Bank of Valletta

OFFICE OF THE COMPANY SECRETARY
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BOV/212

COMPANY ANNOUNCEMENT

The following is a company announcement issued by Bank of Valletta p.l.c. pursuant to Malta Financial Services Authority Listing Rules:

Quote

The Board of Directors of Bank of Valletta p.l.c. (the Bank) has today, the 28 October 2011, approved the audited financial statements for the financial year ended 30 September 2011. The Board resolved that these audited financial statements be submitted for the approval of the shareholders at the forthcoming Annual General Meeting which is scheduled for Friday, 16 December 2011. A preliminary statement of annual results is being attached herewith in terms of the Listing Rules.

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

1. The payment of a final gross dividend of €0.08 per share making for a final net dividend of €0.052 per share which, if approved by the Annual General Meeting, would make for a total gross dividend for the year of €0.1425 per share (total net dividend per share €0.092625).

2. A bonus share issue of one (1) share for every eight (8) shares held which will be allotted to shareholders on the Bank's share register as at close of business on 12 January 2012[1]. The bonus issue will be funded by a capitalisation of reserves amounting to €30 million.

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

Shareholders on the Bank's share register at the Central Securities Depository of the Malta Stock Exchange, as at the close of business on Wednesday 16 November 2011[2], will receive notice of the Annual General Meeting together with the Financial Statements for the financial year ended 30 September 2011.

The final dividend, if approved at the Annual General Meeting, will be paid on the 17 December 2011 to the shareholders on the Bank's share register at the Central Securities Depository of the Malta Stock Exchange as at the close of business on Wednesday 16 November 2011.

Unquote

Catherine Formosa

Dr. Catherine Formosa B.A., LL.D.
Company Secretary

28 October 2011

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[1] Thursday, 12 January 2012 will include trades undertaken up to and including Monday, 9 January 2012.

[2] Wednesday, 16 November 2011 will include trades undertaken up to and including Friday, 11 November 2011.

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Registered Office: 58, Zachary Street, Valletta VLT 1130 - Malta Registration Number : C 2833
Bank of Valletta p.l.c. is authorised to act as a trustee by the Malta Financial Services Authority.
Bank of Valletta p.l.c. is a public limited company licensed to conduct Investment Services business by the Malta Financial Services Authority.
Bank of Valletta p.l.c. is an enrolled tied insurance intermediary of MSV Life p.l.c. MSV Life is authorised by the Malta Financial Services Authority to carry on long term business of insurance under the Insurance Business Act 1998.

Income statements for the year ended 30 September 2011

Basis of Preparation:

These figures have been extracted from the Bank of Valletta Group's audited financial statements for the year ended 30 September 2011, as approved by the Directors on 28 October 2011, and are being published in terms of MFSA Listing Rule 5.54.

	The Group		The Bank	
	Sep-11	Sep-10	Sep-11	Sep-10
	€000	€000	€000	€000
Interest receivable and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	153,040	146,274	153,040	146,274
- on debt and other fixed income instruments	71,024	73,630	71,024	73,630
Interest payable	(86,755)	(93,153)	(86,755)	(93,153)
Net interest income	137,309	126,751	137,309	126,751
Fee and commission income	49,093	47,365	42,824	43,777
Fee and commission expense	(5,885)	(3,252)	(5,885)	(5,607)
Net fee and commission income	43,208	44,113	36,939	38,170
Dividend income	740	730	3,394	7,900
Trading (losses) / profits	(6,171)	22,039	(6,173)	22,033
Net (loss) on investment securities and hedging instruments	(1,540)	(2,442)	(1,540)	(2,442)
Operating Income	**173,546**	**191,191**	**169,929**	**192,412**
Employee compensation and benefits	(52,832)	(50,280)	(51,473)	(49,163)
General administrative expenses	(23,662)	(22,390)	(22,228)	(21,092)
Property fund settlement	(14,978)	-	(14,978)	-
Amortisation of intangible assets	(1,396)	(1,308)	(1,396)	(1,308)
Depreciation	(4,311)	(4,818)	(4,182)	(4,690)
Net impairment losses	(16,041)	(12,936)	(16,041)	(12,888)
Operating profit	**60,326**	**99,459**	**59,631**	**103,271**
Share of results of associate and jointly controlled entity, net of tax	4,047	(542)	-	-
Profit before tax	**64,373**	**98,917**	**59,631**	**103,271**
Income tax expense	(22,319)	(34,945)	(22,058)	(35,030)
Profit for the year	**42,054**	**63,972**	**37,573**	**68,241**
Attributable to:				
Equity holders of the Bank	41,675	63,447	37,573	68,241
Non-controlling interest	379	525	-	-
	42,054	63,972	37,573	68,241
Earnings per share	17c4	26c4	15c7	28c4

Statements of comprehensive income for the year ended 30 September 2011

	The Group		The Bank	
	Sep-11	**Sep-10**	**Sep-11**	**Sep-10**
	€000	**€000**	**€000**	**€000**
Profit for the year	42,054	63,972	37,573	68,241
Other comprehensive income				
Available-for-sale investments:				
- change in fair value	(9,777)	4,970	(9,777)	4,970
- deferred tax thereon	3,422	(1,740)	3,422	(1,740)
- change in fair value transferred to profit or loss	-	(153)	-	(153)
- deferred tax thereon	-	54	-	54
Other comprehensive income for the period, net of tax	(6,355)	3,131	(6,355)	3,131
Total comprehensive income	35,699	67,103	31,218	71,372
Total comprehensive income attributable to:				
Equity holders of the Bank	35,320	66,578		
Non-controlling interest	379	525		
	35,699	67,103		

Bank of Valletta p.l.c.

Statements of financial position as at 30 September 2011

	The Group		The Bank	
	Sep-11	Sep-10	Sep-11	Sep-10
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	170,844	135,773	170,844	135,773
Financial assets at fair value through profit or loss	895,938	963,488	893,710	961,370
Investments	1,307,601	1,243,454	1,307,577	1,243,430
Loans and advances to banks	400,931	264,965	400,931	264,965
Loans and advances to customers at amortised cost	3,607,064	3,496,744	3,607,064	3,496,744
Investments in associate and jointly controlled entity	71,761	68,689	52,870	52,870
Investments in subsidiary companies	-	-	1,393	1,393
Intangible assets	6,598	4,297	6,598	4,297
Property, plant and equipment	70,495	76,199	70,162	75,844
Current tax	7,143	1,482	7,122	1,167
Deferred tax	44,949	41,813	44,949	41,813
Other assets	14,264	13,047	12,481	11,802
Prepayments and accrued income	25,282	25,241	25,227	25,236
Total Assets	**6,622,870**	**6,335,192**	**6,600,928**	**6,316,704**
LIABILITIES				
Financial liabilities at fair value through profit or loss	43,159	47,867	43,159	47,867
Amounts owed to banks	260,614	347,369	260,614	347,369
Amounts owed to customers	5,523,907	5,185,264	5,525,156	5,185,606
Debt securities in issue	55,400	25,701	55,400	25,701
Current tax	356	187	-	-
Other liabilities	78,526	73,429	78,376	73,174
Accruals and deferred income	33,217	35,635	32,657	34,891
Financial liabilities designated for hedge accounting	33,494	30,692	33,494	30,692
Subordinated liabilities	120,000	120,000	120,000	120,000
Total Liabilities	**6,148,673**	**5,866,144**	**6,148,856**	**5,865,300**
EQUITY				
Equity attributable to shareholders of the Bank				
Called up share capital	240,000	200,000	240,000	200,000
Share premium account	988	988	988	988
Revaluation reserves	18,036	24,931	17,924	24,819
Retained earnings	214,211	242,546	193,160	225,597
	473,235	468,465	452,072	451,404
Non-controlling interest	962	583	-	-
Total Equity	**474,197**	**469,048**	**452,072**	**451,404**
Total Liabilities and Equity	**6,622,870**	**6,335,192**	**6,600,928**	**6,316,704**
MEMORANDUM ITEMS				
Contingent liabilities	191,726	183,803	191,726	183,803
Commitments	1,066,597	1,096,124	1,066,597	1,096,124

These financial statements were approved by the board of directors and authorised for issue on 28 October 2011.

Statements of changes in equity for the year ended 30 September 2011

	Attributable to Equity holders of the Bank						
	Share Capital	**Share Premium Account**	**Revaluation Reserves**	**Retained Earnings**	**Total**	**Non-Controlling Interest**	**Total Equity**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
The Group							
At 30 September 2009	**160,000**	**988**	**21,810**	**251,199**	**433,997**	**638**	**434,635**
Profit for the year	-	-	-	63,447	**63,447**	525	**63,972**
Other Comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	3,230	-	**3,230**	-	**3,230**
- change in fair value transferred to profit or loss, net of tax	-	-	(99)	-	**(99)**	-	**(99)**
Total other comprehensive income	-	-	3,131	-	**3,131**	-	**3,131**
Total comprehensive income for the year	-	-	3,131	63,447	**66,578**	525	**67,103**
Transfer to retained earnings	-	-	(10)	10	**-**	-	**-**
Transactions with owners, recorded directly in equity:							
Bonus issue	40,000	-	-	(40,000)	-	-	-
Dividends - final 2009	-	-	-	(22,360)	**(22,360)**	(580)	**(22,940)**
- interim 2010	-	-	-	(9,750)	**(9,750)**	-	**(9,750)**
	40,000	-	(10)	(72,100)	**(32,110)**	(580)	**(32,690)**
At 30 September 2010	**200,000**	**988**	**24,931**	**242,546**	**468,465**	**583**	**469,048**
Profit for the year	-	-	-	41,675	**41,675**	379	**42,054**
Other Comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	(6,355)	-	**(6,355)**	-	**(6,355)**
Total other comprehensive income	-	-	(6,355)	-	**(6,355)**	-	**(6,355)**
Total comprehensive income for the year	-	-	(6,355)	41,675	**35,320**	379	**35,699**
Transactions with owners, recorded directly in equity:							
Bonus issue	40,000	-	-	(40,000)	-	-	-
Dividends - final 2010	-	-	-	(20,800)	**(20,800)**	-	**(20,800)**
- interim 2011	-	-	-	(9,750)	**(9,750)**	-	**(9,750)**
Release of surplus on sale of property, net of tax	-	-	(540)	540	-	-	-
	40,000	-	(540)	(70,010)	**(30,550)**	-	**(30,550)**
At 30 September 2011	**240,000**	**988**	**18,036**	**214,211**	**473,235**	**962**	**474,197**

Statements of changes in equity for the year ended 30 September 2011 (continued)

	Share Capital	Share Premium Account	Revaluation Reserves	Retained Earnings	Total
	€000	€000	€000	€000	€000
The Bank					
At 30 September 2009	**160,000**	**988**	**21,688**	**229,466**	**412,142**
Profit for the year	-	-	-	68,241	**68,241**
Other Comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	3,230	-	**3,230**
- change in fair value transferred to profit or loss, net of tax	-	-	(99)	-	**(99)**
Total other comprehensive income	-	-	3,131	-	**3,131**
Total comprehensive income for the year	-	-	3,131	68,241	**71,372**
Transactions with owners, recorded directly in equity:					
Bonus issue	40,000	-	-	(40,000)	-
Dividends - final 2009	-	-	-	(22,360)	**(22,360)**
- interim 2010	-	-	-	(9,750)	**(9,750)**
	40,000	-	-	(72,110)	**(32,110)**
At 30 September 2010	**200,000**	**988**	**24,819**	**225,597**	**451,404**
Profit for the year	-	-	-	37,573	**37,573**
Other Comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	(6,355)	-	**(6,355)**
Total other comprehensive income	-	-	(6,355)	-	**(6,355)**
Total comprehensive income for the year	-	-	(6,355)	37,573	**31,218**
Transactions with owners, recorded directly in equity:					
Bonus issue	40,000	-	-	(40,000)	-
Dividends - final 2010	-	-	-	(20,800)	**(20,800)**
- interim 2011	-	-	-	(9,750)	**(9,750)**
Release of surplus on sale of property, net of tax	-	-	(540)	540	-
	40,000	-	(540)	(70,010)	**(30,550)**
At 30 September 2011	**240,000**	**988**	**17,924**	**193,160**	**452,072**

The share premium account and the revaluation reserves are non-distributable.

Statements of cash flows for the year ended 30 September 2011

	The Group		The Bank	
	Sep-11	Sep-10	Sep-11	Sep-10
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	240,316	202,648	234,096	199,031
Interest, commission and compensation payments	(111,311)	(103,147)	(111,129)	(105,745)
Payments to employees and suppliers	(74,327)	(71,838)	(71,534)	(69,423)
Operating profit before changes in operating assets and liabilities	54,678	27,663	51,433	23,863
(Increase)/decrease in operating assets:				
Loans and advances	(131,064)	(335,809)	(131,064)	(335,761)
Reserve deposit with Central Bank of Malta	(3,384)	(5,088)	(3,384)	(5,088)
Fair value through profit or loss financial assets	73,942	260,106	73,942	260,106
Fair value through profit or loss equity instruments	(28,434)	(2,839)	(28,324)	(2,160)
Treasury bills with original maturity of more than 3 months	-	92,213	-	92,213
Other assets	(1,218)	(4,070)	(679)	(3,727)
Increase/(decrease) in operating liabilities:				
Amounts owed to customers	338,643	418,986	339,550	418,104
Amounts owed to banks	(122,490)	(240,509)	(122,490)	(240,509)
Other liabilities	2,828	(54,567)	2,933	(54,328)
Net cash from operating activities before tax	183,501	156,086	181,917	152,713
Tax paid	(27,976)	(39,287)	(27,653)	(38,911)
Net cash from operating activities	155,525	116,799	154,264	113,802
Cash flows from investing activities				
Dividends received	2,240	5,639	3,394	7,900
Interest received from held-to-maturity debt and other fixed income instruments	46,706	45,745	46,706	45,745
Investment in associate and jointly controlled entity	-	(18,845)	-	(18,845)
Purchase of equity instruments	(1,341)	(953)	(1,341)	(953)
Purchase of debt instruments	(246,290)	(255,863)	(246,290)	(255,863)
Proceeds from sale or maturity of debt instruments	172,025	206,166	172,025	206,120
Purchase of property, plant and equipment	(9,005)	(4,946)	(8,898)	(4,744)
Proceeds on disposal of property, plant and equipment	6,982	-	6,982	-
Net cash used in investing activities	(28,683)	(23,057)	(27,422)	(20,640)
Cash flows from financing activities				
Proceeds from issue of subordinated bonds	-	42,295	-	42,295
Repayment of subordinated bonds	-	(18,862)	-	(18,862)
Proceeds from issue of debt securities	55,400	-	55,400	-
Repayment of debt securities	(25,701)	-	(25,701)	-
Dividends paid to bank's equity holders	(30,550)	(32,110)	(30,550)	(32,110)
Dividends paid to non-controlling interest	-	(580)	-	-
Net cash used in financing activities	(851)	(9,257)	(851)	(8,677)
Net change in cash and cash equivalents	125,991	84,485	125,991	84,485
Effect of exchange rate changes on cash and cash equivalents	(733)	20	(733)	20
Change in cash and cash equivalents	126,724	84,465	126,724	84,465
Net change in cash and cash equivalents	125,991	84,485	125,991	84,485
Cash and cash equivalents at 1 October	230,850	146,365	230,850	146,365
Cash and cash equivalents at 30 September	**356,841**	**230,850**	**356,841**	**230,850**

An €xistential crisis

The procrastinated and piece-meal manner in which the eurozone political leadership sought to deal with and cauterise the Greek debt problem (which first erupted in April 2010) has led to the inevitable contagion effect that we cautioned against in Bank of Valletta's FY 2010 Annual Report, and in the half yearly and interim statements that we issued during the current financial year (FY). Greece's first €110 billion bail out package announced in May 2010 was followed by Ireland (€85 billion) and Portugal (€78 billion) in November 2010 and May 2011 respectively. The European Financial Stability Facility (EFSF) established in 2010, was always expected to have to deal with Greece, Ireland and Portugal, and had the requisite fire-power and capacity to do so. However, it became increasingly apparent that the first Greek package was insufficient, and in the summer of 2011 negotiations took place seeking to put together a second package in an attempt to resolve the Greek debt crisis. This second (€109 billion) package sought to impose even greater austerity measures on Greece, as well as securing (at Germany's insistence) a 'voluntary' private sector contribution equivalent to 21% of outstanding Greek sovereign debt.

Notwithstanding that the private sector contribution to the Greek crisis was portrayed as being 'voluntary' and a 'one-off' – i.e. that the private sector would not be asked to participate in any future eurozone sovereign debt bailouts or restructurings - the markets were spooked by the very notion that a eurozone country was about to default or renege on its sovereign debt obligations. These sentiments rapidly gathered momentum, fuelled by a growing realisation that the imposition of further austerity measures on Greece was likely to be self-defeating – and that debt relief at a significantly higher level than the 21% mooted was likely to be required if the Greek economy was to be given a reasonable chance of recovering from the crushing debt burden that had been allowed to develop.

The political insistence on private sector participation in finding a solution for Greece led to market speculation that Ireland and Portugal may demand similar relief measures. Market nervousness soon spread to Spain and Italy – and the contagion effect that many commentators had feared took hold, aggravated by the knowledge that the EFSF did not have the capacity to contain the crisis should it spread to Spanish and Italian sovereign debt, given the huge volumes involved.

Whilst the eurozone debt concerns were unfolding, the newly-formed European Banking Authority (EBA) published the results of the bank stress tests in July 2011. These results, which sought to reassure the markets, had the opposite effect. Whereas the EBA published the sovereign debt exposures on a bank for bank basis, the tests applied 'haircuts' to sovereign debt held in the trading book, but none to the (much higher) levels of such debt held in the banking book – presumably on the grounds that sovereign debt defaults within the eurozone were unthinkable, and contrary to what the eurozone political leadership demanded as a pre-condition for the second Greek bailout package. Analysts rapidly assimilated the data contained in the stress test results – and identified a number of banks with substantial exposures to "peripheral" European (Greece, Ireland, Italy, Portugal and Spain or 'GIIPS') debt. This in turn led to the large US money funds (in a replica of the events of September 2008) withdrawing substantial balances from a number of eurozone banks, and questions being raised as to whether some of the larger eurozone banks had sufficient capital to withstand potential sovereign debt write downs.

A full blown eurozone existential crisis rapidly developed. An acute shortage of liquidity led to the near collapse (and subsequent break up) of Dexia – a Franco-Belgian banking group that had already been rescued in 2008, and whose problems arose from a funding model that relied heavily on the short term money markets to fund long term lending. Spanish and Italian bond yields spiked to unsustainable levels in excess of 6%, and were only brought down by bold moves taken by the European Central Bank (ECB) to buy Spanish and Italian paper in the market. The ECB also made unlimited facilities available to European banks to counter any short term liquidity pressures. Notwithstanding these measures, extreme nervousness prevailed, with banks, in a manner reminiscent of 2008, reluctant to lend to one another, instead placing funds on deposit with the ECB. GIIPS banks were effectively shut out of the money and bond markets, and had to resort to the ECB for their liquidity requirements. The sovereign debt crisis – in part caused by the banking crisis of 2008/2009 - had been handed back to the banking sector from whence it came.

Concerns about the fate of the eurozone quickly spread to equity markets on fears that Europe's problems would trigger a double dip recession. This threat, together with the unseemly political squabble in Washington on the raising of the US debt ceiling, triggered a sharp fall in asset prices across global markets.

So what are the potential cures for this full blown existential crisis?

- The first (but relatively long term) cure is to address the fundamental design flaw of the entire euro project – that of having a single currency union and accompanying monetary policy which are not more closely aligned from a fiscal discipline perspective – indeed, which involves 17 disparate national fiscal policy attitudes that are driven by (sometimes, short term) domestic political considerations.

- At a time of financial extremes (both euphoria and stress) this basic design flaw has proved vulnerable. In times of euphoria, markets were prepared to lend the (less fiscally disciplined) GIIPS countries at interest rates close to those of the more rigorous Northern European economies. On joining the eurozone, the less fiscally disciplined GIIPS surrendered the traditional escape valves of high interest rates and currency devaluation. Lack of competitiveness and slowing economic growth ensued.

- Markets have now recognised the error of pricing (say) Greek debt on a par with that of (say) Germany or the Netherlands – and spreads have widened very substantially at a time when the economies in question are uncompetitive and can ill afford the wider rates. The markets (and indeed the survival of the eurozone as we know it) demand that the GIIPS impose fiscal discipline – including balanced budgets and structural economic reforms to improve competitiveness, stimulate growth and bring the bloated debt burden under control. It is now widely accepted that the eurozone in its current form only has a future if the policies of the constituent members are more closely aligned in terms of the exercise of fiscal discipline.

- Quarantine the Greek debt problem. It is now accepted that Greece's debt burden is unsustainable. Greater austerity will suffocate any realistic prospect for sustainable economic growth, which in turn will only increase the debt burden. Austerity fatigue will rapidly make Greece virtually ungovernable. Accordingly, an orderly restructuring of Greek sovereign debt in a manner that secures certainty to the outcome is essential.

- Recapitalise the banks. If the orderly restructuring of Greek debt is going to hit bank balance sheets – as seems inevitable – it is vital that the extent of the 'hit' is determined and certain – and that the banks concerned are assured of the availability of capital so as to absorb these losses. It is only through the certainty of the recapitalisation of affected banks that contagion through the banking system will be averted – much as was done in the case of the US banking system in early 2009, when the systemically important banks were "invited" to take substantial additional preferential capital (much of which was later paid back) from the US Treasury, so as to restore market confidence. And much of the improvement to bank capital ratios must come from the injection of additional (new) capital and not the shrinking of balance sheets. The fragile state of the European economy cannot afford the negative impact of the withdrawal of credit that would inevitably accompany any rapid shrinking of balance sheets.

- Spain and Italy's problems are of a completely different dimension to those facing Greece. Both countries (unlike Greece) have large economies and are clearly solvent – but need time to get their fiscal houses in order. Spain being close to a general election and Italy's coalition government being in some disarray have not served to help market sentiment. In the meantime, ways must be found (through a very substantially enhanced EFSF mechanism) to secure liquidity and access to debt markets at manageable rates.

Certain of the above factors have been addressed in the framework agreement reached by European leaders at their summit on 27 October; Greek debt held by banks is to take a "voluntary haircut" of 50%, European banks are to be recapitalised to the tune of €106 billion to reach a 9% capital threshold by June 2012, and the EFSF firepower is to be increased to one trillion euro via a mechanism the full details of which are yet to emerge.

It is a combination of the above – implemented quickly – that is required to arrest the very dangerous downward spiral that is afflicting the eurozone and the single currency – a spiral through which lack of confidence in sovereign nations to manage their debt has spilled over into the banking sector – and is now threatening the entire eurozone – and therefore global – economic recovery. Failure to address the issues in a bold and decisive manner could have dire consequences for all concerned.

BOV's holdings of GIIPS sovereign debt constitute a very modest part of our total portfolio, and have largely been 'marked to market' at 30 September 2011. The total carrying value of these holdings amounted to €23 million, and the charge to the income statement for the year arising on the fair market valuation amounted to €6 million.

Against the background outlined above, Malta's domestic economy has once again demonstrated resilience. Demand for credit has continued to be subdued, and the crisis that erupted in Libya earlier this year has had an impact on confidence, given the traditionally strong business ties with Malta and the number of local enterprises trading in or with Libya. Notwithstanding the uncertain environment, real GDP growth in the first half of 2011 has held up at over 2%, a little above the EU 27 average. Exports have continued to grow, as have tourist arrivals, and employment data has remained stable throughout the year under review. Domestic consumption has remained muted, as have the property and construction sectors, although there is some evidence of a number of EU funded infrastructure projects being mobilised.

Review of performance

The Bank of Valletta Group has recorded a profit before taxation of €64.4 million for the year ended 30 September 2011. This compares with €98.9 million pre tax profit earned in the previous financial year, a decrease in profits of 35%. As can be seen from the table below, whilst the retail and corporate businesses of the Group have continued to perform steadily, the uncertainty in the financial markets, particularly in the second half of the year (as described above) has resulted in an overall fair value charge in our Financial Markets book for the year of €24.9 million. The results for the year have also been impacted by the charge of €15 million relating to the La Valette Multi Manager Property Fund settlement (as described in the letter to shareholders of 11 June 2011).

Our results for the year are summarised in the table below. This table should be read in conjunction with the explanatory notes that follow:

Bank of Valletta Group **Summarised Results** **Year to 30 September**	**Note**	**2011** **€** **million**	**2010** **€** **million**
Net Interest Margin	**(a)**	137.3	126.7
Net Commission and Trading Income	**(b)**	61.1	63.2
Operating Expenses	**(c)**	(82.1)	(78.8)
Net Impairment Charges	**(d)**	(16.0)	(12.9)
Net Operating Profit before Fair Value movements	**(e)**	**100.3**	**98.2**
Fair Value Movements	**(f)**	(24.9)	1.2
Operating Profit		**75.4**	**99.4**
Share of results of insurance interests	**(g)**	4.0	(0.5)
Property Fund settlement	**(h)**	(15.0)	-
Profit before tax		**64.4**	**98.9**

(a) Net Interest Margin

Net Interest Margin for the year of €137.3 million increased by €10.6 million from the €126.7 million earned in FY 2010. This improvement in the interest margin contribution of 8.3% arose principally from a combination of increased volumes and an improvement in the margins earned by Treasury assets. Although the ECB implemented two upward changes of 25 bps each in April and July 2011, BOV did not make any changes to its rates structure. Given recent developments in the eurozone, it is expected that the next ECB interest rate change is likely to be down rather than up.

(b) Net Commission and Trading Income

Net Commission and Trading Income reduced marginally from €63.2 million in FY 2010 to €61.1 million in the current year – a reduction of 3.4%. The reduction has been caused by a decline in trade finance activity as a result of the Libyan crisis, and a decline in investment related (stock-broking, Capital Markets, bancassurance, Funds and Wealth Management) contributions, caused by the negative market conditions that prevailed in the second half of the year. Our foreign exchange business showed higher volumes but tighter margins, whilst our credit card business continued to show satisfactory growth in volumes and profitability.

(c) Operating Expenses

Operating expenses for the year totalled €82.1 million, an increase of 4.2% over the previous year, mainly reflecting increases in personnel-related expenditure, legal and professional fees, and an increased technology spend.

(d) Net Impairment charges

As anticipated in our half yearly report, the difficult economic conditions of the past two years, compounded by the developments in Libya earlier this year, have had something of a knock-on effect on credit quality in certain sectors. The specific impact to date has remained manageable, and the overall impairment charge for the year has in part come from a further strengthening of the prudential (non-specific) collective allowance. As was the case in FY 2010, management has adopted a prudent and cautious outlook to certain specific sectors, at a time when the overall situation for these sectors remains characterised by some uncertainties. Overall credit quality remains satisfactory, with little change over the past year in the proportion of non-performing accounts to total loans and advances.

(e) Net Operating Profit

The net operating profit from core corporate and retail banking operations for the year amounts to €100.3 million - an uplift of 2% on the €98.2 million reported in FY 2010. The increase in profits can be largely attributed to the improved net interest income for the reasons explained in (a) above, eroded by marginally reduced commission and trading income and the increases in operating expenses and the impairment charge.

(f) Fair Value movements

The first half of the year to 31 March 2011 reported a fair value charge of €5.6 million. This charge increased marginally in the third quarter (Q3), and then very substantially in the last quarter (Q4) as markets reacted to the eurozone sovereign debt crisis becoming more acute. This deterioration in sentiment caused spreads to widen on both sovereign and financial holdings, in turn causing reductions in capital values. The last quarter also saw the return of the phenomenon last experienced in 2008 – that is a marked dislocation in the market pricing of bonds and interest rate swaps (IRS). This latter factor caused a charge of €5.5 million to be taken in Q4 on the swaps held to hedge the Bank's interest rate exposure on certain longer dated Malta Government Stocks – a charge that will be reversed over time as these investments will be held through to redemption.

As noted above, Bank of Valletta's exposure to GIIPS sovereign debt is very limited, and the results for the year include a €6 million charge in respect of these GIIPS sovereign debt holdings.

(g) Insurance interests

The Jointly Controlled and Associated Companies represent our insurance sector interests through our holdings in MSV Life plc, in which BOV has a direct equity interest of 50%, and in Middlesea Insurance plc (MSI), where our holding stands at 31.08%. The Group's share of profits for the year of €4.0 million is made up as follows:-

	FY 2011	FY 2010
	€ million	€ million
MSV Life share of profits	2.8	5.8
MSI share of profit/(loss)	1.2	(6.3)
Net profit / (loss) for the year	4.0	(0.5)

The above represents BOV's share of profits and losses on its MSV Life and MSI shareholdings based on the audited accounts of these companies for the six months to 31 December 2010 (the financial year end of MSV Life and MSI), and the unaudited results for the six months ended 30 June 2011. In August 2011, MAPFRE Internacional acquired from Munich Re the latter's 18.9% shareholding in MSI, thus increasing its shareholding in the company to 50.98%. Following the mandatory offer launched subsequent to this acquisition, MAPFRE Internacional further increased its shareholding in MSI to 54.56%. BOV has retained its holding in MSI at 31.08%.

(h) La Valette Multi Manager Property Fund

Shareholders will be aware that the Bank received a great deal of publicity during FY 2011 concerning the La Valette Multi Manager Property Fund (LVMMPF or "the Fund"). Shareholders will also be aware from the letter sent to all shareholders on 11 June 2011, of the reasons why the BOV Board of Directors decided to make a cash offer of €0.75 per share (the Offer) to all investors in the Fund, in a *bona fide* attempt to provide all concerned with an opportunity, if they so elected, to settle matters that were in dispute in what the Bank regarded as a fair and equitable manner.

Shareholders will know from the 11 June letter that each and every investor was at liberty to accept or decline the Offer at their own choice – and were at full liberty to decline the Offer and pursue any legal claim or complaint if they so desired. All investors were advised to take proper advice from independent and competent professionals.

In the event, by the closing date of the Offer on 30 June 2011, investors in the Fund, representing 97% of the outstanding shares and shareholders, had accepted the Offer and had transferred their shares in the Fund (together with all rights attaching thereto) to the Bank. This acceptance rate has since increased to close to 99%, as a result of a number of transactions entered into subsequent to 30 June 2011.

The LVMMPF saga has been a most unhappy and unfortunate experience for Bank of Valletta and our customers. The Offer that was launched on 26 May was directed at bringing this unhappy episode to an early conclusion in the best interest of all parties concerned. Although a number of regulatory issues remain to be addressed in connection with the Fund, with an acceptance rate of close to 99%, BOV will work to bring early closure to all material issues relating to the Fund, including the winding up thereof. The FY 2011 accounts include a charge of €15 million in respect property fund settlement referred to above. This represents the gross cost of the Offer to BOV before any recovery from third parties, in respect of which discussions are ongoing. Credit for any recoveries will be recognised as and when such discussions are concluded.

Review of financial position

Throughout the uncertainties that have prevailed during FY 2011, the Bank has continued to manage its balance sheet in a deliberate and prudent manner, seeking to preserve liquidity and enhance capital. Liquidity has remained very satisfactory at 44.4%, and the core Tier I capital ratio remains strong at 10.5% (September 2010 -10.5%) – a level that already meets the more demanding ratios being required as a result of the recent EBA and Basel III pronouncements. The total capital ratio at the year end stood at 15% (September 2010 – 15%).

The Loan to Deposit ratio eased slightly to 68%, and the Bank continues to be in the position whereby its loan book is wholly funded by retail liabilities, with no dependence for this purpose on the short term inter-bank or commercial paper markets – a very significant plus factor at this time of a return to tight liquidity in the eurozone market. In anticipation of the more demanding liquidity regulations being contemplated by Basel III, the Bank took steps to lengthen duration on its deposit liabilities through the issuance of €55 million of medium term

notes (MTNs). The MTN issuance was well received by the market, and further issues are planned as part of this programme in line with preparations for the full implementation of the Basel III regulations. Total assets at the end of September 2011 stood at €6.6 billion, compared with €6.3 billion at September 2010 – the increase of €300 million resulting from the increase in Customer Deposits. Shareholders' equity at the end of FY 2011 amounted to €474 million, as compared with €469 million of a year earlier.

Stress Tests and Basel III

During the summer 2011, the EBA in collaboration with the ECB, carried out a series of "stress tests" on 91 leading European banks. Bank of Valletta, as the largest local banking group, was selected to represent the Maltese banking sector in this test.

The results of the test showed that Bank of Valletta enjoys strong capital buffers. When the Bank's balance sheet was "stressed" in accordance with the "extreme but plausible" parameters set by the EBA/ECB, which included a severe economic downturn, the Tier 1 ratio (which is an international benchmark indicator of balance sheet strength), decreased by just 0.1%, reaching 10.4%.

These results confirmed the strength and resilience of BOV as a well-capitalised bank by all international standards. As a result of the further deterioration of the eurozone sovereign debt crisis over the summer months, the EBA has further reviewed the actual capital positions and sovereign debt exposures of a number of eurozone banks (including BOV), and has announced that it will require certain banks to raise additional capital estimated at a total of €106 billion by June 2012. BOV's holdings of GIIPS sovereign debt are very modest, and the EBA has confirmed that BOV is not required to raise additional capital as a result of this further review.

The Basel III reforms referred to in the FY 2010 report were approved by the G20 summit in November 2010, and adopted by the European Commission as part of its Capital Requirements Directive (CRD IV) in July 2011. Basel III and CRD IV both look to require banks to hold higher and better quality capital, prescribing a core Tier I capital ratio of 6.0% by 2015, to be further enhanced by a new capital conservation buffer of 2.5%, further topped up by an additional buffer for "systemically important" institutions (yet to be defined). The

new regulatory regime also contemplates a countercyclical buffer, having a maximum of 2.5%, with the aim of protecting the economy from excessive credit growth. Basel III and CRD IV also prescribe significantly more demanding liquidity regulations, which will require considerable changes to asset and liability management, at the expense of profitability.

As noted above, the contagious impact of the eurozone sovereign debt crisis has undermined confidence in the European banking system. In an attempt to restore confidence, the EBA is demanding that major European banks meet a 9% threshold for their core tier one capital ratios after marking down their sovereign bond holdings of the eurozone's peripheral states. Any capital shortfall will have to be made good by June 2012, failing which they would face government recapitalisations under the auspices of the EFSF.

BOV has been preparing itself for the new regulatory regime since the first proposals for the revision of the Capital Accord were published in the summer of 2010. The Group has participated in all Quantitative Impact Surveys (QIS) carried out by the Regulatory Authority, and has carried out a number of internal capital and liquidity assessments with the aim of evaluating the level of compliance with the revised capital requirements. It is anticipated that BOV will be fully compliant with the capital provisions of Basel III/CRD IV well before 2019, the year when all European banks are to have migrated completely to the new regime. BOV plans to achieve compliance by building up core capital through profit retention, and does not at this time and in the current circumstances foresee any need to raise new equity from shareholders or from the market.

It is important to note that whilst higher capital and liquidity buffers will enhance the safety of the global banking system, they will necessarily place pressure on profitability and the rate of return on equity (ROE). In line with most of the banking sector, BOV anticipates some regulatory-induced pressure on ROE in the coming years.

Credit

During FY 2011 BOV has continued to honour the pledge that it would support the Maltese economy and the business community in a responsible manner through economically challenging times. FY 2011 saw these challenges extend to businesses operating in or with Libya – and, true to its pledge, BOV has been proactive in providing support to these

businesses. Whereas great uncertainty remains, recent events do serve to give rise to some optimism that Maltese businesses can expect to have the opportunity to become involved in the reconstruction efforts in Libya before too long – and it is clear that this reconstruction programme will be very substantial.

As noted in the half yearly report, demand for credit has been subdued, reflecting the uncertain economic outlook that has gradually deteriorated through the year. Loans and advances at the end of FY 2011 stood at €3.7 billion, an increase of €114 million, or just 3%, since 30 September 2010. Non Performing Loans at the year end stood at 5.1% of the total loan book, compared with 5.2% a year earlier.

Credit growth has come mostly from a continuing demand for home loans, as well as from carefully selective increases to the business sector. Net credit actually utilised by the business sector over the year increased by just €25 million (or 1%). During the year to 30 September 2011, the Bank approved €232 million of new home loans (mostly to first time buyers), of which €205 million were drawn down.

BOV's Capital Markets team has seen very little activity in the new issues sector, principally as a result of the new regulations implemented by the Listing Authority in August 2010. However, the Capital Markets unit co-managed the MIDI Initial Public Offering in December 2010, and managed the MAPFRE mandatory bid in August 2011, as well as BOV's own MTN programme referred to above.

Customer Deposits

During FY 2010, Customer Deposits exceed a total of €5 billion for the first time in the Bank's history, with total deposits at the FY 2010 year end standing at €5.19 billion. Notwithstanding acute competition, these deposits continued to increase through FY 2011, and reached a level of €5.5 billion as at 30 September 2011 – an increase of €339 million or 6.5% year on year, with the increase coming from both the euro denominated retail and corporate/institutional sectors.

Dividend and Bonus Issue

The satisfactory capital ratios that the Bank has been able to report through the various stress tests undertaken are the product of prudent capital management, a cautious risk appetite, and the adoption some years ago of a responsible and sustainable dividend payout policy. The Board has long believed that it has adopted a prudent dividend distribution model, whereby it seeks to balance the dividend expectations and needs of the shareholders with the long term requirements of the institution. This policy has enabled the Bank to substantially increase its high quality core Tier 1 capital base over the years, and in a manner which sees it well placed to meet the more demanding requirements of Basel III and CRD IV, without (based on current projections) having to resort to capital calls on shareholders or having to adopt the dividend restraint measures that may be imposed on many other European banks.

Accordingly, it is the Board's belief that its current dividend policy should continue to apply, and the Board of Directors is therefore recommending a final gross dividend to our shareholders of €0.08 per share which, taken together with the gross interim dividend of €0.0625 per share paid on 26 May 2011, makes for a total gross dividend of €0.1425 per share for FY 2011 (FY 2010: €0.1958 per share, as adjusted for bonus issue). The total dividend for the year of €0.1425 would represent a gross yield of 5.7% by reference to BOV's closing share price of €2.50 per share as on 30 September 2011. The total dividend will be 1.9 times covered by the post tax profits for the year.

The Board is also recommending, effective 12 January 2012, a bonus issue of 1 share for every 8 shares held. The bonus issue will be funded by a capitalisation of reserves amounting to €30 million. This bonus issue will serve to further increase the permanent capital base of the Bank (from €240 million to €270 million), and will also serve to enhance the affordability and liquidity of the Bank's shares.

Outlook

The long-running eurozone sovereign debt crisis is throwing a pall of uncertainty over the outlook for 2012 and beyond. Three things seem certain; (i) that a number of eurozone countries will be adopting stringent fiscal restraint, (ii) eurozone banks will continue to de-

leverage their balance sheets in an attempt to meet more demanding capital requirements and (iii) Greece's sovereign debt will be rescheduled under the guise of various euphemisms for what will be a *de facto* default. None of the above augurs well for economic prospects over the next 12 to 24 months – and Malta, notwithstanding our history of resilient economic performance, cannot expect to be exempt from the downside pressures on our economy emanating from our major markets. On the positive side, tourist arrivals to date seem to be holding up, and the services sector generally (including financial services) remains strong – as does employment. The further mobilisation of a number of EU funded infrastructure projects brings important long term capital investment to the economy, and could also bring relief to the subdued construction sector, although the industry continues to be affected by the turgid planning application and approval process. Government finances will be under pressure due to the fiscal tightening being driven by the EU as a part solution to the eurozone crisis. This having been said, Malta's debt and budget deficit to GDP data remain respectable by EU-wide standards, but do require continuing discipline and vigilance. As in other advanced European economies, apart from dealing with the challenges of current short term issues, Malta will also need to make a start shortly on a number of important longer term strategic issues, including those arising from marked demographic shifts and the reform of state owned enterprises – and the impact that these will have on Government finances and the economy as a whole.

At Bank of Valletta, we will, as in the past, continue to support the Maltese economy in a responsible manner. We will continue to actively manage both sides of our balance sheet prudently and responsibly, maintaining high liquidity and strong capital ratios, seeking to meet the reasonable demands and expectations of our savers and borrowers alike, whilst at the same time being acutely aware of our obligations to our other stakeholders – our shareholders, our employees and the wider community as a whole.

Conclusion

On behalf of all the shareholders, the Board of Directors would like to express sincere thanks to all employees for their hard work over FY 2011, and to pay special tribute to Tonio Depasquale, the Chief Executive, who will retire from the Bank following the forthcoming Annual General Meeting after 42 years of service to Bank of Valletta. Tonio Depasquale was appointed Chief Executive in 2004, and under his stewardship the Bank has gone from

strength to strength, weathering the storms of the greatest financial crisis since the 1930's in a manner achieved by very few European financial institutions. More than that, Tonio Depasquale has built up a young and highly competent senior management group that works effectively as a team – a testimony to his leadership and commitment to the institution. Moreover, he has in the most selfless manner achieved what very few Chief Executives manage to achieve, and that is to seamlessly prepare the organisation for his eventual departure – and the Bank is indeed privileged to have a highly skilled senior management team from which to choose his successor. For many years he has been the standard-bearer for Bank of Valletta, its commitments and its values – and he has been held in the highest esteem and respect by customers, staff and shareholders alike. He will be greatly missed at the Bank. We are most grateful to him for his truly outstanding contribution, and we wish him every possible success and happiness for the future.

We are also grateful to our many customers for the business they bring. BOV's firm commitment to our customers and to the Maltese economy – in good and in challenging times alike – is more than reciprocated by the outstanding loyalty and support of our customers – and in the great confidence and trust that they consistently demonstrate in the Bank. Finally, we have, as always, maintained a healthy and open dialogue with the regulatory authorities at the MFSA and the Central Bank, and we are grateful to them for their support, wise counsel and advice.

By Order of the Board

28 October 2011

Notice is hereby given that Wednesday 16 November 2011 is the record date for the purposes of Article 2 (f) of the Bank's Articles of Association.

All shareholders appearing on the Bank's Register of Members as at the close of business on Wednesday 16 November 2011 will:

i) receive notice of and be entitled to attend and vote at the Bank's Annual General Meeting scheduled for Friday 16 December 2011, and
ii) be paid, on Saturday 17 December 2011, the final dividend as approved by the Annual General Meeting.

Pursuant to the Malta Stock Exchange Bye-Laws, the Bank's Register of Members as at close of business on Wednesday 16 November 2011 will include trades undertaken up to and including Friday 11 November 2011.