OFFICE OF THE COMPANY SECRETARY
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BOV/231

COMPANY ANNOUNCEMENT

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

Quote

The Board of Directors of Bank of Valletta p.l.c. (the Bank) has today, the 26 October 2012, approved the audited financial statements for the financial year ended 30 September 2012. 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 Wednesday, 19 December 2012. 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 €0.13 per share making for a final net dividend of €0.0845 per share which, if approved by the Annual General Meeting, would make for a total gross dividend for the year of €0.19 per share (total net dividend per share €0.1235).

2. A bonus share issue of one (1) share for every nine (9) shares held which will be allotted to shareholders on the Bank's share register as at close of business on Thursday, 17 January 2013[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 Monday 19 November 2012[2], will receive notice of the Annual General Meeting together with the Financial Statements for the financial year ended 30 September 2012.

The final dividend, if approved at the Annual General Meeting, will be paid on the 20 December 2012 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 Monday, 19 November 2012.

Unquote

Catherine Formosa

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

26 October 2012

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1 Thursday, 17 January 2013 will include trades undertaken up to and including Monday, 14 January 2013.

2 Monday, 19 November 2012 will include trades undertaken up to and including Wednesday, 14 November 2012.

Income statements for the year ended 30 September 2012

Basis of Preparation:

These figures have been extracted from the Bank of Valletta Group's audited financial statements for the year ended 30 September 2012, as approved by the Directors on 26 October 2012, and are being published in terms of MFSA Listing Rule 5.54.

	The Group		The Bank	
	2012	2011	2012	2011
	€000	€000	€000	€000
Interest receivable and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	166,497	153,040	166,497	153,040
- on debt and other fixed income instruments	72,048	71,024	72,048	71,024
Interest payable	(90,713)	(86,755)	(90,713)	(86,755)
Net interest income	147,832	137,309	147,832	137,309
Fee and commission income	51,055	49,093	44,857	42,824
Fee and commission expense	(6,619)	(5,885)	(6,619)	(5,885)
Net fee and commission income	44,436	43,208	38,238	36,939
Dividend income	672	740	2,126	3,394
Trading profits / (losses)	24,721	(6,171)	24,649	(6,173)
Net gain/(loss) on investment securities and hedging instruments	1,203	(1,540)	1,203	(1,540)
Operating Income	**218,864**	**173,546**	**214,048**	**169,929**
Employee compensation and benefits	(54,914)	(52,832)	(53,405)	(51,473)
General administrative expenses	(26,608)	(23,662)	(25,261)	(22,228)
Net compensation in relation to the Property Fund and other securities	(4,555)	(14,978)	(515)	(14,978)
Amortisation of intangible assets	(1,623)	(1,396)	(1,623)	(1,396)
Depreciation	(3,965)	(4,311)	(3,866)	(4,182)
Net impairment losses	(22,817)	(16,041)	(22,793)	(16,041)
Operating profit	**104,382**	**60,326**	**106,585**	**59,631**
Share of results of associates net of tax	6,348	4,047	-	-
Profit before tax	**110,730**	**64,373**	**106,585**	**59,631**
Income tax expense	(36,454)	(22,319)	(37,123)	(22,058)
Profit for the year	**74,276**	**42,054**	**69,462**	**37,573**
Attributable to:				
Equity holders of the Bank	74,995	41,675	69,462	37,573
Non-controlling interest	(719)	379	-	-
	74,276	42,054	69,462	37,573
Earnings per share	27c8	15c4	25c7	13c9

Statements of comprehensive income for the year ended 30 September 2012

	The Group		The Bank	
	2012	**2011**	**2012**	**2011**
	€000	**€000**	**€000**	**€000**
Profit for the year	74,276	42,054	69,462	37,573
Other comprehensive income				
Available-for-sale investments:				
- change in fair value	(6,116)	(9,777)	(6,116)	(9,777)
- deferred tax thereon	2,140	3,422	2,140	3,422
- change in fair value transferred to profit or loss	(749)	-	(749)	-
- deferred tax thereon	262	-	262	-
Other comprehensive loss for the period, net of tax	(4,463)	(6,355)	(4,463)	(6,355)
Total comprehensive income	69,813	35,699	64,999	31,218

Total comprehensive income attributable to:

Equity holders of the Bank	70,532	35,320
Non-controlling interest	(719)	379
	69,813	35,699

Bank of Valletta p.l.c.

Statements of financial position as at 30 September 2012

	The Group		The Bank	
	2012	2011	2012	2011
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	296,134	170,844	296,134	170,844
Financial assets at fair value through profit or loss	768,284	895,938	763,723	893,710
Investments	1,338,456	1,307,601	1,338,456	1,307,577
Loans and advances to banks	676,639	400,931	676,639	400,931
Loans and advances to customers at amortised cost	3,702,217	3,607,064	3,702,217	3,607,064
Investments in associates	77,058	71,761	52,870	52,870
Investments in subsidiary companies	-	-	1,393	1,393
Intangible assets	8,743	6,598	8,743	6,598
Property, plant and equipment	70,035	70,495	69,720	70,162
Current tax	-	7,143	-	7,122
Deferred tax	59,408	44,949	59,408	44,949
Other assets	20,362	14,264	21,217	12,481
Prepayments and accrued income	27,690	25,282	27,690	25,227
Total Assets	**7,045,026**	**6,622,870**	**7,018,210**	**6,600,928**
LIABILITIES				
Financial liabilities at fair value through profit or loss	60,879	43,159	60,879	43,159
Amounts owed to banks	250,352	260,614	250,352	260,614
Amounts owed to customers	5,809,300	5,523,907	5,810,604	5,525,156
Debt securities in issue	95,400	55,400	95,400	55,400
Current tax	13,405	356	12,952	-
Other liabilities	106,235	78,526	105,995	78,376
Accruals and deferred income	30,590	33,217	30,102	32,657
Financial liabilities designated for hedge accounting	37,865	33,494	37,865	33,494
Subordinated liabilities	120,000	120,000	120,000	120,000
Total Liabilities	**6,524,026**	**6,148,673**	**6,524,149**	**6,148,856**
EQUITY				
Attributable to equity holders of the Bank				
Called up share capital	270,000	240,000	270,000	240,000
Share premium account	988	988	988	988
Revaluation reserves	13,573	18,036	13,461	17,924
Retained earnings	236,196	214,211	209,612	193,160
	520,757	473,235	494,061	452,072
Non-controlling interest	243	962	-	-
Total Equity	**521,000**	**474,197**	**494,061**	**452,072**
Total Liabilities and Equity	**7,045,026**	**6,622,870**	**7,018,210**	**6,600,928**
MEMORANDUM ITEMS				
Contingent liabilities	215,512	191,726	215,512	191,726
Commitments	1,049,804	1,066,597	1,049,804	1,066,597

Statements of changes in equity for the year ended 30 September 2012

	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 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 loss	-	-	(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**
Profit for the year				74,995	**74,995**	(719)	**74,276**
Other Comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	(3,976)	-	**(3,976)**	-	**(3,976)**
- change in fair value transferred to profit or loss,	-	-	(487)	-	**(487)**	-	**(487)**
Total other comprehensive loss	-	-	(4,463)	-	(4,463)	-	(4,463)
Total comprehensive income for the year	-	-	(4,463)	74,995	**70,532**	(719)	**69,813**
Transactions with owners, recorded directly in equity:							
Bonus issue	30,000	-	-	(30,000)	**-**	-	**-**
Dividends - final 2011				(12,480)	(12,480)		(12,480)
- interim 2012	-	-	-	(10,530)	(10,530)	-	(10,530)
	30,000	**-**	**-**	**(53,010)**	**(23,010)**	**-**	**(23,010)**
At 30 September 2012	**270,000**	**988**	**13,573**	**236,196**	**520,757**	**243**	**521,000**

Statements of changes in equity for the year ended 30 September 2012 (continued)

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
The Bank					
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 loss	-	-	(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**
Profit for the year	-	-	-	69,462	**69,462**
Other Comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	(3,976)	-	**(3,976)**
- change in fair value transferred to profit or loss, net of tax	-	-	(487)	-	**(487)**
Total other comprehensive loss	-	-	(4,463)	-	(4,463)
Total comprehensive income for the year	-	-	(4,463)	69,462	**64,999**
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	**-**
Dividends - final 2011	-	-	-	(12,480)	**(12,480)**
- interim 2012				(10,530)	**(10,530)**
	30,000	-	-	(53,010)	**(23,010)**
At 30 September 2012	**270,000**	**988**	**13,461**	**209,612**	**494,061**

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

Bank of Valletta p.l.c.

Statements of cash flows for the year ended 30 September 2012

	The Group		The Bank	
	2012	2011	2012	2011
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	259,031	240,316	252,774	234,096
Interest, commission and compensation payments	(100,570)	(111,311)	(96,458)	(111,129)
Payments to employees and suppliers	(82,172)	(74,327)	(79,316)	(71,534)
Operating profit before changes in operating assets and liabilities	76,289	54,678	77,000	51,433
(Increase)/decrease in operating assets:				
Loans and advances	(115,283)	(131,064)	(115,283)	(131,064)
Reserve deposit with Central Bank of Malta	47,285	(3,384)	47,285	(3,384)
Fair value through profit or loss financial assets	166,676	73,942	166,676	73,942
Fair value through profit or loss equity instruments	(6,856)	(28,434)	(4,523)	(28,324)
Treasury bills with original maturity of more than 3 months	(27,991)	-	(27,991)	-
Other assets	(1,098)	(1,218)	(3,736)	(679)
Increase in operating liabilities:				
Amounts owed to customers and banks	260,675	216,153	260,660	217,060
Other liabilities	25,622	2,828	25,534	2,933
Net cash from operating activities before tax	425,319	183,501	425,622	181,917
Tax paid	(28,318)	(27,976)	(29,105)	(27,653)
Net cash from operating activities	397,001	155,525	396,517	154,264
Cash flows from investing activities				
Dividends received	1,723	2,240	2,126	3,394
Interest received from held-to-maturity debt and other fixed income instruments	50,165	46,706	50,165	46,706
Purchase of equity instruments	-	(1,341)	-	(1,341)
Purchase of debt instruments	(364,420)	(246,290)	(364,420)	(246,290)
Proceeds from sale or maturity of debt instruments	357,845	172,025	357,845	172,025
Purchase of property, plant and equipment	(7,273)	(9,005)	(7,192)	(8,898)
Proceeds on disposal of property, plant and equipment	8	6,982	8	6,982
Net cash from/(used in) investing activities	38,048	(28,683)	38,532	(27,422)
Cash flows from financing activities				
Proceeds from issue of debt securities	40,000	55,400	40,000	55,400
Repayment of debt securities		(25,701)	-	(25,701)
Dividends paid to bank's equity holders	(23,010)	(30,550)	(23,010)	(30,550)
Net cash from/(used in) financing activities	16,990	(851)	16,990	(851)
Net change in cash and cash equivalents before effect of exchange rate changes	452,039	125,991	452,039	125,991
Effect of exchange rate changes on cash and cash equivalents	(46)	(733)	(46)	(733)
Net change in cash and cash equivalents after effect of exchange rate changes	452,085	126,724	452,085	126,724
Net change in cash and cash equivalents	452,039	125,991	452,039	125,991
Cash and cash equivalents at 1 October	356,841	230,850	356,841	230,850
Cash and cash equivalents at 30 September	**808,880**	**356,841**	**808,880**	**356,841**

Introduction

The past financial year has been characterised by a deterioration of financial conditions reminiscent of the 2008 financial crisis with the spotlight now turning on eurozone sovereign credit. The sustainability of eurozone sovereign debt, which in the past was thought to be rock solid, has been put into question. Although the problems started with the relatively smaller peripheral countries of Greece, Ireland and Portugal, these have now spread to more systemically critical countries of the Eurozone such as Spain and Italy. The sovereign crisis was further accentuated by a slowdown in the global economy. The European countries were amongst the hardest hit and most of them ended up going through a recessionary phase. Furthermore, even emerging economies such as China and Brazil are experiencing lower growth rates.

Eurozone leaders have struggled to come up with a convincing plan to restore investors' confidence. The second Greek bailout and the European Central Bank's (ECB) three year Long Term Refinancing Operation (LTRO) helped to deliver some stability up to the first quarter of 2012. This was however, short-lived due to the temporary nature of the measures undertaken. By May 2012 market confidence started to wane, with borrowing costs for Spain and Italy increasing to levels that cast doubt on medium-term economic and public-financial sustainability. To lift market sentiment, European politicians needed to come up with a more convincing plan to avoid a full blown crisis. In fact, on 5 July 2012 the ECB reduced its Refinancing Rate from 1% to 0.75% and for the first time it cut its deposit rate to zero. This effectively meant that banks who were depositing money back with the ECB on a short term basis, were not receiving any interest. Moreover, the ECB's President Mario Draghi, sent a strong message to the market by stating that the ECB would do all it takes to salvage the Euro currency. This included the decision by the ECB to intervene in the sovereign bond markets in 'adequate sizes' in order to reduce sovereign risk premia, whilst strongly confirming that the Euro is irreversible.

As a result of this continuing crisis, during the financial year under review, we have also witnessed unprecedented multiple rating downgrades in particular for sovereigns, banks and financial institutions.

Review of Performance

With this background, the BOV Group has recorded a satisfactory profit before taxation of €110.7 million for the financial year ended 30 September 2012. This represents a 72% increase over the corresponding figure of €64.4 million pre-tax profit reported in the previous financial period. Continued growth in our balance sheet and the non-recurrence of two exceptional items, namely the reversal in fair value movements on financial instruments and the impact of the compensation on the Property Fund and other securities, that were recorded last year were the main drivers underlying this result.

The Core Operating Profit of €100.3 million for this financial year is very much in line with that of the previous year (FY 2011: €100.2 million). This confirms that the retail and corporate businesses of the BOV Group continued to perform steadily notwithstanding the uncertainty in the international financial markets.

During the first three months of FY 2012, we experienced a deepening of the Eurozone crisis which led to the agreement of the fiscal pact in December of 2011. This resulted in the ECB flooding the banking system with enough liquidity through two long term refinancing operations (LTRO) to the tune of over €1 trillion. The agreement reached in August 2012 between the Eurozone countries has calmed the financial markets somewhat and this resulted in a positive effect on the fair value prices of the Bank's Financial Markets portfolio.

The BOV Group's results for the financial year are summarised in the table below. This table should be read in conjunction with the explanatory notes that follow.

		Sep-12 € million	Sep-11 € million	Change € million	%
Net interest income	(a)	147.8	137.3	10.5	8%
Net commission and trading income	(b)	62.4	61.1	1.3	2%
Operating expense	(c)	(87.1)	(82.2)	(4.9)	6%
Impairment charge	(d)	(22.8)	(16.0)	(6.8)	42%
Core Profit		**100.3**	**100.2**	**0.1**	**0%**
Fair value movement	(e)	8.7	(24.9)	33.5	135%
Operating Profit		**108.9**	**75.3**	**33.6**	**45%**
Share of profit from associates	(f)	6.3	4.0	2.3	57%
Net compensation related to the Property Fund and other securities	(g)	(4.6)	(15.0)	10.4	70%
Profit before tax		**110.7**	**64.4**	**46.4**	**72%**

Moreover, the key performance indicators also show a steady improvement over last year with a Cost/Income Ratio of 40.7%, down from 54.7% in FY 2011, and an Advances-to-Deposits ratio of 66.7%, down from 68.0% last year. The overall Return on Equity registered this year is 22.3%, which is a significant improvement from the 13.6% registered last year.

(a) Net interest income

Net Interest Margin for the year of €147.8 million represents an increase of 7.7% over that of last year. This improvement is attributable to increased volumes of business across the whole product range as well as the recovery of interest previously suspended. The ECB reduced its rates three times during the year under review, the most recent being on the 5 July from 1% to 0.75%, in a bid to encourage banks to make more credit available within their respective economies.

Within this scenario, the Bank has to actively manage its interest rates on both sides of its Balance Sheet keeping in mind the expectations of both our depositors and borrowers alike.

(b) Net commission and trading income

Net commission and trading income increased by 2.1% from €61.1 million last year to €62.4 million this year. FY 2012 was characterised by stronger performance in our stockbroking and capital markets business coupled with an increase in our trade related activities. We have experienced higher levels of interest being shown by Maltese and foreign companies wanting to do business in Libya following the end of the revolution. Conversely, we continued to experience subdued demand in our insurance activities. The earnings from our foreign exchange transactions have remained very much in line with those of FY 2011.

The Bank's card business has continued to show satisfactory growth, as more people continue to choose debit and credit cards as their preferred payment instrument. We have continued with our IT investment programme for this business area and we are pleased to report that in September of this year we successfully migrated our MasterCard business onto a new platform.

(c) Operating expenses

Operating expenses for the year totaled €87.1 million, an increase of 6.0% over the previous year. This was mainly driven by higher personnel costs arising from the new collective agreement which was signed in the first quarter of this financial year, a higher IT spend due to the continued investment in our IT infrastructure, as well as an increase in the Bank's contribution towards the Deposit Guarantee Scheme. The BOV Group continued with its investment in the IT infrastructure to ensure that it remains at the forefront of innovation and technology. These investments in technology will be of significant benefit to the Bank and to its customers going forward as they will enable us to continue to deliver customer-centric innovation, placing us in the best position to continue to provide a compelling and competitive customer value proposition for the years to come.

(d) Impairment charge

Notwithstanding the fact that our economy continues to show resilience, the difficult economic conditions that we are operating in, compounded by the European sovereign crisis, have invariably influenced the performance of the Maltese economy. We believe that the effects of these external factors, coupled with their impact on the local economy are putting additional pressures on the quality of our credit book.

In this regard, we are once again this year adopting a cautious approach in our provisioning. The charge for the year of €22.8 million comprises both specific and collective impairment charges. The impact of the specific charge of €6.5 million remains within expectations and overall the credit quality continues to be satisfactory. Our non-performing loans now account for 4.4% of the total loans and advances, an improvement when compared to the 5.1% registered last year. However, in the light of the continued macro-economic uncertainties, we continue to adopt a cautious view in relation to the Bank's collective allowance, consistent with previous years. In this regard, the collective charge for FY 2012 amounts to €13.5 million (FY 2011: €5.9 million). The year on year increase arises on collective allowances made in respect of specific sectors that are deemed to be more vulnerable to the overall economic environment.

(e) Fair value movement

In the first half of the year to 31 March 2012, the Bank reported a small fair value gain of €0.5 million. The second half of FY 2012 started off with a situation of heightened uncertainty in the financial markets which resulted in a negative effect on our fair value movements. This deterioration in market sentiment caused spreads to widen in respect of both sovereign and financial holdings. Following comments by ECB President Mario Draghi in July that the ECB is ready to do whatever it takes to save the Euro, the markets reacted positively which resulted in a positive effect on the value of our holdings in financial instruments. In fact, during the last quarter of this financial year the negative fair value movement registered in the previous quarter was totally reversed. The overall net effect for the whole year is a positive €8.7 million, compared to a charge of €24.9 million reported last year.

(f) Share of profit from associates

The BOV Group results also include a contribution from our Associated Companies operating in the local insurance sector. BOV has a direct equity stake of 50% in MSV Life plc and a 31.8% stake in Middlesea Insurance plc (MSI). BOV's share of profit from MSV and MSI for this financial year amounts to €6.3 million, a strong increase of 57% over the last financial year.

(g) Net compensation related to the Property Fund and other securities

On 28 June 2012, the Bank issued a Company Announcement in which, inter alia, it stated that, notwithstanding that irrevocable settlement agreements had been reached with 99% of investors in the La Valette Multi Manager Property Fund, and notwithstanding that it had filed an appeal against a purported Directive of the MFSA, it stood ready to fully cooperate with a file review aimed at identifying any investors who may have been ineligible to invest in the Fund, and to pay to such ineligible investors an additional ex gratia compensation of €0.25 per share. The amount included in the FY 2012 Income Statement represents the estimated additional ex gratia compensation that will be paid by the Bank upon the completion of the file review, as well as the estimated compensation in relation to claims on other securities, less any recoveries obtained from third parties.

Review of Financial Position

Notwithstanding the uncertainties that have prevailed during the financial year, the Bank has continued to manage its balance sheet in a deliberate and prudent manner, seeking to preserve high liquidity and enhance capital. We are pleased to report that for the first time, the balance sheet has exceeded the €7 billion mark. This is a significant achievement and an important milestone both for BOV and for Malta.

BOV continues to enjoy strong capital ratios and at September 2012 Core Equity Tier 1 stands at 10.7%, which is well above the minimum regulatory requirement of 9%. This was confirmed by the European Banking Authority in its last report of the 4 October 2012. The capital strength of the Bank is the result of the strategic priority which we give to capital management, with the objective of securing the sustainability of both the BOV Group and also, equally important, the Maltese financial system as a whole. Capital buffers are aimed at ensuring business continuity, so the strength of these buffers must be maintained at all times. In order to stay ahead of the curve on these important measures, capital forecasting and stress testing is carried out on a regular basis as part of our risk management processes.

In these uncertain times, we also consider it prudent to focus on stability and liquidity, even at the expense of profitability. Our Financial Markets book remains of high quality and during FY 2012 the average duration has been shortened and more funds where channeled into short term liquid assets at the expense of lower returns. Our liquidity ratio, which was already strong at 44% in September 2011, has improved to 49% as at September 2012.

Credit Lending

The Bank has continued to live up to its promise to support the Maltese economy in a responsible manner. Without any doubt, we have played a major role in sustaining the economic development in Malta by maintaining the supply of credit to the business community. Loans and advances to customers at the end of FY 2012 stood at €3.9 billion, an increase of €119.5 million or 3% over 30 September 2011. Growth was mainly driven by continued demand for home loans, particularly in the first time buyers' segment and by carefully selected increases in the business segment.

The increase of around 2% experienced in the business segment reflects, amongst others, the injection of more than €280 million in new facilities in the local economy coupled, on the other hand, with continued deleveraging in the construction and real estate sectors of almost €100 million. This decrease was partially offset by new facilities to support infrastructural projects.

The Bank is also financing a number of initiatives in the 'new' economic sectors that are emerging underlying our resolve to continue to act as shapers of the Maltese economy and catalysts in the creation of new economic activity.

SME finance remains a key pillar of the Bank's business finance activities. During the year the Bank continued to assist small and medium sized enterprises (SMEs) through tailor-made solutions whilst concurrently providing hands on advisory services to enterprises seeking to take advantage of both national and EU-funded programmes and incentives.

Customer Deposits

During FY 2012 we once again experienced significant competition in the area of retail deposits, with local banks increasingly looking at attracting stable funds so as to ensure that they have enough liquidity to finance their operations. Notwithstanding this tough and increasing competition, BOV has continued to prove that it is the bank of choice for customer deposits. Indeed we are pleased to report that our customer deposits have reached a new record high of €5.8 billion, an increase of €285 million or 5.2% over the €5.5 billion reported last year.

Furthermore, in March 2012, in a bid to diversify our funding sources and extending the duration on the liabilities side of our balance sheet, the Bank tapped the local market with an offer of €40 million as part of its Medium Term programme. The Offer was fully subscribed, testimony to the confidence and trust that the BOV brand enjoys in the market.

Dividend and Bonus Issue

The Board believes it should continue with its long-standing distribution policy whereby the Bank's long term sustainability and dividend expectations are kept in balance. Accordingly, in the light of the above, the Board of Directors is recommending a final gross dividend of €0.13 per share which, taken together with the gross interim dividend of €0.06 per share paid on 24 May 2012, makes for a total gross dividend of €0.19 per share for FY2012 (FY2011: €0.1425 as adjusted for the bonus issue). The total dividend for the year of €0.19 would represent a gross yield of 8.4% by reference to the closing share price of €2.265 per share at 30 September 2012 and the net dividend cover will be 2.2x.

Similar to last year, the Board is also recommending a bonus issue of 1 share for every 9 shares held as on 17 January 2013 by capitalisation of reserves amounting to €30 million increasing the permanent capital to €300 million from €270 million.

Rating Results

On 7 February 2012, Fitch Ratings issued its affirmation of Bank of Valletta's rating at BBB+ with a 'Stable Outlook'. This affirmation by Fitch Ratings assumes even greater significance at a time when many large financial institutions as well as EU sovereign states were being downgraded. These latest rating results underline the strong capital base and liquidity position of BOV as well as the Bank's ability to sustain adequate profitability despite the various challenges. Fitch Ratings confirmed the Bank's position as the largest bank in Malta with large volumes of stable customer deposits, satisfactory liquidity and adequate profitability.

During this financial year, the Bank was also rated by Planet Rating as a result of our participation in the JASMINE programme. This programme is fully financed by the European Union and the European Investment Fund and it seeks to give technical assistance to EU financial institutions and microfinance organisations.

We are pleased to report that Planet Rating ranked Bank of Valletta within the top 5% of all the financial institutions it deals with and afforded an A- rating with a 'Stable Outlook'. This is yet another independent confirmation of the Bank's good financial performance, the stability of its funding structures and strong capitalisation.

Looking Ahead

The long-running eurozone sovereign crisis is creating a lot of 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 and, as stated earlier, the LTRO funds just replaced what the banks could not get from the capital markets. This same position was taken by the US Federal Reserve and the Bank of England whereby they have confirmed that they will continue to support their respective banking systems by any means possible, including further quantitative easing as well as maintaining low interest rates for a prolonged period of time.

Notwithstanding this, once again, the Maltese economy has remained very resilient. There are some sectors within the economy that are doing better than others and are compensating for the slowdown in certain traditional sectors such as construction and wholesale and retail. Tourism which plays an important role in the Maltese economy has continued to do well and the numbers just published are encouraging. We believe however that the Government and the private sector need to continue their investment in order to upgrade Malta's offering and to cater for the higher end of the tourist market particularly in the shoulder months. Malta has a lot to offer in this sector and it is important that all interested parties work together to ensure the sustainability of this important sector in our economy.

One other important sector that has continued to consistently register strong growth is the financial services industry. Malta's achievements were duly recognised by the World Economic Forum, ranking Malta amongst the top 15 countries in the world. Malta's success is notably driven by various factors which amongst others include the presence of a robust legal and regulatory framework, the availability of a highly productive labour force that is driven by a strong work ethic as well as equally strong financial services institutions operating from Malta.

All this is happening in an environment where controls are being tightened and new regulation is coming into effect particularly in the area of capital conservation and improving liquidity through Basel III and the CRD (IV) regulations.

We welcome Basel III, because we believe that risk regulation which inhibits reckless risk-taking is key to safeguarding financial stability. We believe that these regulations should not only be limited to quantitative measures such as minimum capital and liquidity ratios, but also to qualitative regulation regarding remuneration and governance. Given the Bank's conservative risk profile, its prudent governance and its high capital and liquidity buffers, we do not expect Basel III to have any significant impact on our current business model.

In our 2011 Annual Report, we went on record to say that we are seeking full compliance with the capital provisions of Basel III/CRD IV by target date of 2019, the year by when all European banks are to migrate completely to the new regime. BOV's plans are to achieve compliance by building up its Core Equity Tier 1 capital through profit retention and we do not currently foresee any need to raise equity on the market.

More recent developments relate to the agreement reached on the 18 October 2012 by European leaders to set up a single eurozone-wide banking supervisor run by the ECB. This will take place over the course of the next year and will result in a banking union for the single Euro currency. It is still too early to comment on what this means for the Maltese banking system and for BOV in particular, being a systemically important bank for Malta.

At BOV, as we have proved in the past, we will continue to support the Maltese economy in a responsible manner – this is our promise. Equally important, we also have to continue to actively and prudently manage both sides of our balance sheet, maintaining high liquidity and strong capital ratios. This has to be done keeping in mind the aspirations of both our depositors and borrowers alike, whilst at the same time being aware of our obligations to all the other stakeholders – shareholders, our employees and the wider community as a whole. This delicate balance has to be managed at all times and we need to project a message of resilience, strength, vision and sustainable growth,

By Order of the Board
26 October 2012

Notice is hereby given that Monday 19 November 2012 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 Monday 19 November 2012 will:

i) receive notice of and be entitled to attend and vote at the Bank's Annual General Meeting scheduled for Wednesday 19 December 2012, and
ii) be paid, on Thursday 20 December 2012, 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 Monday 19 November 2012 will include trades undertaken up to and including Wednesday 14 November 2012.