



Bank of Valletta

Bank of Valletta p.l.c.
Office of the Company Secretary
58, Zachary Street, Valletta VLT 1130 - Malta
Telephone: (356) 2275 3032, 2275 3231 Fax: (356) 2275 3711

BOV/240

COMPANY ANNOUNCEMENT

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

Quote

During a meeting held on the 25 April 2013, the Board of Directors of Bank of Valletta p.l.c. approved the attached Group and Bank Interim Unaudited Financial Statements for the six months ended 31 March 2013.

An interim dividend of €0.06 gross per share (€0.039 net of tax) has been declared by the Board of Directors in respect of the six months ended 31 March 2013. This will be paid on the 24 May 2013 to those Members appearing on the Bank's Register of Members (as maintained at the Central Securities Depository at the Malta Stock Exchange) as at the close of business on Thursday, 9 May 2013¹.

The Interim Unaudited Financial Statements for the period ended 31 March 2013 are available for viewing and downloading on the Bank's website "www.bov.com".

Unquote

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

25 April 2013

¹ Pursuant to the Malta Stock Exchange Bye-Laws, the Bank's Register of Members as at close of business on Thursday, 9 May 2013 will include trades undertaken up to and including Monday, 6 May 2013

BOV

Bank of Valletta

HALF YEARLY REPORT

MARCH 2013

Income statements

for the six months ended 31 March

	The Group		The Bank	
	Mar-13 €000	Mar-12 €000	Mar-13 €000	Mar-12 €000
Interest receivable and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	81,417	85,848	81,417	85,848
- on debt and other fixed income instruments	31,149	36,188	31,149	36,188
Interest payable	(46,387)	(44,739)	(46,387)	(44,739)
Net interest income	66,179	77,297	66,179	77,297
Fee and commission income	27,730	23,906	24,291	20,879
Fee and commission expense	(3,287)	(3,047)	(3,287)	(3,047)
Net fee and commission income	24,443	20,859	21,004	17,832
Dividend income	263	271	2,571	1,439
Trading profits	18,056	8,212	18,074	8,213
Net gain on investment securities and hedging instruments	3,622	854	3,622	854
Operating Income	112,563	107,493	111,450	105,635
Employee compensation and benefits	(27,580)	(27,716)	(26,793)	(26,966)
General administrative expenses	(14,211)	(14,527)	(13,662)	(13,895)
Amortisation of intangible assets	(726)	(839)	(726)	(839)
Depreciation	(2,210)	(1,944)	(2,159)	(1,899)
Operating profit before impairment losses	67,836	62,467	68,110	62,036
Net impairment losses	(11,902)	(15,000)	(11,902)	(15,000)
Operating profit	55,934	47,467	56,208	47,036
Share of results of associated entities, net of tax	8,629	1,626	-	-
Profit before tax	64,563	49,093	56,208	47,036
Income tax expense	(19,797)	(16,959)	(19,891)	(16,402)
Profit for the period	44,766	32,134	36,317	30,634
Profit for the period attributable to:				
Equity holders of the Bank	44,538	31,980	36,317	30,634
Non-controlling interest	228	154	-	-
	44,766	32,134	36,317	30,634
Earnings per share	14c8	10c7	12c1	10c2

Statements of comprehensive income

for the six months ended 31 March

	The Group		The Bank	
	Mar-13 €000	Mar-12 €000	Mar-13 €000	Mar-12 €000
Profit for the period	44,766	32,134	36,317	30,634
Other comprehensive income				
Available-for-sale investments:				
- change in fair value	4,311	(5,249)	4,311	(5,249)
- deferred tax thereon	(1,509)	1,837	(1,509)	1,837
- change in fair value transferred to profit or loss	(1,290)	(749)	(1,290)	(749)
- deferred tax thereon	452	262	452	262
Other comprehensive income for the period, net of tax	1,964	(3,899)	1,964	(3,899)
Total comprehensive income	46,730	28,235	38,281	26,735
Total comprehensive income attributable to:				
Equity holders of the Bank	46,502	28,081		
Non-controlling interest	228	154		
	46,730	28,235		

Statements of financial position as at 31 March

	The Group		The Bank	
	Mar-13	Sep-12	Mar-13	Sep-12
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	126,986	296,134	126,986	296,134
Financial assets at fair value through profit or loss	677,986	768,284	675,710	763,723
Investments	1,544,569	1,338,456	1,544,569	1,338,456
Loans and advances to banks	916,881	676,639	916,881	676,639
Loans and advances to customers at amortised cost	3,687,469	3,702,217	3,687,469	3,702,217
Investments in associates	85,685	77,058	52,870	52,870
Investments in subsidiary companies	-	-	1,393	1,393
Intangible assets	9,362	8,743	9,362	8,743
Property, plant and equipment	70,555	70,035	70,276	69,720
Deferred tax asset	61,706	59,408	61,706	59,408
Other assets	15,353	20,362	15,023	21,217
Prepayments and accrued income	20,363	27,690	20,363	27,690
Total Assets	7,216,915	7,045,026	7,182,608	7,018,210
LIABILITIES				
Financial liabilities at fair value through profit or loss	48,360	60,879	48,360	60,879
Amounts owed to banks	64,311	250,352	64,311	250,352
Amounts owed to customers	6,137,353	5,809,300	6,139,331	5,810,604
Debt securities in issue	95,400	95,400	95,400	95,400
Other liabilities	109,622	106,235	109,178	105,995
Accruals and deferred income	25,760	30,590	25,396	30,102
Current tax	27,957	13,405	27,868	12,952
Financial liabilities designated for hedge accounting	43,238	37,865	43,238	37,865
Subordinated liabilities	120,000	120,000	120,000	120,000
Total Liabilities	6,672,001	6,524,026	6,673,082	6,524,149
EQUITY				
Equity attributable to shareholders of the Bank:				
Called up share capital	300,000	270,000	300,000	270,000
Share premium account	988	988	988	988
Revaluation reserves	15,537	13,573	15,425	13,461
Retained earnings	227,918	236,196	193,113	209,612
	544,443	520,757	509,526	494,061
Non-controlling interest	471	243	-	-
Total Equity	544,914	521,000	509,526	494,061
Total Liabilities and Equity	7,216,915	7,045,026	7,182,608	7,018,210
MEMORANDUM ITEMS				
Contingent liabilities	210,431	215,512	210,431	215,512
Commitments	1,115,357	1,049,804	1,115,357	1,049,804

These accounts were approved by the Board of Directors on 25 April 2013.

Statements of changes in equity for the six months ended 31 March

	Attributable to Equity holders of the Bank						Total Equity €000
	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000	Non- Controlling Interest €000	
The Group							
At 30 September 2011	240,000	988	18,036	214,211	473,235	962	474,197
Profit for the period	-	-	-	31,980	31,980	154	32,134
Other comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	(3,412)	-	(3,412)	-	(3,412)
- change in fair value transferred to profit or loss, net of tax	-	-	(487)	-	(487)	-	(487)
Total other comprehensive income	-	-	(3,899)	-	(3,899)	-	(3,899)
Total comprehensive income for the period	-	-	(3,899)	31,980	28,081	154	28,235
Transactions with owners, recorded directly in equity							
Bonus issue	30,000	-	-	(30,000)	-	-	-
Dividends	-	-	-	(12,480)	(12,480)	-	(12,480)
	30,000	-	-	(42,480)	(12,480)	-	(12,480)
At 31 March 2012	270,000	988	14,137	203,711	488,836	1,116	489,952
At 30 September 2012	270,000	988	13,573	236,196	520,757	243	521,000
Profit for the period	-	-	-	44,538	44,538	228	44,766
Other comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	2,802	-	2,802	-	2,802
- change in fair value transferred to profit or loss, net of tax	-	-	(838)	-	(838)	-	(838)
Total other comprehensive income	-	-	1,964	-	1,964	-	1,964
Total comprehensive income for the period	-	-	1,964	44,538	46,502	228	46,730
Transactions with owners, recorded directly in equity							
Bonus issue	30,000	-	-	(30,000)	-	-	-
Dividends	-	-	-	(22,816)	(22,816)	-	(22,816)
	30,000	-	-	(52,816)	(22,816)	-	(22,816)
At 31 March 2013	300,000	988	15,537	227,918	544,443	471	544,914

Statements of changes in equity for the six months ended 31 March

	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total Equity €000
The Bank					
At 30 September 2011	240,000	988	17,924	193,160	452,072
Profit for the period	-	-	-	30,634	30,634
Other comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	(3,412)	-	(3,412)
- change in fair value transferred to profit or loss, net of tax	-	-	(487)	-	(487)
Total other comprehensive income	-	-	(3,899)	-	(3,899)
Total comprehensive income for the period	-	-	(3,899)	30,634	26,735
Transactions with owners, recorded directly in equity					
Bonus issue	30,000	-	-	(30,000)	-
Dividends	-	-	-	(12,480)	(12,480)
	30,000	-	-	(42,480)	(12,480)
At 31 March 2012	270,000	988	14,025	181,314	466,327
At 30 September 2012	270,000	988	13,461	209,612	494,061
Profit for the period	-	-	-	36,317	36,317
Other comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	2,802	-	2,802
- change in fair value transferred to profit or loss, net of tax	-	-	(838)	-	(838)
Total other comprehensive income	-	-	1,964	-	1,964
Total comprehensive income for the period	-	-	1,964	36,317	38,281
Transactions with owners, recorded directly in equity					
Bonus issue	30,000	-	-	(30,000)	-
Dividends	-	-	-	(22,816)	(22,816)
	30,000	-	-	(52,816)	(22,816)
At 31 March 2013	300,000	988	15,425	193,113	509,526

Statements of cash flows

for the six months ended 31 March

	The Group		The Bank	
	Mar-13 €000	Mar-12 €000	Mar-13 €000	Mar-12 €000
Cash flows from operating activities				
Interest and commission receipts	137,436	107,069	134,015	103,988
Interest and commission payments	(54,504)	(50,264)	(54,380)	(50,177)
Payments to employees and suppliers	(41,791)	(42,243)	(40,455)	(40,861)
Operating profit before changes in operating assets and liabilities	41,141	14,562	39,180	12,950
Increase in operating assets:				
Loans and advances	(9,537)	(104,069)	(9,537)	(104,069)
Reserve deposit with Central Bank of Malta	(2,071)	48,730	(2,071)	48,730
Fair value through profit or loss financial assets	94,208	102,708	94,208	102,708
Fair value through profit or loss equity instruments	376	(2,288)	(1,909)	(857)
Treasury bills with original maturity of more than 3 months	8,982	-	8,982	-
Other assets	5,009	683	6,194	1,178
Increase/(decrease) in operating liabilities:				
Amounts owed to banks and customers	168,124	102,351	168,798	101,988
Other liabilities	4,461	803	4,256	712
Net cash from operating activities before tax	310,693	163,480	308,101	163,340
Tax paid	(8,629)	(6,071)	(8,359)	(6,261)
Net cash from operating activities	302,064	157,409	299,742	157,079
Cash flows from investing activities				
Dividends received	263	1,136	2,571	1,439
Interest received from held-to-maturity debt and other fixed income instruments	21,336	23,136	21,336	23,136
Purchase of debt instruments	(397,175)	(233,969)	(397,175)	(233,969)
Proceeds from sale or maturity of debt instruments	192,031	138,767	192,031	138,767
Purchase of property, plant and equipment	(4,073)	(3,483)	(4,059)	(3,456)
Proceeds on disposal of property, plant and equipment	-	7	-	7
Net cash used in investing activities	(187,618)	(74,406)	(185,296)	(74,076)
Cash flows from financing activities				
Dividends paid to equity holders of the Bank	(22,816)	(12,480)	(22,816)	(12,480)
Net cash used in financing activities	(22,816)	(12,480)	(22,816)	(12,480)
Net change in cash and cash equivalents	91,630	70,523	91,630	70,523
Effect of exchange rate changes on cash and cash equivalents	235	-	235	-
Net change in cash and cash equivalents	91,395	70,523	91,395	70,523
Cash and cash equivalents at 1 October	808,880	356,841	808,880	356,841
Cash and cash equivalents at 31 March	900,510	427,364	900,510	427,364

STATEMENT PURSUANT TO THE LISTING RULES ISSUED BY THE LISTING AUTHORITY

I confirm that to the best of my knowledge:

- The condensed interim financial statements give a true and fair view of the financial position as at 31 March 2013, financial performance and cashflows for the six month period then ended, in accordance with International Financial Reporting Standards as adopted by the EU applicable to Interim Financial Reporting (IAS 34).
- The interim Directors' report includes a fair review of the information required in terms of the Listing Rules.

Charles Borg
Chief Executive Officer

1. Basis of preparation

The published figures have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The condensed group financial statements have been extracted from Bank of Valletta's unaudited group management accounts for the six months ended 31 March 2013, and have been reviewed in terms of ISRE 2410 'Review of Interim Financial Information performed by the independent auditor of the entity'. The half-yearly results are being published in terms of Chapter 5 of the Listing Rules of the Malta Financial Services Authority.

These have been drawn up in accordance with the accounting policies used in the preparation of the annual audited financial statements of the Group for the year ended 30 September 2012.

As required by IAS 34, Interim Financial Reporting, these interim financial statements include comparative statements of financial position information of the previous financial year end and comparative income statements and statements of comprehensive income information for the comparable interim periods of the immediately preceding financial year.

Related party transactions with other members of the BOV Group covering the period 1 October 2012 to 31 March 2013 have not materially affected the performance for the period under review.

2. Segment Information

	Credit, deposit-taking and other retail		Financial markets, investments and non-retail		Total	
	Mar-13 €000	Mar-12 €000	Mar-13 €000	Mar-12 €000	Mar-13 €000	Mar-12 €000
The Group						
Operating income for the six months	91,404	87,080	21,159	20,413	112,563	107,493
Profit before tax for the six months	36,685	28,868	27,878	20,225	64,563	49,093
	Mar-13 €000	Sep-12 €000	Mar-13 €000	Sep-12 €000	Mar-13 €000	Sep-12 €000
Total assets	3,927,028	3,951,111	3,289,887	3,093,915	7,216,915	7,045,026

The Bank and Group's condensed interim financial information has been reviewed by its independent auditor. The auditor's report, as at 31 March 2013, is reproduced hereunder:

Report on Review of Interim Financial Information to the Directors of Bank of Valletta p.l.c:

Introduction

We have reviewed the accompanying condensed consolidated statements of financial position of Bank of Valletta p.l.c. as at 31 March 2013 and the related condensed consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the six month period then ended and the explanatory notes. The directors are responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the EU applicable to Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

Sarah Curmi as Director
in the name and on behalf of
DELOITTE AUDIT LIMITED
Registered auditor

25 April 2013

Background

In our Financial Statements commentary for FY 2012, we stated that the international financial situation had continued to deteriorate and that attention was mainly on the eurozone sovereign credit. We had also stated that the sustainability of the eurozone sovereign debt, which in the past was perceived to be rock solid, had been put into question. The sovereign crisis was further accentuated by a slowdown in the global economy with the European countries being amongst the hardest hit and in particular, the peripheral countries that are going through a recessionary phase.

During the last six months, the global economic situation and market outlook have not changed much since our previous reporting period. Although Q1 GDP figures for many economies have as yet to be published, economic indicators are showing that overall growth remains subdued. The US economy has demonstrated positive growth momentum in the first quarter of this year. This, however, has coincided with fiscal tightening and cost cutting which can undermine future growth.

In Europe, the economic picture is also subdued. Economic growth is negative, not just for the peripheral countries, but also for major economies such as Germany and France. Unemployment is at record highs, especially amongst the younger generations, and the austerity measures imposed on problematic countries is leaving little room for growth prospects. Were it not for the backstop provided by the ECB via its bond-buying programme (that has yet to be used), the inconclusive results of the Italian elections and the bailout of Cyprus, would have wreaked havoc with financial markets and created another sovereign debt crisis.

The manner in which the Cypriot crisis was handled has certainly broken some taboos. We experienced the first haircut on uninsured deposits in the eurozone (after the policy mistake of proposing haircuts on insured deposits was retracted), as well as haircuts on senior unsecured bonds. For the first time, we also witnessed one of the top two banks in a eurozone country being wound up immediately; this was also coupled with the enforcement of intra-eurozone capital controls.

In the wake of these events, ECB President Mario Draghi has explicitly remarked that the Cypriot model should not be considered as a template for any future bailouts. He also emphasised the need to have adequate capital buffers and other “bail-inable” liabilities (such as convertible securities known as CoCos), and that draft European legislation (Directive for Bank Recovery & Resolution) that would have the power to force losses on bank investors should come into force by 2015 rather than 2018 as currently planned. Mr Draghi also said that the Cypriot crisis highlighted the critical importance of setting up the banking union,

which will see the ECB taking over supervisory responsibility for systemically important banks as from next year.

Surprisingly, European markets have reacted with relative serenity to the Cypriot crisis. Nerves were calmed by Mr Draghi's reassurance on an accommodative monetary policy for as long as needed. The ECB chief has also indicated that an interest rate cut is coming to the fore of the bank's agenda, saying that it stood "ready to act" as economic weakness creeps into core eurozone countries and inflation dips below its 2% target. Up to now, the ECB has been reluctant to cut rates, as this might involve moving its zero per cent deposit rate into negative territory. Mr Draghi also noted that the currency's exchange rate was not a target for the ECB, although exchange rate developments are monitored closely; in fact, the depreciation of the euro since early February is equivalent to about 50 bps of rate cuts.

However, analysts are arguing that given the fragmentation within the eurozone of real interest rates paid by borrowers, especially smaller ones in Europe's southern periphery, the ECB may be reluctant to reduce rates. Furthermore, despite the ECB's initiatives, banks have continued to tighten credit conditions for firms as they readjust their balance sheets.

Review of Performance

The Bank of Valletta (BOV) Group has recorded a profit before taxation of €64.6 million for the six months ended 31 March 2013. This represents an increase of 32% over the pre-tax profit of €49.1 million earned during the first six months of the previous financial year. As can be seen from the table below, Net Operating Profit before fair value movements for the period is down by €4.2 million when compared to the previous year. As a result of the improvement in market sentiment, fair valuation of financial instruments showed a significant gain of €13.2 million when compared to just €0.5 million during the same period last year. The share of profits from our insurance interests also improved and we are registering a contribution of €8.6 million to these results, compared with €1.6 million for the same period last year.

The results for the first six months of this financial year are summarised in the table below. This table should be read in conjunction with the explanatory notes that follow.

	Mar-13 € million	Mar-12 € million	Change € million
Net interest income	66.2	77.3	(11.1)
Commission and trading income	33.2	29.7	3.5
Operating income	99.4	107.0	(7.6)
Operating expense	(44.7)	(45.0)	0.3
Impairment charge	(11.9)	(15.0)	3.1
Core Profit	42.8	47.0	(4.2)
Fair value movement	13.2	0.5	12.7
Operating Profit	56.0	47.5	8.5
Share of profit from associates	8.6	1.6	7.0
Profit before tax	64.6	49.1	15.5

(a) Net Interest Margin

During the first half of FY 2013, net interest margin amounted to €66.2 million, a decrease of €11.1 million or 14% over that of last year. This was influenced by three factors:

- (i) the increase in the interest expense on a larger deposit base coupled with the volume of advances on a year-on-year basis remaining the same;
- (ii) lower returns on the Bank's Financial Markets investment book as funds from maturing bonds are re-invested at lower yields;
- (iii) net interest income for the six months to March 2012 included receipts of €5.2 million in respect of interest on which provisions had previously been made.

(b) Net Commission and Trading Income

Net Commission and Trading Income improved by 12% during the first six months of this financial year to reach €33.2 million, as compared with €29.7 million for the same period last year.

Demand for credit has been muted, mainly as a result of the eurozone uncertainties as well as the extended electoral campaign. On the other hand, investment related activities (Capital Markets, Funds

Services, Stockbroking and Wealth Management) have improved, both in the fixed income as well as the equity sectors. Local capital markets activity in bond issuance remained very limited, pending further revision of the bond issuance regulations by the Listing Authority. Although the local equity market has shown signs of improvement, the volume of transactions has remained low. Trade related activities are also up while our foreign exchange business continued to experience significant competition from other local credit institutions, resulting in a tightening of margins. However, the Bank has attracted larger volumes of foreign exchange transactions driven mainly by the ever-increasing international companies transacting business from Malta, as well as the number of professional investment funds that have established their operation in Malta.

Both Card related activities and Payments business have continued to grow and deliver satisfactory results. This is a dynamic business area for the Bank, which is responding effectively to a fast changing operating environment. We have continued to invest in new systems in order to increase our capabilities to offer quality service to both local and international companies.

(c) Operating Expense

Operating Expense for the six months totaled €44.7 million, a slight improvement (1%) over the same period last year. The largest segment of the Group's expenses relates to personnel and IT investments. Training continues to feature prominently on the Bank's agenda with over 23,000 hours of training delivered during the first six months.

Investment in customer centric innovation continues to feature as a key element of the Bank's operations. During the last financial year BOV became the first bank in Malta to respond to the changing needs of its customers by launching a mobile application – BOV Mobile. We have continued to promote this new service delivery channel during the first six months of this financial year and we are encouraged by the growth in the popularity of the service, with over 11,000 registered users as at the end of March 2013.

The Bank continued to focus on strengthening its brand by launching a new visual identity, which summarises all that Bank of Valletta stands for - its rich history and tradition, its role as the bank of the Maltese community, but also its readiness to embrace innovation and recognise the greater challenges that today's environment offers.

The Bank continued to invest in its service delivery channels, including its branch network, with the opening of a new branch at the Skyparks Business Centre, new investment centres in B'Kara, Valletta and Victoria Gozo and the second drive-through ATM in Zejtun.

The Bank's continued investment in improving operating efficiency must be balanced by competitiveness particularly in the face of increased competition from other credit and financial institutions. Therefore, management continues to exercise strict control over the Group's discretionary expenditure and this will remain one of management's top priorities.

(d) Net Impairment Charge

The impact of the difficult economic conditions of the last few years on the overall quality of our credit book has been modest and manageable. Nonetheless, the Bank's Board of Directors and management have chosen to continue to adopt a cautious outlook in respect of certain vulnerable sectors at a time when the overall domestic economic situation remains subdued. Whereas the charge for March 2012 included precautionary collective allowances in respect of exposures in vulnerable sectors, during the period under review the Bank deemed it appropriate to retain the cautious outlook, particularly as regards the values of collateral held on specific large exposures.

This approach is also very much in line with the recommendations being made by the European Commission in its report on Malta dated 10 April 2013, as well as the statements made by the Governor of the Central Bank of Malta in his presentation of the CBM's annual results on the 9 April 2013. The Commission commented that Maltese banks generally have low coverage ratios because they provide only for the unsecured portion of their credit exposures. It is therefore recommending that the Maltese banking system strengthens its non-performing loans coverage and exercises tight control over the loan-to-value ratio in the real estate and construction sectors. These recommendations are aligned with the Bank's long term provision coverage strategy, and an impairment charge of €12 million is being made for the first six months of this financial year.

While the ratio of non-performing accounts to the total loans and advances showing a deterioration over the position as at the end of September 2012, overall the credit quality of our loan book remains satisfactory. The impact of the higher specific impairment charge resulted in increasing the specific coverage ratio from 23% in September 2012 to 29% as at March 2013.

(e) Fair Value Movements

Financial markets performed well during the first six months of this financial year, buoyed by the ECB's continuing willingness to provide liquidity, and this had a positive effect on the fair value of the Bank's investment portfolio. In fact, the markdowns that we experienced in 2008 through to 2011 are being recouped. Overall, we are reporting a fair value gain of €13.2 million for the six month period, as compared with a small gain of €0.5 million last year.

(f) Share of profit from Associates

The Associated Companies represent the Group's insurance sector interests, comprising a direct equity interest of 50% in MSV Life plc, and an equity stake in Middlesea Insurance plc (MSI), where the Group's holding amounts to 31.08% of the issued share capital of the company. The Group's share of profits of €8.6 million is a significant improvement over the €1.6 million in March 2012. This is made up as follows:

Share of Profit - six months to 31 March	2013	2012
	€ million	€ million
MSV Life	6.4	1.2
MSI	2.2	0.4
Net share of results for the period	<u>8.6</u>	<u>1.6</u>

The above represents BOV's share of profits on its MSV Life and MSI shareholdings based on the audited financial statements through to 31 Dec 2012 and 2011 respectively.

Review of Financial Position

Total assets as at 31 March 2013 stood at €7.2 billion (September 2012: €7.0 billion), while equity attributed to the shareholders of the Bank amounted to €544.4 million.

Our total loan book is at the same level as at 30 September 2012, reflecting the subdued demand for credit particularly in the business segment. The period under review witnessed the repayment of some large ticket items while demand for home loans, particularly in the first buyer segment, continued to grow satisfactorily. The Non-Performing Loans ratio stands at 4.6% (September 2012: 4.4%).

During the first six months of this financial year, the Bank continued to roll out the JEREMIE programme in support of small and medium sized enterprises (SMEs). This initiative, which is a joint programme with the European Commission and the European Investment Fund, is directed at extending finance to SMEs through the provision of credit risk protection. This programme is another example of the support extended by Bank of Valletta towards local enterprise. We expect that this initiative will be fully utilised in the coming six months, that is almost a full year ahead of projections. The Bank is currently working towards implementing a new EU programme, which is also aimed at assisting SME businesses.

Customer deposits have seen very encouraging growth in the first six months of this financial year, both from our retail customers as well as in the corporate and institutional segment. This is indeed very encouraging particularly in the light of increased competition and the financial crisis in neighbouring countries. Customer deposits stood at €6.14 billion, an increase of €328.1million, or 5.4% over the six month period since 30 September 2012.

The Bank has continued to manage its Balance Sheet in a deliberate and prudent manner, with the aim of strengthening our core Tier 1 capital and Liquidity ratios in line with Basel III and CRD IV regulatory regimes. Tier 1 capital as at the end of this interim period stood at 10.9%. In the meantime, the Bank's liquidity ratio remains strong at 53.5%, with minimal use being made of the inter-bank funding. During the course of these six months, the Bank repaid back to the ECB its two LTROs amounting to a total of €170 million. This means, therefore, that the entire Bank's funding is now wholly dependent on customer deposits and long-term senior and subordinated debt, with no reliance on the international money markets. At 63.1% the loan to deposit ratio indicates the very prudent approach that Bank of Valletta has continued to maintain during the period under review. Moreover, most of BOV's investment book is held in high-quality bonds which can be used as collateral with the European Central Bank, thereby giving the Bank ready access to a source of secure additional funding should the need arise.

The Return on Equity (ROE) for the period has continued to improve and has now reached 24.2% up from 22.3% for FY 2012. In February of this year, Fitch Rating Agency announced its affirmation of BOV's credit rating at BBB+, with a Stable Outlook. This is indeed a welcome development at a time when many financial institutions and even sovereign countries have been downgraded sometimes by even more than

one notch. Fitch remarked that its affirmation reflects the Bank's strong and stable funding base and satisfactory profitability position.

Interim Dividend

The Board has resolved to declare a gross interim dividend of €0.06 per share, which represents an increase of 11% on last year's interim dividend of €0.054 per share (as restated for the bonus issue of January 2013). This dividend will be paid on 24 May 2013 to shareholders on the Bank's Register of Members at the close of business on 9 May 2013. The final dividend will be determined by the Board later in the year and will take into account the results for the full year as well as the conditions prevailing at the time.

Regulatory Matters

As stated in our Company Announcement (BOV 235) on 23 January 2013, the Bank has fully co-operated with the independent professional services firm engaged by the MFSA to carry out a review of all the La Valette Multi Manager Property Fund (Fund) investor files, in order to determine whether, in their opinion, any investors in the Fund did not qualify as 'experienced investors' (as defined in the prospectus of the Fund). This review was completed in December 2012 and the full list of investors that did not qualify as 'experienced investors' was received from the MFSA in January 2013. The Bank made an ex gratia payment to the investors on this list, without any obligation at law and without admission of any liability or responsibility on its part. Since appropriate estimates were made by the Bank in its financial statements for the year ending 30 September 2012, no additional charges were made in these interim financial statements.

Outlook

The long running eurozone sovereign crisis continues to create uncertainty, and the austerity measures being adopted by EU member states will take time to have the desired effect. As a result, the banking system in Europe will require ongoing support from the ECB.

Unemployment, particularly amongst the younger generation in Europe, needs to be tackled fast because this could lead to social and political unrest. The inconclusive results of the Italian elections, the problems in Spain, Portugal, Greece and the repercussions of the bail-in of Cyprus, are going to have a long term effect on the eurozone economy.

Notwithstanding all this, the Maltese economy has remained resilient throughout these years of crisis. The country continued to register economic growth driven mainly by the export-oriented sectors such as the tourism and services sectors. Domestic demand and particularly import-intensive investment was subdued. The European Commission is projecting economic growth for Malta to increase in 2013-14 and outperform the euro area average. The traditional sectors, such as construction and wholesale and retail, are expected to continue to experience some difficulties.

The Maltese economy is a very open economy and therefore we need to ensure that we remain price competitive. The European Economic Advisory Group (EEAG) in its report for 2013 confirmed that Malta, together with Germany and Austria, have seen better economic growth as a result of the condition of the private sector financing and the high level of international competitiveness. Household debt has been increasing over the last few years, but it still remains below the euro-area average. The European Commission has however warned the Maltese Government that its debt needs to be reigned in to ensure the long-term sustainability of public finances, especially in the context of an ageing population that will make pension and healthcare reforms increasingly necessary.

BOV has, for a number of years, given strategic priority to enhancing its capital levels, both in anticipation of the more onerous regulation of Basel III/CRD IV, but also in view of its position as a systemically-important institution in Malta, and therefore key to financial stability. With a Core Equity Tier 1 ratio of 10.9% (Sep 12: 10.7%), BOV ranks as a well-capitalised bank by all international standards. This ratio has been rising consistently over the past few years, and it will remain a focal point of the Bank's strategy in the years ahead.

BOV safeguards its capital levels by following a prudent dividend payout policy which seeks to balance the retention of profits with a fair return to shareholders. As part of its risk management, the Bank also conducts regular internal stress tests to ensure the resilience of its capital buffers in situations which are extreme and remote, but possible.

Under Basel III, which will be phased in between now and January 2019, banks will be required to improve both the quantity and the quality of their capital. In March 2013, the European Banking Authority (EBA)

published the third in a series of reports monitoring the impact of Basel III on the European Banking System. The report presents the aggregate results, as of 30 June 2012, of the capital ratios of European banks assuming full implementation of the Basel III framework. It is with satisfaction that we report that BOV's capital ratios, as they would be computed under Basel III, are already higher than the average eurozone ratios as computed for the sample of banks surveyed by the EBA. This is another external confirmation of the robustness of our capital, following the various stress tests conducted by the Authority between 2010 and 2012, all of which BOV passed with relative ease. However, the Board and the management are continuously looking at other ways how to strengthen the capital of the Bank in order to be more prudent and to try to anticipate increased regulatory requirements that are expected to be imposed on systemically important banks

BOV continues to give equal importance to its liquidity management. The strength of the Bank's liquidity situation can be gauged by its loan-to-deposit ratio which, at 63.1% (Sep 12: 66.7%), ranks among the most sustainable globally. The Bank is also at an advanced stage of transition to the more rigorous liquidity requirements of Basel III, and is already practically in line with the main requirements, covered by the Liquidity Coverage Ratio and the Net Stable Funding Ratio. Full compliance will be required as of January 2019.

Conclusion

In conclusion, the Bank's conservative business model reflects its status as Malta's largest financial services provider and the critical role it plays in safeguarding the nation's financial and economic well-being. Ever mindful of this vocation, the Board intends to continue to safeguard the quality and quantity of its capital and liquidity resources, through a responsible dividend policy, prudent lending and investment practices, and a cautious risk appetite.

The Board of Directors wishes to express sincere thanks to the outgoing Chairman, Frederick Mifsud Bonnici and also Dr Gordon Cordina for their dedication, commitment and hard work during their time at Bank of Valletta. We would also like to thank the senior executive management and all staff for their commitment and continued contribution towards the achievement of these results. We are also grateful to our many customers for the business that they bring to the Bank, and for the trust that they show in Bank of Valletta.

BOV remains wholly committed to supporting our customers and the Maltese economy in a responsible manner. This constant support and commitment has been clearly recognised and acknowledged by our increasing customer base. 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 for their counsel and advice.

By Order of the Board

25 April 2013

All shareholders on the Bank's Register of Members at the Central Securities Depository of the Malta Stock Exchange as at close of business on 9 May 2013 (including trades undertaken up to and including 6 May 2013) will be paid the interim dividend on 24 May 2013.