own Funds figure.

The following table shows the Group's capital position.

	€ ' 000 Sep-15
CET1 capital	**509,192**
Common Equity Tier 1 capital: instruments and reserves	**610,572**
Capital instruments and the related share premium accounts	360,988
Retained earnings	208,783
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	35,105
Funds for general banking risk	4,425
Minority interests	1,271
Common Equity Tier 1 capital: regulatory adjustments	**(101,380)**
Intangible assets (net of related tax liability) (negative amount)	(12,722)
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related liability where the conditions in 38 (3) are met)	(31,276)
Direct and indirect holdings by an institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entitites	-
Amount exceeding the 17.65% threshold	(10,495)
of which: Significant direct and indirect holdings by the institution of the CET1 instruments of financial sector entities	(5,364)
of which : deferred tax assets arising from temporary differences	(5,131)
Regulatory adjustments relating to unrealised gains and losses	(19,547)
Regulatory adjustments relating to Deferred Tax	12,898
Regulatory adjustments relating to significant investment in financial entities	3,701
Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre-CRR	(43,939)
TIER 2 Capital	**95,839**
Capital instruments and the related share premium accounts	99,540
Regulatory adjustments applied to Tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out	(3,701)
TOTAL CAPITAL	**605,031**
Deferred tax assets not deducted from CET1 capital	42,370
Direct holdings by the institution of the CET1 instruments of financial sector entities not included in CET1 capital	40,532
TOTAL Risk Weighted Assets	**4,523,620**
Capital Ratios	
Tier 1 capital	11.3%
Total capital	13.4%

Capital & risk management report 30 September 2015 (continued)

FULL RECONCILIATION OF OWN FUNDS ITEMS TO AUDITED FINANCIAL STATEMENTS

as at 30 September 2015

	Balance Sheet in accordance with IFRS (as adopted by EU) scope of consolidation	Effect of deconsolidation entities for regulatory consolidation	Balance Sheet in accordance with regulatory scope of consolidation
	2015	2015	2015
	€ 000	€ 000	€ 000
Called up share capital	360,000	-	360,000
Share premium account	988	-	988
Retained earnings	272,713	(44,040)	228,673
of which: expected final dividend	*19,890*	-	*19,890*
general banking reserve	*4,425*	-	*4,425*
depositor compensation reserves	*43,939*	-	*43,939*
Revaluation reserves	35,217	(112)	35,105
of which: property revaluation reserves	*26,629*	-	*26,629*
Unrealised Gains and Losses	*8,588*	*(112)*	*8,476*
Non-controlling interest	1,271	-	1,271
Intangible assets	12,722	-	12,722
Deferred tax arising from temporary differences	86,654	-	86,654
Subordinated liabilities	120,000	-	120,000
Amortised amount	*99,540*	-	*99,540*

2.3 Capital requirements

In line with the consultative BIS document on 'Review of the Pillar 3 disclosure requirements', the following table supplements the information on the standardised approach, mainly illustrating the capital requirement for credit risk split by the different exposure classes.

	Exposures before CCF		Exposures after CCF		RWA
	On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount	RWA
			€' millions		
Sovereign and their central banks	1,254	264	1,254	-	90
Non-central Government public sector entities	563	-	563	-	42
Multilateral development banks	85	-	85	-	-
Institutions	2,247	-	2,247	-	722
Corporates	1,284	831	1,284	166	1,019
Retail	476	738	476	172	432
Secured by residential real estate	1,601	-	1,601	-	592
Secured by commercial real estate	667	-	667	-	483
Equity	78	-	78	-	65
Exposures in default	169	-	169	-	169
Higher Risk categories	79	-	79	-	90
Other assets	1,401	-	1,401	-	384
Total	**9,903**	**1,833**	**9,903**	**338**	**4,088**

Exposures are equivalent to the accounting value less specific credit risk adjustments

Capital & risk management report 30 September 2015 (continued)

2.4 Internal Capital Adequacy Assessment Process (ICAAP)

Under Pillar II of the CRD, the Group is required to produce an Internal Capital Adequacy Assessment Process (ICAAP). The aim of ICAAP is to ensure a better alignment between material risks and regulatory capital, in order to enhance both capital deployment and the risk management and mitigation techniques adopted by the Group. ICAAP is presented to the JST, which will subject it to a Supervisory Review and Evaluation Process (SREP). BOV has this year prepared the seventh ICAAP capital document, which, was approved by the Board in May 2015 and presented to the JST.

The ICAAP is performed annually and is regulated by Banking Rule BR/12/2014. BOV's ICAAP is based upon a 'Pillar 1 Plus' approach whereby the Pillar 1 capital requirements for credit and operational risks are supplemented by the capital allocation for other material risks not fully addressed within Pillar 1. The risks considered for ICAAP include concentration, liquidity, operational, interest rate risk in the banking book, and risks arising from the macroeconomic environment. The Group uses internal models to quantify the exposure to these risks and assess the need for additional Pillar 2 capital. The Board and senior management assumed overall responsibility for the conceptual design and technical details of the ICAAP capital document. The Board discussed, approved, endorsed and delivered the yearly ICAAP submission to the regulatory authorities.

2.5 Leverage Ratio

CRR requires financial institutions to calculate non-risk based leverage ratio to supplement risk based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets.

A monitoring period has been allowed which runs till January 2017, during which time a minimum ratio of 3% should apply. This limit will then be reassessed in 2017, where a political decision will be taken at EU level on whether it should be included as a Pillar 1 requirement beginning in 2018. The Group's leverage ratio is determined and monitored on a regular basis. At 5% the leverage ratio is above the 3% minimum requirement.

Section 3: Credit Risk

3.1 The Nature of Credit Risk

Credit risk is the risk of suffering financial loss should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual payment obligations. Credit risk also includes concentration risk. 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 (sectorial concentration).

Credit risk is the most significant risk and represents the Bank's largest regulatory capital requirement. Considerable resources are dedicated by the Bank to manage it. Indeed, as at September 2015 the Bank allocated €327.1 million in regulatory capital for credit risk.

3.2 The Management of Credit Risk

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:

1. Maintain a framework of controls to ensure that credit risk-taking is based on sound credit risk management principles;
2. Identify, assess and measure credit risk clearly both on an individual facilities level as well as on a portfolio basis avoiding undesirable concentrations;
3. Monitor credit risk while 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.

Capital & risk management report 30 September 2015 (continued)

3.3 The Mitigation of Credit Risk in the Loan Book

The main elements making up the internal control framework in respect of credit risk in the loan book are:

3.3.1 Credit Policy

The core values governing the provision of credit are contained in the Bank's credit policy, which is approved by the Board of Directors.

The credit policy is designed to ensure that all functions concerned with the provision of credit, work together in a structured manner to achieve satisfactory, consistent and sustainable long-term performance, combining a growing loan portfolio with an acceptable level of credit quality and incidence of bad debts. The policy is underpinned by core principles related to compliance with the Bank's ethical standards, clear definition of responsibilities, the existence and implementation of procedures and thorough analysis of risks.

It is rolled down in the form of specific policies tailored to each type of business, namely:

a) Business lending;
b) Consumer lending (Home Loans, Personal Lending and Credit Cards);
c) E-Commerce; and
d) Trade finance.

Procedures for the consideration and monitoring of exceptions to each policy are included in the respective policy document.

Policies are revised periodically to keep them abreast with ever changing market conditions. During this financial year, the focus was mainly on the review of the Business Lending Policy, primarily to align it with changes in regulation and with changed processes arising from the credit reform that was launched during this year.

3.3.2 Decision-making Procedures

During the year the Bank embarked on the Credit Reform for Business relationships held at Branches, Business Centres and Corporate Finance. This reform enabled the Bank to re-visit some of its current practices to make the process more efficient and improved the governance around credit approval.

As a result of this credit reform, the Bank has two different functions relating to credit risk. These are the Credit Risk Management Unit (CRMU) and the Credit Risk Sanctioning Department (CRSD).

The main role of CRMU is to act as the monitoring arm of the credit risk function. CRMU aims to safeguard the soundness of the loan portfolio and to ensure sustainable and quality credit growth. It is also responsible for measuring and managing asset quality in line with the prevailing banking rules.

The main responsibility of CRSD is to analyse customer requests submitted by business units and give their vote.

Lending Authority

A dual-voting system of lending authority has been put in place, governed by the Business Credit Policy, under which all business related lending decisions must be approved. New facilities are sanctioned through a vote by Business Sanctioning Officers and a vote by Risk Sanctioning Officers, in accordance with the relative limits. For proposals above a certain limit, authorisation is sought from higher levels in the Bank hierarchy or from the Board of Directors. An exception to the rule applies for certain instances outlined in the Credit Policy where requests can be approved through a single vote from the Business side.

Lending officers are each allocated a voting limit based on their individual capabilities and experience and the nature and scale of lending in the business unit where they are posted. Voting limits are approved by the Management Board.

A "four-eye approach" to credit proposals is applied across all levels of the hierarchy for business related facilities.

The dual-voting system does not govern the personal lending and mortgage finance for which a separate discretionary lending limits system applies. For unsecured personal lending and for credit card applications, decision-making is simplified through the aid of a credit scorecard which analyses data and grades customers according to their credit-worthiness. The majority of proposals are approved or declined outright through the scorecard. Borderline cases are referred and become subject to the normal approval process in line with the appropriate discretionary lending limit. The Bank has been using the credit scorecard for a number of years, and this has evolved from a generic to a bespoke application after an adequate history of defaults was accumulated.

Capital & risk management report 30 September 2015 (continued)

Credit Analysis

An assessment of the borrower's ability to service and repay the proposed debt is undertaken for each credit request and is a key element when considering an application for credit. In particular, before making any commitments, the Bank carries out an in-depth review of the borrower and ensures that it has a thorough knowledge of all the structural aspects of the borrower's operations and that adequate monitoring will be possible. Consideration is also given to the sector in which the borrower operates in terms of economic prospects and potential growth along with the Bank's default history of the sector.

3.3.3 Collateral

Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the proposal, as set out in the Bank's policies and procedures. The nature and level of collateral required depends on a number of factors, including but not limited to, the amount of the exposure, the type of facility provided, the term of the facility, the amount of the counterparty's contribution and an evaluation of the level of the credit risk or probability of default involved.

The main types of collateral, including the type of properties accepted by the Bank are listed in the Credit Policy. The Bank is also categorising the collateral held whether movable or immovable as core and non-core.

Collateral is taken into account at forced sale value (the market value of all collateral items is subject to an appropriate haircut), and only accepted as the main source of repayment in property development loans and other exceptional cases. Otherwise, cash generated from operations is regarded as the primary source of repayment.

3.3.4 Covenants

The Bank also mitigates credit risk through the adoption, on the sanctioning of facilities, of terms and provisions known as covenants, both financial and non-financial, which allow the Bank to take action when a borrower's default risk increases. A breach of these covenants is an event of default which may permit a reduction of the maximum amount of borrowing under the commitment, increases in collateral, repricing and, in a worst-case scenario, a call-in of facilities.

3.3.5 Reviews

The credit process provides for at least an annual review of facility limits granted. Review may be more frequent, as required by circumstances such as the emergence of adverse risk factors. Any consequent amendments to internal risk ratings must be implemented.

All credit exposures are regularly reviewed for objective evidence of impairment, either individually or as part of a collective assessment, with a view to taking early recovery action. In addition, hindsight overviews are carried out to strengthen the credit decision-making process, wherein the judgement of the initial decision-maker is reviewed to determine the extent to which that decision-maker was in compliance with Bank policies and procedures in approving the credit application concerned. The Credit Risk Management Unit (CRMU) carries out hindsight overviews and monitors corporate clients whose repayments are in arrears. The aim of this is to enable the quality of the lending portfolio to be properly and regularly monitored by an independent authority, so that any necessary remedial action can be taken.

Other measures and reviews are undertaken in the Credit area to ensure that the Bank's asset quality is in order and in line with the prevailing banking rules. This also includes training to the staff.

3.3.6 Forbearance

Forbearance takes place when a concession is granted by the Bank to borrowers who are considered to be unable to meet the original terms and conditions of the contract due to financial difficulties. Forbearance is normally granted to the borrowers to allow sufficient ability to service the debt or refinance the contract. Rigorous assessment is undertaken to ensure that restructuring is only allowed in those cases where the underlying fundamentals are sound and where the customer is expected to meet the revised obligations.

Where a concession is granted that is not a result of financial difficulty the concession would not amount to forbearance.

A case-by-case approach is applied for all clients considering each transaction and client specific facts and circumstances. When the concession is due to financial difficulty the account is marked as forborne.

As part of its asset quality measure, CRMU reviews the financial difficulty tests and take a final decision as to whether the facility is to be categorised as Forborne.

Capital & risk management report 30 September 2015 (continued)

3.3.7 Rehabilitation Unit

Following the financial crisis and the downturn in specific economic sectors, the Bank felt the need to set up a specialised unit to cater specifically for facilities which are undergoing a period of distress but which, with the appropriate nursing and advice by lending specialists, could be rehabilitated back to financial health.

The objective of this unit, which resides within Corporate Finance, is to provide in-depth monitoring, flexibility and support with the aim of achieving a turnaround with minimal losses while enhancing the relationship with the customer. Ultimately, the Unit acts as a half-way house since once the account is rehabilitated the relationship will revert to Corporate Finance (or else in case of failure to the Remediation Unit or Litigation Unit).

3.3.8 Remediation Unit

The Remediation Unit has been set up with the primary scope of nursing problematic customer relationships back to financial health, without resorting to legal action. This stage works on a framework similar to that engaged within the Rehabilitation Unit, with defined timelines for each relationship transferred.

3.3.9 Litigation Unit

When specific accounts become increasingly problematic and after the nursing of facilities has failed to produce the desired results, the relationship is transferred to Litigation Unit. Notwithstanding the extent of the deterioration on the performance of the facility, the primary aim of the Litigation Unit is to manage the problematic account with the objective of reinstating it to a ‘going-concern’ status, to be transferred back to the respective business unit.

The Bank’s problem loan management process includes negotiation with customers, workout of remedial strategies, review of collateral and security documentation and the final status report and review. However, in the event that recovery efforts fail, Litigation Unit will aim to maximise the amount recovered by the Bank through realisation of security.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement.

3.4 Credit Risk Portfolio Management

Risk Management Unit is responsible for monitoring the quality of the Bank’s credit portfolio. As part of this process the unit presents regular risk reports to the Risk Management Committee, giving a holistic overview of the credit portfolio. This includes the analysis of the credit quality of the loan portfolio, reporting on arrears, concentration risk, business segmental analysis, expected loss and scenario analysis.

3.4.1 Internal Rating System

The Bank has a comprehensive internal rating system designed to accurately reflect the risk inherent in each lending relationship, identify problem loans in a timely and accurate manner and thereby assist in the creation of a quality loan book.

The Bank’s loan portfolio is analysed according to the twelve grading levels within the internal credit rating system. These grading levels are then re-grouped into five categories - Regular, Watch, Substandard, Doubtful and Loss - for regulatory and high level internal reporting. The portfolio is further analysed from various aspects to determine any adverse movements which are then investigated and necessary mitigants applied.

The relative rating is primarily determined by the operating performance of the account and by other qualitative criteria. Exposures are analysed on a regular basis to determine whether there is impairment in customer’s business which merits a change in rating. For business related facilities, these criteria (both financial and business related) are reviewed at least once a year.

3.4.2 Advances Portfolio

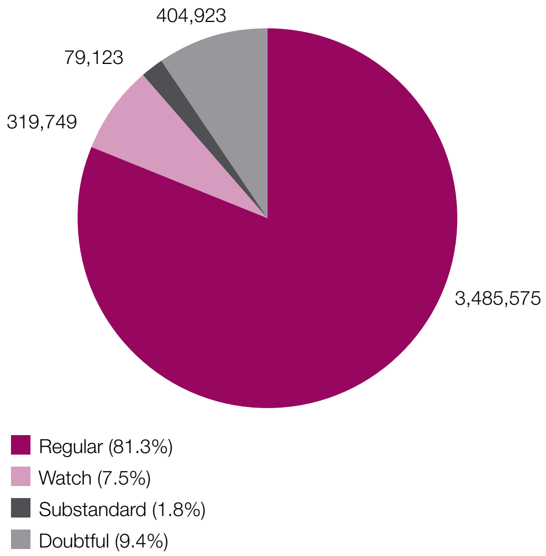
The Bank’s gross advances portfolio to customers stood at €4.3billion as at end September 2015, representing an increase of €168.4million over September 2014. This growth is attributable to the home loan segment.

Tight control of the loan book has ensured that there has been no significant deterioration in the overall credit quality of the advances portfolio with 81.3% of the total portfolio classified in the regular category (80.7% as at end September 2014).

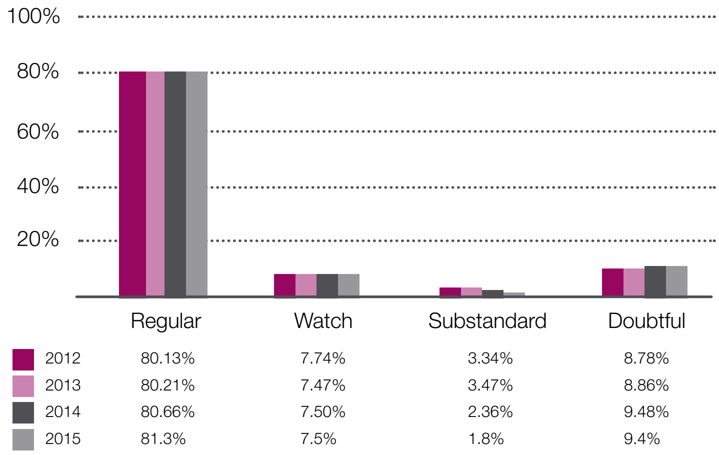
Doubtful loans decreased to 9.4% of the loan book as at end September 2015 compared to the 9.5% registered in the previous year.

Capital & risk management report 30 September 2015 (continued)

Asset Quality by Credit Grading as at Sep-15 (€'000s)



Credit Quality of the Loan Book (% in total)



The advances portfolio has an average maturity of 18.43 years. Business loans have an average maturity of 10.6 years, home loans an average maturity of 27.3 years, while consumer loans have an average maturity of 5.5 years.

The following tables show the advances portfolio broken down by exposure classes as defined under the Capital Requirements Regulation (CRR) when using the standardised approach, split by residual maturity and industry.

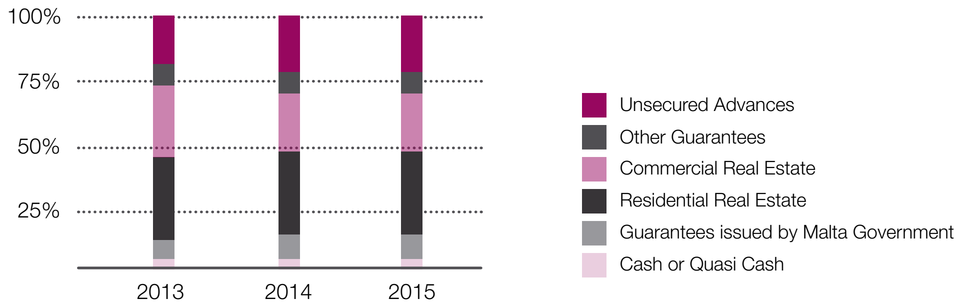
€ millions	within 3 months	between 3 months and 12 months	between 1 and 5 years	over 5 years	Total
Corporate	109	48	190	242	589
High Risk Areas	43	29	17	17	107
Exposure in default	166	36	28	93	323
Regional Government or Local Authorities	4	-	-	15	18
Retail	103	11	84	297	494
Secured by Real Estate Property	214	14	113	1,938	2,280
State/Public Owned Companies	38	-	31	410	478
	676	138	463	3,012	4,289

€ millions	Households & Individual	Financial and Insurance Activities	Wholesale & Retail Trade	Transportation and storage	Construction	Others	Total
Corporate	15	52	83	209	20	209	589
of which SME	-	35	76	142	13	102	367
High Risk Areas	-	-	-	-	96	11	107
Exposure in default	68	8	55	8	77	108	323
Regional Government or Local Authorities	-	-	-	-	-	18	18
Retail	373	3	42	7	8	62	494
of which SME	-	3	24	3	4	39	73
Secured by Real Estate Property	1,502	39	211	32	74	422	2,280
State/Public Owned Companies	-	294	-	28	-	156	478
Total	**1,958**	**395**	**391**	**283**	**275**	**987**	**4,289**

Capital & risk management report 30 September 2015 (continued)

An analysis of the collateral cover reveals that 79.1% of the Bank's advances portfolio is covered by extendible security, out of which 74.7% is in the form of immovable property (residential and commercial).

Advances Coverage - Collateral Cover



3.4.3 Non-Performing Exposures

The Bank defines non-performing exposures as those that satisfy either or both of the following criteria:

(i) Material exposures which are more than 90 days past due;
(ii) The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due.

3.4.4 Loan Loss Allowances and Coverage

The Provisions Committee is the body responsible for developing and maintaining the Bank's provisioning methodology. It is composed of representatives from Finance, Risk and Credit with the latter attending as observers. Throughout this financial year the Bank has revised its provisioning methodology which is aimed to focus more on specific provisioning as opposed to collective.

Specific Allowances covers two types of exposures:

(i) Impaired exposures on which the Bank does not expect to recover its exposure in full, even after the realisation of collateral.
(ii) Exposures which are deemed to carry a specific risk. Specific risks, may vary from time to time and are determined by taking into consideration external and internal factors. External factors include market forces, the performance of specific economic sectors in relation to the gross value added within a particular period of time, and geopolitical circumstances. Internal factors namely include individual significance of exposures and/or day delinquency equal to or greater than 60 days.

Collective Allowances relate to performing exposures which are not deemed to carry any particular specific risk.

Probability of Defaults (PDs) based on Moody's 2015 rates are used for the Bank's portfolio with an increased weighting in the PDs for the calculation of specific risks provisioning. The loss given default rates are consistent for all exposures. Different rates apply for secured and unsecured portions of exposures.

The updating of the provisioning methodology takes into consideration the plans for further updates in the methodology to take into account the changes arising from the expected loss approach emanating from IFRS 9, which is to become effective as from January 2018.

The specific and collective allowances as at end of September 2015 are shown in the table below:

	Specific Allowance (including interest in Suspense)				Collective Allowance	
	Specific Risk		Impaired			
	Balance Sheet	P&L	Balance Sheet	P&L	Balance Sheet	P&L
	€000	€000	€000	€000	€000	€000
Business	(51,815)	(51,814)	(141,568)	(22,444)	(5,862)	44,864
Home Loans	0	0	(19,419)	(2,712)	(7,683)	(3,181)
Personal	0	0	(7,470)	(889)	(4,493)	(432)
Total	**(51,815)**	**(51,814)**	**(168,457)**	**(26,045)**	**(18,038)**	**41,251**

The Bank's coverage ratio, being the total amount of impaired loans covered by specific allowances pertaining to total impaired loans, stood at 59.6%.

Capital & risk management report 30 September 2015 (continued)

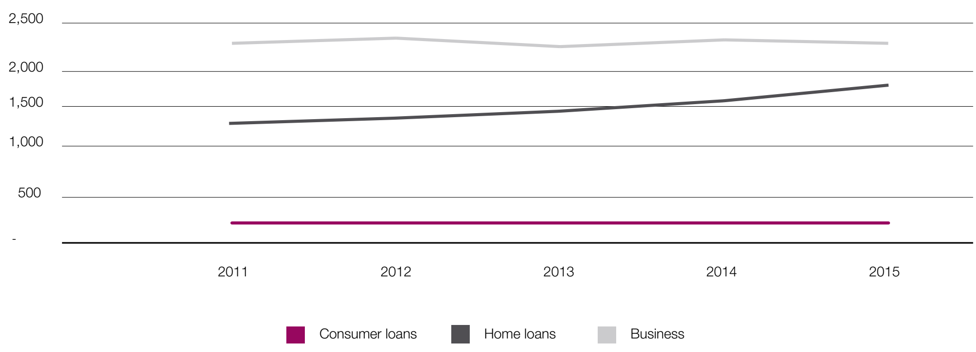
3.4.5 Concentration Risk and Sectorial Overview

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 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.

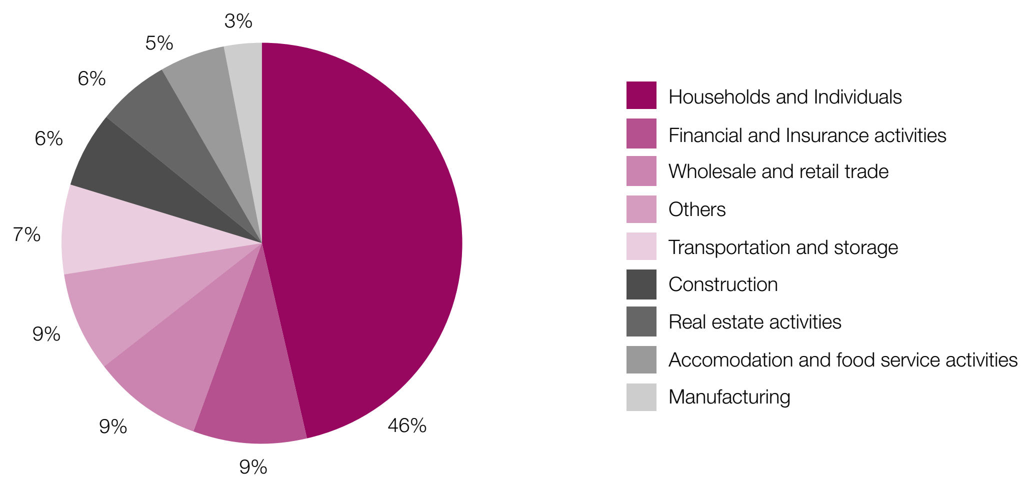
The Bank's credit risk management approach is to avoid any undue concentrations in its portfolio. There are systems in place to identify material concentrations and to ensure adherence to prudential limits set by the Board of Directors and/or the Regulatory Authority to single borrowers or groups of related borrowers. The Board and senior management are regularly informed on the concentration of the Bank's portfolio. Managing industry and country risk is a key component of the Bank's overall concentration risk management approach. In order to measure its sectorial concentration the Bank uses a number of metrics, including the Herfindahl-Hirschman Index (HHI), an internationally accepted indicator of concentration.

Single name exposures exceeding 10% of the Group's own funds are reported individually and are monitored on a continuous basis. These exposures are also reported to the Regulatory Authority. The aggregate of the single name exposures exceeding 10% of Own Funds corresponds to 1.9 times the Group's capital base calculated in accordance with CRR.

Concentration by Business Segment (€ millions)



Sectorial Concentration - Advances (% of total)



Capital & risk management report 30 September 2015 (continued)

3.4.6 Home Loans

The Bank exercises strict monitoring on the home loans segment, being the largest sector within the credit portfolio, accounting for 40.4% of total balances. A specific policy for home loans is in place to set lending parameters and criteria that ensure good quality. These criteria revolve around caps on loan-to-value and repayment-to-income ratios. The home loans segment is healthy with only 3.25% classified in the doubtful category.

3.4.7 Scenario Testing

Stress testing and scenario analysis are an integral part of the Bank's credit risk management framework and are applied extensively in credit management. These tests measure the resilience of the Bank's Capital Adequacy Ratio (CAR) in the event of an extreme but plausible shock.

A number of tests are carried out periodically, assuming, amongst others, the following scenarios:

- a general decline in asset quality, i.e. an increase in non-performing loans
- a general deterioration in a significant economic sector

The results of the tests carried out confirm that the credit portfolio's overall quality is robust, and the effect in terms of capital allocation would not be highly material.

Credit Risk Stress Test[1] Bank CAR as at end September 2015 is 13.37%	Baseline Change in CAR	Negative Change in CAR
1. Increase in doubtful loans[2]	-0.43%	-1.09%
2. Increase in doubtful loans of Construction and Real Estate[2]	-0.16%	-0.41%

[1] The stress test do not represent a forecast of future events.

[2] In both scenario 1 and 2 the baseline entails an increase in doubtful loans of 10% while the negative represents a rise of 25%.

3.5 Focus on Training and Cultural Awareness

One of CRMU's high priority objectives is the instilling of cultural awareness on quality lending through training, sharing of information through CRMU's database and setting up of workshops both on CRMU's own initiative and jointly with the credit function. CRMU is highly involved in the training of bank lending officers, both in the junior and more senior levels, as part of this objective.

3.6 Settlement Risk

Settlement risk arises in any situation where a payment in cash or other financial instruments is made in expectation of a corresponding receipt in cash or other financial instruments. Daily settlement limits are established per counterparty to cover the aggregate of all settlement risks arising from the Bank's market transactions on any single day. Settlement risk is mitigated through settlement limits assigned to counterparties or by effecting payment on a "delivery versus payment" basis.

3.7 Credit Risk in the Investment Portfolio

The Bank is exposed to credit risk through its investment activities. These investments include deposits with banks, debt securities, equities, and derivative financial instruments. The investment portfolio is managed by the Treasury Department. The Bank's strategy is to buy and hold these instruments till maturity rather than for trading purposes.

Credit risk in the 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. The TMP also sets limits in respect of settlements and derivatives. 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, whilst changes in credit ratings and future outlook are monitored daily. Every quarter, the Risk Management Department 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. At year end, the Bank's investment portfolio is made up of good quality instruments with 98.38% being of an investment grade (September 2014: 97.58%).

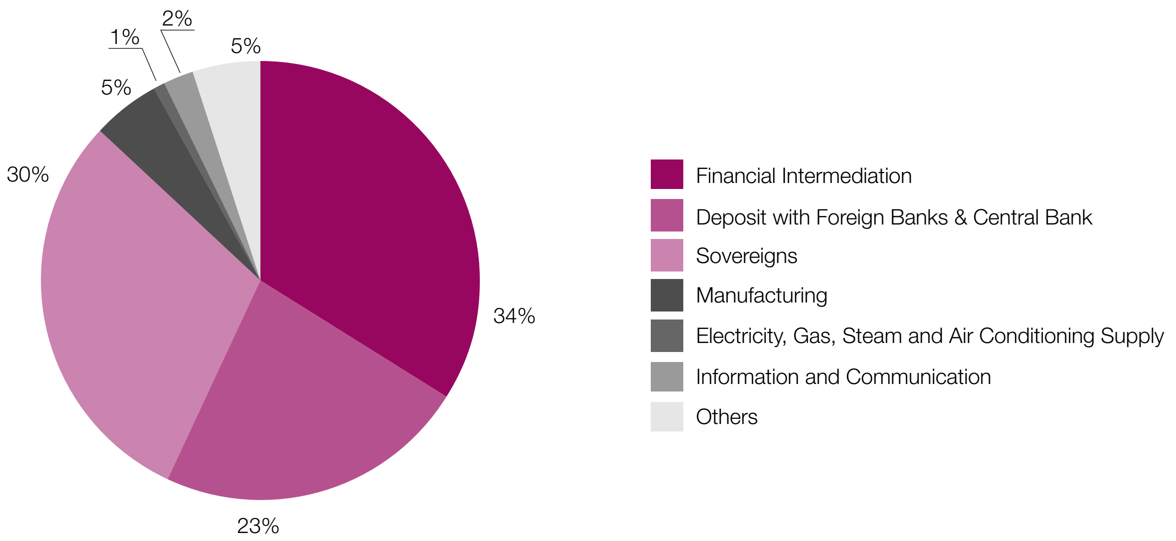
Capital & risk management report 30 September 2015 (continued)

3.7.1 Concentration Credit Risk in the Investment Portfolio

The Bank's investment portfolio may also be exposed to concentration risk derived from excessive reliance on the same country, counterparty, sector or currency. The TMP has a number of limits aimed at controlling concentration risk. The policy also specifies in detail the appropriate action to be taken in case of a breach of limits. The Board and senior management are regularly informed on the concentration of the Bank's portfolio through reports prepared on a quarterly basis. In line with article 395 of the CRR, the Bank has no exposure to a single counterparty which exceeds 25% of the Group's regulatory capital. The HHI is also used to measure the concentration risk on the investment portfolio.

The chart below shows the sectorial concentration in the Bank's investment portfolio.

Sectorial Concentration - Investment Portfolio



3.8 Counterparty Credit Risk on Derivatives

Counterparty credit risk arises from over-the-counter (OTC) derivatives and is the risk that a counterparty to a transaction may default before completing the satisfactory settlement of the transaction. An economic loss occurs if the transaction or portfolio of transactions with the counterparty has a positive economic value at the time of default.

The following table depicts the derivatives with positive fair values and which are subject to enforceable netting arrangements:

				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets	Gross amount of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Financial collateral received or pledged	Net amount
Assets	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Derivative financial instruments	**15,156**	**-**	**15,156**	**15,156**	**-**	**-**

The Treasury Management Policy (TMP) limits the use of derivatives to (a) hedge a balance sheet position (b) satisfy customers' requests and (c) 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.

Capital & risk management report 30 September 2015 (continued)

3.8 Counterparty Credit Risk on Derivatives (continued)

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. Prior to effecting a transaction, the Bank ensures that an ISDA agreement with respective counterparties is in place and that the agreement covers the deal in question. Furthermore, in order to secure the collateral, the Bank enters into an agreement with the counterparties in accordance with the Credit Support Annex (CSA) under the ISDA agreement. It is the Bank's policy to revalue all traded transactions and associated collateral positions on a regular basis. The Credit Rating Downgrade Threshold clause in some CSA agreements is designed to trigger a series of events which may include the termination of transactions by the non-affected party if the credit rating of the affected party falls below a specified level.

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.

Section 4: Market Risk

4.1 The Nature of Market Risk

Market risk is the risk that the Bank's earnings or capital will be adversely affected by changes in the level or 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 consists mainly of debt securities and is managed by the Treasury Department. The Bank's strategy is to manage these instruments as an investment portfolio rather than as a trading portfolio. Most of the Bank's trading activity is undertaken to meet the requirements of its customers for foreign exchange and interest rate products.

4.2 The 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, as well as 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. The Risk Management Department regularly monitors the levels of exposure compared to set limits and reports, where appropriate.

Excesses are reported monthly to senior management. A detailed report is presented on a regular basis to the Risk Management Committee.

4.3 The Mitigation of Market Risk

The main tools used by the Bank to mitigate market risk are:

4.3.1 Treasury Management Policy

The Bank's appetite for market risk is articulated in the Treasury Management Policy (TMP), which is approved by the Board of Directors. Market Risk is managed through limits set in the TMP on the basis of credit ratings assigned by eligible External Credit Assessment Institutions, comprising Fitch, Moody's and S&P. The policy is reviewed at regular intervals by the Risk Management Department in co-ordination with the Treasury Department, and is approved by ALCO and the Board of Directors.

4.3.2 Hedging Instruments

Limits on interest rate and currency positions are laid down by the TMP. 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. Credit risk is not hedged but monitored though limits set in the TMP, which also lists the types of approved derivative instruments that may be entered into for hedging purposes.

4.3.3 Investment Authorisation

Officials at Treasury Department are allocated limits according to the TMP. Exposures above the TMP levels require approval by the Credit Committee or by the Board. A 'four-eye' approach is applied 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 submitted to the Credit Committee or the Board for their consideration.

Capital & risk management report 30 September 2015 (continued)

4.3.4 Review of Limits

All credit exposures are regularly reviewed upon changes in credit ratings or outlook with a view to taking early mitigating action. Limits approved by Credit Committee and Board of Directors are reviewed in order to reassess the credit risk and align the investment criteria as necessary.

4.4 Interest Rate Risk in the Banking Book

Interest rate risk is defined as the risk towards a bank's financial position arising from unfavourable movements in interest rates. BOV 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.

4.4.1 The Mitigation of Interest Rate Risk

The Bank mitigates any adverse effects of market variables, principally foreign exchange rates, interest rates and price movements, on its operating income through limits set in its treasury management policy.

4.4.2 The Management of Interest Rate Risk

Risk management processes are in place to control and limit this exposure without negatively affecting the profitability of the Bank. The Bank's ALCO is the main forum wherein 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.

BOV considers two different, yet complementary perspectives in the process of assessing IRRBB. These include the earnings perspective and the economic value perspective.

Impact of Interest Rate Risk through the Earnings Perspective
Changes in the interest rates effect the sensitivity of earnings in the short term by changing its net interest income and the level of other interest sensitive income and expenses. The Bank uses various techniques to measure the effect that changes in interest rates have on net interest margins, namely:

a) Monitoring of Effective Rates
ALCO monitors on a regular basis the "current rates" being paid on liabilities and the rates earned on its assets. This method allows management to effectively monitor the interest earning potential of the present balance sheet.

In order to retain a cautious risk appetite, the Bank consciously sacrificed returns on treasury assets for quality of the portfolio. During September 2014, the ECB unexpectedly decided to cut all its policy rates by 10 basis points. Moreover more pressure has been compounded recently on the Bank's treasury operations because of the negative interest rate introduced by the ECB in June 2014. In this scenario, the Bank is currently buying short term maturity floating rate notes with the expectations that long-term interest rates will eventually rise.

b) 100bp parallel shift in the yield curve
The Bank also monitors the sensitivity of the financial assets and liabilities to parallel shifts in the yield curve of 100 basis points over a time horizon of one year.

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. Matching assets and liabilities are offset against each other and internal Interest Rate Swaps (IRSs) are also used to close repricing gaps. As guided by ALCO, the factors affecting interest margin shall be mitigated by appropriate hedging strategies, wherever possible.

Capital & risk management report 30 September 2015 (continued)

4.4.2 The Management of Interest Rate Risk (continued)

Net effect on Interest income for 12 months	Sep-15 €000s	Sep-14 €000s
Total	23,325	10,960
EUR	13,771	8,670
GBP	678	(353)
USD	7,488	1,105
AUD	905	1,027
CAD	105	(9)
JPY	43	75
Other	336	446

Impact of Interest Rate Risk through the Economic Value Perspective

Variations in interest rates affect the underlying value of the Bank's assets, liabilities and off-balance sheet instruments. For this reason, movements in interest rates also have an economic value effect on the Bank.

a) 200bp parallel shift in the yield curve
The balance sheet is asset sensitive, in that when interest rates move up a gain is posted in the accounting income statement, however an economic loss is made due to the fact that net cash flows derived from the balance sheet are discounted at higher rates. In order to calculate the capital allocation needed for IRRBB, the Bank carries out a sensitivity analysis based on a parallel shift of 200 basis-points throughout a time spectrum on a proxy of modified duration of positions situated at the middle of each time band and yielding 5%.

€ '000s	Sep-15	Sep-14
Impact on Capital	€ 1,811	€ 3,796

b) Modified Duration – Treasury Assets
The modified duration is a measure of the price sensitivity to yields. The Bank monitors and manages the modified duration of the treasury portfolio to ascertain that it does not reach uncomfortable and undesired levels. By calculating the Modified Duration, BOV estimates the impact on P&L and capital of changes in the market values of securities in the treasury portfolio and of the interest rate swaps entered into to hedge the interest rate risk in response to a parallel shift in yields of 100 basis points. The Modified Duration does not represent a forecast of potential losses in the portfolio but rather an analysis of how the market value of the treasury portfolio may change in response to a change in interest rates. In addition, the Bank calculates the modified duration on the unhedged fixed securities which are marked to market by major currencies.

Modified Duration	Sep-15 €000	Sep-14 €000
Impact of P&L	7,847	13,015
Impact on Capital	5,151	3,003

4.5 Currency Risk

The Group takes on exposure to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The TMP sets limits on the level of net exposure by currency, which limits are monitored daily.

4.6 Equity Risk

Equity risk arises from exposures to fluctuations in equity prices. The TMP sets a limit to holdings in this asset class, which is held for proprietary purposes.

Capital & risk management report 30 September 2015 (continued)

4.7 Scenario Testing

In addition to the Modified Duration, other measures are simultaneously being implemented to enable the Bank to exercise greater risk control over its investment portfolio. One of these measures is scenario analysis, which assesses the resilience of the portfolio to extreme but plausible scenarios. The scenarios either capture stressed past events or else plausible future scenarios that are unrelated to past events. In order to carry out this stress testing, the Bank makes use of the Moody's default tables for Corporates and Sovereigns (1983-2014). A further one notch downgrade is applied under the negative scenario. The testing is done to stress test the resilience of the portfolio and it does not represent a forecast of potential losses in the portfolio.
Results for scenarios, which are expressed in terms of impact on the Common Equity Tier 1 capital, are reported to the Risk Management Committee on a regular basis. The results show a very strong investment portfolio that is able to withstand extreme shocks.

Market Risk Stress Test Tier 1 as at end September 2015 is 11.3%	Baseline Change in Tier 1	Negative Change in Tier 1
Parallel shift in yields on the investment portfolio (not mitigated by IRSs)[1]	-1.25%	-2.50%
Expected default on the investment portfolio[2]	-0.56%	-0.61%

[1] This entails a parallel shift in yields of 100bps under the baseline and 200bps under the negative.

[2] The Moody's default tables for Sovereigns and Corporates (1983-2014) under the baseline and a further one notch downgrade in the case of the negative scenario.

Section 5: Operational Risks

5.1 The Nature of Operational Risk

BOV defines operational risk as the risk of potential losses that arise from inadequate or failed internal processes, people and systems or from external events. The Bank's objective is to contain operational risk within acceptable levels. This is achieved through early identification and measurement of risks, monitoring and mitigation by recommending changes to improve controls, performance and procedures, as well as by the procurement of appropriate insurance cover.

5.2 The 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 BOV's Operational Risk Management Framework (ORMF) which was approved by the Board. The ORMF includes risk identification, loss database, key risk indicators (KRIs) and business continuity management (BCM).

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. In its risk identification the Bank uses Audit findings, internal loss data analysis and process mapping. 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 co-ordinated 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 September 2015 is €32.96 million (Notional Risk Weighted Assets €411.97 million).

5.3 Mitigation of Operational Risk

BOV Group 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 BOV Group 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 Group's different business units.

Capital & risk management report 30 September 2015 (continued)

5.4 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.

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/IEC 27001/2. The Group has also formulated a Data Protection policy and guidelines document to ensure compliance to the Data Protection Act and protect the personal information held and processed by the Group.

5.5 Remuneration Policy

The Bank has in place a Remuneration Policy with the aim of aligning individual rewards with the Bank's performance, business strategy, risk appetite, values and long-term interests. It also encourages a prudent approach to risk taking. The Policy deals with the remuneration of all staff members including members of the Management Board, in accordance with regulation incorporated in the Capital Requirements Directive. Additional disclosure on the governance process related to remuneration has been made under the Remuneration Report section in the financial statements for 2015.

The target population defined as Identified Staff for the purposes of this Disclosure represents 2.7% of total number of employees in the Group. Identified staff was determined in line with recommended EBA Regulatory Technical Standard[1] and includes:

- senior executives responsible for material business units/business lines or internal control functions including Risk, Compliance and Audit;
- executives of Support Functions;
- other employees who are members of committees with collective authority to commit to risk exposures per transaction beyond 0.5% of CET1 Capital; and
- employees who, individually or as part of a committee take, approve or veto decisions on new products, material processes or material systems.

For the purposes of remuneration, Identified Staff have been aggregated and split into business areas according to EBA guidelines[2]. The table below includes the total fixed and variable remuneration and the number of beneficiaries for each business area. All fixed and variable remuneration were paid in cash. On average the ratio of variable to fixed remuneration for Identified Staff is 3.32%.

Remuneration of Identified Staff

	Supervisory Function^	Management Function^	Investment Banking^
Management Body	12	5	
Number of identified staff			2
Total fixed remuneration (in Eur)	€ 266,036*	€ 479,425	€ 125,367
Total variable remuneration (in Eur)	Nil	€ 18,273	€ 3,800

**excludes Health Insurance Benefits*

	Retail Banking^	Asset Management^	Corporate Functions^	Independent Control Functions^
Number of identified staff	8	2	11	9
Total fixed remuneration (in Eur)	€ 526,782	€ 138,819	€ 580,659	€ 419,451
Total variable remuneration (in Eur)	€ 20,680	€ 4,800	€ 22,520	€ 14,233

^as defined in EBA guidelines EBA/GL/2014/8

[1]EBA Final Draft Regulatory Technical Standards EBA/RTS/2013/11 dated 16 December 2013
[2]EBA Guidelines on the renumeration benchmaking exercise EBA/GL/2-14/08 dated 16 July 2014

Capital & risk management report 30 September 2015 (continued)

Link between Pay and Performance

The variable portion of remuneration is linked to the level of profit earned by the Bank during the relative financial year. The calculation of the bonus attributed to the staff in the clerical and managerial grades is determined in the Collective Agreement and is based on the profit achieved by the Bank. The bonus is distributed to employees in proportion to the performance achieved by the individual and in accordance with their respective grades.

Employees in the executive grade are also eligible for an annual bonus determined by the Bank's performance and their individual performance. Annual bonus entitlements are also applicable to the CEO and members of the Management Board as highlighted under the Remuneration Report.

Performance Management System

Key Performance Indicators (KPIs), by which employees' performance is measured, provide individual, unit and organisation level targets aligned with the strategic objectives of the Group. Quality and compliance measures receive strong weighting when setting KPIs.

Defined KPIs take into account the Group's long term interests and values, to avoid rewarding individuals for taking excessive risks. Financial and non-financial performance indicators are based on a balanced scorecard approach. Financial targets are balanced by process, customer satisfaction and employee measures to facilitate a balanced view of performance.

Section 6: Liquidity Risk

Liquidity is the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behaviour.

6.1 The Mitigation of Liquidity Risk

The Bank mitigates liquidity risk by maintaining a sufficient fund of liquid assets. Currently the Bank has excessive liquidity buffers mainly arising from the marked increase in deposits. Senior management have discussed on a regular basis the best way to utilise the excess liquidity.

In the interest of ensuring that maturing funds are always available to meet expected demand for cash, the Bank sets parameters within which maturities of assets and liabilities may be mismatched. For this reason, on a monthly basis the group's liquidity gap is analysed. From a micro perspective, liquidity risk is also mitigated through adequate measures in the Treasury Management Policy (TMP).

6.2 The Management of Liquidity Risk

The management of liquidity risk within the Bank is the responsibility of the ALCO. This committee maintains an on-going oversight of forecasted and actual cash flows, by monitoring the availability of funds to meet commitments associated with financial instruments. BOV manages liquidity risk through: daily liquidity management, maintaining a portfolio of highly marketable assets that can easily be liquidated, monitoring risk indicators and monitoring the maturities of assets and liabilities. Furthermore, ALCO also ensures that there is a wide diversification of funding sources, across various maturity bands.

The Group utilises techniques that help to evaluate the resilience of its liquidity buffers and to maintain a constant state of readiness should an exceptionally high demand for liquidity arise at any time.

Early warning signals

On a daily basis, Treasury Department addresses its available liquidity resources and subsequently compiles a forecast to act as a warning indicator putting it in a position to identify abnormal liquidity activity at an early stage.

Access to the funding market

Diversification of the Bank's funding profile is an important element of the liquidity risk management framework. BOV's balance sheet is primarily funded through customer deposits, long-term debt and shareholders' equity. ALCO closely monitors the funding sources including concentrations, currency, tenor and maturity, both secured and unsecured. The Bank has a good network with a number of correspondent banks and has a number of Global Master Repurchase Agreements and ISDA Agreements in place with these correspondents. These enable the Bank to enter into REPO transactions as well as swap transactions in order to fund any shortfalls in specific currencies. Moreover the Bank may also use other channels such as ECB lending (MRO's, LTRO's, TLTRO's). Additionally, should the need arise, the Bank may also tap in on the primary market in order to raise additional funds.

Capital & risk management report 30 September 2015 (continued)

Risk indicators

As at September 2015, the Loan-to-Deposit (LtD) ratio (net of interest in suspense) stood at 49.2%, showing that the Group kept its highly liquid position, with its loan portfolio fully funded by deposits and with no significant dependence on the wholesale market. The Group maintains a stable base of 'core deposits'.

The Regulatory Liquidity Ratio as at September 2015 is 53.0%. The ratio remained comfortably above the 30% statutory minimum requirement.

Section 7: Life Assurance Risk

7.1 The Nature of Life Assurance Risk

Life assurance risk is assumed and managed by MSV Life plc (MSV), which is jointly owned by Bank of Valletta plc and Mapfre Middlesea plc.

Life assurance risk includes the volatility in the amount and timing of claims caused by unexpected changes in mortality and the variability in contract holder behaviour (lapse risk). Mortality risk is the risk of deviations in timing and amounts of cash flows (premiums and benefits) due to the incidence or non-incidence of death. Lapse risk is the risk of loss or adverse change in liabilities due to a change in the expected exercise rates of policyholder options. Life assurance risk is also manifested in expense risk. Expense risk arises from the variation in the expenses incurred in servicing insurance contracts.

The amount at risk on each life assurance policy is the difference between the sum assured and the reserve held. On a portfolio basis, the principal risk is that actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur due to the frequency or severity of claims being greater than estimated. Insurance events are fortuitous, and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

7.2 The Mitigation of Life Assurance Risk

7.2.1 Risk Governance

MSV's Risk Management Framework is a set of policies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis, the risks to which MSV is or could be exposed, as well as their dependencies. MSV operates a 'three lines of defence model'. All the key functions, as defined under Solvency II, namely Actuarial, Risk, Compliance and Internal Audit are well established. These functions represent the second and third line of defence. All functions have the required regulatory standing and independence to be able to discharge their respective duties and responsibilities. The Risk and Compliance functions have direct access to the Risk and Compliance Committee while the Internal Audit function reports directly to the Audit Committee. These committees meet on a quarterly basis with their remit specified in the respective terms of reference.

7.2.2 Underwriting Strategy

Statistically the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. MSV has developed its insurance underwriting strategy to diversify the type of insurance risk accepted and to leverage on its reinsurer's experience, knowledge and insight in terms of underwriting requirements. Medical selection is also included in MSV's underwriting procedures with premiums varied to reflect the health condition and life expectancy of applicants.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, and lack of geographical spread. MSV is largely exposed to insurance risk in one geographical area.

7.2.3 Reinsurance

MSV uses reinsurance to cover death claims. The type of reinsurance cover and the level of retention for each risk are based on MSV's internal risk management assessment, which takes account of the nature of the risk covered and the sum assured. The reinsurance programme is approved by the Board annually. The reinsurance arrangements in place include a mix of treaty, facultative and excess of loss catastrophe protection, which limits the liability of MSV to any one individual life or event.

Capital & risk management report 30 September 2015 (continued)

Section 8: Risk Management in Subsidiary Companies

The Group has two subsidiaries: Valletta Fund Management Limited (VFM) and Valletta Fund Services Limited (VFS).

VFM was set up in 1995 and is 60% owned by Bank of Valletta p.l.c. and 40% by Insight Investment Management Limited, one of UK`s largest Asset Managers.

VFM is licensed by the Malta Financial Services Authority to provide investment services and to operate as a 'Maltese Fund Management Company' pursuant to the Undertaking for Collective Investment in Transferable Securities Regulations (UCITS). Risk management is a core part of the company's culture and operations. The Company operates three lines of defence.

A robust governance model which includes various documented policies and procedures and key internal control principles is the first line of defence. Moreover, VFM has in place a risk and compliance oversight programme, which forms the second line of defence together with a comprehensive risk register identifying primary and consequential risks. Group Internal Audit forms the third line of defence, evaluating, amongst others, whether the first and second lines of defence meet their objectives.

VFM also has a Risk and Regulatory Committee which 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 the Company operates a robust risk management process to protect its Company in both normal and stressed environments.

On the other hand, VFS was set up in 2006 as a fully owned subsidiary of Bank of Valletta plc to provide asset managers with a comprehensive suite of administration services to investment funds. VFS is recognised to provide fund administration services by the Malta Financial Services Authority. In providing its services, VFS is exposed to both operational and reputation risks, and to a lesser extent also market risks. To mitigate these risks, VFS has in place compliance and risk monitoring internal audit programs through the Company's Compliance and Corporate Services Division, aimed at reviewing the processes and the corresponding control procedures in place. In addition, periodic audits of the Company's various operations are undertaken by the Group's Internal Audit department. VFS 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 the controls of the Company. In relation to managing reputational risks, VFS 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 prevention of money laundering regulations.

Lastly, in view of the dependency of the Company on its various IT systems, VFS has in place a detailed business continuity plan in order to appropriately manage the incidence of business interruptions and disaster recovery.

Corporate governance statement of compliance

A. INTRODUCTION

Pursuant to the Malta Financial Services Authority Listing Rules, Bank of Valletta p.l.c. (the Bank) as a company whose equity securities are listed on a regulated market 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. In terms of Listing Rule 5.94, the Bank is obliged to prepare a report explaining how it has complied with the Code. For the purposes of the Listing Rules, the Bank is hereby reporting on the extent of its adoption of the Code.

The Board of Directors (the Board) is committed to the values of truth, transparency, honesty and integrity in all its actions. The Board strongly believes that the Bank 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.

Good corporate governance is the responsibility of the Board, and in this regard the Board has reviewed the Bank's compliance with the Code during the period in question. 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.

As demonstrated by the information set out in this Statement, together with the information contained in the Remuneration Report, the Bank believes that it has, save as indicated herein in the section entitled Non-Compliance with the Code, throughout the accounting period under review, applied the principles and complied with the provisions of the Code. In the non-compliance section, the Board indicates and explains the instances where it has departed from or where it has not applied the Code.

B. COMPLIANCE WITH THE CODE

Principle 1: The Board

The Board's role and responsibility is to provide the necessary leadership, to set strategy and to exercise good oversight and stewardship. The Board is composed of a Chairman and eight Directors (all of whom are non-executive).

The Board is in regular contact with the Chief Executive Officer in order to ensure that the Board is in receipt of timely and appropriate information in relation to the business of the Bank and Management performance. This enables the Board to contribute effectively to the decision making process whilst at the same time exercising prudent and effective controls.

The Board delegates specific responsibilities to a number of Committees, notably the Asset and Liability Committee, the Audit Committee, the Credit Committee, the Risk Management Committee, the Compliance Committee and the Remuneration and Nominations Committee, each of which operates under formal terms of reference approved by the Board.

Further detail in relation to the Committees and the responsibilities of the Board is found in Principles 4 and 5 of this Statement.

Principle 2: Chairman and Chief Executive Officer

The Bank's current organisational structure incorporates the position of a Chief Executive Officer. The position of the Chairman and that of the Chief Executive Officer are occupied by different individuals. Their respective positions have been defined with specific roles rendering these positions completely separate from one another. This separation of roles of the Chairman and the Chief Executive Officer avoids concentration of authority and power in one individual and differentiates leadership of the Board from the running of the business.

The Chairman is responsible to lead the Board and to set its agenda. The Chairman ensures that the Board's discussions on any issue put before it go into adequate depth, that the opinions of all the Directors are taken into account, and that all the Board's decisions are supported by adequate and timely information. The Chairman ensures that the Chief Executive Officer develops a strategy which is agreed to by the Board.

On the other hand, the Chief Executive Officer leads the Bank's Management Board which is the highest decision-making body within the Bank.

The Bank's Management Board was set up by the Board of Directors in November 2014 and assumes the responsibilities which were previously carried out by the Executive Committee.

More information on the Bank's Management Board can be found under the section entitled Management Committees.

Principle 3: Composition of the Board

The Board considers that the size of the Board, whilst not being too large as to be unwieldy, is appropriate, taking into account the size of the Bank and its operations.

Corporate governance statement of compliance (continued)

The combined and varied knowledge, experience and skills of the Board members provide a balance of competences that are required, and add value to the proper functioning of the Board.

The Board is composed exclusively of non-executive Directors. The Chief Executive Officer, the Chief Operations Officer and the Chief Risk Officer are in attendance at Board meetings, albeit without a vote, in order to ensure their full understanding and appreciation of the Board's policy and strategy. This enables them to provide direct input to the Board's deliberations. In addition, other members of Senior Management attend Board Meetings by invitation on a regular basis.

The composition of the Board is determined by the Bank's Articles of Association. The Directors are appointed by the shareholders, except in so far as an appointment may be made to fill a casual vacancy on the Board. The number of Directors should not be less than seven and not more than ten, or eleven solely in the circumstances indicated in Article 60.2.5 of the Articles of Association. Every shareholder holding at least ten percent (10%) of the issued capital of the Company is entitled to appoint one Director, for every such ten percent (10%) holding. Every shareholder holding less than ten percent (10%) of the issued capital of the Company is entitled to participate in the voting for the election of the remaining directors who are not appointed as mentioned above. The said shareholders are entitled to elect not more than one Director for every ten percent (10%) shareholding. Shareholders holding at least ten percent (10%) of the issued share capital of the Company are not entitled to participate in the election.

During the period under review, the Board consisted of eight independent Directors (including the Chairman) and one non-independent Director (as indicated on pages (ii) and (iii) of the Annual Report). In determining the independence or otherwise of its Directors, the Board has considered, amongst others, the principles relating to independence contained in the Code, the Bank's own practice as well as general good practice principles.

While current thinking, international practices and the Code suggest that the notion of independence has been tainted in respect of two Directors because of their length of service on the Board, the Board is of the opinion that this has not undermined the said Directors' ability to consider appropriately the issues which are brought before the Board. On the other hand, the Board believes that by definition, employment with the Bank renders a Director non-independent from the institution. This should not however, in any manner, detract from the non-independent Director's ability to maintain independence of analysis, decision and action at all times.

Disclosures for the purposes of Regulation 575/2013 of the European Parliament and the Council of the 26 June 2013 on the prudential requirements for credit institutions and investment firms:

Recruitment Policy

There is currently no recruitment policy for the selection of members of the Board of Directors. Persons who are nominated by shareholders to be appointed on the Board or to contest the election for the Board of Directors in terms of the Bank's Memorandum and Articles are subject, as from this financial year under review, to an assessment carried out by the Board of Directors, acting as a Nomination Committee to determine their suitability on the basis of applicable legislation. The nominations are subject to the approval of the Banking Supervisors.

While information about every member of the Board of Directors is found on pages (ii) and (iii) of the Annual Report, a detailed curriculum vitae of every member of the Board of Directors and of the nominees is available at the Office of the Company Secretary.

Policy on Diversity

There is currently no policy on diversity with regard to selection of the members of the Board of Directors.

Number of directorships held by members of the Board of Directors including the appointment on the Board of Bank of Valletta

Name	No of Directorships held – Executive (ED) and non-Executive (NED)
Alicia Agius Gatt	1 NED
Joseph Borg	1 NED + 1 ED*
Roberto Cassata	1 NED
James Grech	3 NED
Mario Grima	1 NED
George Portanier	2 NED + 1 ED*
Joseph M Zrinzo	1 NED + 1 ED

**number of directorships as per Article 91 of the CRD IV and Article 14 of the Banking Act, 1994 (Chapter 371, Laws of Malta) in terms of which directorships in companies forming part of the same group are considered as one directorship.*

John Cassar White and Taddeo Scerri are not subject to the provisions of Article 91 of the CRD IV and Article 14 of the Banking Act as regards the number of directorships held by them in view of their appointment in a national representative capacity.

Corporate governance statement of compliance (continued)

Principles 4 and 5: The Responsibilities of the Board and Board Meetings

The Board meets approximately three times a month, unless further meetings are required for the Board to discharge its duties effectively. In fact, during the year under review, the Board met 52 times.

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policies, performance objectives and business alternatives. As noted above, the Board considers and determines credit proposals falling within the Board's credit sanctioning limits. The Board also monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice. The Board has a formal schedule of matters reserved for its decision and also delegates specific responsibilities to Board Committees.

After each Board meeting, minutes that faithfully record attendance, matters discussed and decisions taken, are prepared and circulated to all Directors as soon as practicable after the meeting.

Members	**Meetings Held: 52* Members Attended**	
John Cassar White	51	
Alicia Agius Gatt *(appointed on 17 December 2014)*	39	(out of 43)
Joseph Borg	44	
Roberto Cassata	8	
James Grech *(appointed on 17 December 2014)*	42	(out of 43)
Mario Grima	46	
George Portanier *(appointed on 17 December 2014)*	43	(out of 43)
Taddeo Scerri	44	
Paul Testaferrata Moroni Viani** *(resigned on 17 December 2014)*	5	(out of 5)
George Wells *(resigned on 17 December 2014)*	9	(out of 9)
Franco Xuereb *(resigned on 17 December 2014)*	8	(out of 9)
Joseph M Zrinzo	51	

** out of which 21 were Credit related Meetings.*

*** Pursuant to the agreed policy, Paul Testaferrata Moroni Viani did not attend Board meetings during which credit proposals were discussed.*

Board Committees

The Board also delegates specific responsibilities to Committees, which operate under their respective formal terms of reference. In this respect, the Board has established the following Committees:

The Audit Committee

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. It 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 Committee is also responsible for managing the Board's relationships with internal and external auditors.

In terms of Listing Rules 5.117 and 5.118, Taddeo Scerri FCCA, FIA, CPA is the Director who the Board considers as competent in accounting. Taddeo Scerri is considered independent since he is free from any business, family or other relationship with the Bank or its management that may create a conflict of interest such as to impair his judgement.

The Chief Executive Officer, the Chief Operations Officer, the Chief Risk Officer, the Chief Finance Officer and a representative of the External Auditors attend the Audit Committee meetings by invitation. The Chief Officer Group Internal Audit also attends the meetings of the Audit Committee. The Company Secretary acts as Secretary to the Audit Committee.

Members	**Meetings Held: 12 Members Attended**	
Taddeo Scerri (Chairman)	12	
Joseph Borg *(appointed on 8 January 2015)*	8	(out of 11)
George Wells *(Member until 17 December 2014)*	1	(out of 1)
Joseph M Zrinzo	12	

Corporate governance statement of compliance (continued)

The Remuneration and Nominations Committee – This is considered under the Remuneration Report.

The Chief Executive Officer and/or the Chief Operations Officer attend the Remuneration and Nominations Committee meetings by invitation. The Company Secretary acts as Secretary to the Remuneration and Nominations Committee.

The Risk Management Committee

The Risk Management Committee assists the Board in assessing the different types of risks to which the organisation is exposed. This 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 Chief Executive Officer, the Chief Operations Officer, the Chief Finance Officer, the Chief Risk Officer, the Chief Officer Group Internal Audit and the Head Enterprise Risk Management attend the Risk Management Committee meetings by invitation. The Company Secretary acts as Secretary to the Risk Management Committee.

Members	**Meetings Held: 6** **Members Attended**	
Joseph Borg (Chairman)	5	
Alicia Agius Gatt *(appointed on 8 January 2015)*	3	(out of 4)
James Grech *(appointed on 8 January 2015)*	4	(out of 4)
Mario Grima	6	
George Portanier *(appointed on 26 February 2015)*	3	(out of 3)
Paul Testaferrata Moroni Viani *(Member until 17 December 2014)*	1	(out of 2)
George Wells *(Member until 17 December 2014)*	2	(out of 2)
Franco Xuereb *(Member until 17 December 2014)*	2	(out of 2)

The above information on the Risk Management Committee, together with the information contained in section 1 of the Capital and Risk Management Report included in this Annual Report, is also to be considered as a disclosure for the purposes of Regulation 575/2013 of the European Parliament and the Council of the 26 June 2013 on the prudential requirements for credit institutions and investment firms.

The Compliance Committee

The primary objective of the Compliance Committee is to assist and guide the Board of Directors in the discharge of their obligations imposed from time to time by regulation in the area of financial services and in light of the Bank acting as a credit and financial institution licensed to provide services under different laws and within the framework of the Compliance Function as defined in the Compliance Charter and as approved by the Board of Directors.

The Chief Executive Officer, the Chief Risk Officer, the Legal Executive and the Executive Head Compliance attend the Compliance Committee meetings by invitation. The Company Secretary also acts as Secretary to the Compliance Committee.

Members	**Meetings Held: 5** **Members Attended**	
Mario Grima (Chairman)	5	
Alicia Agius Gatt *(appointed on 8 January 2015)*	4	(out of 4)
James Grech *(appointed on 8 January 2015)*	4	(out of 4)
George Portanier *(appointed on 8 January 2015)*	4	(out of 4)
Joseph Borg *(Member until 8 January 2015)*	1	(out of 1)
Paul Testaferrata Moroni Viani *(Member until 17 December 2014)*	0	(out of 1)
Franco Xuereb *(Member until 17 December 2014)*	1	(out of 1)

Management Committees

During the period under review and as mentioned above, the Executive Committee was reconstituted as the Management Board. The **Management Board** is primarily responsible for the management of the Bank and its strategy, financial performance, risk management, human resources, information technology and data management, setting up committees which may become necessary and escalation procedures. The Bank's Management Board meets on a regular basis. It is chaired by the Chief Executive Officer and is composed of the following members:

- The Chief Operations Officer
- The Chief Risk Officer
- The Chief Finance Officer
- The Chief Business Development Officer

Corporate governance statement of compliance (continued)

The Credit Committee is composed of representatives from the Risk and Credit functions and is chaired by the Chief Operations Officer. Following changes to the Credit Sanctioning process effected during the year under review, the **Credit Committee** now sanctions proposals within a sanctioning limit approved by the Board of Directors in the area of trade finance and e-commerce as well as requests for credit limits arising from the Treasury Department. Proposals falling outside the sanctioning limit of the Committee are referred, with the Committee's recommendations, to the Board for consideration and determination. Other credit proposals, previously sanctioned by the Credit Committee, are now being sanctioned through a dual voting system by Risk Management and Credit, with designated limits approved by the Board.

The **Asset and Liability 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 once a month to review Balance Sheet risks and ensures their prudent management. 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. ALCO is chaired by the Chief Operations Officer, and has as members a Board Director, the Chief Executive Officer, the Chief Risk Officer, the Chief Finance Officer, the Chief Business Development Officer, the Chief Officer Investment Services, the Chief Officer Treasury and the Chief Officer Corporate Finance.

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. The Provisions Committee is chaired by the Chief Finance Officer and is composed of members of Senior Management.

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. The IT Committee is chaired by the Chief Executive Officer and is composed of members of Senior Management.

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 of Directors on the award of contracts that exceed a defined value. The Committee meets at such frequency as necessary. The Committee is chaired by the Chief Operations Officer and is composed of members of Senior Management.

Principle 6: Information and Professional Development

The Chief Executive Officer is appointed by the Board. He is responsible for recruitment and selection of Senior Management and consults with the Remuneration and Nominations Committee and with the Board on the appointment of Senior Management. Training of management and employees is a priority and internal and external training is provided by the Bank's Training and Consultancy Unit specifically set up for this purpose.

On joining the Board, a Director is provided with briefings by the Chief Executive Officer on the activities of their respective business areas. Directors are also provided with a dossier that, apart from incorporating the relevant legislation, rules and bye laws, and Memoranda and Articles of Group companies, includes also the Bank's Policy documents.

Directors may, where they judge it necessary to discharge their duties as Directors, take independent professional advice on any matter at the Bank's expense. Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring adherence to Board procedures as well as good information flows within the Board and its Committees.

An informative session on Corporate Governance requirements in a CRD IV context was organised during the year under review for the Board and members of the Management Board. In addition, the Company Secretary directs members of the Board to seminars or conferences which serve as professional development for Directors in the discharge of their functions on the Board and the Committees.

Principle 7: Evaluation of the Board's Performance

During the year under review, the Board undertook an evaluation of its own performance, the Chairman's performance and that of its Committees. The Board did not *per se* appoint a committee to carry out this performance evaluation, but the evaluation exercise was conducted through a Board Effectiveness Questionnaire prepared by the Company Secretary in liaison with the Chairman. The results were discussed during the session on Corporate Governance mentioned above.

Principle 8: Committees

The Remuneration and Nomination Committee is dealt with under the Remuneration Report, which also includes the Remuneration Statement in terms of Code Provisions 8.A.3 and 8.A.4.

Corporate governance statement of compliance (continued)

While some of the functions of the Nomination Committee as set out in the Code Provisions are already undertaken by the Bank's Remuneration and Nomination Committee, the Bank is in the process of endowing its Nomination Committee with the full role and functions as set out in the Code and as also stipulated in other applicable banking legislation. The first draft of the revised Terms of Reference of the Remuneration and Nomination Committee has been discussed by the Board during the first quarter of FY 2015/2016 and it is expected that the matter will be finalised during the course of FY 2016.

Principles 9 and 10: Relations with Shareholders and with the Market and Institutional Shareholders

The Bank recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies and performance are well understood.

The Board is of the view that during the period under review the Bank has communicated effectively with the market through a number of company announcements and press releases.

The Bank also communicates with its shareholders through the Bank's Annual General Meeting (AGM) (further detail is provided under the section entitled General Meetings). All Directors attend the AGM and are available to answer questions, if necessary.

The Chairman and the Chief Executive Officer also ensure that sufficient contact is maintained with major shareholders to understand issues and concerns.

Apart from the AGM, the Bank communicates with its shareholders by way of the Annual Report and Financial Statements, by publishing and sending to the shareholders its results on a six-monthly basis and through a bi-annual newsletter to shareholders. The Bank's website (www.bov.com) also contains information about the Bank and its business, including an Investor Relations Section.

In addition, the Bank holds a meeting for stockbrokers and financial intermediaries twice a year to coincide with the publication of its Financial Statements.

The Bank's Investor Relations Officer at the Office of the Company Secretary maintains two-way communication between the Bank and its investors. Individual shareholders can raise matters relating to their shareholdings and the business of the Group at any time throughout the year, and are given the opportunity to ask questions at the AGM or submit written questions in advance. In terms of Article 36 of the Articles of Association of the Bank and Article 129 of the Companies Act,1995 (Chapter 386, Laws of Malta), the Board may call an extraordinary general meeting on the requisition of shareholders holding not less than one-tenth of the paid up share capital of the Company.

Principle 11: Conflicts of Interest

The Directors are strongly aware of their responsibility to act at all times in the interest of the Bank and its shareholders as a whole and of their obligation to avoid conflicts of interest. The latter may, and do arise on specific matters. In such instances, the Bank ensures that such conflicts, actual or potential, are managed in the best interest of the Bank.

A Director is therefore required to make full and frank disclosure with respect to any matter where there is a potential or actual conflict, whether such conflict arises from personal interests or the interests of the companies in which such person is a Director or officer and the said Director is excused from the meeting and accordingly is not involved in the Bank's Board discussion on the matter and does not vote on any such matter.

On joining the Board and regularly thereafter, the Directors are informed of their obligations on dealing in securities of the Bank within the parameters of law, including the Listing Rules, as well as the Bank's Code of Conduct for Securities Transactions and Directors follow the required notification procedures.

Directors' interests in the share capital of the Bank as at 30 September 2015 were as follows:

	Beneficial Interest *
Alicia Agius Gatt	652 shares
Mario Grima	11,594 shares
George Portanier	19,172 shares
Joseph M Zrinzo	132,525 shares

** Includes any shares held by spouses or partners*

James Grech held 10,799,962 shares by way of non-beneficial interest in his capacity as one of the five trustees of the BOV Employees' Foundation.

No Director has any other benefit or non-beneficial interest in the share capital of the Bank.

Corporate governance statement of compliance (continued)

As at 30 September 2015, the Directors below also held the following:

	Beneficial Interest**	
John Cassar White	10,000	BOV 4.25% Medium Term Notes 2019
Mario Grima	9,200	BOV 4.80% Subordinated Bonds 2020
Joseph M Zrinzo	8,000	BOV 4.80% Medium Term Notes 2018
	11,700	BOV 5.35% Subordinated Bonds 2019
	31,500	BOV 4.80% Subordinated Bonds 2020

*** Includes any holdings by spouses or partners*

Principle 12: Corporate Social Responsibility (CSR)

Bank of Valletta is conscious that as one of the key players in the Maltese economy, it has an active role to play as a corporate citizen within the Maltese community. Bank of Valletta needs to manage its relationships with all its stakeholder groups in an optimal manner, thereby contributing to the country's economic growth and development.

The Bank continuously strives to be the employer of choice for its people, whom it considers to be its primary asset. In a bid to promote a healthy lifestyle and wellbeing for its employees, the Bank has a number of programmes in place to help its people maintain a stress-free balance between their work and private life including subsidies on summer schools and health check-ups. Employees are also encouraged to fulfil their role in the community by participating in events like blood donation drives, dress down days in aid of charities and tree-planting activities organised throughout the year.

The Bank continues to underline its green agenda, which has been featuring on its Mission Statement for several years now. The Green Manager is responsible to ensure that the environment features prominently as a stakeholder across the Bank's strategic and day-to-day decision-making. He is assisted by a team of Green Leaders, who are an extension of this role spread across the whole organisation.

Bank of Valletta's roots run deep into the community in which it operates. The sound principles of Corporate Social Responsibility (CSR) are put into practice through its extensive Community Programme which is distilled into seven distinct pillars, representing diverse but equally important concerns for the Maltese society. These are:

Arts and Culture – BOV has taken on board a number of artistic initiatives during the financial year under review. The span includes performances at the Manoel Theatre and the two theatres in Gozo - Astra and Aurora - as well as more intimate concerts featuring some of Malta's established as well as upcoming performers. BOV remains a leading sponsor of the Malta Philharmonic Orchestra and the Malta Youth Orchestra. The Bank has continued to endorse the Maltese Tenor Joseph Calleja as well as the BOV Joseph Calleja Children's Choir. The BOV Retrospective Arts Exhibition, which this year featured works of art by renowned artist Debbie Caruana Dingli, remains a much sought after annual appointment on the country's cultural calendar.

Heritage – The restoration projects at the vault of the Sanctuary in Mellieħa and the masterpieces in Għajnsielem Chapel are moving steadily with the Bank's support. The Bank retained its partnership with Fondazzjoni Wirt Artna, not only in relation to safeguarding historical gems, but also vis-à-vis its Hands-On Heritage programme which focuses on educating the younger generation about our rich past. The programme offers students the unique opportunity to handle period instruments and tools, by opening up a time window for them, bringing history to life.

Environment – The Bank renewed its backing towards the BOV Adventure Park at Ta' Qali in a bid to ensure adequate green space for Maltese families to spend quality time together. This year, it has also collaborated in the Killifish Conservation Project that focuses on saving this endemic specie and eventually reintroduce it in its natural habitat. Meanwhile the Bank's Green Manager worked on introducing a waste management programme across the organisation.

Education – The Read with Me project initiated last year continued to gain momentum. The Bank's support enabled the National Literacy Agency to reach out to 13,000 children aged 0 to 3 years and their parents in the course of one year. Regular one hour sessions are being organised across fifty centres in Malta and Gozo. Reading sessions are held in both Maltese and English. Excellence in education was also promoted by sponsoring various educational awards. The BOV Investment Education Project, a project which gives University students reading for a degree in Economics, Management and Accountancy the opportunity to get first-hand experience in the world of financial trading was once again successfully executed.

Social Causes – The Bank's philanthropic arm was driven mainly by the two foundations it set up; the Marigold Foundation – BOV in the Community and the BOV Joseph Calleja Foundation. The latter Foundation launched another arm this year 'Developing through the Arts' which harnesses the therapeutical power of music to help children facing challenging situations to deal with their emotions and continue developing.

In addition the Bank continued to support NGOs through the BOV Volleyball Marathon for Dar tal-Providenza and L-Istrina BOV Piggy Bank campaign, amongst others.

Corporate governance statement of compliance (continued)

Sport – Promoting a healthy lifestyle remains a priority on the Bank's agenda. Witness to this is the support provided to various sporting associations in a bid to raise awareness and encourage more people to integrate sports and fitness into their daily regime.

Strategic Alliances – Through strategic alliances, the Bank continues to build networks with members of the main representative bodies and business organisations, such as the Malta Chamber of Commerce, Enterprise and Industry, the Malta Hotels and Restaurants Association and the Chamber of Engineers. The Bank also partners with third parties to organise events that help key business players.

Bank of Valletta continues to look at its Corporate Social Responsibility commitment as a way of conducting business in a responsible manner. It is not in conflict with its responsibility towards shareholders to generate profits, but is the manner in which it chooses to run its business, mediating between the different stakeholder groups, in full respect of the culture of the organisation.

C. NON-COMPLIANCE WITH THE CODE

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

The Code recommends "the development of a succession policy for the future composition of the Board of Directors and particularly the executive component thereof, for which the Chairman should hold key responsibility".

The Board is composed entirely of non-executive Directors. This composition is explained under Principle 3 in Section B. Furthermore, in the context of the appointment of Directors being a matter reserved exclusively to the Bank's shareholders (except where the need arises to fill a casual vacancy) as explained under Principle 3 in Section B, considering that every Director retires from office at the AGM and on the basis of the Directors' non-executive role, there is no succession policy in place.

Principle 9 (Code Provision 9.3):

Code Provision 9.3 requires the Bank to have in place a mechanism to resolve conflicts between minority shareholders and controlling shareholders. This Code Provision is not applicable to the Bank since the Bank has no controlling shareholders.

D. INTERNAL CONTROL

Authority to manage the activities of the Bank is delegated to the Chief Executive Officer within the limits set by the Board.

The Board is ultimately responsible for the Bank's systems of internal control and for reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable as opposed to absolute assurance against material misstatement or loss. Through the Audit Committee, the Risk Management Committee and the Compliance Committee, the Board reviews the process and procedures to ensure the effectiveness of the Group's systems of internal control, which are monitored by the Group Internal Audit Department.

The key features of the Group's systems of internal control are as follows:

Organisation

The Group operates through the Board of Directors of subsidiary and equity-accounted investee companies with clear reporting lines and delegation of powers. The Bank's Chairman is the Chairman of the Bank's fund management and fund services subsidiaries, and is also the Chairman of the equity-accounted investee life insurance company and a member of the Board of the equity-accounted investee general insurance company.

Control Environment

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Group policies and employee procedures are in place for the reporting and resolution of fraudulent activities. The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives.

Risk Identification

The management of each of the Group members is responsible for the identification and evaluation of key risks applicable to their areas of business. The risk management model adopted by BOV is the classic "three lines of defence model" wherein the first line of defence is constituted by the functions that own and manage risks, namely the business units; the second line is constituted by the functions that oversee risks, namely Risk Management and Compliance; and the third line is constituted by Internal Audit, which is the function that provides independent assurance. The Risk Management function, within the second line of defence, falls under the responsibility of the Chief Risk Officer, and operates within a wider Bank structure that reflects the risk appetite and risk management philosophy articulated by the Board of Directors.

Corporate governance statement of compliance (continued)

Reporting

Functional, operating and financial reporting standards are applicable to all entities of the Group. These are supplemented by operating standards set, as required, by the Bank's Board and the Management Board. Systems and procedures are in place to identify, control and to report on the major risks including credit risk, changes in the market prices of financial instruments, liquidity, operational error and fraud. Exposure to these risks is monitored by ALCO and by the Risk Management Committee. The Board receives periodic management information giving comprehensive analysis of financial and business performance including variances against budgets.

E. LISTING RULE 5.97.5

The information required by this Listing Rule is found in the Directors' Report.

F. GENERAL MEETINGS

The general meeting is the highest decision making body of the Bank. A general meeting is called by twenty-one days notice and it is conducted in accordance with the Articles of Association of the Bank.

The Annual General Meeting deals with what is termed as "ordinary business", namely the receiving or adoption of the annual financial statements, the declaration of a dividend, the appointment of the Board (which may or may not involve an election), the appointment of the auditors and the grant of the authority to the Board to fix the auditors' emoluments. Other business which may be transacted at a general meeting (including at the Annual General Meeting) will be dealt with as Special Business.

All shareholders registered in the Shareholders' Register on the Record Date as defined in the Listing Rules, have the right to attend, participate and vote in the general meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the general meeting may request the Bank to include items on the agenda of a general meeting and/or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the Bank at least forty six (46) days before the date set for the relative general 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.

Auditors' report on corporate governance

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta on the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance (the "Principles") outlined in Appendix 5.1 to Chapter 5 (Continuing Obligations) of the Listing Rules (the "Appendix")

Listing Rule 5.97 requires an Issuer whose securities are admitted to trading on a Regulated Market operating in Malta to prepare a corporate governance statement. In addition, as an Issuer registered in Malta, Listing Rule 5.94 requires that the Bank endeavours to adopt the Principles and to prepare a report explaining how it has complied with the provisions of the Appendix.

Our responsibility as independent auditors of the Bank, is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages 28 to 36.

We read the Directors' Statement of Compliance, and report as to whether this Statement provides the disclosures required by Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process, or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risks and control procedures.

In our opinion, the Directors' Statement of Compliance set out on pages 28 to 36 provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

Noel Mizzi
Partner, for and on behalf of
KPMG
Registered Auditors,
Portico Building,
Marina Street,
Pietà PTA 9044,
Malta

30 October 2015

Remuneration report as at 30 September 2015

1. Terms of Reference and Membership of the Remuneration and Nominations Committee

The Remuneration and Nominations Committee (the Committee) is charged with overseeing the development and implementation of the remuneration and related policies of the Group.

The Committee is composed of John Cassar White (Chairman), Taddeo Scerri and Joseph M Zrinzo as members, all of whom are independent non-executive directors. The Chief Executive Officer and/or the Chief Operations Officer attend meetings of the Committee by invitation. The Company Secretary acts as secretary to the Committee.

2. Meetings

The Committee held ten meetings during the period under review, which meetings were attended as follows:

Members	Attended
John Cassar White (Chairman)	10
Taddeo Scerri	10
Joseph M Zrinzo	10

3. Remuneration Statement

3.1 Remuneration Policy – Executive Management

The Board determines the framework of the overall remuneration policy for Executive Management based on recommendations from the Committee. The Committee, on the recommendations of the Chief Executive Officer, then establishes the individual remuneration arrangements of the Group's Executive Management, namely the Chief Officers, the Executive Heads and the Heads.

The Committee is also charged with considering and determining any requests for early retirement. Early retirement schemes are established and defined within the Bank's Collective Agreements, which Agreements are currently in the process of being renewed. The Committee has access to independent external advice on remuneration matters as and when required.

The Remuneration Policy applies consistently to all employees within the Group. Its objective is to align individual rewards with the Group's performance, business strategy, risk appetite, values and long term interests. It also encourages a prudent approach to risk taking. The Remuneration Policy is held under constant review, with the overriding principle being that individual performance is evaluated according to both quantitative/financial and qualitative/behavioural measures. Further details about the Bank's Remuneration Policy are found in the Capital & Risk Management Report.

The Committee considers that the current Executive Management remuneration packages based upon the appropriate local market equivalents are fair and reasonable for the responsibilities involved. The Committee is of the opinion that the remuneration packages are such, so as to enable the Bank to attract, retain and motivate executives having the appropriate skills and qualities, in order to ensure the proper management of the organisation.

There have been no significant changes in the Group's Remuneration Policy for Executive Management during the financial year under review and no significant changes are intended to be effected thereto in FY 2016.

Hereinafter, for the purposes of this Remuneration Statement, references to "Senior Executives" shall mean the Chief Executive Officer and the other Members of the Management Board.

The terms and conditions of employment of Senior Executives are set out in their respective indefinite contracts of employment with the Bank. Such contracts do not contain provisions for termination payments and other payments linked to early termination. Share options and profit sharing are not part of the Group's Remuneration Policy.

The Chief Executive Officer's remuneration is reviewed and approved by the Committee. The Chief Executive Officer is eligible for an annual bonus entitlement by reference to the attainment of pre-established objectives and targets as approved by the Committee.

The Members of the Management Board are eligible for an annual salary increase within a maximum salary range approved by the Committee. This increase is computed on the basis of the same percentage salary increase granted to staff members in terms of the relative Collective Agreement, adjusted to reflect the individual performance of the Member of the Management Board as approved by the Committee.

The Members of the Management Board are also eligible for an annual bonus entitlement determined by the Bank's performance and the individual performance of the Members.

No supplementary pension or other pension benefits are payable to the Senior Executives. In so far as early retirement schemes are concerned, the Senior Executives are subject to the schemes which are set out and defined in the Collective Agreement (for Managerial and Clerical Grades) as may be applicable to employees from time to time.

Remuneration report as at 30 September 2015 (continued)

The Committee is of the view that the linkage between remuneration and performance bonus at all staff levels is reasonable and appropriate on the basis that the amount paid by way of performance bonus is not significant.

Non-cash benefits to which Senior Executives are entitled comprise the use of a company car and health insurance. The Death-In-Service Benefit also forms part of the contract of employment of Senior Executives on the same terms applicable to all other Bank employees.

Total emoluments received by Senior Executives during FY 2015 are reported below under section 3.3 in terms of Code Provisions 8.A.5.

3.2 Remuneration Policy – Directors

The Board is composed exclusively of non-executive directors. The determination of remuneration arrangements for Board members is a reserved matter for the Board as a whole, following the submission of recommendations by the Committee. The maximum annual aggregate emoluments that may be paid to the directors is approved by the shareholders at the General Meeting in terms of Article 67.1 of the Bank's Articles of Association. This amount was fixed at an aggregate sum of €290,000 per annum at the 39th Annual General Meeting held on 19 December 2012.

There have been no changes in the Group's Remuneration Policy for Directors during the financial year under review and no significant changes are intended to be effected thereto in FY 2016.

The directors' fees as approved by the Board are as follows:

Directors' Fees	**€**
Chairman	75,000
Other Directors	17,500
Board Committees Fees	
Chairman *	5,000
Members	3,000

**John Cassar White opted to waive fees due to him as chairman of the Remuneration and Nominations Committee*

One of the Directors is an employee of the Bank and therefore receives remuneration by virtue of his employment. None of the other Directors have service contracts with either the Bank or any of the Bank's subsidiaries as at the end of the financial year.

Directors' emoluments are designed to reflect the time committed by Directors to the Bank's affairs, including the different Board committees of which Directors are members, and their responsibilities on such committees. None of the Directors, in their capacity as a Director of the Bank, is entitled to profit sharing, share options, pension benefits or any other remuneration. In terms of non-cash benefits, Directors are entitled to health insurance and to a refund of out-of-pocket expenses.

Total fees received by Directors during FY 2015 are reported below under section 3.3 in terms of Code Provisions 8.A.5.

Remuneration report as at 30 September 2015 (continued)

3.3 Code Provision 8.A.5

Senior Executives' Emoluments (Management Board)

Fixed Remuneration	Variable Remuneration	Share Options	Others
€479,425	€18,273	None	Non-cash benefits referred to above under 3.1

Directors' Fees

Fixed Remuneration	Variable Remuneration	Share Options	Others
€266,036	None	None	Non-cash benefits referred to above under 3.2

For the financial year under review these were paid as follows:

Directors' fees including benefits – FY 2015	**€**
John Cassar White	77,177
Alicia Agius Gatt *(appointed on 17 December 2014)*	18,883
Joseph Borg	26,272
Roberto Cassata	17,500
James Grech (*appointed on 17 December 2014*)	19,124
Mario Grima	26,415
George Portanier (*appointed on 17 December 2014*)	18,516
Taddeo Scerri	29,415
Paul Testaferrata Moroni Viani (*resigned on 17 December 2014*)	5,273
George Wells (*resigned on 17 December 2014*)	5,374
Franco Xuereb (*resigned on 17 December 2014*)	5,079
Joseph M Zrinzo	25,061
Total	274,089

Statements of profit or loss for the year ended 30 September 2015

	Note	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
Interest and similar income					
- on loans and advances, balances with Central Bank of Malta and treasury bills	2	157,068	153,430	157,068	153,430
- on debt and other fixed income instruments	2	57,432	59,466	57,432	59,466
Interest expense	3	(69,722)	(86,893)	(69,722)	(86,893)
Net interest income		**144,778**	**126,003**	**144,778**	**126,003**
Fee and commission income		70,922	64,112	62,919	56,834
Fee and commission expense		(8,346)	(8,150)	(8,346)	(8,150)
Net fee and commission income	4	**62,576**	**55,962**	**54,573**	**48,684**
Dividend income		2,352	1,372	12,151	8,496
Trading profits	5	34,067	25,654	34,068	25,621
Net gain on investment securities and hedging instruments	6	3,098	814	3,098	814
Operating income		**246,871**	**209,805**	**248,668**	**209,618**
Employee compensation and benefits	7	(61,700)	(57,537)	(59,994)	(55,891)
General administrative expenses	42	(38,651)	(28,644)	(37,347)	(27,322)
Amortisation of intangible assets	20	(2,574)	(2,202)	(2,574)	(2,202)
Depreciation	21	(5,107)	(5,116)	(5,022)	(5,013)
Net impairment losses	8	(32,710)	(19,431)	(32,666)	(19,408)
Operating profit		**106,129**	**96,875**	**111,065**	**99,782**
Share of results of equity-accounted investees, net of tax	18	11,786	7,227	-	-
Profit before tax	9	**117,915**	**104,102**	**111,065**	**99,782**
Income tax expense	10	(37,971)	(34,718)	(38,715)	(35,336)
Profit for the year		**79,944**	**69,384**	**72,350**	**64,446**
Attributable to:					
Equity holders of the Bank		79,378	68,945	72,350	64,446
Non-controlling interest		566	439	-	-
		79,944	69,384	72,350	64,446
Earnings per share	11	**22c0**	**19c2**	**20c1**	**17c9**

Statements of profit or loss and other comprehensive income

for the year ended 30 September 2015

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
Profit for the year	79,944	69,384	72,350	64,446
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments				
- change in fair value	9,968	6,613	9,968	6,613
deferred tax thereon	(3,488)	(2,314)	(3,488)	(2,314)
- change in fair value transferred to profit or loss	(3,747)	(763)	(3,747)	(763)
deferred tax thereon	1,311	267	1,311	267
Items that will not be reclassified to profit or loss:				
Property revaluation	1,319	809	1,319	809
deferred tax thereon and effect of changes in property tax rates	718	(97)	718	(97)
Remeasurement of actuarial losses on defined benefit plans	(1,451)	(3,028)	(1,451)	(3,028)
deferred tax thereon	508	1,059	508	1,059
Other comprehensive income for the period, net of tax	5,138	2,546	5,138	2,546
Total comprehensive income	85,082	71,930	77,488	66,992
Attributable to:				
Equity holders of the Bank	84,516	71,491	77,488	66,992
Non-controlling interest	566	439	-	-
	85,082	71,930	77,488	66,992

The notes are an integral part of these financial statements.

Statements of financial position

as at 30 September 2015

	Note	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	13	126,652	130,966	126,652	130,966
Financial assets at fair value through profit or loss	14	417,522	527,774	415,558	523,480
Investments	15	3,376,305	2,422,237	3,376,305	2,422,237
Loans and advances to banks	16	1,656,346	1,045,988	1,656,346	1,045,988
Loans and advances to customers at amortised cost	17	4,001,839	3,861,532	4,001,839	3,861,532
Investments in equity-accounted investees	18	96,904	88,553	52,870	52,870
Investments in subsidiary companies	19	-	-	1,230	1,230
Intangible assets	20	12,722	11,642	12,722	11,642
Property and equipment	21	89,801	88,117	89,651	87,888
Current tax		965	-	-	-
Deferred tax	22	86,654	78,550	86,654	78,550
Assets held for realisation	43	11,601	9,755	11,601	9,755
Other assets		2,990	7,659	2,990	7,659
Prepayments and accrued income	23	21,661	24,018	22,094	22,469
Total Assets		**9,901,962**	**8,296,791**	**9,856,512**	**8,256,266**
LIABILITIES					
Financial liabilities at fair value through profit or loss	14	25,077	44,903	25,077	44,903
Amounts owed to banks	24	197,760	86,579	197,760	86,579
Amounts owed to customers	25	8,559,731	7,119,530	8,563,107	7,120,674
Debt securities in issue	26	95,400	95,400	95,400	95,400
Current tax		-	16,090	71	15,934
Deferred tax	22	4,382	5,100	4,382	5,100
Other liabilities	27	172,905	130,168	172,743	130,068
Accruals and deferred income	28	21,317	27,643	20,725	27,174
Derivatives designated for hedge accounting	29	35,201	36,909	35,201	36,909
Subordinated liabilities	30	120,000	120,000	120,000	120,000
Total Liabilities		**9,231,773**	**7,682,322**	**9,234,466**	**7,682,741**
EQUITY					
Called up share capital	31	360,000	330,000	360,000	330,000
Share premium account		988	988	988	988
Revaluation reserves	32	35,217	29,136	35,105	29,024
Retained earnings	32	272,713	253,245	225,953	213,513
Total Equity attributable to equity holders of the Bank		**668,918**	**613,369**	**622,046**	**573,525**
Non-controlling interest		1,271	1,100	-	-
Total Equity		**670,189**	**614,469**	**622,046**	**573,525**
Total Liabilities and Equity		**9,901,962**	**8,296,791**	**9,856,512**	**8,256,266**
MEMORANDUM ITEMS					
Contingent liabilities	33	251,670	233,451	251,670	233,451
Commitments	34	1,612,122	1,647,091	1,612,122	1,647,091

The notes are an integral part of these financial statements. These financial statements were approved by the Board of Directors and authorised for issue on 30 October 2015 and signed on its behalf by:

J. Cassar White
Chairman

J. Borg
Director

C. Borg
Chief Executive Officer

BOV
Bank of Valletta

Statements of changes in equity for the year ended 30 September 2015

	Attributable to Equity holders of the Bank						
	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000	Non-controlling Interest €000	Total Equity €000
The Group							
At 01 October 2013	**300,000**	**988**	**24,621**	**250,735**	**576,344**	**661**	**577,005**
Profit for the year	-	-	-	68,945	**68,945**	439	**69,384**
Other comprehensive income							
Available-for-sale investments							
- change in fair value, net of tax	-	-	4,299	-	**4,299**	-	**4,299**
- change in fair value transferred to profit or loss, net of tax	-	-	(496)	-	**(496)**	-	**(496)**
Property revaluation, net of tax	-	-	712	-	**712**	-	**712**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(1,969)	**(1,969)**	-	**(1,969)**
Total other comprehensive income/(loss)	-	-	4,515	(1,969)	**2,546**	-	**2,546**
Total comprehensive income for the year	-	-	4,515	66,976	**71,491**	439	**71,930**
Transactions with owners, recorded directly in equity:							
Bonus issue	30,000	-	-	(30,000)	**-**	-	**-**
Dividends to equity holders	-	-	-	(34,466)	**(34,466)**	-	**(34,466)**
	30,000	-	-	(64,466)	**(34,466)**	-	**(34,466)**
At 30 September 2014	**330,000**	**988**	**29,136**	**253,245**	**613,369**	**1,100**	**614,469**
Profit for the year	-	-	-	79,378	**79,378**	566	**79,944**
Other comprehensive income							
Available-for-sale investments							
- change in fair value, net of tax	-	-	6,480	-	**6,480**	-	**6,480**
- change in fair value transferred to profit or loss, net of tax	-	-	(2,436)	-	**(2,436)**	-	**(2,436)**
- Property revaluation, net of tax	-	-	2,037	-	**2,037**	-	**2,037**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(943)	**(943)**	-	**(943)**
Total other comprehensive income/(loss)	-	-	6,081	(943)	**5,138**	**-**	**5,138**
Total comprehensive income for the year	-	-	6,081	78,435	**84,516**	566	**85,082**
Transactions with owners, recorded directly in equity:							
Bonus issue	30,000	-	-	(30,000)	**-**	-	**-**
Dividends to equity holders	-	-	-	(28,967)	**(28,967)**	(395)	**(29,362)**
	30,000	-	-	(58,967)	**(28,967)**	(395)	**(29,362)**
At 30 September 2015	**360,000**	**988**	**35,217**	**272,713**	**668,918**	**1,271**	**670,189**

The notes are an integral part of these financial statements.

Statements of changes in equity for the year ended 30 September 2015 (continued)

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
The Bank					
At 01 October 2013	**300,000**	**988**	**24,509**	**215,585**	**541,082**
Profit for the year	-	-	-	64,446	**64,446**
Other comprehensive income					
Available-for-sale investments					
- change in fair value, net of tax	-	-	4,299	-	**4,299**
- change in fair value transferred to profit or loss, net of tax	-	-	(496)	-	**(496)**
Property revaluation, net of tax	-	-	712	-	**712**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(1,969)	**(1,969)**
Total other comprehensive income/(loss)	-	-	4,515	(1,969)	**2,546**
Total comprehensive income for the year	-	-	4,515	62,477	**66,992**
Transactions with owners, recorded directly in equity:					
Accumulated losses on merger of subsidiary	-	-	-	(83)	**(83)**
Bonus issue	30,000	-	-	(30,000)	**-**
Dividends to equity holders	-	-	-	(34,466)	**(34,466)**
	30,000	-	-	(64,549)	**(34,549)**
At 30 September 2014	**330,000**	**988**	**29,024**	**213,513**	**573,525**
Profit for the year	-	-	-	72,350	**72,350**
Other comprehensive income					
Available-for-sale investments					
- change in fair value, net of tax	-	-	6,480	-	**6,480**
- change in fair value transferred to profit or loss, net of tax	-	-	(2,436)	-	**(2,436)**
Property revaluation, net of tax	-	-	2,037	-	**2,037**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(943)	**(943)**
Total other comprehensive income/(loss)	-	-	6,081	(943)	**5,138**
Total comprehensive income for the year	-	-	6,081	71,407	**77,488**
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	**-**
Dividends to equity holders	-	-	-	(28,967)	**(28,967)**
	30,000	-	-	(58,967)	**(28,967)**
At 30 September 2015	**360,000**	**988**	**35,105**	**225,953**	**622,046**

The notes are an integral part of these financial statements.

Statements of cash flows for the year ended 30 September 2015

	Note	The Group		The Bank	
		2015	2014	2015	2014
		€000	€000	€000	€000
Cash flows from operating activities					
Interest and commission receipts		259,455	260,915	251,459	253,631
Interest, commission and compensation payments		(93,171)	(94,418)	(93,214)	(94,614)
Payments to employees and suppliers		(80,704)	(87,908)	(79,677)	(83,392)
Operating profit before changes in operating assets and liabilities		85,580	78,589	78,488	75,625
(Increase)/decrease in operating assets:					
Loans and advances		(322,100)	(245,922)	(322,056)	(245,899)
Reserve deposit with Central Bank of Malta		(15,731)	(8,108)	(15,731)	(8,108)
Fair value through profit or loss financial assets		122,279	52,835	122,279	52,835
Fair value through profit or loss equity instruments		2,930	(616)	600	838
Treasury bills with original maturity of more than 3 months		3,999	33,977	3,999	33,977
Other assets		2,823	(2,008)	2,823	(2,939)
Increase in operating liabilities:					
Amounts owed to banks and to customers		1,300,337	861,532	1,302,569	861,388
Other liabilities		8,790	29,266	8,737	29,321
Net cash from operating activities before tax		1,188,907	799,545	1,181,708	797,038
Tax paid		(64,799)	(32,658)	(64,351)	(33,800)
Net cash from operating activities		1,124,108	766,887	1,117,357	763,238
Cash flows from investing activities					
Dividends received		5,808	4,926	12,151	8,496
Interest received from held-to-maturity debt and other fixed income instruments		58,998	45,394	58,998	45,394
Purchase of equity instruments		(100)	(200)	(100)	(200)
Purchase of debt instruments		(1,560,089)	(1,167,952)	(1,560,089)	(1,167,952)
Proceeds from sale or maturity of debt instruments		706,613	475,452	706,613	475,452
Purchase of property and equipment and intangible assets		(9,132)	(14,649)	(9,119)	(14,570)
Proceeds from disposal of property and equipment		-	8	-	8
Net cash used in investing activities		(797,902)	(657,021)	(791,546)	(653,372)
Cash flows from financing activities					
Dividends paid to Bank's equity holders		(28,967)	(34,466)	(28,967)	(34,466)
Dividends paid to non-controlling interests		(395)	-	-	-
Net cash used in financing activities		(29,362)	(34,466)	(28,967)	(34,466)
Net change in cash and cash equivalents		296,844	75,400	296,844	75,400
Effect of exchange rate changes on cash and cash equivalents		64	-	64	-
Net change in cash and cash equivalents after effect of exchange rate changes		296,780	75,400	296,780	75,400
Net change in cash and cash equivalents		296,844	75,400	296,844	75,400
Cash and cash equivalents at 1 October		1,012,503	937,103	1,012,503	937,103
Cash and cash equivalents at 30 September	36	**1,309,347**	**1,012,503**	**1,309,347**	**1,012,503**

The notes are an integral part of these financial statements.

Notes to the financial statements 30 September 2015

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

Legal Notice 19 of 2009, Accountancy Profession (Accounting and Auditing Standards) Regulations, defines compliance with generally accepted accounting principles and practice as adherence to International Financial Reporting Standards (IFRS) as adopted by the EU for financial periods starting on or after 1 January 2008. These Regulations were deemed to have come into force on 1 October 2008.

Article 4 of Regulation 1606/2002/EC requires that, for each financial year starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with IFRS as adopted by the EU if, at their reporting date, their securities are admitted to trading on a regulated market of any EU Member State. This Regulation prevails over the provisions of the Companies Act, 1995, (Chapter 386, Laws of Malta) to the extent that the said provisions of the Companies Act, 1995, (Chapter 386, Laws of Malta) are incompatible with the provisions of the Regulation.

Consequently, the separate and the consolidated financial statements are prepared in conformity with IFRS as adopted by the EU.

These financial statements have also been prepared in accordance with the provisions of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Companies Act, 1995 (Chapter 386, Laws of Malta).

The financial statements have been prepared on the historical cost basis and assets and liabilities are measured at historical cost except for the following that are measured at fair value: available-for-sale financial assets, financial instruments classified at fair value through profit or loss, derivatives and land and buildings. Additionally, assets held for realisation are measured at fair value less costs to sell.

During the year under review, the Group and the Bank have applied the following International Financial Reporting Standards as adopted by the EU:

On 12 May 2011, the IASB issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. At the same time, the IASB issued a revised version of IAS 27 Separate Financial Statements and a revised version of IAS 28 Investments in Associates and Joint Ventures. For financial statements prepared in accordance with IFRS as adopted by the EU, the new and revised standards are applicable for annual periods beginning on or after 1 January 2014, with earlier application being permitted.

IFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (that is, whether an entity is controlled through voting rights of the investors or otherwise). IFRS 10 supersedes SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

On 20 May 2013, IFRIC 21 Levies was issued. For financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU, IFRIC 21 is applicable for annual periods beginning on or after 7 June 2014. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

On 27 June 2013, the IASB issued an amendment to IAS 39, entitled Novation of Derivatives and Continuation of Hedge Accounting. This amendment is applicable for annual periods beginning on or after 1 January 2014. This narrow-scope amendment to IAS 39 will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

On 29 May 2013, the IASB issued an amendment to IAS 36, entitled Recoverable Amount Disclosures for Non-Financial Assets. This amendment is applicable for annual periods beginning on or after 1 January 2014. This narrow-scope amendment to IAS 36 Impairment of Assets addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

On 31 October 2012, the IASB issued amendments to IFRS 10, IFRS 12 and IAS 27, entitled Investment Entities. The amendments define an investment entity and introduce an exception for investment entity parents from consolidating particular subsidiaries. These amendments require investment entities to measure those subsidiaries at fair value through profit or loss in their consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities. The amendments are effective for annual periods beginning on or after 1 January 2014, with earlier application being permitted.

Notes to the financial statements 30 September 2015 (continued)

1.1 Basis of preparation (continued)

In addition, the following new or amended standards have not yet been endorsed by the EU and are not expected to have a significant impact on the Group's and Bank's financial statements:
- Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38).
- Equity method in Separate Financial Statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Annual improvements to IFRS 2012-2014 Cycle - various standards.
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).
- Disclosure initiative (Amendments to IAS 1).

A number of new International Financial Reporting Standards and amendments and revisions thereto were in issue but not yet effective during the financial year under review. The Directors are assessing the impact that the adoption of these International Financial Reporting Standards will have on the financial statements of the Group and the Bank in the period of initial application. These Standards include the following:

On 24 July 2014, the IASB issued the final version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The Standard supersedes all previous versions of IFRS 9. IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single, forward-looking 'expected loss' impairment model that will require more timely recognition of expected credit losses. IFRS 9 introduces a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. IFRS 9 is applicable for annual periods beginning on or after 1 January 2018, with earlier application being permitted. This Standard had not yet been endorsed by the EU at the date of authorisation of these financial statements. The adoption of IFRS 9 may have a material impact on the Bank's financial statements.

IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. However, this standard has not yet been endorsed by the EU at the date of approval of these financial statements.

The Directors anticipate that the adoption of other International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective, will have no material impact on the financial statements of the Group and the Bank in the period of initial application.

1.2 Basis of consolidation

The Group financial statements comprise the financial statements of Bank of Valletta p.l.c., (the Bank), a limited liability company domiciled and incorporated in Malta, and its subsidiaries. Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The results of subsidiaries are included in the Group financial statements from the date that control commences until the date that control ceases. Intragroup balances, transactions, income and expenses are eliminated on consolidation. Non-controlling interests that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at their present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on an acquisition-by-acquisition basis. After initial recognition, non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

Equity-accounted investees comprise interests in associates. The results and assets and liabilities of equity-accounted investees are incorporated in the Group's financial statements using the equity method of accounting from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Equity-accounted investees are those entities in which the Group has significant influence, but not control or joint control over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement rather than rights to its assets and obligations for its liabilities. The excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities is recognised as goodwill and is included within the carrying amount of the investment and assessed for impairment as part of the investment. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable assets and liabilities, the difference is included as income in the determination of the Group's share of the profit or loss in the period in which the investment is acquired. The significant accounting policies adopted are set out below.

Notes to the financial statements 30 September 2015 (continued)

1.3 Financial assets at fair value through profit or loss, investment securities and loans and receivables

The Group classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss; (ii) investment securities; and (iii) loans and receivables. The classification depends on the purpose for which the investments were acquired.

1.3.1 Financial assets at fair value through profit or loss

This classification includes financial assets classified as held for trading, and those designated at fair value through profit or loss upon initial recognition. Derivatives are categorised as held for trading unless they are designated and effective hedging instruments. Financial assets at fair value through profit or loss are initially recognised and are subsequently measured at fair value based on quoted bid prices in an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. Interest receivable on financial assets at fair value through profit or loss is included with interest and similar income. All related realised and unrealised gains and losses are included in trading profits in the year in which they arise.

Portfolios of over-the-counter derivatives that are exposed to credit risk and are managed by the Group on the basis of the net exposure to credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

1.3.2 Investment securities

Investment securities are classified into two sub-categories: held-to-maturity and available-for-sale financial assets. Non-derivative investment securities, with fixed or determinable payments and fixed maturity, where the Group has both the positive intent and the ability to hold them to maturity, other than those that upon initial recognition are designated as at fair value through profit or loss, those that are designated as available-for-sale financial assets and those that meet the definition of loans and receivables, are classified as held-to-maturity financial assets. Investment securities intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices are classified as available-for-sale financial assets. All investment securities are initially measured at fair value plus transaction costs, if any, that are directly attributable to their acquisition.

Those investment securities classified as available-for-sale financial assets are subsequently measured at fair value based on quoted bid prices in an active market, or by reference to a valuation technique if the market is not active, with the exception of equity instruments that do not have a quoted price in an active market for an identical instrument (i.e. a Level 1 input) and whose fair value cannot be measured reliably which are measured at cost less any impairment losses. Gains and losses arising from changes in the fair value of securities classified as available-for-sale that are not designated as hedged items in a fair value hedge are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary items, until the security is derecognised, at which time the related accumulated fair value adjustments previously recognised in other comprehensive income are included in profit or loss as a reclassification adjustment within net gains or losses on investment securities. With respect to available-for-sale securities that are designated as hedged items in a fair value hedge, gains and losses arising from changes in fair value attributable to the hedged risk are accounted for in profit or loss. Fair value movements attributable to other factors, such as changes in credit status, are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary items. Interest calculated using the effective interest method is recognised in profit or loss.

Those investment securities classified as held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Interest calculated using the effective interest method and impairment losses are recognised in profit or loss.

The Bank, in line with IAS 39, does not classify financial assets as held-to-maturity if it has during the current financial year or during the two preceding years, sold or reclassified more than an insignificant amount of the held-to-maturity portfolio other than sales or reclassifications that are specifically exempted for the purpose of this requirement. Significance is measured in relation to the total amount of held-to-maturity investments.

1.3.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the Group may not recover substantially all of its initial investment other than because of credit deterioration. These mainly comprise loans and advances to banks and customers.

Notes to the financial statements 30 September 2015 (continued)

1.3 Financial assets at fair value through profit or loss, investment securities and loans and receivables (continued)

1.3.3 Loans and receivables (continued)

Loans and receivables are initially measured at fair value plus transaction costs, if any, that are directly attributable to their acquisition, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate.

Impairment
The Group assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets are impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(i) Financial assets carried at amortised cost

The Group considers evidence of impairment for loans and advances at both specific and collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

For held-to-maturity securities carried at amortised cost and quoted in an active market, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate, by reference to the asset's quoted market price.

For individually significant loans and advances, if there is objective evidence that an impairment loss has been incurred, the amount of loss is measured in line with Banking Rule 09 'Measures Addressing Credit Risks arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions Authorised under the Banking Act, 1994 (Chapter 371, Laws of Malta), which is in line with IAS 39. The measurement of the loss amount takes account of the repayment history of the borrower and the value of collateral held against borrowings. Financial assets which do not attract a specific allowance are categorised according to credit risk characteristics and the amount of loss thereon is measured by taking account of the probability of default and loss given default for similar assets, after considering the level of collateral held.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through an allowance account, so that the reversal does not result in a carrying amount that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Impairment losses on restructured / refinanced corporate assets (forbearance)

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

In the case of loans and advances which encounter actual or apparent financial difficulties, the Group may grant a concession where a customer's financial difficulty indicates that with the original terms and conditions of the contract satisfactory repayment may not be possible.

A concession refers to either of the following:
- a modification of the previous terms and conditions of a contract the customer is considered unable to comply with due to its financial difficulties to allow for sufficient debt service ability, that would not have been granted had the customer not been in financial difficulties;
- a total or partial refinancing of a troubled debt contract, that would not have been granted had the customer not been in financial difficulties.

When accounts are classified as 'non-performing' assets, prior to the restructuring, they continue to be assessed for impairment individually taking into account the value of the collateral held as confirmed by professional valuations and the available cash flow to service debt over the period of the restructuring. If classified as 'performing' assets, restructured loans continue to be assessed for impairment collectively for inherent losses under the Group's normal collective assessment methodology.

Notes to the financial statements 30 September 2015 (continued)

1.3 Financial assets at fair value through profit or loss, investment securities and loans and receivables (continued)

1.3.3 Loans and receivables (continued)

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is reclassified from equity and recognised in profit or loss as a reclassification adjustment. The cumulative loss is measured as the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in OCI. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income. The impairment loss on investments in equity instruments that do not have a quoted market price in an active market for an identical instrument (i.e. a Level 1 input) and whose fair value cannot be reliably measured is recognised in profit or loss and is not reversed in a subsequent period.

The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group Credit determines that there is no realistic prospect of recovery.

1.4 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and the definitions of a financial liability and an equity instrument.

Financial liabilities are initially measured at fair value less, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to their issue. Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss, which are measured at fair value.

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and those designated at fair value through profit or loss upon initial recognition. During the current and the previous year, the Group did not designate any financial liabilities as at fair value through profit or loss upon initial recognition. Derivatives are categorised as held for trading, unless they are designated and effective hedging instruments.

Financial liabilities that are measured at amortised cost using the effective interest method include amounts owed to banks, amounts owed to customers, debt securities in issue and subordinated liabilities.

The gain or loss on financial liabilities classified as at fair value through profit or loss is recognised in profit or loss. For financial liabilities carried at amortised cost, the gain or loss is recognised in profit or loss when the financial liability is derecognised and through the amortisation process, whereby any difference between the proceeds net of transaction costs, and the settlement or redemption is recognised over the term of the financial liability.

Equity instruments are recorded at the proceeds received, net of direct issue costs.

1.5 Recognition, derecognition and offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

All loans and receivables are recognised when cash is advanced to borrowers.

All purchases and sales of securities are recognised and derecognised on settlement date, which is the date that an asset is delivered to or by the Group.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset and the transfer qualifies for derecognition. A financial liability is derecognised when it is extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the financial statements 30 September 2015 (continued)

1.6 Classification of financial assets and financial liabilities at fair value through profit or loss upon initial recognition

Financial assets and liabilities are designated at fair value through profit or loss on initial recognition where such designation results in more relevant information because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both, is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management and investment strategy, and information about the group is provided internally on that basis to key management personnel, including the Board of Directors and Chief Executive Officer.

1.7 Derivative financial instruments

Derivative financial instruments are initially recognised and subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets and through the use of discounted cash flow models where an active market does not exist. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Certain derivative instruments are not designated in a hedge relationship for accounting purposes. The Group classifies forward exchange contracts, options and certain interest rate swaps as at fair value through profit or loss, and accordingly any changes in their fair value are included in trading profits.

The Group designates certain interest rate swaps as hedges of the exposure to variability in the fair value of certain available-for-sale financial assets, which arises from interest rate movements. Changes in the fair value of interest rate swaps that are designated and qualify as fair value hedging instruments, together with any changes in the fair value of the hedged items that are attributable to the hedged risk, are recognised in profit or loss.

1.8 Sale and repurchase agreements

Securities sold subject to a linked repurchase agreement ('repos') are retained in the financial statements at fair value through profit or loss or as investment securities, as appropriate, and the counterparty liability is included in amounts owed to banks. Securities purchased under agreements to resell ('reverse repos') are not recognised but the amounts paid are recorded as loans and advances to banks. The difference between sale and repurchase price or purchase and subsequent sale price is recognised over the life of the repo / reverse repo agreements using the effective interest method and is treated as interest.

1.9 Investments in subsidiaries and equity-accounted investees

Investments in subsidiaries and equity-accounted investees are initially included in the Bank's statement of financial position at cost and subsequently at cost less any impairment losses which may have arisen. Interest in equity-accounted investees are accounted for using the equity method at Group level. They are initially recognised at cost, which includes transaction costs. Subsequently, the consolidated financial statements include the Group's share of profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases. Dividends from these investments are recognised in profit or loss when its right to receive dividend is established.

Impairment
At the end of each reporting period, the Bank reviews the carrying amount of its investments in subsidiaries and equity-accounted investees to determine whether there is any indication of impairment, and if any such indication exists, the recoverable amount of the asset is estimated.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment losses and reversals are recognised immediately in profit or loss.

1.10 Property and equipment

Property and equipment are classified into the following classes – land and buildings, IT infrastructure and equipment and other (primarily furniture and fittings).

Notes to the financial statements 30 September 2015 (continued)

1.10 Property and equipment (continued)

Property and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property and equipment is recognised as an expense when incurred.

Subsequent to initial recognition, freehold and long-term leasehold properties are stated in the statement of financial position at revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed 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. Any surpluses arising on such revaluation are recognised in other comprehensive income and accumulated in equity as a revaluation reserve unless they reverse a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. Any deficiencies resulting from decreases in value are deducted from this revaluation reserve to the extent that the balance held in this reserve relating to a previous revaluation of that asset is sufficient to absorb these, and charged to profit or loss thereafter.

Other tangible assets are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

1.11 Intangible assets

Intangible assets comprise externally generated computer software. In determining the classification of an asset that incorporates both intangible and tangible elements, judgement is used in assessing which element is more significant. Computer software which is an integral part of the related hardware is classified as property and equipment and accounted for in accordance with the Group's accounting policy on property and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Computer software is initially measured at cost. It is subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.

Computer software is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

1.12 Depreciation and amortisation

Depreciation on property and equipment and amortisation on intangible assets commence when these assets are available for use and are charged to profit or loss so as to write off the cost or revalued amount of assets, other than land, less any estimated residual value, over their estimated useful life, using the straight line method, on the following bases:

Property and equipment	
Freehold and long-term leasehold buildings	2% per annum
IT infrastructure and equipment	10% - 25% per annum
Other (primarily furniture and fittings)	5% - 33% per annum
Intangible assets	
Computer software	10% - 20% per annum

The depreciation or amortisation method applied, the residual value and the useful life are reviewed at the end of each reporting period and adjusted if appropriate.

1.13 Impairment of property and equipment and intangible assets

At the end of each reporting period, the Group reviews the carrying amount of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use.

Notes to the financial statements 30 September 2015 (continued)

1.13 Impairment of property and equipment and intangible assets (continued)

An impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the loss is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus for that asset.

An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment reversals are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the impairment reversal is recognised in other comprehensive income, unless an impairment loss on the same asset was previously recognised in profit or loss.

1.14 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. In such case, the unwinding of the discount is recognised as finance cost.

A contingent liability is (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised, however, they are disclosed where an inflow of economic benefits is probable.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

1.15 Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if it is highly probable that they will be recovered primarily through a sale transaction rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. An impairment loss is recognised in profit or loss. Non-current assets are not depreciated (or amortised) while they are classified as held for sale or while they are part of a disposal group classified as held for sale.

1.16 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand or with a contractual period to maturity of less than 3 months; advances to banks repayable within 90 days from the date of the advance; balances with the Central Bank of Malta, excluding reserve deposit requirements and treasury bills with an original maturity of less than 3 months. Amounts owed to banks that are repayable on demand or with a contractual period to maturity of less than 3 months and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statements of cash flow.

1.17 Dividends payable

Interim dividends are approved by the directors and recognised when paid. Final dividends are recognised as liability upon approval by the shareholders at the Annual General Meeting.

1.18 Operating segments

An operating segment is a component of an entity (a) that engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. Unallocated items comprise mainly head office expenses and tax assets and liabilities.

Notes to the financial statements 30 September 2015 (continued)

1.19 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Fair value reflects conditions, including but not limited to liquidity in the market, at a specific date and may therefore differ significantly from the amounts which will actually be received on the maturity or settlement date. The Bank's portfolio remains deployed across a wide spread of holdings of moderate duration debt securities issued by quality, credit rated, sovereign, supranational, corporate and financial institutions, as further disclosed in notes 14 and 15 to these financial statements.

The best evidence of fair value of an instrument is a quoted price in an actively traded market for that instrument. The determination of what constitutes an active market is subjective and requires the collation of data and the exercise of judgement. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Bank determines whether active market conditions exist by taking into consideration various characteristics, including:

- a significant decline in volume and level of trading activity;
- significant variations in available prices either over time or among market participants;
- the absence of or stale prices;
- unusually wide bid / offer spreads; and
- exceptionally minimal transactions when compared with the quantum of the issue in question.

Where it is concluded that an active market does not exist a valuation technique is used. The latter gives consideration to transaction prices in inactive markets, however it makes use of other observable market data which include a combination of the following:

- the risk premium of more active instruments of the same issuer, the same type of debt, the same currency and with the same or similar maturity;
- the spreads payable on Credit Default Swaps of the issuer;
- the risk premium over and above the risk free bonds for similarly rated issuers in the same industry sector;
- yield curve or DCF calculations to maturity using appropriate interest rate / discount factors;
- liquidity adjustments to reflect ability to sell asset over a reasonable timeframe; and
- other overall reasonableness tests.

The main assumptions and estimates which management considers when using valuation techniques are the likelihood and expected timing of future cash flows on the instrument, selecting an appropriate discount rate for the instrument and a risk premium. The valuation techniques used by the Bank incorporate all factors that market participants would consider in setting a price and are consistent with accepted economic methodologies for pricing financial instruments.

1.20 Taxation

Income tax expense comprise current and deferred tax and is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is also dealt with in other comprehensive income or in equity, as appropriate.

Current tax
Current tax is based on the taxable result for the year. The taxable result for the year differs from the result as reported in profit or loss because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. Current tax also includes any tax arising from dividends. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is determined under the liability method in respect of all temporary differences between the carrying amount of an asset or liability in the financial statements and its tax base. Deferred tax liabilities are generally recognised for all taxable temporary differences subject to certain exceptions and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is not recognised for temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the forseeable future.

Notes to the financial statements 30 September 2015 (continued)

1.21 Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Group and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised.

Dividend income from investments is recognised when the right to receive payment has been established.

Interest income and expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to that instrument's net carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the instrument but not future credit losses. The calculation includes payments and receipts that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums.

Fees and commissions that are earned on the execution of a significant act (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as an arrangement for the acquisition of shares or other securities) are recognised as revenue when the significant act has been completed. Fees and commissions that are earned as services are provided to the customer are recognised as revenue as the services are provided. Where fees are charged to cover the cost of a continuing service, these are recognised in proportion to the costs required to render the services over the relevant period.

1.22 Foreign currency translation

For the purpose of the consolidated and separate financial statements, the presentation currency is the Euro. The functional currency of the Bank and of all its subsidiaries is the Euro.

In preparing the financial statements of the individual group entities, transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Euro at the rates of exchange ruling at the end of the reporting period. Gains and losses arising from such translation are dealt with in profit or loss and presented with trading income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euro at the exchange rate ruling on the date the fair value was measured. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are not retranslated.

1.23 Employee benefits

The Group and the Bank contribute towards the state pension in accordance with local legislation. The only obligation of the Group and the Bank is to make the required contribution. Costs are expensed in the year in which they are incurred in profit or loss.

For the Group's and the Bank's defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with estimations being carried out at each reporting date. Past service cost is recognised as an expense at the earlier of the following dates (a) when the plan amendment or curtailment occurs and (b) when the entity recognises related restructuring costs or termination benefits. The amount recognised in the statement of financial position represents the present value of the expected future payments required to settle the obligation resulting from employee service in the current and prior periods. The service cost and the net interest on the net defined benefit liability are recognised in profit or loss. Remeasurements of the net defined benefit liability, comprising actuarial gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss in a subsequent period. Such remeasurements are reflected immediately in retained earnings. Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from experience adjustments and the effects of changes in actuarial assumptions. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Due to the nature of the actuarial assumptions, in accordance with the provisions of IAS 19, the Group and the Bank did not involve a qualified actuary in the measurement of their post-employment benefit obligations.

1.24 Judgements in applying accounting policies and key sources of estimation uncertainty

The amounts recognised in the financial statements are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of financial statements. The judgements made by management in applying the Group's and the Bank's accounting policies that have the most significant effect on the amounts recognised in the financial statements, together with information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are either disclosed below or in the remaining notes to these financial statements.

Notes to the financial statements 30 September 2015 (continued)

1.24 Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

1.24.1 Impairment losses on loans and advances

The Group reviews its loan portfolio on an ongoing basis to assess whether there is any objective evidence of impairment. Objective evidence that individual loans and advances are impaired includes observable data that comes to the attention of the Group about loss events, such as repayments falling into arrears, a deterioration in the financial situation of the principal debtor or guarantor, economic conditions which may adversely affect the borrower's business activity or market, technological change and changes in the fair value of collateral. With respect to a group of loans and receivables, loss events include probabilities of default associated with the credit status of that group and measurable economic conditions which may influence future cash flows from the assessed loans. Management uses estimates based on historical loss experience for assets with credit risk characteristics similar to those of the assessed group when forecasting future cash flows. The exercise of judgement is an inherent aspect in assessing provisions required and is applied in determing the underlying value of collateral held and the period over which colleteral or other projected cashflows are expected to be realised. For collective provisioning estimation uncertainty is mainly around the application of probability of default of loans with similar credit risk characteristics. The methodology and assumptions for estimating the amount and timing of future cash flows are reviewed regularly in light of actual loss experience.

1.24.2 Portfolio valuation

The Group measure portfolios of financial assets and finacial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, then it takes into account any existing arrangements that mitigate the credit risk exposure - e.g. master netting agreements with the counterparty.

1.24.3 Fair value of financial instruments not quoted in active markets

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. Periodically, the Group calibrates these valuation techniques and tests them for validity. Where possible the valuation techniques used by the Group make use of observable data and incorporate all factors that market participants would consider in setting a price and are consistent with accepted economic methodologies for pricing financial instruments. Management is required to make certain assumptions and estimates in arriving at an appropriate fair value, based on available observable market data. A change in assumptions could affect the reported fair value of these financial instruments. Further disclosures are provided in note 39.

1.24.4 Impairment losses on held-to-maturity investments and available-for-sale investments

In the case of financial assets that are either classified as held-to-maturity investments or as available-for-sale investments, objective evidence of impairment includes observable data about the following loss events, as applicable – significant financial difficulty of the issuer (or counterparty), a breach of contract, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market for that financial asset because of financial difficulties or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets. In addition to the above loss events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates or a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost. The determination of these loss events is based on the analysis of the amortised cost amount against the fair value of the individual security to assess whether declines in value is indicative of impairment.

1.24.5 Fair value of land and buildings

The fair value of the Group's and the Bank's land and buildings is determined by using valuation techniques as further disclosed in Note 21. In arriving at an estimate of fair value at the end of the reporting period, the Group and the Bank make use of significant unobservable inputs. A change in such inputs could affect the reported fair value of these land and buildings.

1.24.6 Classification of facilities as forborne

Management follows the European Banking Authority technical standard in identifying performing / non-performing exposures and in determining forborne exposures. Judgement is exercised in determining whether the modification of the original terms of a facility are granted, because of financial difficulties, which would result in the exposure being classified as forborne.

Notes to the financial statements 30 September 2015 (continued)

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
2. INTEREST AND SIMILAR INCOME				
On loans and advances to banks	986	755	986	755
On loans and advances to customers	157,096	151,460	157,096	151,460
On balances with Central Bank of Malta	(1,031)	993	(1,031)	993
On treasury bills	17	222	17	222
	157,068	153,430	157,068	153,430
On debt and other fixed income instruments				
- available-for-sale	12,636	13,565	12,636	13,565
- held-to-maturity	45,695	42,569	45,695	42,569
- fair value through profit or loss	9,758	12,408	9,758	12,408
	68,089	68,542	68,089	68,542
Amortisation of discounts and premiums				
- available-for-sale	(913)	(818)	(913)	(818)
- held-to-maturity	(9,744)	(8,258)	(9,744)	(8,258)
	(10,657)	(9,076)	(10,657)	(9,076)
	57,432	59,466	57,432	59,466
	214,500	212,896	214,500	212,896
3. INTEREST EXPENSE				
On amounts owed to banks	5,283	3,176	5,283	3,176
On interest rate swaps	11,123	14,498	11,123	14,498
On amounts owed to customers	42,922	58,825	42,922	58,825
On debt securities in issue	4,359	4,359	4,359	4,359
On subordinated liabilities	6,035	6,035	6,035	6,035
	69,722	86,893	69,722	86,893
4. NET FEE AND COMMISSION INCOME				
On loans and advances, similar activities and local business	30,045	27,949	30,045	27,949
On trust, life assurance, fund management and similar activities	19,435	17,497	11,432	10,219
On other activities	13,096	10,516	13,096	10,516
	62,576	55,962	54,573	48,684
5. TRADING PROFITS				
Profit on foreign exchange activities	22,361	17,465	22,368	17,459
Fair value movements and net gains on sale of financial instruments at fair value through profit or loss	11,706	8,189	11,700	8,162
	34,067	25,654	34,068	25,621

Notes to the financial statements 30 September 2015 (continued)

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
6. NET GAIN ON INVESTMENT SECURITIES AND HEDGING INSTRUMENTS				
Available-for-sale assets				
- net gain on disposal	3,747	763	3,747	763
- net revaluation gain attributable to hedged risk	3,205	5,720	3,205	5,720
	6,952	6,483	6,952	6,483
Derivative financial instruments				
- net loss on derivative financial instruments held for hedging	(3,854)	(5,669)	(3,854)	(5,669)
	3,098	814	3,098	814
7. EMPLOYEE COMPENSATION AND BENEFITS				
Employee compensation and benefits				
- wages and salaries	46,478	45,520	44,871	43,973
- social security costs	2,923	2,903	2,824	2,804
- retirement benefits	8,792	5,052	8,792	5,052
- other staff costs	3,507	4,062	3,507	4,062
	61,700	57,537	59,994	55,891

	The Group		The Bank	
	2015	2014	2015	2014
	No. of persons	No. of persons	No. of persons	No. of persons
The average number of employees are analysed as follows:				
Managerial	544	547	527	530
Supervisory and clerical	877	852	843	821
Others	51	54	46	50
	1,472	1,453	1,416	1,401

Notes to the financial statements 30 September 2015 (continued)

8. NET IMPAIRMENT LOSSES

	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
Write downs:				
Loans and advances to customers				
- specific allowances	89,317	22,516	89,317	22,516
- collective allowances	8,910	15,242	8,910	15,242
- bad debts written off	5,897	1,743	5,853	1,720
	104,124	39,501	104,080	39,478
Reversals of write-downs:				
Loans and advances to customers				
- specific allowances	(19,200)	(11,982)	(19,200)	(11,982)
- collective allowances	(50,161)	(5,907)	(50,161)	(5,907)
- bad debts recovered	(2,053)	(2,181)	(2,053)	(2,181)
	(71,414)	(20,070)	(71,414)	(20,070)
Net impairment losses	32,710	19,431	32,666	19,408

During the financial year ended 30 September 2015 the Bank has adopted a new provisioning methodology which focuses more on the assessment of individual exposures, rather than a collective assessment. Collective allowances have been retained for losses incurred on performing exposures but cannot as yet be specifically identified. Those exposures which are deemed to carry a particular specific risk, are now subjected to an assessment to estimate the specific provision required. This new methodology resulted in €44m of provisions previously treated as collective provisions now deemed to be individual in nature.

9. PROFIT BEFORE TAX

	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
Profit before tax is stated after charging:				
Total remuneration payable to the external auditors of the parent company				
- the audit of financial statements	201	219	177	194
- other assurance services	29	24	27	24
- other services	6	163	6	163
	236	406	210	381
Directors' emoluments:				
- fees	274	275	274	275
- directors' salaries as full-time bank employees	51	57	51	57
	325	332	325	332
Compensation to other key management personnel is analysed as follows:				
- other fees	46	26	-	-
- short term employee benefits	498	511	498	511
	544	537	498	511
Total remuneration for directors and other key management personnel	869	869	823	843

Notes to the financial statements 30 September 2015 (continued)

10. INCOME TAX EXPENSE

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
Current	47,744	44,051	48,488	44,669
Deferred	(9,773)	(9,333)	(9,773)	(9,333)
	37,971	34,718	38,715	35,336

The charge for income tax is based on the taxable profit for the year at a rate of 35%. The income tax expense and the product of accounting profit multiplied by the statutory domestic income tax rate are reconciled as follows:

	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
Profit before tax	117,915	104,102	111,065	99,782
Tax at the applicable rate of 35%	41,270	36,436	38,873	34,924
Tax effect of:				
Exempt and untaxed dividends	(100)	(117)	(1,065)	(541)
Share of results of equity-accounted investees	(4,125)	(2,529)	-	-
Withholding tax on property sales	(36)	(12)	(36)	(12)
Depreciation on premises	286	373	286	373
Non-deductable expenses	34	33	34	33
Investment holdings	231	(21)	231	(21)
Actuarial losses on defined benefit plans	386	575	386	575
Other differences	25	(20)	6	5
Income tax expense	37,971	34,718	38,715	35,336

11. EARNINGS PER SHARE

	The Group		The Bank	
	2015	2014	2015	2014
	cents per share	cents per share	cents per share	cents per share
Earnings per share	22c0	19c2	20c1	17c9

The earnings per share for the Group and the Bank have been calculated on the profits attributable to shareholders of the Group and the Bank, as shown in the statements of profit or loss, divided by the number of shares in issue. The calculation of the earnings per share for all periods presented was adjusted retrospectively in view of the increase in the number of ordinary shares outstanding as a result of the bonus issue of shares, as disclosed in note 31.

Earnings per share was calculated on profit attributable to shareholders of the Group €79,378,000 (2014: €68,945,000) and the Bank €72,350,000 (2014: €64,446,000) divided by 360,000,000 shares outstanding as at 30 September 2015.

Notes to the financial statements 30 September 2015 (continued)

12. DIVIDENDS

The amount of dividends recognised as distributions to equity holders during the year, and the related amount per share, are as follows:

	The Bank			
	2015	2014	2015	2014
	cents per share	cents per share	€000	€000
Gross of income tax				
- prior year's final paid	8.5	10.8	30,525	39,000
- interim paid	3.9	3.9	14,040	14,025
	12.4	14.7	44,565	53,025
Net of income tax				
- prior year's final paid	5.5	7.0	19,841	25,350
- interim paid	2.5	2.5	9,126	9,116
	8.0	9.5	28,967	34,466

The calculation of the dividend per share for all periods presented was adjusted retrospectively in view of the increase in the number of ordinary shares outstanding as at 30 September 2015 as a result of the bonus issue of shares, as disclosed in note 31.

For tax purposes, the dividend is being paid out of profits taxed at 35% (2014: 35%).

In respect of the current year, the directors propose that a final gross ordinary dividend of €0.085 per share amounting to €30.6 million (net ordinary dividend of €0.055 per share - €19.9 million) be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the register of members on 18 December 2015.

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
13. BALANCES WITH CENTRAL BANK OF MALTA, TREASURY BILLS AND CASH				
Balances with Central Bank of Malta	79,284	63,404	79,284	63,404
Malta Government Treasury Bills	6,002	29,999	6,002	29,999
Cash	41,366	37,563	41,366	37,563
	126,652	130,966	126,652	130,966

Balances with the Central Bank of Malta include Reserve Deposit amounting to €79.1 million (2014: €63.4 million) in respect of both the Group and the Bank, in terms of Regulation (EC) No. 1745/2003 of the European Central Bank.

Notes to the financial statements 30 September 2015 (continued)

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
14. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Financial assets at fair value through profit or loss				
Financial assets classified as held for trading:				
Derivative financial instruments	15,156	18,169	15,156	18,169
Financial assets designated at fair value through profit or loss:				
Debt and other fixed income instruments	275,935	392,248	275,935	392,248
Equity and other non-fixed income instruments	77,210	68,761	75,246	64,467
Loans and advances to customers (note 17)	49,221	48,596	49,221	48,596
	402,366	509,605	400,402	505,311
	417,522	527,774	415,558	523,480

No financial assets at fair value through profit or loss have been pledged against the provision of credit lines by the Central Bank of Malta (2014: €70 million) .

Financial liabilities at fair value through profit or loss				
Financial liabilities classified as held for trading:				
Derivative financial instruments	25,077	44,903	25,077	44,903

14.1 Debt and other fixed income instruments

Issued by public bodies				
- local general government	70,809	116,196	70,809	116,196
- foreign general government	38,443	38,508	38,443	38,508
	109,252	154,704	109,252	154,704
Issued by other issuers				
- local banks	3,662	3,691	3,662	3,691
- foreign banks	102,593	165,086	102,593	165,086
- foreign other	50,570	58,855	50,570	58,855
- local other	9,858	9,912	9,858	9,912
	166,683	237,544	166,683	237,544
	275,935	392,248	275,935	392,248
Listing status				
- listed on Malta Stock Exchange	84,329	129,802	84,329	129,799
- listed elsewhere	168,505	240,259	168,505	240,259
- foreign unlisted	23,101	22,187	23,101	22,190
	275,935	392,248	275,935	392,248
Summary of movements during the year:				
At the beginning of the year	392,248	441,826	392,248	441,826
Acquisitions	64,731	123,097	64,731	123,097
Disposals	(183,997)	(182,690)	(183,997)	(182,690)
Movement in fair value	(2,077)	5,329	(2,077)	5,329
Exchange adjustment	5,030	4,686	5,030	4,686
At the end of the year	275,935	392,248	275,935	392,248

Notes to the financial statements 30 September 2015 (continued)

14. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
14.2 Equity and other non-fixed income instruments				
Issued by other issuers				
- local banks	598	621	598	621
- foreign banks	2,084	1,633	2,084	1,633
- foreign other	38,568	37,841	38,568	37,841
- local other	35,960	28,666	33,996	24,372
	77,210	68,761	75,246	64,467
Listing status				
- listed on Malta Stock Exchange	36,561	29,273	34,597	24,993
- listed elsewhere	16,622	8,937	16,622	8,937
- foreign unlisted	24,027	30,551	24,027	30,537
	77,210	68,761	75,246	64,467
Summary of movements during the year:				
At the beginning of the year	68,761	66,362	64,467	63,522
Acquisitions	7,900	31,690	7,900	30,236
Disposals	(10,830)	(31,074)	(8,500)	(31,074)
Movement in fair value	10,947	1,369	10,947	1,369
Exchange adjustment	432	414	432	414
At the end of the year	77,210	68,761	75,246	64,467

14.3 Derivative financial instruments

Fair value of assets	15,156	18,169	15,156	18,169
Fair value of liabilities	25,077	44,903	25,077	44,903

The above comprise over-the-counter forward exchange contracts and interest rate swaps that have not been designated as hedging instruments stated at fair value with notional amounts analysed with remaining life as follows:

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
- less than 3 months	788,851	637,129	788,851	637,129
- between 3 months and 1 year	29,943	79,483	29,943	79,483
- more than 1 year	221,857	198,127	221,857	198,127
	1,040,651	914,739	1,040,651	914,739

Notes to the financial statements 30 September 2015 (continued)

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
15. INVESTMENTS				
Debt and other fixed income instruments				
- available-for-sale	257,453	290,726	257,453	290,726
- held-to-maturity	3,117,808	2,130,567	3,117,808	2,130,567
Equity and other non-fixed income instruments				
- available-for-sale	1,044	944	1,044	944
	3,376,305	2,422,237	3,376,305	2,422,237

Investments with a nominal value of €86.1 million (2014: €96.5 million) have been pledged against the provision of credit lines by the Central Bank of Malta.

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
15.1 Debt and other fixed income instruments available-for-sale				
Issued by public bodies				
- local general government	168,572	193,273	168,572	193,273
- local public sector	84,854	67,703	84,854	67,703
Issued by other issuers				
- foreign banks	4,027	3,967	4,027	3,967
- foreign others	-	25,783	-	25,783
	257,453	290,726	257,453	290,726
Listing status				
- listed on Malta Stock Exchange	253,426	260,976	253,426	260,976
- listed elsewhere	-	25,783	-	25,783
- foreign unlisted	4,027	3,967	4,027	3,967
	257,453	290,726	257,453	290,726
Summary of movements during the year:				
At the beginning of the year	290,726	312,663	290,726	312,663
Acquisitions	27,319	24,515	27,319	24,515
Disposals	(77,879)	(34,587)	(77,879)	(34,587)
Redeemed	(5,893)	(29,405)	(5,893)	(29,405)
Amortisation	(913)	(818)	(913)	(818)
Movement in fair value	9,429	11,639	9,429	11,639
Profit on disposal	3,747	763	3,747	763
Exchange adjustment	10,917	5,956	10,917	5,956
At the end of the year	257,453	290,726	257,453	290,726

Notes to the financial statements 30 September 2015 (continued)

15. INVESTMENTS (continued)

15.2 Debt and other fixed income instruments held-to-maturity

	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
Issued by public bodies				
- local general government	566,137	570,344	566,137	570,344
- foreign general government	454,641	197,182	454,641	197,182
	1,020,778	767,526	1,020,778	767,526
Issued by other issuers				
- foreign banks	1,439,507	1,085,301	1,439,507	1,085,301
- foreign other	657,523	277,740	657,523	277,740
	2,097,030	1,363,041	2,097,030	1,363,041
	3,117,808	2,130,567	3,117,808	2,130,567
Listing status				
- listed on Malta Stock Exchange	566,137	570,344	566,137	570,344
- listed elsewhere	1,889,877	1,115,114	1,889,877	1,115,114
- foreign unlisted	661,794	445,109	661,794	445,109
	3,117,808	2,130,567	3,117,808	2,130,567

At 30 September 2015, the fair value of held-to-maturity securities, without deducting transaction costs, amounted to €3,169.5 million (2014: €2,186.5 million).

Summary of movements during the year:	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
At the beginning of the year	2,130,567	1,352,413	2,130,567	1,352,413
Acquisitions	1,532,770	1,143,437	1,532,770	1,143,437
Redemptions	(622,841)	(410,736)	(622,841)	(410,736)
Amortisation	(9,744)	(8,258)	(9,744)	(8,258)
Loss on early redemptions	(9)	(39)	(9)	(39)
Exchange adjustment	87,065	53,750	87,065	53,750
At the end of the year	3,117,808	2,130,567	3,117,808	2,130,567

15.3 Equity and other non-fixed income instruments available-for-sale

	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
Issued by other issuers				
- local other	1,044	944	1,044	944
Listing status				
- local unlisted	1,044	944	1,044	944
	1,044	944	1,044	944
Summary of movements during the year:				
At the beginning of the year	944	744	944	744
Acquisitions	100	200	100	200
At the end of the year	1,044	944	1,044	944

Notes to the financial statements 30 September 2015 (continued)

16. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
Repayable on call and at short notice	390,506	302,874	390,506	302,874
Term placements with Central Bank of Malta	887,629	293,688	887,629	293,688
Term placements with other banks	359,461	433,147	359,461	433,147
Cheques in course of collection	18,750	16,279	18,750	16,279
	1,656,346	1,045,988	1,656,346	1,045,988

Balances with Central Bank of Malta with a value of €9.1million (2014: €9.1million) have been pledged in favour of the Depositor Compensation Scheme.

Balances with a value of of €69.9 million (2014: €51.9 million) were held as collateral against derivative contracts.

17. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
Repayable on call and at short notice	564,017	611,156	564,017	611,156
Term loans and advances	3,676,132	3,461,230	3,676,132	3,461,230
	4,240,149	4,072,386	4,240,149	4,072,386
Less impairment losses	(238,310)	(210,854)	(238,310)	(210,854)
Net loans and advances at amortised cost	4,001,839	3,861,532	4,001,839	3,861,532
Loans and advances designated at fair value through profit or loss (note 14)	49,221	48,596	49,221	48,596
Total loans and advances	4,051,060	3,910,128	4,051,060	3,910,128
Impairment losses				
- individually assessed allowances	220,272	151,565	220,272	151,565
- collective allowances	18,038	59,289	18,038	59,289
	238,310	210,854	238,310	210,854

The balance of individually assessed allowances at the reporting date includes €78.8million (2014: €80.2million) in respect of interest in suspense which has been netted off against interest receivable.

During the financial year ending 2015, the Bank has adopted a new provisioning methodology which focuses more on the assessment of individual exposures, rather than a collective assessment. Collective allowances have been retained for losses incurred on performing exposures but cannot as yet be specifically identified. Those exposures which are deemed to carry a particular specific risk, are now subjected to an assessment to estimate the specific provision required. This new methodology resulted in €44m of provisions previously treated as collective provisions now deemed to be individual in nature.

Notes to the financial statements 30 September 2015 (continued)

18. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
At the beginning of the year	88,553	84,880	52,870	52,870
Share of results, net of tax	11,786	7,227	-	-
Dividend received	(3,435)	(3,554)	-	-
At the end of the year	96,904	88,553	52,870	52,870
Amounts include:				
Local listed	25,243	22,670	22,304	22,304
Local unlisted	71,661	65,883	30,566	30,566
	96,904	88,553	52,870	52,870

On the historical cost basis, shares in equity-accounted investees of the Group, would have been included at a cost of €52.9 million (2014: €52.9 million).

The fair value of the equity-accounted investees that is publicly quoted amounted to €65.2 million at 30 September 2015 (2014: €26.8 million).

The fair value measurement is a Level 1 input.

	Equity Interest		Class	Incorporated in	Nature of Business
	2015	2014			
Name of company	%	%			
Mapfre Middlesea p.l.c.	31.08	31.08	Ordinary	Malta	Insurance
MSV Life p.l.c.*	50.00	50.00	Ordinary	Malta	Life Assurance

	Group's share of results	
	2015	2014
Name of company	€000	€000
Mapfre Middlesea p.l.c.	3,667	2,426
MSV Life p.l.c.	8,119	4,801
	11,786	7,227

*A further 15.54% (2014: 15.54%) is held indirectly via another equity-accounted investee. Although the Bank has an effective participating interest of 65.54% (2014: 65.54%), it does not exercise control over the financial and operating decisions of the entity as it only has the right for equal representation on the Board of Directors of the company together with the other shareholders. Furthermore, as from 1 October 2011 the Bank is deemed to exercise significant influence on MSV Life p.l.c. as opposed to joint control as a result of a shareholders' agreement which gives the other shareholder control and as from financial year 2012 it is being treated as an equity-accounted investee.

The financial statements of the equity-accounted investees are prepared to 31 December. Given that it was impracticable to obtain financial statements to the Group's year end, the published June 2015 interim financial statements were used as a basis to determine the Group's share of results to 30 September 2015.

The registered addresses of the above undertakings are as follows:

Mapfre Middlesea p.l.c.	Middlesea House, Floriana FRN 1442, Malta
MSV Life p.l.c.	Level 7, The Mall, Floriana FRN 1420, Malta

Notes to the financial statements 30 September 2015 (continued)

18. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES (continued)

Summarised financial information extracted from the published interim condensed financial statements as at 30 June 2015 in respect of the equity-accounted investees:

	Equity-accounted investees 2015 €000	Equity-accounted investees 2014 €000
Total assets	1,747,824	1,518,143
Total liabilities	1,591,460	1,377,253
Revenues	196,359	127,684
Results for the period	9,770	5,933

	The Group	
	2015 €000	2014 €000
Share of net assets of equity-accounted investees	96,904	88,553
Share of results of equity-accounted investees	11,786	7,227

The share of results of equity-accounted investees comprise the Group's share of profits and the Group's share of the movement in the valuation of the in-force business of these entities, for the twelve month period June 2014 to June 2015.

The judgements made by the equity-accounted investees and the key sources of estimation uncertainties are disclosed below:

Estimate of in-force business

Assumptions
The value of in-force business is determined by the directors of the equity-accounted investee based on the advice of the entity's consulting actuaries. The valuation represents the discounted value of projected future transfers to shareholders from policies in force at the year end, after making provision for taxation. In determining this valuation, assumptions relating to future mortality, persistence and levels of expenses are based on experience of the type of business concerned. Gross investment returns assumed vary depending upon the mix of investments held by the entity and expected market conditions. The value depends on assumptions made regarding future economic and demographic experience. The impact of the change of the present value of in-force accounts was 21% of the result for the year. The PVIF represents 33% of the carrying value of the investments in equity-accounted investees.

This valuation assumes a spread of 2% (2014: 2%) between the weighted average projected investment return and the risk adjusted discount factor applied of 7.5% (2014: 7.5%). The calculation also assumes lapse rates varying from 0.5% to 8% per annum (2014: 0.5% to 8% per annum) and an expense inflation rate of 3.5% (2014: 3.5%).

Changes in assumptions
Assumptions are reviewed on an annual basis to reflect the development of experience and to improve on the reliability of the estimation process.

Ultimate liability arising from claims made under insurance contracts
There are several sources of uncertainty that need to be considered in the estimate of the liability that the equity-accounted investees will ultimately pay for such claims. In particular insurance risks including exposure to liability can span over more than one accounting year, and this increases the uncertainty surrounding the estimate for final settlement.

In calculating the estimated cost of unpaid claims, the equity-accounted investees uses a combination of estimation techniques, based partly on known information at year end, partly on statistical analysis of historical experience and on actuarial valuations carried out by an independant external actuary.

Notes to the financial statements 30 September 2015 (continued)

19. INVESTMENTS IN SUBSIDIARY COMPANIES

	Equity interest		Class	Incorporated in	Nature of Business
	2015	2014			
Name of company	%	%			
Valletta Fund Management Limited	*60	60	Ordinary	Malta	Fund Management
Valletta Fund Services Limited	100	100	Ordinary	Malta	Fund Administration

	The Bank	
	2015	2014
Name of company	€000	€000
Valletta Fund Management Limited	481	481
Valletta Fund Services Limited	749	749
	1,230	1,230

The registered address of the above unlisted undertakings is as follows:

Valletta Fund Management Limited	TG Complex, Suite 2, Level 3, Brewery Street, Mriehel BKR 3000
Valletta Fund Services Limited	TG Complex, Suite 2, Level 3, Brewery Street, Mriehel BKR 3000

All subsidiaries prepare their financial statements to the same date, 30 September.

*The total assets and liabilites of Valletta Fund Management Limited amounted to €4.8 million (2014: €3.7 million) and €1.6 million (2014: €0.9 million) respectively. Profit for the year amounted to €1.4 million (2014: €1.1 million).

20. INTANGIBLE ASSETS

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
Software				
Cost				
1 October	21,907	19,558	21,907	19,558
Additions	3,654	2,349	3,654	2,349
30 September	25,561	21,907	25,561	21,907
Accumulated amortisation				
1 October	10,265	8,063	10,265	8,063
Charge for the year	2,574	2,202	2,574	2,202
30 September	12,839	10,265	12,839	10,265
Carrying amount at 30 September	12,722	11,642	12,722	11,642
Future capital expenditure:				
- contracted but not provided for in the financial statements	376	236	376	236
- authorised by the directors but not contracted for	908	3,074	908	3,074

Notes to the financial statements 30 September 2015 (continued)

21. PROPERTY AND EQUIPMENT

	Land and buildings €000	IT infrastructure and equipment €000	Other €000	Total €000
The Group				
Cost or valuation				
1 October 2013	76,508	15,601	25,474	117,583
Additions	8,074	2,638	1,588	12,300
Disposals	-	-	(83)	(83)
Revaluation	809	-	-	809
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
Accumulated depreciation				
1 October 2013	11,760	8,330	17,370	37,460
Provision for the year	1,067	2,419	1,630	5,116
Disposals	-	-	(83)	(83)
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
Carrying amount at:				
1 October 2013	64,748	7,271	8,104	80,123
30 September 2014	72,564	7,490	8,063	88,117
30 September 2015	74,743	7,213	7,845	89,801

Notes to the financial statements 30 September 2015 (continued)

21. PROPERTY AND EQUIPMENT (continued)

	Land and buildings €000	IT infrastructure and equipment €000	Other €000	Total €000
The Bank				
Cost or valuation				
1 October 2013	76,474	14,956	24,039	115,469
Additions	8,074	2,638	1,509	12,221
Disposals	-	-	(83)	(83)
Revaluation	809	-	-	809
30 September 2014	85,357	17,594	25,465	128,416
Additions	1,680	2,366	1,419	5,465
Revaluation	1,319	-	-	1,319
30 September 2015	88,356	19,960	26,884	135,200
Accumulated depreciation				
1 October 2013	11,672	7,507	16,418	35,597
Provision for the year	1,067	2,419	1,527	5,013
Disposals	-	-	(83)	(83)
30 September 2014	12,739	9,926	17,862	40,527
Provision for the year	820	2,642	1,560	5,022
30 September 2015	13,559	12,568	19,422	45,549
Carrying amount at:				
1 October 2013	64,802	7,449	7,621	79,872
30 September 2014	72,618	7,668	7,602	87,888
30 September 2015	74,797	7,392	7,462	89,651

	The Group		The Bank	
	2015 €000	2014 €000	2015 €000	2014 €000
Carrying amount of land and buildings occupied for own use	74,743	72,564	74,797	72,618
Future capital expenditure:				
- contracted but not provided for in the financial statements	3,612	3,500	3,612	3,500
- authorised by the directors but not contracted for	-	2,657	-	2,657

Land and buildings are revalued by a professionally qualified architect in accordance with the policy documented in Note 1. 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:
2015: Group and Bank €43.7 million (2014: Group and Bank €42.9 million).

Property valuations are mainly valued 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. The income is arrived at by analysing a number of estate agent listings for comparative properties and determining a mean rental value rate. The valuation techniques were consistent with those applied for the year ended 30 September 2014. Revaluations are carried out during the year and as at 30 September 2015 there were no material changes from date of valuation.

Notes to the financial statements 30 September 2015 (continued)

21. PROPERTY AND EQUIPMENT (continued)

Property fair value measurement is classified as Level 3. Significant unobservable inputs used in the valuation of these properties is the rental income for office space and the percentage capitalisation rate which indicates the multiplier relationship between Net Rental Income and Property Value. Further details about these significant inputs are summarised in the table below:

	Significant unobservable input	Narrative sensitivity
Buildings in Commercial Area	Price per square metre, ranging from EUR 98/sqm to EUR 788/sqm	The higher the price per square metre the higher the fair value
	Capitalisation rate, ranging from 5% to 8%	The higher the capitalisation rate the lower the fair value
Buildings in Residential Area	Price per square metre, ranging from EUR 55/sqm to EUR 250/sqm	The higher the price per square metre the higher the fair value
	Capitalisation rate, ranging from 5.5% to 6.5%	The higher the capitalisation rate the lower the fair value

	The Group		The Bank	
	2015	2014	2015	2014
22. DEFERRED TAX	€000	€000	€000	€000

22. DEFERRED TAX

Deferred taxation is analysed as follows:

	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
Net deferred tax asset arising on:				
Fair value movement of financial instruments	(4,605)	(2,428)	(4,605)	(2,428)
Impairment losses	85,384	75,775	85,384	75,775
Allowance for employee benefits	8,825	7,811	8,825	7,811
Excess of capital allowances over depreciation	(4,529)	(4,182)	(4,529)	(4,182)
Defined benefit plans	1,567	1,059	1,567	1,059
Other temporary differences	12	515	12	515
	86,654	78,550	86,654	78,550
Deferred tax liability arising on:				
Property revaluation	4,382	5,100	4,382	5,100

	The Group and the Bank			
	At 1 October 2014	Recognised in profit or loss	Recognised in equity	At 30 September 2015
	€000	€000	€000	€000
Movement in temporary differences relating to:				
Fair value movement of financial instruments	(2,428)	-	(2,177)	(4,605)
Impairment losses	75,775	9,609	-	85,384
Allowance for employee benefits	7,811	1,014	-	8,825
Excess of capital allowances over depreciation	(4,182)	(347)	-	(4,529)
Defined benefit plans	1,059	-	508	1,567
Property revaluation	(5,100)	-	718	(4,382)
Other temporary differences	515	(503)	-	12
	73,450	9,773	(951)	82,272

Notes to the financial statements 30 September 2015 (continued)

22. DEFERRED TAX (continued)

	The Group and the Bank			
	At 1 October 2013	Recognised in profit or loss	Recognised in equity	At 30 September 2014
	€000	€000	€000	€000
Movement in temporary differences relating to:				
Fair value movement of financial instruments	(381)	-	(2,047)	(2,428)
Impairment losses	64,112	11,663	-	75,775
Allowance for employee benefits	8,096	(285)	-	7,811
Excess of capital allowances over depreciation	(3,519)	(663)	-	(4,182)
Defined benefit plans	-	-	1,059	1,059
Property revaluation	(5,003)	-	(97)	(5,100)
Other temporary differences	1,897	(1,382)	-	515
	65,202	9,333	(1,085)	73,450

The Group's deferred tax assets and liabilities on the statement of financial position have not been off-set to the extent that there is no legally enforceable right of set-off with the tax authorities.

23. PREPAYMENTS AND ACCRUED INCOME

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
Accrued income	20,061	21,487	20,061	21,487
Prepayments	1,600	2,531	2,033	982
	21,661	24,018	22,094	22,469

24. AMOUNTS OWED TO BANKS

Term deposits	95,608	56,533	95,608	56,533
Repayable on demand	102,152	30,046	102,152	30,046
	197,760	86,579	197,760	86,579

25. AMOUNTS OWED TO CUSTOMERS

Term deposits	2,248,019	2,479,797	2,248,019	2,479,797
Repayable on demand	6,311,712	4,639,733	6,315,088	4,640,877
	8,559,731	7,119,530	8,563,107	7,120,674

26. DEBT SECURITIES IN ISSUE

4.80% Euro debt securities	55,400	55,400	55,400	55,400
4.25% Euro debt securities	40,000	40,000	40,000	40,000
	95,400	95,400	95,400	95,400

The 4.8% Euro unsubordinated bonds are redeemable at par on 27 August 2018 and are listed on the Malta Stock Exchange. The fair value of these unsecured bonds as at 30 September 2015 is €58.3 million (2014: €58.7 million).

The 4.25% Euro unsubordinated bonds are redeemable at par on 17 May 2019 and are listed on the Malta Stock Exchange. The fair value of these unsecured bonds as at 30 September 2015 is €42.1 million (2014: €41.4 million).

Notes to the financial statements 30 September 2015 (continued)

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
27. OTHER LIABILITIES				
Post employment and termination liabilities (see note 35)	26,666	25,346	26,666	25,346
Cash collateral for commitments	32,933	19,228	32,933	19,228
Deposits from companies in formation	9,448	6,852	9,448	6,852
Bills payable	43,938	37,933	43,938	37,933
Accruals and deferred income	18,859	8,840	18,859	8,840
Payment orders outwards	20,424	10,968	20,424	10,968
Other	20,637	21,001	20,475	20,901
	172,905	130,168	172,743	130,068
28. ACCRUALS AND DEFERRED INCOME				
Accrued interest	21,317	27,643	20,725	27,174
29. DERIVATIVES DESIGNATED FOR HEDGE ACCOUNTING				
Derivative financial instruments designated as fair value hedges	35,201	36,909	35,201	36,909

The above comprise over-the-counter interest rate swaps stated at fair value with notional amounts analysed by remaining life as follows:

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
- less than 3 months	4,700	-	4,700	-
- between 3 months and 1 year	8,304	-	8,304	-
- more than 1 year	138,133	144,730	138,133	144,730

30. SUBORDINATED LIABILITIES

	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
5.35% Euro subordinated unsecured bonds	50,000	50,000	50,000	50,000
4.80% Euro subordinated unsecured bonds	70,000	70,000	70,000	70,000
	120,000	120,000	120,000	120,000

The 5.35% Euro subordinated bonds are redeemable at par on 15 June 2019 and are listed on the Malta Stock Exchange. The fair value of these unsecured bonds as at 30 September 2015 is €53.4 million (2014: €53.5 million).

The 4.8% Euro subordinated bonds are redeemable at par on 15 March 2020 and are listed on the Malta Stock Exchange. The fair value of these unsecured bonds as at 30 September 2015 is €75.3 million (2014: €73.2 million).

	The Bank	
	2015	2014
	€000	€000
31. SHARE CAPITAL		
Share capital		
Authorised:		
500,000,000 Ordinary shares of €1.00 each	500,000	500,000
(2014: 500,000,000 Ordinary shares of €1.00 each)		
Issued and paid up:		
360,000,000 Ordinary shares of €1.00 each fully paid	360,000	330,000
(2014: 330,000,000 Ordinary shares of €1.00 each fully paid)		

Notes to the financial statements 30 September 2015 (continued)

31. SHARE CAPITAL (continued)

On 16 January 2015 the Bank made a bonus issue of 30 million fully paid ordinary shares of a nominal value of €1.00 per share, representing one bonus share for every 11 shares held, thereby increasing the issued share capital from 330 million shares to 360 million shares, resulting in a paid up capital of €360 million.

On 17 January 2014 the Bank made a bonus issue of 30 million fully paid ordinary shares of a nominal value of €1.00 per share, representing one bonus share for every 10 shares held, thereby increasing the issued share capital from 300 million shares to 330 million shares, resulting in a paid up capital of €330 million.

32. OTHER RESERVES

Retained Earnings
Retained earnings represent the profits retained over the years and primarily comprise the profit attributable to equity holders after deducting dividends paid and transfers to share capital in respect of bonus issues. This reserve also includes the amount held in respect of General Banking Reserves.

General Banking Reserves
The revised Banking Rule 09 requires banks in Malta to hold additional reserves for general banking risks against non-performing loans. This reserve is required to be funded from planned dividend. As at the reporting date, in line with the three year transitionary rules, this reserve amounts to €4.4 million.

Revaluation Reserves
Revaluation reserves represent fair value movements on land and buildings and available-for-sale investments, net of tax, which are recognised in Other Comprehensive Income.

	The Group	The Bank
	€000	€000
On land and buildings:		
1 October 2013	23,880	23,850
Property revaluation	809	809
Deferred tax	(97)	(97)
30 September 2014	24,592	24,562
Property revaluation	1,319	1,319
Deferred tax and effect of changes in property tax rates	718	718
30 September 2015	**26,629**	**26,599**
On available-for-sale investments:		
1 October 2013	741	659
Fair value adjustments	6,613	6,613
Transfer to profit or loss on disposal	(763)	(763)
Deferred tax	(2,047)	(2,047)
30 September 2014	4,544	4,462
Fair value adjustments	9,968	9,968
Transfer to profit or loss on disposal	(3,747)	(3,747)
Deferred tax	(2,177)	(2,177)
30 September 2015	**8,588**	**8,506**
Total	**35,217**	**35,105**

Notes to the financial statements 30 September 2015 (continued)

33. CONTINGENT LIABILITIES

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
Acceptances and endorsements	1,768	2,642	1,768	2,642
Guarantees	225,936	210,239	225,936	210,239
Provision for default on forward contracts	13,288	10,161	13,288	10,161
Other contingent liabilities	10,678	10,409	10,678	10,409
	251,670	233,451	251,670	233,451

Contingent liabilities are backed by corresponding obligations from third parties.

34. COMMITMENTS

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
Documentary credits	153,299	76,615	153,299	76,615
Undrawn formal standby facilities, credit facilities and other commitments to lend	1,429,943	1,537,510	1,429,943	1,537,510
Capital expenditure contracted but not provided for in the financial statements	3,988	3,736	3,988	3,736
Commitments to financial institutions	24,892	29,230	24,892	29,230
	1,612,122	1,647,091	1,612,122	1,647,091

35. POST EMPLOYMENT AND TERMINATION LIABILITIES

The Group's and the Bank's major post-employment benefit plan (the "plan") applies to eligible individuals. The benefits provided to the individuals in terms of the plan are computed on a specified formula which takes into consideration, amongst other things, the employees' salary on retirement and the pension entitlement in terms of Maltese law. The provision is computed in accordance with the accounting policy for post-employment benefit plans.

This provision represents the Group's and the Bank's obligation
(i) discounted to the net present value at the rate which has been determined by reference to market yields at the end of the reporting period on Malta government bonds (the Directors consider this to be an appropriate proxy to a high quality corporate bond),
(ii) after considering the life expectancy of such employees based on the latest publicly available mortality tables,
(iii) the expected terminal salaries, and
(iv) the Bank's expectations of the employees' retirement date. The provision in relation to this plan accounts for 87% (2014 – 87%) of the year end provision for employee and termination benefits in Note 27.

The Group and the Bank also operate an early retirement scheme whereby accepted applicants are given a lump sum payment of three times their terminal salary, or are paid two thirds of their terminal salary on a monthly basis until reaching retirement age.

Furthermore, the Group and the Bank makes payments to certain eligible employees in consideration of the liquidation of a defunct pension scheme.

Notes to the financial statements 30 September 2015 (continued)

35. POST EMPLOYMENT AND TERMINATION LIABILITIES (continued)

The movement in the plans may be analysed as follows:

	The Group and the Bank	
Post Employment and Termination Liabilities	**2015**	**2014**
	€000	**€000**
Present value at 1 October	25,346	23,132
Payments effected	(8,923)	(5,866)
Recognised in profit or loss:		
- Interest expense	1,455	927
- Service cost	3	8
- Terminal benefits	7,334	4,117
Remeasurement of actuarial gains and losses recognised in other comprehensive income resulting from:		
- Experience adjustments	(32)	(178)
- Changes in financial assumptions	1,290	3,062
- Changes in demographic assumptions	193	144
Present value at 30 September	26,666	25,346

The year-end obligation in relation to the plan is mainly in relation to retired employees.

The plan exposes the Group and the Bank to the following main risks:
(i) interest risk, since a decrease in market yields will increase the plan liability
(ii) longevity risk, since an increase in the life expectancy of the plan participants will increase the plan liability.

The significant actuarial assumptions applied by the Group and the Bank in respect of the plan were as follows:

	The Group and the Bank	
	2015	**2014**
Discount rates	1.27%	2.07%
Life expectancy (years):		
Males	78	78
Females	83	83

The Group and the Bank are providing sensitivity analysis in connection with each significant actuarial assumption applied in respect of the plan. These analysis are prepared as of the end of the reporting period, showing how the liability would have been affected by hypothetical changes in the relevant actuarial assumptions that were reasonably possible at that date, while holding all other assumptions constant. The analysis presented below are for illustrative purposes only and may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another. In presenting the sensitivity analysis, the present value of the obligation has been calculated using the projected unit credit method at the end of the reporting period. The amounts generated from the analysis represent forward-looking estimates and hence, actual results in the future may differ materially from those projected results. In accordance with the transitional provisions in the revised IAS 19, the Group and the Bank have not disclosed comparative information in this respect.

- If the discount rate is 100 basis points higher (lower) with all other assumptions held constant, the defined benefit obligation decreases by €1.6m (increases by €1.8m)
- If the life expectancy increases (decreases) by two years for both men and women with all other assumptions held constant, the defined benefit obligation increases by €3.2m (decreases by €3.2m).

The weighted average duration of the liability in respect of the plan at 30 September 2015 is 13 years (2014 :14 years).

The Bank does not fund these pensions by assigning specific assets as there is sufficient liquidity to meet the required payments as these arise.

Notes to the financial statements 30 September 2015 (continued)

	The Group		The Bank	
	2015	**2014**	**2015**	**2014**
	€000	**€000**	**€000**	**€000**
36. NOTES TO THE CASH FLOW STATEMENTS				
Cash	41,366	37,563	41,366	37,563
Balances with Central Bank of Malta (excluding Reserve Deposit)	149	-	149	-
Treasury bills (with original maturity of less than 3 months)	6,002	26,000	6,002	26,000
Money at call and short notice	1,443,337	982,847	1,443,337	982,847
Amounts owed to banks	(181,507)	(33,907)	(181,507)	(33,907)
Cash and cash equivalents included in the cash flow statement	**1,309,347**	**1,012,503**	**1,309,347**	**1,012,503**
Balances with contractual maturity of more than 3 months	196,756	14,468	196,756	14,468
	1,506,103	1,026,971	1,506,103	1,026,971
Equivalent items reported in the statement of financial position:				
Balances with Central Bank of Malta, Treasury bills and cash (excluding Reserve Deposit)	47,517	67,562	47,517	67,562
Loans and advances to banks	1,656,346	1,045,988	1,656,346	1,045,988
Amounts owed to banks	(197,760)	(86,579)	(197,760)	(86,579)
	1,506,103	1,026,971	1,506,103	1,026,971

37. RELATED PARTY TRANSACTIONS

During the current and the prior year, the Group and the Bank entered into transactions during the course of their normal business, with key management personnel, 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 includes the Chairman, Directors, the members of the Management Board and their respective spouses, spousal equivalent and dependents. Prior year figures have been restated to include transactions and balances of spouses, spousal equivalents and dependants and of entities which are linked but not controlled by the Government. Additionally, related party commitments have been disclosed.

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.

Notes to the financial statements 30 September 2015 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

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	2015 Related party transactions		2014 Restated related party transactions	
	€000	% of total	€000	% of total
Interest and similar income: **- on loans and advances, balances with Central Bank of Malta and treasury bills**				
Equity-accounted investees	-		30	
The Government	(454)		1,663	
Government related entities	16,941		17,697	
Key management personnel	6		7	
Other related parties	1,009		1,004	
	17,502	11%	20,401	13%
Interest and similar income: **- on debt and other fixed income instruments**				
The Government	29,213	51%	29,795	50%
Interest expense				
Equity-accounted investees	2,172		2,956	
The Government	114		209	
Government related entities	367		278	
Key management personnel	10		11	
Other related parties	9		47	
	2,672	4%	3,501	4%
Fee and commission income				
Equity-accounted investees	4,851		3,320	
The Government	45		52	
Government related entities	685		627	
Key management personnel	1		2	
Other related parties	15		50	
	5,597	8%	4,051	6%
Employee compensation and benefits				
Key management personnel	869	1%	869	2%
General administrative expenses				
Equity-accounted investees	77		70	
Key management personnel	36		28	
Other related parties	108		105	
	221	1%	203	1%

Notes to the financial statements 30 September 2015 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

	2015 Related party transactions		2014 Restated related party transactions	
	€000	% of total	€000	% of total
Movement in impairment allowances				
Equity-accounted investees	-		(128)	
The Government	(3)		91	
Government related entities	8,823		992	
Other related parties	253		43	
	9,073	28%	998	5%
Balances with Central Bank of Malta, treasury bills and cash				
The Government	85,286	67%	93,403	71%
Financial assets at fair value through profit or loss				
The Government	70,809	17%	116,196	22%
Investments				
The Government	734,709	22%	763,617	32%
Loans and advances to customers				
The Government	16,192		15,536	
Government related entities	499,773		615,847	
Key management personnel	764		888	
Other related parties	20,904		20,904	
	537,633	13%	653,175	17%
Loans and advances to banks				
The Government	925,972	56%	293,688	28%
Impairment allowances				
The Government	(166)		(169)	
Government related entities	(10,019)		(1,196)	
Other related parties	(418)		(165)	
	(10,603)	4%	(1,530)	1%
Amounts owed to customers				
Equity-accounted investees	209,977		182,912	
The Government	86,171		77,511	
Government related entities	178,995		170,701	
Key management personnel	1,312		1,074	
Other related parties	9,464		10,999	
	485,919	6%	443,197	6%
Total Assets less Liabilities				
Equity-accounted investees	(209,977)		(182,912)	
The Government	1,746,631		1,204,760	
Government related entities	310,759		443,950	
Key management personnel	(548)		(186)	
Other related parties	11,022		9,740	
	1,857,887		1,475,352	

Notes to the financial statements 30 September 2015 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

	2015 Related party transactions €000	2015 % of total	2014 Restated related party transactions €000	2014 % of total
Commitments				
Equity-accounted investees	4,329		4,324	
The Government	5,448		5,378	
Government related entities	212,962		162,314	
Key management personnel	731		487	
Other related parties	7,569		16,381	
	231,039	14%	188,884	12%

The Bank

	2015 €000	2015 % of total	2014 €000	2014 % of total
Interest and similar income: - on loans and advances, balances with Central Bank of Malta and treasury bills				
Equity-accounted investees	-		30	
The Government	(454)		1,663	
Government related entities	16,941		17,697	
Key management personnel	6		6	
Other related parties	1,009		1,004	
	17,502	11%	20,400	13%
Interest and similar income: - on debt and other fixed income instruments				
The Government	29,213	51%	29,795	50%
Interest expense				
Equity-accounted investees	2,172		2,956	
The Government	114		209	
Government related entities	367		278	
Key management personnel	9		10	
Other related parties	9		47	
	2,671	4%	3,500	4%
Fee and commission income				
Equity-accounted investees	4,851		3,320	
Subsidiaries	2,542		2,191	
The Government	45		52	
Government related entities	685		627	
Key management personnel	1		2	
Other related parties	15		50	
	8,139	13%	6,242	11%
Dividend income				
Equity-accounted investees	3,832		4,815	
Subsidiaries	5,989		2,307	
	9,821	81%	7,122	84%

Notes to the financial statements 30 September 2015 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

	2015 Related party transactions €000	% of total	2014 Restated related party transactions €000	% of total
Employee compensation and benefits				
Key management personnel	823	1%	843	2%
General administrative expenses				
Equity-accounted investees	77		70	
Key management personnel	36		27	
Other related parties	108		105	
	221	1%	202	1%
Movement in impairment allowances				
Equity-accounted investees	-		(128)	
The Government	(3)		91	
Government related entities	8,823		992	
Other related parties	253		43	
	9,073	28%	998	5%
Balances with Central Bank of Malta, treasury bills and cash				
The Government	85,286	67%	93,403	71%
Financial assets at fair value through profit or loss				
The Government	70,809	17%	116,193	22%
Investments				
The Government	734,709	22%	763,617	32%
Loans and advances to customers				
The Government	16,192		15,536	
Government related entities	499,773		615,847	
Key management personnel	673		783	
Other related parties	20,904		20,904	
	537,542	13%	653,070	17%
Loans and advances to banks				
The Government	925,972	56%	293,688	28%
Impairment allowances				
The Government	(166)		(169)	
Government related entities	(10,019)		(1,196)	
Other related parties	(418)		(165)	
	(10,603)	4%	(1,530)	1%
Amounts owed to customers				
Equity-accounted investees	209,977		182,912	
Subsidiaries	3,376		1,144	
The Government	86,171		77,511	
Government related entities	178,995		170,701	
Key management personnel	1,242		1,002	
Other related parties	9,301		10,944	
	489,062	6%	444,214	6%

Notes to the financial statements 30 September 2015 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

The Bank	2015 Related party transactions €000	% of total	2014 Restated related party transactions €000	% of total
Total Assets less Liabilities				
Equity-accounted investees	(209,977)		(182,912)	
Subsidiaries	(3,376)		(1,144)	
The Government	1,746,631		1,204,757	
Government related entities	310,759		443,950	
Key management personnel	(569)		(219)	
Other related parties	11,185		9,795	
	1,854,653		1,474,227	
Commitments				
Equity-accounted investees	4,329		4,324	
The Government	5,448		5,378	
Government related entities	212,962		162,314	
Key management personnel	708		466	
Other related parties	7,564		16,378	
	231,011	14%	188,860	12%

All outstanding balances are secured except for the following:

	The Group and the Bank 2015 €000	The Group and the Bank 2014 €000
Loans and advances to customers:		
- Key management personnel	32	49
- Other related parties	1,179	573
	1,211	622
Details of guarantees received are disclosed below:		
Loans and advances to customers:		
- Amounts guaranteed by The Government	521,215	542,979

Notes to the financial statements 30 September 2015 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

Loans to and commitments on behalf of directors and other key management personnel (including connected persons):

	The Group		The Bank	
	Loans and advances	Commitments	Loans and advances	Commitments
	€000	€000	€000	€000
Directors				
At 1 October 2013	2,010	245	2,010	245
Additions	140	220	140	220
	2,150	465	2,150	465
Less reductions/repayments	(390)	(10)	(390)	(10)
At 30 September 2014	1,760	455	1,760	455
Additions	204	134	204	111
	1,964	589	1,964	566
Less reductions/repayments	(1,734)	(240)	(1,825)	(240)
At 30 September 2015	230	349	139	326
Other key management personnel (chief officers)				
At 1 October 2013	1,622	8	1,615	8
Additions	97	3	97	3
	1,719	11	1,712	11
Less reductions/repayments	(242)	(8)	(243)	(8)
At 30 September 2014	1,477	3	1,469	3
Additions	275	381	275	381
	1,752	384	1,744	384
Less reductions/repayments	(1,218)	(2)	(1,210)	(2)
At 30 September 2015	534	382	534	382

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.

Notes to the financial statements 30 September 2015 (continued)

38. SEGMENTAL INFORMATION BY CLASSES OF BUSINESS

The Group's reportable segments consist of those which are customer-oriented and those arising on the Group's proprietary business and comprise: (i) credit, deposit-taking and other retail and (ii) financial markets, investments and non-retail.

Interest income is the main revenue generating activity for both segments. The customer-oriented segment also has income derived from fees and commissions and earnings arising on foreign exchange transactions.

	Credit, deposit-taking and other retail		Financial markets, investments and non-retail		Group Total	
	2015	2014	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Net interest income	124,867	110,838	19,911	15,165	144,778	126,003
Net fee and commission income	40,229	35,927	22,347	20,035	62,576	55,962
Trading income	19,092	16,278	3,417	742	22,509	17,020
Income from financial assets at FVTPL	-	-	14,656	9,448	14,656	9,448
Other income	-	-	2,352	1,372	2,352	1,372
Depreciation/amortisation	(3,687)	(4,244)	(3,994)	(3,074)	(7,681)	(7,318)
Other costs	(94,143)	(82,012)	(1,455)	(1,614)	(95,598)	(83,626)
Impairment losses	(32,710)	(19,431)	-	-	(32,710)	(19,431)
Operating profit before share of results of equity-accounted investees	53,648	57,356	57,234	42,074	110,882	99,430
Group share of results after tax of equity-accounted investees	-	-	11,786	7,227	11,786	7,227
Common costs					(4,753)	(2,555)
Group profit before tax					117,915	104,102
ASSETS						
Total assets	4,072,723	3,934,146	5,527,604	4,078,368	9,600,327	8,012,514
Property and equipment and Intangible assets	71,594	62,546	22,609	22,564	94,203	85,110
Additions to property and equipment and intangible assets	8,219	14,503	913	146	9,132	14,649
Unallocated assets	-	-	-	-	101,396	95,965
Carrying value of equity-accounted investees	-	-	96,904	88,553	96,904	88,553
Total Assets					9,901,962	8,296,791
LIABILITIES						
Total liabilities	8,581,049	7,147,172	474,402	399,982	9,055,451	7,547,154
Unallocated liabilities					176,322	135,168
Total Liabilities					9,231,773	7,682,322

The revenue which is reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2014: nil).

The accounting policies of the reportable segments are the same as the group's accounting policies described in note 1. Segments' operating profit represents the profit earned by each segment without allocation of common costs, results of equity-accounted investees, and income tax expense.

Notes to the financial statements 30 September 2015 (continued)

38. SEGMENTAL INFORMATION BY CLASSES OF BUSINESS (continued)

For the purpose of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments other than deferred tax, other assets and other liabilities.

There are no material activities which are carried out outside Malta.

39. FINANCIAL RISK MANAGEMENT

39.1 Use of financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods, and seeks to earn interest margins by investing these funds in high-quality assets. The Group 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 Group also seeks to increase its interest margins through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve both on-balance sheet loans and advances, as well as guarantees and other commitments such as performance and other bonds and letters of credit.

The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. Foreign exchange and interest rate exposures are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Given that the difference between the Group and the Bank balances in respect of financial instruments, and the corresponding effect on the income statement and reserves in respect thereof, are not material, references in this note to the Group are to be construed as references to the Bank, unless otherwise stated.

The principal areas of financial risk are detailed below:

39.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Financial assets which could potentially expose the Group to credit risk, mainly include balances with Central Bank of Malta, treasury bills and cash, derivative financial assets, debt and other fixed income instruments, and loans and advances to banks and customers.

39.2.1 Credit risk management and exposure

(i) Loans and advances

The purpose of credit risk management is to keep credit risk exposure to a permissible level relative to capital, to maintain the soundness of assets, and to ensure that returns are commensurate with risk. This leads to a loan portfolio that achieves high returns on capital and assets.

Credit risk is managed and controlled throughout the Bank on the basis of established credit processes, and within a framework of credit policy and delegated authorities based on responsibility, skill and experience.

Credit grading and monitoring systems are in place to accommodate the early identification and management of deterioration in loan quality. In addition, the credit management process is underpinned by an independent system of credit review.

Credit risk analysis is carried out on two levels: the single name; and the bank's lending portfolio review. The Bank uses a number of tools to limit its exposure to undue credit risk. These include the application of:

- High-level credit policies designed to ensure a balanced and managed approach to the identification and mitigation of credit risk;
- Lending guidelines defining the responsibilities of lending officers that seek to provide a disciplined and focused benchmark for credit decisions;
- Independent reviews of credit exposures;
- Sector caps, encompassing both industry and specific product types, to communicate the Board's risk appetite for specific types of business;
- Establishment and maintenance of large exposures and provisioning policies in accordance with regulatory reporting requirements; and
- Communication and provision of general guidance on all credit-related risk issues, including regulatory changes to promote consistent and best practice throughout the Bank.

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

(i) Loans and advances (continued)

Where possible the Bank aims to reduce and control risk concentrations. Broadly stated, concentration results when the Bank has a high level of exposure to a single or related group of borrowers, credit exposures secured by a single security, or credit exposures with common characteristics within an industry, such that adverse developments in this exposure would be damaging to the Bank.

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. The Bank has systems in place to identify material concentrations in the loan portfolio, and to ensure adherence to prudential limits set by the Board of Directors and/or the regulators to single borrowers or groups of related borrowers and other significant risk concentrations. The CEO and the Board of Directors are regularly informed on the concentration of the Bank's portfolio.

The following industry concentrations in connection with loans and advances to banks and customers are considered significant:

	The Group	
	2015	2014
	€000	€000
Agriculture	8,309	7,877
Fishing	2,158	812
Mining and quarrying	3,931	3,187
Manufacturing	143,990	148,974
Electricity, gas, steam and air conditioning supply	86,314	173,093
Water supply, sewerage waste management and remediation activities	30,092	31,491
Construction	274,586	291,370
Wholesale and retail trade	391,087	375,691
Transportation and storage	283,370	311,804
Accommodation and food service activities	224,698	244,612
Information and communication	35,229	38,368
Financial and insurance activities	395,140	313,438
Real estate activities	263,526	232,118
Professional, scientific and technical activities	23,100	22,749
Administrative and support service activities	60,300	59,627
Public administration and defence, compulsory social security	16,738	17,567
Education	13,483	13,579
Human health and social work activities	19,036	17,950
Arts, entertainment and recreation	37,499	42,955
Other services activities	18,535	17,502
Households and individuals	1,958,249	1,756,218
Loans and advances to customers	4,289,370	4,120,982
Loans and advances to banks	1,656,346	1,045,988
	5,945,716	5,166,970

(ii) Other financial assets

The credit risk in respect of other financial assets is mitigated through limits set in the Treasury Management Policy. The Bank assigns limits on the level of credit risk undertaken in relation to any single counterparty or sovereign exposure in accordance with external ratings based on Fitch's ratings or on those of other major rating agencies.

Changes in credit ratings are monitored on a daily basis and are subject to frequent review, when considered necessary. The limits on the level of credit risk are reviewed consistently and approved by the Board of Directors at regular intervals. Actual exposures are monitored against limits on an on going basis. The Bank enters into security transactions only with such authorised counterparties

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

(ii) Other financial assets (continued)

and it invests only in securities or paper with credit quality within specific parameters stated in the Treasury Management Policy.

The level of concentration in respect of other significant financial assets is disclosed in the remaining notes to the financial statements.

Maximum exposure
The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk without taking account of the value of any collateral obtained, except as disclosed below:

Financial guarantees
The maximum exposure to credit risk is the full amount that the Group would have to pay if the guarantees are called upon.

Loan commitments
The maximum exposure to credit risk arising on loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities is the full amount of the committed facilities.

Collateral and other credit enhancements
Credit risk mitigation is one of the key elements of the Group's credit policy. This includes the requirement to obtain collateral, depending on the nature of the proposal, as set out in the Bank's policies and procedures. The nature and level of collateral required depends on a number of factors, including, but not limited to the amount of the exposure, the type of facility provided, the term of the facility, the amount of the counterparty's contribution and an evaluation of the level of the credit risk or probability of default involved.

Security values are reviewed on a regular basis and are also re-assessed at time of default if it is found that the carrying value of the collateral item could have materially changed since last valuation. The Bank calculates the value of collateral as the market value less a haircut, with the latter representing a conservative estimate of the costs to sell and the potential loss of value in a forced sale scenario. The haircut that the Bank applies on immovable property, which is the main type of collateral taken by the Bank, currently amounts to 30% on market value of commercial property and 10% on market value of residential property. For financial instruments, haircuts are calculated according to the risk profile of each individual security and depend on a number of variables including price volatility and liquidity/marketability of the instrument.

The table below shows the financial effect and main types of collateral held against the Group's customer loan exposures:

The Group **As at 30 September 2015**	**Loans and advances to customers**	**Undrawn credit facilities and other commitments to lend**
	€000	**€000**
Loans collateralised by:		
Prime bank guarantees	5,880	1,957
Cash or quasi cash	124,423	41,412
Guarantees and/or letters of comfort issued by the Malta Government, the Central Bank of Malta or public agencies	540,397	179,860
Guarantees by prime institutions	3,879	1,291
Residential property	1,700,292	565,909
Commercial property	825,452	274,736
Personal guarantees and others	191,821	63,844
	3,392,144	**1,129,009**

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

(ii) Other financial assets (continued)

The Group	Loans and advances to customers	Undrawn credit facilities and other commitments to lend
As at 30 September 2014	**€000**	**€000**
Loans collateralised by:		
Prime bank guarantees	6,542	49,949
Cash or quasi cash	116,121	85,921
Guarantees and/or letters of comfort issued by the Malta Government, the Central Bank of Malta or public agencies	543,544	226,235
Guarantees by prime institutions	551	182
Residential property	1,544,494	554,826
Commercial property	848,773	326,435
Personal guarantees and others	214,485	118,212
	3,274,510	**1,361,760**

Residential lending

The table below stratifies credit exposures, covered by residential property, to retail customers by ranges of loan-to-value ('LTV'). LTV is calculated as the ratio of the gross amount of loan or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for these loans is based on the collateral value at origination updated based on changes in house price indices.

Residential lending and commitments for residential lending

	2015	2014
	€000	**€000**
Less than 25%	156,478	164,902
25% to 50%	492,432	498,926
51% to 75%	682,012	618,454
76% to 90%	935,279	817,039
	2,266,201	**2,099,320**

Settlement Risk

The Group's activity may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed. Settlement risk in respect of security transactions is mitigated through settlement limits assigned to counterparties based on external credit ratings or by effecting payment on a delivery versus payment (DVP) basis.

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 Credit Quality

(i) Debt securities and other bills by rating agency (Fitch) designation

The Group	Balances with CBM and Treasury Bills €000	Debt Securities €000	Loans and Advances to Banks €000	Derivatives €000	Total €000
As at 30 September 2015					
AAA	-	254,448	16,564	632	271,644
AA- to AA+	-	682,370	132,256	591	815,217
A- to A+	-	1,431,352	437,290	7,047	1,875,689
Lower than A-	85,286	1,283,026	1,049,753	4,449	2,422,514
Unrated	-	-	20,483	2,437	22,920
	85,286	3,651,196	1,656,346	15,156	5,407,984
As at 30 September 2014					
AAA	-	130,509	25,163	749	156,421
AA- to AA+	-	528,965	71,971	542	601,478
A- to A+	-	888,948	385,073	11,819	1,285,840
Lower than A-	93,403	1,251,308	517,679	369	1,862,759
Unrated	-	13,811	46,102	4,690	64,603
	93,403	2,813,541	1,045,988	18,169	3,971,101

(ii) Loans and advances to customers analysed into performing and non-performing exposures

	The Group			
Total Gross/Forborne Exposures	Total 2015 €000	of which Forborne 2015 €000	Total 2014 €000	of which Forborne 2014 €000
Performing				
Neither past due nor impaired	3,830,349	69,383	3,689,343	128,029
Past due < 90 days, but not impaired	54,098	1,810	40,864	1,243
	3,884,447	71,193	3,730,207	129,272
Non performing				
Past due > 90 days, but not impaired	122,048	88,236	107,738	75,929
Impaired	282,875	137,440	283,037	163,255
	404,923	225,676	390,775	239,184
Total Gross/Forborne Exposures	4,289,370	296,869	4,120,982	368,456

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 Credit Quality (continued)

(ii) Loans and advances to customers analysed into performing and non-performing exposures (continued)

Impairment Allowances on Total/Forborne Exposures	The Group			
	Total	of which Forborne	Total	of which Forborne
	2015	2015	2014	2014
	€000	€000	€000	€000
Performing				
Neither past due nor impaired	40,852	5,410	42,723	6,308
Past due < 90 days, but not impaired	4,049	202	2,209	47
	44,901	5,612	44,932	6,355
Non performing				
Past due > 90 days, but not impaired	24,952	11,197	14,357	4,887
Impaired	168,457	88,354	151,565	70,005
	193,409	99,551	165,922	74,892
Total Impairment Allowances	238,310	105,163	210,854	81,247

Net Carrying Amounts of Total/Forborne Exposures				
Performing				
Neither past due nor impaired	3,789,497	63,973	3,646,620	121,721
Past due < 90 days, but not impaired	50,049	1,608	38,655	1,196
	3,839,546	65,581	3,685,275	122,917
Non performing				
Past due > 90 days, but not impaired	97,096	77,039	93,381	71,042
Impaired	114,418	49,086	131,472	93,250
	211,514	126,125	224,853	164,292
Total Net Carrying Amounts	4,051,060	191,706	3,910,128	287,209

Interest income recognised during the year 2015 in respect of forborne assets amounts to €16.8 million (2014: €20.2 million).

The tables above analyse the loan book into performing and non-performing exposures together with the related allowances. Impairment allowances comprise both collective and specific.

Gross Forborne Exposures	Modification in Terms	Refinancing	Modification in Terms	Refinancing
	2015	2015	2014	2014
	€000	€000	€000	€000
Performing				
Personal	6,782	808	6,026	1,208
Business	58,390	5,213	115,022	7,016
	65,172	6,021	121,048	8,224
Non performing				
Personal	39,397	1,997	17,295	2,396
Business	180,657	3,625	210,636	8,857
	220,054	5,622	227,931	11,253

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 Credit Quality (continued)

(iii) Loans and advances to customers by internal rating based on the Banking directives/rules

	Loans & Advances	
	2015	2014
	€000	€000
Neither past due nor impaired:		
Regular	3,476,316	3,316,637
Watch list	294,161	293,029
Sub-Standard	59,872	79,677
	3,830,349	3,689,343

The neither past due nor impaired balances include performing forborne facilities.

Past due but not impaired:		
Past due up to 29 days	15,207	14,363
Past due 30 - 59 days	24,761	16,471
Past due 60 - 89 days	14,130	10,030
	54,098	40,864

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Individually impaired gross loans by segment:		
Personal	227,255	98,379
Business	55,620	184,658
	282,875	283,037

Impaired facilities are those credit facilities with payments of interest and/or capital overdue by 90 days or more or where the Group has reasons to doubt the eventual recoverability of funds.

Collateral for impaired loans
As detailed above, a variety of types of collateral are accepted including property, securities, cash, guarantees and insurance.

(iv) Movement in forbearance activity during the year

	Loans & Advances	
	2015	2014
	€000	€000
1 October	368,456	353,352
Additions	23,979	75,827
Retired from forborne	(95,566)	(60,723)
30 September	296,869	368,456

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.3 Movement in allowance accounts for loans and advances to customers

	The Group			
	Individually assessed allowances	Collective allowances	Individually assessed allowances	Collective allowances
	2015	2015	2014	2014
	€000	€000	€000	€000
Change in allowances for uncollectability:				
At 1 October	151,565	59,289	127,582	49,954
Additions	97,059	8,910	39,431	15,242
Reversals	(28,352)	(50,161)	(15,448)	(5,907)
	68,707	(41,251)	23,983	9,335
At 30 September	220,272	18,038	151,565	59,289

During the financial year ending 2015 the Bank has adopted a new provisioning methodology which focuses more on the assessment of individual exposures, rather than a collective assessment. Collective allowances have been retained for losses incurred on performing exposures but cannot as yet be specifically identified. Those exposures which are deemed to carry a particular specific risk, are now subjected to an assessment to estimate the specific provision required. This new methodology resulted in €44m of provisions previously treated as collective provisions now deemed to be individual in nature.

39.2.4 Debt securities

Sovereign Debt

Sovereign risk refers to the risk that a government may default on its obligations, and includes refinancing risk related to the inability to raise capital to repay maturing bonds. The Group monitors sovereign risks through sovereign credit ratings issued by credit rating agencies which include Fitch, Moody's, and S&P. The Treasury Management Policy seeks to mitigate sovereign risk, whether directly or indirectly through exposures to corporate and financial institutions domiciled therein, through investment limits assigned on the basis of the long-term credit rating of such sovereigns. This is further supplemented by in depth economic reviews undertaken periodically and assessments of the fiscal, economic and socio-political aspects upon which such limits are accordingly aligned.

The tables below analyse debt securities by sector, classification and residency.

	The Group and The Bank		
Sector	**Held-to-maturity**	**Available-for-sale**	**Fair Value through Profit or Loss**
	€000	€000	€000
2015			
Banks	1,430,457	4,027	106,254
Central Banks	8,922	-	-
Government	1,020,776	168,631	109,252
Public	-	84,795	-
Others	657,653	-	60,429
	3,117,808	257,453	275,935

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.4 Debt securities - Sovereign Debt (continued)

	The Group and The Bank		
	Held-to-maturity	Available-for-sale	Fair Value through Profit or Loss
	€000	€000	€000
2014			
Banks	1,076,777	3,966	154,874
Central Banks	9,524	-	-
Government	777,482	219,122	168,608
Public	-	67,638	-
Others	266,784	-	68,766
	2,130,567	290,726	392,248

	The Group and The Bank		
Residency	Held-to-maturity	Available-for-sale	Fair Value through Profit or Loss
	€000	€000	€000
2015			
Malta	566,136	253,426	84,329
Monetary Union member states	960,884	-	71,478
Rest of the world	1,590,788	4,027	120,128
	3,117,808	257,453	275,935
2014			
Malta	570,304	260,977	129,724
Monetary Union member states	613,298	-	104,119
Rest of the world	946,965	29,749	158,405
	2,130,567	290,726	392,248

39.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Group monitors and manages this risk by maintaining sufficient cash and, where possible, financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs. The Group is exposed to daily calls on its available cash resources from overnight deposits, current and call deposits, maturing term deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. 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. Unmatched positions potentially enhance profitability, but also increase the risk of losses. In addition, the Group manages its risk to a shortage of funds by monitoring forecast and actual cashflows, by monitoring the availability of raising funds to meet commitments associated with financial instruments and by holding financial assets which are expected to generate cash inflows that will be available to meet cash outflows on liabilities.

The table below analyses Group financial liabilities into relevant maturity groupings, based on the remaining period at the reporting date to the contractual maturity date. The balances in this table will not agree directly to the balances in the statement of financial position as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments. Furthermore, loan commitments do not meet the criteria for recognition in the statement of financial position.

Financial liabilities at fair value through profit or loss and derivatives designated for hedge accounting, disclosed below, represent amounts for which net cash flows are exchanged.

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Group At 30 September 2015	Due within 3 months €000	Due between 3 & 12 months €000	Due between 1 & 5 years €000	Due after 5 years €000	Gross nominal outflow €000
Financial liabilities at fair value through profit or loss	2,373	4,502	16,309	3,206	26,390
Amounts owed to banks	181,643	533	15,843	-	198,019
Amounts owed to customers	7,068,022	1,125,575	411,895	2,471	8,607,963
Debt securities in issue	850	3,509	105,818	-	110,177
Subordinated liabilities	1,338	4,698	141,465	-	147,501
Derivatives designated for hedge accounting	2,648	4,103	13,002	13,930	33,683
Other financial liabilities	165,629	7,613	7,926	14,984	196,152
	7,422,503	**1,150,533**	**712,258**	**34,591**	**9,319,885**
Loan commitments	1,429,943				
At 30 September 2014					
Financial liabilities at fair value through profit or loss	3,297	4,625	16,059	4,647	28,628
Amounts owed to banks	61,086	10,024	15,599	-	86,709
Amounts owed to customers	5,599,631	1,160,923	397,786	2,147	7,160,487
Debt securities in issue	850	3,509	72,837	40,850	118,046
Subordinated liabilities	1,338	4,698	74,140	71,680	151,856
Derivatives designated for hedge accounting	2,764	4,532	13,397	15,671	36,364
Other financial liabilities	140,566	11,222	8,216	16,456	176,460
	5,809,532	**1,199,533**	**598,034**	**151,451**	**7,758,550**
Loan commitments	1,537,510				

Assets available to meet these liabilities, and to cover outstanding commitments, include balances with Central Bank of Malta, treasury bills and cash, cheques in course of collection, loans to banks and to customers and marketable securities and undrawn credit lines.

The table below analyses the assets and liabilities that are recognised in the statement of financial position into relevant maturity groupings, based on the remaining period at the reporting date to their contractual maturity date.

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Group At 30 September 2015	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Carrying amount €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	6,002	-	-	-	120,650	**126,652**
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	32,073	46,681	142,232	54,949	-	**275,935**
- Equity and other non-fixed income instruments	-	-	-	-	77,210	**77,210**
- Loans and advances	-	-	-	49,221	-	**49,221**
- Derivative financial instruments	11,436	862	2,852	6	-	**15,156**
Investments						
- Debt and other fixed income financial instruments						
- available-for-sale	12,155	-	61,430	183,868	-	**257,453**
- held-to-maturity	171,552	420,976	2,305,450	219,830	-	**3,117,808**
- Equity and other non-fixed income instruments						
- available-for-sale	-	-	-	-	1,044	**1,044**
Loans and advances to banks	1,441,529	160,000	-	-	54,817	**1,656,346**
Loans and advances to customers	548,182	116,277	432,884	2,904,496	-	**4,001,839**
Investments in equity-accounted investees	-	-	-	-	96,904	**96,904**
Other assets	-	-	-	-	226,394	**226,394**
	2,222,929	**744,796**	**2,944,848**	**3,412,370**	**577,019**	**9,901,962**
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	4,951	878	7,103	12,145	-	**25,077**
Amounts owed to banks	182,760	-	15,000	-	-	**197,760**
Amounts owed to customers	7,059,553	1,107,476	392,636	66	-	**8,559,731**
Debt securities in issue	-	-	-	95,400	-	**95,400**
Other liabilities	-	-	-	-	198,604	**198,604**
Derivatives held for hedging	5	272	1,797	33,127	-	**35,201**
Subordinated liabilities	-	-	120,000	-	-	**120,000**
Non-controlling interest	-	-	-	-	1,271	**1,271**
Equity holders of the Bank	-	-	-	-	668,918	**668,918**
	7,247,269	**1,108,626**	**536,536**	**140,738**	**868,793**	**9,901,962**

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Group

At 30 September 2014	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Carrying amount €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	29,999	-	-	-	100,967	**130,966**
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	46,989	47,306	204,865	93,088	-	**392,248**
- Equity and other non-fixed income instruments	-	-	-	-	68,761	**68,761**
- Loans and advances	-	-	-	48,596	-	**48,596**
- Derivative financial instruments	8,012	2,951	7,206	-	-	**18,169**
Investments						
- Debt and other fixed income financial instruments						
- available-for-sale	4,856	1,121	77,269	207,480	-	**290,726**
- held-to-maturity	158,094	282,150	1,468,674	221,649	-	**2,130,567**
- Equity and other non-fixed income instruments						
- available-for-sale	-	-	-	-	944	**944**
Loans and advances to banks	986,784	33,825	-	-	25,379	**1,045,988**
Loans and advances to customers	638,867	127,296	407,464	2,687,905	-	**3,861,532**
Investments in equity-accounted investees	-	-	-	-	88,553	**88,553**
Other assets	-	-	-	-	219,741	**219,741**
	1,873,601	**494,649**	**2,165,478**	**3,258,718**	**504,345**	**8,296,791**
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	14,213	3,858	12,801	14,031	-	**44,903**
Amounts owed to banks	68,069	18,510	-	-	-	**86,579**
Amounts owed to customers	5,607,588	1,143,448	368,488	6	-	**7,119,530**
Debt securities in issue	-	-	-	95,400	-	**95,400**
Other liabilities	-	-	-	-	179,001	**179,001**
Derivatives held for hedging	-	-	1,548	35,361	-	**36,909**
Subordinated liabilities	-	-	50,000	70,000	-	**120,000**
Non-controlling interest	-	-	-	-	1,100	**1,100**
Equity holders of the Bank	-	-	-	-	613,369	**613,369**
	5,689,870	**1,165,816**	**432,837**	**214,798**	**793,470**	**8,296,791**

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Bank

At 30 September 2014	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Total €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	6,002	-	-	-	120,650	**126,652**
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	32,073	46,681	142,232	54,949	-	**275,935**
- Equity and other non-fixed income instruments	-	-	-	-	75,246	**75,246**
- Loans and advances	-	-	-	49,221	-	**49,221**
- Derivative financial instruments	11,436	862	2,852	6	-	**15,156**
Investments						
- Debt and other fixed income financial instruments						
- available-for-sale	12,155	-	61,430	183,868	-	**257,453**
- held-to-maturity	171,552	420,976	2,305,450	219,830	-	**3,117,808**
- Equity and other non-fixed income instruments						
- available-for-sale	-	-	-	-	1,044	**1,044**
Loans and advances to banks	1,441,529	160,000	-	-	54,817	**1,656,346**
Loans and advances to customers	548,181	116,277	432,884	2,904,497	-	**4,001,839**
Investments in equity-accounted investees and subsidiaries	-	-	-	-	54,100	**54,100**
Other assets	-	-	-	-	225,712	**225,712**
	2,222,928	**744,796**	**2,944,848**	**3,412,371**	**531,569**	**9,856,512**
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	4,951	878	7,103	12,145	-	**25,077**
Amounts owed to banks	182,760	-	15,000	-	-	**197,760**
Amounts owed to customers	7,062,929	1,107,476	392,636	66	-	**8,563,107**
Debt securities in issue	-	-	95,400	-	-	**95,400**
Other liabilities	-	-	-	-	197,921	**197,921**
Derivatives held for hedging	5	272	1,797	33,127	-	**35,201**
Subordinated liabilities	-	-	120,000	-	-	**120,000**
Equity holders of the Bank	-	-	-	-	622,046	**622,046**
	7,250,645	**1,108,626**	**631,936**	**45,338**	**819,967**	**9,856,512**

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Bank

At 30 September 2014	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Carrying amount €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	29,999	-	-	-	100,967	**130,966**
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	46,989	47,306	204,865	93,088	-	**392,248**
- Equity and other non-fixed income instruments	-	-	-	-	64,467	**64,467**
- Loans and advances	-	-	-	48,596	-	**48,596**
- Derivative financial instruments	8,012	2,951	7,206	-	-	**18,169**
Investments						
- Debt and other fixed income financial instruments						
- available-for-sale	4,856	1,121	77,269	207,480	-	**290,726**
- held-to-maturity	158,094	282,150	1,468,674	221,649	-	**2,130,567**
- Equity and other non-fixed income instruments						
- available-for-sale	-	-	-	-	944	**944**
Loans and advances to banks	986,784	33,825	-	-	25,379	**1,045,988**
Loans and advances to customers	638,867	127,296	407,464	2,687,905	-	**3,861,532**
Investments in equity-accounted investees and subsidiaries	-	-	-	-	54,100	**54,100**
Other assets	-	-	-	-	217,963	**217,963**
	1,873,601	**494,649**	**2,165,478**	**3,258,718**	**463,820**	**8,256,266**
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	14,213	3,858	12,801	14,031	-	**44,903**
Amounts owed to banks	68,069	18,510	-	-	-	**86,579**
Amounts owed to customers	5,608,732	1,143,448	368,488	6	-	**7,120,674**
Debt securities in issue	-	-	95,400	-	-	**95,400**
Other liabilities	-	-	-	-	178,276	**178,276**
Derivatives held for hedging	-	-	1,548	35,361	-	**36,909**
Subordinated liabilities	-	-	50,000	70,000	-	**120,000**
Equity holders of the Bank	-	-	-	-	573,525	**573,525**
	5,691,014	**1,165,816**	**528,237**	**119,398**	**751,801**	**8,256,266**

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

A new requirement introduced in Banking Rule 07 transposing the provisions of the EBA Guidelines on Disclosures of Encumbered and Unencumbered Assets (EBA/GL/2014/03) requires disclosure on asset encumbrance.

This disclosure provides details of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is considered as encumbered when it has been pledged as collateral against an existing liability, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

This disclosure is limited to assets available for Central Bank refinancing and securities that are transferable and is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Asset Encumbrance

	Carrying amount of encumbered gross assets	Fair value of encumbered gross assets	Carrying amount of unencumbered gross assets	Fair value of unencumbered gross assets
	€000	€000	€000	€000
The Group				
At 30 September 2015				
Equity instruments	-	-	78,254	78,254
Debt Securities	135,283	135,283	3,515,913	3,564,929
Loan and advances to customers	-	-	4,001,839	-
Other assets	-	-	2,170,673	-
	135,283	**135,283**	**9,766,679**	**3,643,183**
The Group				
At 30 September 2014				
Equity instruments	-	-	69,705	69,705
Debt Securities	219,992	219,992	2,593,549	2,649,652
Loan and advances to customers	-	-	3,861,532	-
Other assets	-	-	1,455,250	-
	219,992	**219,992**	**7,980,036**	**2,719,357**
Bank				
At 30 September 2015				
Equity instruments	-	-	76,290	76,290
Debt Securities	135,283	135,283	3,515,913	3,564,929
Loan and advances to customers	-	-	4,001,839	-
Other assets	-	-	2,127,187	-
	135,283	**135,283**	**9,721,229**	**3,641,219**
Bank				
At 30 September 2014				
Equity instruments	-	-	65,411	65,411
Debt Securities	219,992	219,992	2,593,549	2,649,652
Loan and advances to customers	-	-	3,861,532	-
Other assets	-	-	1,413,487	-
	219,992	**219,992**	**7,933,979**	**2,715,063**

The Group does not encumber any of the collateral received or any of its debt securities issued.

As at 30 September 2015, the Group and the Bank did not have any outstanding liabilities associated with encumbered assets and collateral received.

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Group and the Bank undertake the following types of encumbrance:

(i) Pledging of debt securities against the provision of credit lines by the Central Bank of Malta; and
(ii) Pledging of balances held with the Central Bank of Malta and debt securities in favour of the Depositor Compensation Scheme.

39.4 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency rate risk and other price risk. It arises in all areas of the Group's activities and is managed by a variety of different techniques as detailed below.

The objective of the Group is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the Bank's status as a leading Bank in providing financial products and services.

The market risk appetite is articulated in the Treasury Management Policy. It is defined as the quantum and composition of market risk that the Bank is currently exposed to and the direction in which the Bank desires to manage this risk. Market risk is managed through limits set in the Treasury Management Policy. The Policy is reviewed by Treasury Department in co-ordination with Risk Management Department and is approved by the Asset and Liability Management Committee (ALCO) and the Board of Directors.

39.4.1 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk arising from financial assets and liabilities with fixed interest rates and to cash flow interest rate risk arising from financial assets and liabilities with floating interest rates. The Group is not directly exposed to interest rate risk on investments in equity instruments. The Group uses interest rate swaps to hedge the interest rate risk of certain financial instruments.

The Group manages this risk by using sensitivity analysis using modified duration and interest rate repricing gaps.

For financial instruments held or issued, the Group has used techniques that measure the change in the fair value and cash flows of the Group's financial instruments at the reporting date for hypothetical changes in the relevant market risk variables. The sensitivity due to changes in the relevant risk variables is set out below. The amounts generated from the analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analysis are for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

The Bank makes use of a variety of measurement techniques including sensitivity analysis using Modified Duration and interest rate risks on economic value and interest margin.

(i) Modified Duration

The Modified Duration is a measure of the price sensitivity to yields. By calculating the Modified Duration, the Bank estimates the impact on profit or loss and capital of changes in the market values of the securities in the treasury portfolio and of the interest rate swaps entered into to hedge the interest rate risk, in response to a parallel shift in yields of 100 basis points. The Modified Duration does not represent a forecast of potential losses in the portfolio, but rather an analysis of how the market value of the treasury portfolio may change in response to a change in interest rates.

In addition, the Bank calculates the Modified Duration on the unhedged fixed securities which are marked to market by major currencies.

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.1 Interest rate risk (continued)

As with most financial management tools, Modified Duration also has its limitations. The market value of a bond is dependent on many variables apart from the duration calculation and rarely correlates perfectly with the duration number. With rates not moving in parallel shifts and the yield curve constantly changing, duration can be used to determine how the market values of bonds may (but not necessarily will) react.

Modified Duration	2015 €000	2014 €000
Impact on profit or loss	7,847	13,015
Impact on capital	5,151	3,003

The nominal amount of floating rate notes as at 30 September 2015 is €2,241.3 million (2014: €1,301.9 million).

(ii) Impact of interest rate risk on economic value

The estimated impact of an immediate 200 basis point increase in yields on economic value for the years ended 30 September 2015 and 2014 is shown below. Economic value is defined as the present value of the expected future cash flows to be generated by the investment portfolios concerned. Impacts have only been shown in one direction but can be assumed to be reasonably symmetrical. Sensitivity analysis is carried out monthly, and sensitivity is expressed as a percentage of the Group's regulatory capital base.

The Group	**2015** **€000**	**2014** **€000**
Impact on capital	1,811	3,796

(iii) Impact of interest rate risk on interest margin

Interest rate risk arising from the different repricing characteristics of the Group's interest-sensitive assets and liabilities, and from the mismatch between interest rate sensitive liabilities and interest rate sensitive assets, is managed centrally by ALCO. Matching assets and liabilities are offset against each other and internal interest rate swaps are also used to close repricing gaps.

The net effect of a 100 basis points increase/decrease on the interest margin for twelve months, arising from repricing gaps, is as follows:

The Group	**2015** **€000**	**2014** **€000**
Net effect on Interest Income for 12 months	23,325	10,960

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.1 Interest rate risk (continued)

(iv) Interest rate repricing gap

The table below summarises the Group's exposure to interest rate risk. Included in the table are Group assets and liabilities, including derivative financial instruments which are principally used to reduce exposure to interest rate risk, categorised by repricing date.

The Group's assets and liabilities are set to reprice as follows:

	Up to 1 Month €000	3 months or less but over 1 month €000	1 year or less but over 3 months €000	Over 1 year €000	Others €000	Total €000
ASSETS						
Balances with Central Bank of Malta, treasury bills and cash	79,285	6,002	-	-	41,365	**126,652**
Fair value assets through profit or loss						
- Debt and other fixed income instruments	54,408	70,239	9,606	140,051	1,631	**275,935**
- Equity and other non-fixed income instruments	-	-	-	-	77,210	**77,210**
- Loans and advances	49,221	-	-	-	-	**49,221**
- Derivative financial instruments	6	800	-	-	14,350	**15,156**
Investments						
- Debt and other fixed income financial instruments						
- available-for-sale	12,154	-	-	245,299	-	**257,453**
- held-to-maturity	693,942	1,551,044	229,885	642,937	-	**3,117,808**
- Equity and other non-fixed income instruments						
- available-for-sale	-	-	-	-	1,044	**1,044**
Loans and advances to banks	1,085,628	-	160,000	-	410,718	**1,656,346**
Loans and advances to customers	3,969,403	1,093	12,409	18,934	-	**4,001,839**
Investments in associates	-	-	-	-	96,904	**96,904**
Other assets	-	-	-	-	226,394	**226,394**
Total 2015	**5,944,047**	**1,629,178**	**411,900**	**1,047,221**	**869,616**	**9,901,962**
Total 2014	4,892,429	1,191,202	259,894	1,173,685	779,581	8,296,791
LIABILITIES and EQUITY						
Financial liabilities at fair value through profit or loss	5,609	1,991	9,131	538	7,808	**25,077**
Amounts owed to banks	45,815	34,793	-	15,000	102,152	**197,760**
Amounts owed to customers	4,563,419	362,799	1,112,118	401,585	2,119,810	**8,559,731**
Debt securities in issue	-	-	-	95,400	-	**95,400**
Other liabilities	-	-	-	-	198,604	**198,604**
Derivatives held for hedging	5	16,433	18,758	5	-	**35,201**
Subordinated liabilities	-	-	-	120,000	-	**120,000**
Non-controlling interest	-	-	-	-	1,271	**1,271**
Equity holders of the Bank	-	-	-	-	668,918	**668,918**
Total 2015	**4,614,848**	**416,016**	**1,140,007**	**632,528**	**3,098,563**	**9,901,962**
Total 2014	4,259,805	454,357	1,187,339	621,000	1,774,290	8,296,791
Interest rate swaps - 2015	**84,548**	**241,213**	**93,848**	**(419,609)**	-	
Interest rate swaps - 2014	85,379	214,659	124,589	(424,627)	-	
Gap - 2015	**1,414,338**	**1,447,886**	**(634,082)**	**(4,372)**	**-**	
Gap - 2014	718,003	951,504	(802,857)	128,059	-	
Cumulative Gap - 2015	**1,414,338**	**2,862,224**	**2,228,142**	**2,223,770**	**-**	
Cumulative Gap - 2014	718,003	1,669,507	866,650	994,709	-	

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.2 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Board of Directors sets limits on the level of exposure by currency and in total, which levels are monitored daily.

The following table summarises the Group's exposure to foreign currency exchange rate risk at 30 September. Included in the table are the Group's assets and liabilities at carrying amounts, analysed into relevant currency groupings.

The Group 30 September 2015	Euro €000	USD €000	GBP €000	AUD €000	Other Currencies €000	Total €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	123,268	1,578	1,411	125	270	**126,652**
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	211,262	50,019	5,861	8,790	3	**275,935**
- Equity and other non-fixed income instruments	63,704	4,031	5,189	-	4,286	**77,210**
- Loans and advances	49,221	-	-	-	-	**49,221**
- Derivative financial instruments	404	8,348	3,923	1,520	961	**15,156**
Investments						
- Debt and other fixed income financial instruments						
- available-for-sale	170,481	85,812	884	276	-	**257,453**
- held-to-maturity	1,732,469	889,916	268,044	166,453	60,926	**3,117,808**
- Equity and other non-fixed income instruments						
- available-for-sale	1,044	-	-	-	-	**1,044**
Loans and advances to banks	1,287,301	106,887	86,493	3,701	171,964	**1,656,346**
Loans and advances to customers	3,934,393	27,157	39,179	-	1,110	**4,001,839**
Other assets	317,131	3,191	1,664	954	358	**323,298**
	7,890,678	**1,176,939**	**412,648**	**181,819**	**239,878**	**9,901,962**
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	17,400	3,646	3,547	374	110	**25,077**
Amounts owed to banks	49,205	108,009	35,177	1,705	3,664	**197,760**
Amounts owed to customers	7,235,210	781,311	360,565	63,503	119,142	**8,559,731**
Debt securities in issue	95,400	-	-	-	-	**95,400**
Other liabilities	172,225	16,893	5,671	1,486	2,330	**198,604**
Derivatives held for hedging	16,458	18,841	(73)	(25)	-	**35,201**
Subordinated liabilities	120,000	-	-	-	-	**120,000**
Equity	689,002	7,797	(2,251)	(7,410)	(16,950)	**670,189**
	8,394,900	**936,497**	**402,636**	**59,633**	**108,296**	**9,901,962**
Net on balance sheet financial position	(504,222)	240,442	10,012	122,186	131,582	
Notional amount of derivative instruments		(260,146)	(15,260)	(113,346)	(112,853)	
Net open position		(19,704)	(5,248)	8,840	18,729	

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.2 Currency risk (continued)

The Group 30 September 2014	Euro €000	USD €000	GBP €000	AUD €000	Other Currencies €000	Total €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	127,571	1,122	1,577	412	284	**130,966**
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	310,175	49,146	17,397	11,974	3,556	**392,248**
- Equity and other non-fixed income instruments	57,600	3,427	7,734	-	-	**68,761**
- Loans and advances	48,596	-	-	-	-	**48,596**
- Derivative financial instruments	2,335	7,082	6,624	1,935	193	**18,169**
Investments						
- Debt and other fixed income financial instruments						
- available-for-sale	195,257	68,525	26,635	309	-	**290,726**
- held-to-maturity	1,070,124	600,360	228,416	182,707	48,960	**2,130,567**
- Equity and other non-fixed income instruments						
- available-for-sale	944	-	-	-	-	**944**
Loans and advances to banks	801,757	118,778	38,392	3,225	83,836	**1,045,988**
Loans and advances to customers	3,772,552	63,008	25,453	-	519	**3,861,532**
Other assets	301,343	2,786	2,336	1,447	382	**308,294**
	6,688,254	**914,234**	**354,564**	**202,009**	**137,730**	**8,296,791**
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	22,616	15,527	6,481	43	236	**44,903**
Amounts owed to banks	60,119	16,785	5,115	570	3,990	**86,579**
Amounts owed to customers	5,949,436	612,803	352,706	63,316	141,269	**7,119,530**
Debt securities in issue	95,400	-	-	-	-	**95,400**
Other liabilities	171,508	1,435	1,885	2,684	1,489	**179,001**
Derivatives held for hedging	17,228	19,779	(73)	(25)	-	**36,909**
Subordinated liabilities	120,000	-	-	-	-	**120,000**
Equity	569,507	40,670	(6,138)	13,860	(3,430)	**614,469**
	7,005,814	**706,999**	**359,976**	**80,448**	**143,554**	**8,296,791**
Net on balance sheet financial position	(317,560)	207,235	(5,412)	121,561	(5,824)	
Notional amount of derivative instruments		(246,864)	2,795	(136,157)	8,163	
Net open position		(39,629)	(2,617)	(14,596)	2,339	

39.4.3 Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity price risks arising from the holding of equity instruments classified either as available for sale or at fair value through profit or loss.

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4.3 Other price risk (continued)

The carrying amounts of financial instruments at the reporting date which could potentially subject the Group to equity price risk are disclosed in the notes to the financial statements.

This risk is monitored and managed by the Risk management function of the Bank, as disclosed in more detail above.

39.5 Transferred financial assets that are not derecognised in their entirety

	The Group and the Bank	
	2015	2014
	€000	€000
Debt securities classified as		
- held-to-maturity	37,537	30,944
	37,537	30,944
Amounts owed to banks	37,537	30,944

These transactions are covered by the TBMA/ISMA Global Repurchase Master Agreement ("the Agreement") and involve the sale of financial assets with a simultaneous agreement to repurchase them at a pre-determined price at a future date. The securities sold comprise financial assets at fair value through profit and loss and investment securities. The counterparty's liability is included in amounts owed to banks. The Group and the Bank continues to recognise the transferred assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the transferred assets being derecognised for accounting purposes.

Each party to a transaction is subject to the events of default listed in the Agreement. In the event that any of the events of default is/are triggered, transactions are immediately terminated. Consequently, performance of the respective obligations of the parties with respect to the delivery of securities, the payment of the repurchase prices for any equivalent securities and the repayment of any cash margin shall become due and payable.

39.6 Fair value of financial instruments

The Group's accounting policy for determining the fair value of financial instruments is described in notes 1.3, 1.19 and 1.24 to these financial statements.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 inputs are unobservable inputs for the asset or liability. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group and the Bank determine when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period.

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.6 Fair value of financial instruments (continued)

Bases of valuing financial assets and liabilities measured at fair value

	Fair value measurement			
	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
The Group				
At 30 September 2015				
Assets				
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	265,139	10,796	-	275,935
- equity and other non-fixed income instruments	59,941	11,950	5,319	77,210
- loans and advances	-	49,221	-	49,221
- derivative financial instruments	-	15,156	-	15,156
Investments				
Debt and other fixed income instruments				
- available-for-sale	168,575	88,878	-	257,453
	493,655	**176,001**	**5,319**	**674,975**
Liabilities				
Financial liabilities at fair value through profit or loss	-	25,077	-	25,077
Derivatives designated for hedge accouting	-	35,201	-	35,201
	-	**60,278**	**-**	**60,278**
The Group				
At 30 September 2014				
Assets				
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	384,671	7,577	-	392,248
- equity and other non-fixed income instruments	48,681	13,876	6,204	68,761
- loans and advances	-	48,596	-	48,596
- derivative financial instruments	-	18,169	-	18,169
Investments				
Debt and other fixed income instruments				
- available-for-sale	219,057	71,669	-	290,726
	652,409	**159,887**	**6,204**	**818,500**
Liabilities				
Financial liabilities at fair value through profit or loss	-	44,903	-	44,903
Derivatives designated for hedge accounting	-	36,909	-	36,909
	-	**81,812**	**-**	**81,812**

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.6 Fair value of financial instruments (continued)

During the year under review financial assets at fair value through profit or loss amounting to €2.9 million were transferred from Level 1 to Level 2 (2014: €3.9 million). The transfer from Level 1 to Level 2 were those that did not have a quoted price in active markets as at 30 September 2015.

Control Framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk taker and that they are appropriately performed and reviewed by competent personnel. To this end, the determination of fair values is a process which is performed by Financial Markets and Investments and reviewed by Finance. Finance establishes the accounting policies and, in conjunction with Financial Markets and Investments, it establishes the procedures governing valuation, and is responsible for ensuring that they comply with all relevant accounting standards. The valuation techniques and procedures applied are subject to a process of due diligence, which process was duly approved by the Board and the Audit Committee and documented accordingly.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to valuation techniques, independent price determination or validation is utilised, to the extent practicable. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Bank sources alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors which are mainly considered are the following:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the end of the reporting period; and
- the manner in which the data was sourced.

In determining the fair values for financial instruments measured at fair value the credit risk adjustment for the counterparty, the Bank or both, as the case may be, is deemed to be immaterial and hence no adjustment to the fair value of financial instruments at fair value through profit or loss was effected.

The Group calculates the credit risk adjustment by applying the probability of default of the counterparty to the expected positive exposure to the counterparty, and multiplying the result by the loss expected in the event of default. The calculation is performed over the life of the potential exposure.

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

(i) Investments - Debt and other fixed income instruments held to maturity
This category of asset is carried at amortised cost. Their fair value is disclosed separately in the respective note to these financial statements.

(ii) Loans and advances to customers
Loans and advances to customers are the largest financial asset held by the Group, and are reported net of allowances to reflect the estimated recoverable amounts. The carrying amount of loans and advances to customers is a reasonable approximation of fair value because these are re-priced to take into account changes in both benchmark rate and credit spreads.

(iii) Loans and advances to banks, balances with Central Bank and Treasury Bills
The majority of these assets reprice or mature in less than 1 year. Hence, their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

(iv) Amounts owed to banks and customers
These liabilities are carried at amortised cost. The majority of these liabilities reprice or mature in less than 1 year. Hence, their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

(v) Debt securities in issue and subordinated liabilities
These liabilities are carried at amortised cost. Their fair value is disclosed separately in the respective notes to these financial statements.

(vi) Other financial liabilities
The fair value of other financial liabilities is not deemed to differ materially from their carrying amount at the respective reporting dates.

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.6 Fair value of financial instruments (continued)

Bases of valuing financial assets and liabilities measured at fair value

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

	Fair value measurement Level 1 €000	Level 2 €000	Level 3 €000	Total €000	Carrying Amount €000
2015					
Financial assets					
Held-to-maturity investments	2,491,217	678,312	-	3,169,529	3,117,808

	Fair value measurement Level 1 €000	Level 2 €000	Level 3 €000	Total €000	Carrying Amount €000
2014					
Financial assets					
Held-to-maturity investments	1,811,749	374,776	-	2,186,525	2,130,567

The reconciliation of Level 3 fair value measurements of financial instruments is disclosed below.

	Fair value through profit or loss		Available-for-sale investments		
	Debt and other fixed income instruments €000	Equity and other non-fixed income instruments €000	Debt and other fixed income instruments €000	Equity and other non-fixed income instruments €000	Total €000
2015					
Opening balance	-	6,204	-	-	6,204
- in profit or loss	-	595	-	-	595
Sales	-	(1,480)	-	-	(1,480)
Closing balance	-	5,319	-	-	5,319

	Fair value through profit or loss		Available-for-sale investments		
	Debt and other fixed income instruments €000	Equity and other non-fixed income instruments €000	Debt and other fixed income instruments €000	Equity and other non-fixed income instruments €000	Total €000
2014					
- in profit or loss	-	(1,061)	-	-	(1,061)
Purchases	-	3,700	-	-	3,700
Transfers	-	3,565	-	-	3,565
Closing balance	-	6,204	-	-	6,204

The unrealised gains/losses as of 30 September 2015 and 30 September 2014 were immaterial.

The instruments classified within Level 3 comprise externally managed funds. Approximately 50% of the carrying amount represents funds with underlying investments which mainly comprise properties with the remaining 50% representing a European fund which invests in projects related to energy, climate change and infrastructure having 65% of its assets focused on new projects, with the remaining 35% focused on replacement, modernisation and capacity enhancement. The Bank has determined that the reported net asset value of these funds represents their fair value at the end of the reporting period. For one of the property funds, the Bank has adjusted the reported net asset value to take cognisance of factors which resulted in a lower fair value for the fund; in respect of another property fund, the fair value of the Bank's interest was determined to be nil in view of the fact that the value of the Fund's reported liabilities approximated the value of its reported assets. The net asset value of these funds was determined using statements or other information provided by the fund managers. The Bank considers that such valuations may rely significantly on the judgments and estimates made by the fund managers and given the level of subjectivity involved, these are included within level 3.

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.7 Capital risk management

The Group's capital management approach ensures a sufficient level of capitalisation to manage the risk exposures whilst supporting business growth and providing adequate returns to the shareholders. Risk capital management does not in any way substitute risk mitigation measures. It is vital that the structure of limits and thresholds should be able to prevent concentrations of risk from building up in such a way as to compromise a significant proportion of the Group's capital resources.

On 1 January 2014 the Capital Requirements Directive (CRD) and the Capital Requirements Regulations (CRR) came into effect, constituting the European implementation of the Basel capital and liquidity agreement of 2010. The Group has made the necessary changes in order to ensure that it is compliant with the Pillar I capital requirements set by the CRR. Other material risks are also allocated capital as part of the Internal Capital Adequacy Process (ICAAP) embedded in the Pillar II process. This process helps to measure with greater risk sensitivity the amount of regulatory capital which the Group requires to cover risks assumed in the course of its business, including risks not covered in Pillar I. The Board submitted the latest ICAAP capital document to the JST in May 2015.

Capital management is under the direct control of the Asset and Liability Committee (ALCO). During the financial year, ALCO has monitored the adequacy of the Group's capital and gave strategic direction on the most efficient use of capital.

During the year under review and the comparative period, there were no reported breaches in respect of the externally imposed capital requirements. The Group utilises the standardised method of calculating risk weighted assets, therefore the amounts are presented using the formulae of the CRR.

The following table shows the components and basis of calculation of the Group's and the Bank's Capital adequacy ratios.

	The Group €000	The Bank €000
Own funds		
Tier 1		
- Paid up capital instruments	360,000	360,000
- Share premium	988	988
- Retained earnings	208,783	199,289
- Accumulated other comprehensive income	8,507	8,507
- Other reserves	26,598	26,598
- Funds for general banking risk	4,425	4,425
- Minority interests	1,271	-
- Deductions:		
Other intangible assets	(12,722)	(12,722)
Deferred tax assets that rely on future profitability and arise from temporary differences	(31,276)	(32,353)
Instruments of financial sector entities where the institution has a significant investment	-	-
Amount exceeding the 17.65% threshold	(10,495)	(11,319)
Other transitional adjustments	(2,948)	(2,712)
Additional adjustments due to Article 3 CRR	(43,939)	(43,939)
Total Tier 1 Capital	509,192	496,762

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.7 Capital risk management (continued)

	The Group €000	The Bank €000
Tier 2		
- Capital instruments and subordinated loans	99,540	99,540
- Deductions:		
Other transitional adjustments	(3,701)	(3,805)
Total Tier 2 Capital	95,839	95,735
Total Own Funds	605,031	592,497

	The Group Face Value €000	The Group Risk Weighted Amounts €000	The Bank Face Value €000	The Bank Risk Weighted Amounts €000
Assets				
Balances with the Central Bank of Malta, treasury bills and cash	126,652	-	126,652	-
Financial assets at fair value through profit or loss	417,522	233,916	415,558	231,952
Investments	3,376,305	984,531	3,376,305	984,531
Loans and advances to banks	1,656,346	146,530	1,656,346	146,530
Loans and advances to customers	4,001,839	2,036,228	4,001,839	2,036,228
Other assets	323,298	365,309	279,812	362,268
	9,901,962	3,766,514	9,856,512	3,761,509
Off-Balance Sheet Items	-	321,702	-	321,702
Operational Risk		411,972		398,106
Foreign Exchange Risk		466		466
Total Risk Exposure for CVA		22,966		22,966
Total Risk Weighted Assets		4,523,621		4,504,749

	The Group	The Bank
Capital Adequacy Ratio		
30 September 2015		
Tier 1 Ratio	11.3%	11.0%
Total Capital Ratio	13.4%	13.2%
30 September 2014		
Tier 1 Ratio	11.7%	11.5%
Total Capital Ratio	14.5%	14.3%

Notes to the financial statements 30 September 2015 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

Note 39.8 Offsetting financial assets and financial liabilities

The derivative financial assets with a positive carrying amount and the derivative financial liabilities with a negative carrying amount do not meet the offsetting criteria in IAS 32 and hence, they are presented separately in the statement of financial position. These instruments are subject to the ISDA Master Agreement. The ISDA Master Agreement provides, amongst others, for the netting of termination values for purposes of determining a single lump-sum termination amount upon the insolvency of a counterparty. By virtue of the Set-off and Netting on Insolvency Act, 2003 (Chapter 459, Laws of Malta), the close-out netting provisions contained in the ISDA Master Agreement are valid and enforceable under Maltese law. The set-off provisions under the ISDA Master Agreement can be triggered where an event of default, credit event upon merger or any termination event has been declared.

The Bank also has in place Credit Support Annexes “CSAs” with a number of its financial counterparties for purposes of the collateralisation of exposures between the Bank and its counterparties. The CSA is a schedule to the ISDA Master Agreement. By virtue of such CSAs, a party to a derivative that has an exposure to its counterpart, will post collateral to its counterpart to cover such exposure by way of an outright title transfer of such collateral. All CSAs that the Bank has in place are of a two-way nature.

In the case of non-financial counterparties, the Bank enters into pledging collateral arrangements with the counterparties, in favour of the Bank. Such pledging agreements are of a one-way nature, in favour of the Bank.

	The Group	
	2015	2014
	€000	€000
Derivative financial assets		
Gross amounts of recognised financial assets	15,156	18,169
Net amounts of financial assets presented in the statement of financial position	15,156	18,169
Related amounts not set off in the statement of financial position:		
Financial instruments	(15,156)	(18,169)
Net amount	-	-

Financial liabilities subject to offsetting, enforcable master netting arrangements and similar agreements

	2015	2014
Derivative financial liabilities		
Gross amounts of recognised financial liabilities	60,278	81,812
Net amounts of financial liabilities presented in the statement of financial position	60,278	81,812
Related amounts not set off in the statement of financial position:		
Financial instruments	(15,156)	(18,169)
Financial collateral pledged	(69,951)	(51,468)
Net amount	(24,829)	12,175

Notes to the financial statements 30 September 2015 (continued)

40. REGISTERED OFFICE

The registered and principal office of the Bank is 58, Zachary Street, Valletta VLT1130, Malta.

41. TRUST ACTIVITIES

The Group acts as trustee and provides trust activities that result in the holding and placing of assets on behalf of third parties. Trust assets are not assets of the Group and therefore they are not included in its statement of financial position.

Income derived from trust assets is excluded from revenue. Fees arising from the rendering of trustee services are recognised in the Group's profit or loss.

At 30 September 2015, the total assets held by the Group on behalf of its customers amounted to €302.5 million (2014: €337.3 million).

The Bank is party to certain legal proceedings arising out of its normal business operations. Apart from the matter which relates to trust activities described below, the Board of Directors considers that none of these matters are material, either individually or in the aggregate. The recognition of provisions is determined in accordance with the accounting policies set out in Note 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. 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.

42. REGULATORY COMPENSATION SCHEMES

As at 30 September 2015, the Bank holds debt securities and cash balances which, in terms of the Depositor Compensation Scheme - Special Contribution, are pledged in terms of the Scheme (refer to note 16).

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003, issued under the Investment Services Act, 1994, licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively, licence holders can elect to pay the amount of variable contribution directly to the Scheme.

Bank of Valletta p.l.c. has elected to pay the amount of the variable contribution directly to the Scheme.

Regulatory contributions amounting to €8.1 million (2014: €2.7 million), included with administrative expenses, reflect the Group's annual obligations arising from the recent EU Directives on Deposit Guarantee Scheme and Single Resolution Fund.

43. ASSETS HELD FOR REALISATION

The assets held for realisation mainly comprise immovable properties that were held as collateral for outstanding loans, which properties were taken into the possession of the Bank following defaults by the counterparty. The Bank's policy is to dispose of such assets within a reasonable timeframe, which is generally not more than twelve months from the date of classification, unless events or circumstances which are beyond the Bank's control extend the period to complete the sale. Such assets meet the criteria for classification as non-current assets held for sale in accordance with IFRS 5.

Independent auditors' report to the members of Bank of Valletta p.l.c

Report on the financial statements

We have audited the financial statements of Bank of Valletta p.l.c. (the "Bank") and of the Group of which the Bank is the parent, as set out on pages 41 to 114, which comprise the statements of financial position as at 30 September 2015 and the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation. They are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Article 179 of the Act, and Article 31 of the Banking Act, 1994 (Chapter 371, Laws of Malta), and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report 2015 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent auditors' report to the members of Bank of Valletta p.l.c (continued)

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the Group's and the Bank's financial position as at 30 September 2015, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation.

Report on other legal and regulatory requirements
Matters on which we are required to report by the Banking Act, 1994 (Chapter 371, Laws of Malta)

In our opinion:

- we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- proper books of account have been kept by the Bank so far as appears from our examination thereof;
- the Bank's financial statements are in agreement with the books of account; and
- to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

Matters on which we are required to report by exception by the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), other than those reported upon above

We have nothing to report in respect of the following matters where the Act requires us to report to you if, in our opinion:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- certain disclosures of directors' remuneration specified by the Act are not made.

Noel Mizzi
Partner, for and on behalf of
KPMG
Registered Auditors,
Portico Building,
Marina Street,
Pietà PTA 9044,
Malta

30 October 2015

Jonathan Bingham
Partner, for and on behalf of
KPMG LLP
Chartered Accountants,
15 Canada Square,
Canary Wharf,
London E14 5GL,
United Kingdom

The group's five year summary - extracted from the respective audited financial statements

A. STATEMENTS OF PROFIT OR LOSS

For the year ended 30 September

	2015	2014	2013	2012	2011
	€000	€000	€000	€000	€000
Interest and similar income	214,500	212,896	222,437	238,545	224,064
Interest expense	(69,722)	(86,893)	(91,423)	(90,713)	(86,755)
Net interest income	144,778	126,003	131,014	147,832	137,309
Other operating income	102,093	83,802	87,113	71,032	36,237
Other operating charges	(108,032)	(93,499)	(89,138)	(91,665)	(97,179)
Net impairment losses	(32,710)	(19,431)	(25,595)	(22,817)	(16,041)
Share of results of equity-accounted investees	11,786	7,227	12,384	6,348	4,047
Profit before tax	117,915	104,102	115,778	110,730	64,373
Income tax expense	(37,971)	(34,718)	(36,305)	(36,454)	(22,319)
Profit for the year	79,944	69,384	79,473	74,276	42,054
Attributable to:					
Equity holders of the Bank	79,378	68,945	79,055	74,995	41,675
Non-controlling interest	566	439	418	(719)	379
	79,944	69,384	79,473	74,276	42,054
Earnings per share	**22c0**	**19c2**	**22c0**	**20c8**	**11c6**

The earnings per share figures have been adjusted retrospectively to reflect the increase in the number of ordinary shares following capitalisation of retained earnings and a bonus issue which occurred on 16 January 2015.

The group's five year summary - extracted from the respective audited financial statements (continued)

B. STATEMENTS OF FINANCIAL POSITION

	2015 €000	2014 €000	2013 €000	2012 €000	2011 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	126,652	130,966	194,587	296,134	170,844
Investments and financial assets at fair value through profit or loss	3,793,827	2,950,011	2,247,351	2,106,740	2,203,539
Loans and advances to banks	1,656,346	1,045,988	860,957	676,639	400,931
Loans and advances to customers	4,001,839	3,861,532	3,667,739	3,702,217	3,607,064
Investments in equity-accounted investees	96,904	88,553	84,880	77,058	71,761
Property and equipment	102,523	99,759	91,618	78,778	77,093
Current tax	965	-	-	-	7,143
Deferred tax	86,654	78,550	70,205	63,607	49,148
Assets held for realisation	11,601	9,755	10,361	8,944	9,759
Other assets	2,990	7,659	5,045	11,418	4,505
Prepayments and accrued income	21,661	24,018	25,215	27,690	25,282
Total Assets	**9,901,962**	**8,296,791**	**7,257,958**	**7,049,225**	**6,627,069**
LIABILITIES					
Financial liabilities at fair value through profit or loss and derivatives held for hedging	60,278	81,812	62,048	98,744	76,653
Amounts owed to banks	197,760	86,579	36,040	250,352	260,614
Amounts owed to customers	8,559,731	7,119,530	6,219,666	5,809,300	5,523,907
Debt securities in issue	95,400	95,400	95,400	95,400	55,400
Current tax	-	16,090	4,697	13,405	356
Deferred tax	4,382	5,100	5,003	4,199	4,199
Other liabilities	172,905	130,168	108,864	106,235	78,526
Accruals and deferred income	21,317	27,643	29,235	30,590	33,217
Subordinated liabilities	120,000	120,000	120,000	120,000	120,000
Total Liabilities	9,231,773	7,682,322	6,680,953	6,528,225	6,152,872
EQUITY					
Called up share capital	360,000	330,000	300,000	270,000	240,000
Share premium account	988	988	988	988	988
Revaluation reserve	35,217	29,136	24,621	13,573	18,036
Retained earnings	272,713	253,245	250,735	236,196	214,211
Total Equity attributable to equity holders of the Bank	668,918	613,369	576,344	520,757	473,235
Non-controlling interest	1,271	1,100	661	243	962
Total Equity	670,189	614,469	577,005	521,000	474,197
Total Liabilities and Equity	**9,901,962**	**8,296,791**	**7,257,958**	**7,049,225**	**6,627,069**
MEMORANDUM ITEMS					
Contingent liabilities	251,670	233,451	213,598	215,512	191,726
Commitments	1,612,122	1,647,091	1,190,714	1,049,804	1,066,597

The group's five year summary - extracted from the respective audited financial statements (continued)

C. STATEMENTS OF CASH FLOWS

	2015 €000	2014 €000	2013 €000	2012 €000	2011 €000
Net cash from operating activities	1,124,108	766,887	509,520	397,001	155,525
Cash flows from investing activities					
Dividends received from equity shares	5,808	4,926	5,433	1,723	2,240
Interest received from investing securities	58,998	45,394	37,484	50,165	46,706
Purchase of equity investments	(100)	(200)	-	-	(1,341)
Net increase in investment securities	(853,476)	(692,500)	(379,284)	(6,575)	(74,265)
Purchase of property and equipment	(9,132)	(14,649)	(10,414)	(7,273)	(9,005)
Proceeds on disposal of property and equipment	-	8	-	8	6,982
Net cash (used in)/from investing activities	(797,902)	(657,021)	(346,781)	38,048	(28,683)
Cash flows from financing activities					
Debt securities in issue	-	-	-	40,000	29,699
Dividends paid	(29,362)	(34,466)	(34,516)	(23,010)	(30,550)
Net cash (used in)/from financing activities	(29,362)	(34,466)	(34,516)	16,990	(851)
Increase in cash and cash equivalents	296,844	75,400	128,223	452,039	125,991

D. PERFORMANCE EXPRESSED IN RELATION TO AVERAGE TOTAL ASSETS AND AVERAGE CAPITAL EMPLOYED

	2015 %	2014 %	2013 %	2012 %	2011 %
Operating income to total assets	2.7	2.7	3.1	3.2	2.7
Operating expenses to total assets	1.2	1.2	1.3	1.3	1.5
Profit before tax to total assets	1.3	1.3	1.6	1.6	1.0
Profit before tax to capital employed	18.4	17.5	21.1	22.3	13.7
Profit attributable to equity holders to total assets	0.9	0.9	1.1	1.1	0.6
Profit attributable to equity holders to capital employed	12.4	11.6	14.4	15.1	8.9

Group Financial Highlights in US dollars 30 September 2015

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 30 September 2015. The rate used was €1 = US$ 1.1208. This does not reflect the effect of the change in the rate of exchange since 30 September 2014 which was €1 = US$ 1.26.

	2015	2014
	US$'000	US$'000
Net income attributable to equity holders of the Bank	88,967	86,871
Net income per share	25c	26c
Gross dividend paid	49,948	66,812
Net dividend paid	32,466	43,427
Gross dividend per share	14c	20c
Total assets	11,098,119	10,453,957
Liquid funds	141,952	165,017
Investments and financial assets at fair value through profit or loss	4,252,121	3,717,014
Advances	6,341,694	6,183,475
Investments in equity-accounted investees	108,610	111,577
Share capital	403,488	415,800
Capital reserves	40,579	37,956
Retained earnings	305,657	319,089