Bank of Valletta

Bank of Valletta p.l.c.
Office of the Company Secretary
House of the Four Winds, Triq l-Imtieħen, Il-Belt Valletta VLT 1350 – Malta
Telephone: (356) 2275 3032, 2275 3231 *Fax*: (356) 2275 3711

BOV/252

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 2014, 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 2014.

An interim dividend of €0.0425 gross per share (€0.0277 net of tax) has been declared by the Board of Directors in respect of the six months ended 31 March 2014. This will be paid on the 23 May 2014 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, 8 May 2014[1].

The Interim Unaudited Financial Statements for the period ended 31 March 2014 are available for viewing and downloading on the Bank's website "www.bov.com".

Unquote

Catherine Formosa

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

25 April 2014

[1] Pursuant to the Malta Stock Exchange Bye-Laws, the Bank's Register of Members as at close of business on Thursday, 8 May 2014 will include trades undertaken up to and including Monday, 5 May 2014

Statements of profit or loss for the six months ended 31 March

	The Group		The Bank	
	Mar-14	Mar-13	Mar-14	Mar-13
	€000	€000	€000	€000
Interest receivable and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	77,269	81,417	77,269	81,417
- on debt and other fixed income instruments	28,026	31,149	28,026	31,149
Interest payable	(43,703)	(46,387)	(43,703)	(46,387)
Net interest income	61,592	66,179	61,592	66,179
Fee and commission income	29,911	27,730	26,262	24,291
Fee and commission expense	(3,538)	(3,287)	(3,538)	(3,287)
Net fee and commission income	26,373	24,443	22,724	21,004
Dividend income	263	263	2,571	2,571
Trading profits	12,777	18,056	12,765	18,074
Net gain on investment securities and hedging instruments	725	3,622	725	3,622
Operating income	101,730	112,563	100,377	111,450
Employee compensation and benefits	(28,403)	(27,580)	(27,569)	(26,793)
General administrative expenses	(14,566)	(14,211)	(13,891)	(13,662)
Amortisation of intangible assets	(1,104)	(726)	(1,104)	(726)
Depreciation	(2,460)	(2,210)	(2,410)	(2,159)
Net impairment losses	(9,874)	(11,902)	(9,874)	(11,902)
Operating profit	**45,323**	**55,934**	**45,529**	**56,208**
Share of results of associates net of tax	5,397	8,629	-	-
Profit before tax	**50,720**	**64,563**	**45,529**	**56,208**
Income tax expense	(16,049)	(19,797)	(16,136)	(19,891)
Profit for the period	**34,671**	**44,766**	**29,393**	**36,317**
Profit for the period attributable to:				
Equity holders of the Bank	34,449	44,538	29,393	36,317
Non-controlling interest	222	228	-	-
	34,671	**44,766**	**29,393**	**36,317**
Earnings per share	10c4	13c5	08c9	11c0

Statements of profit or loss and other comprehensive income for the six months ended 31 March

	The Group		The Bank	
	Mar-14	Mar-13	Mar-14	Mar-13
	€000	€000	€000	€000
Profit for the period	34,671	44,766	29,393	36,317
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments:				
- change in fair value	(645)	4,311	(645)	4,311
- deferred tax thereon	226	(1,509)	226	(1,509)
- change in fair value transferred to profit or loss	(762)	(1,290)	(762)	(1,290)
- deferred tax thereon	267	452	267	452
Other comprehensive income for the period, net of tax	(914)	1,964	(914)	1,964
Total comprehensive income	**33,757**	**46,730**	**28,479**	**38,281**
Total comprehensive income attributable to:				
Equity holders of the Bank	33,535	46,502		
Non-controlling interest	222	228		
	33,757	**46,730**		

Statements of financial position as at 31 March

	The Group		The Bank	
	Mar-14	Sep-13	Mar-14	Sep-13
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	117,180	194,587	117,180	194,587
Financial assets at fair value through profit or loss	477,235	581,531	475,187	578,691
Investments	1,972,137	1,665,820	1,972,137	1,665,820
Loans and advances to banks	1,180,646	860,957	1,180,646	860,957
Loans and advances to customers at amortised cost	3,685,286	3,667,739	3,685,286	3,667,739
Investments in associates	90,278	84,880	52,870	52,870
Investments in subsidiary companies	-	-	1,393	1,393
Intangible assets	12,205	11,495	12,205	11,495
Property, plant and equipment	80,551	80,123	80,312	79,872
Deferred tax asset	76,182	70,205	76,182	70,205
Assets held for realisation	9,209	10,361	9,209	10,361
Other assets	8,000	5,045	6,635	4,114
Prepayments and accrued income	25,193	25,215	25,193	25,215
Total Assets	**7,734,102**	**7,257,958**	**7,694,435**	**7,223,319**
LIABILITIES				
Financial liabilities at fair value through profit or loss	32,396	30,819	32,396	30,819
Amounts owed to banks	129,272	36,040	129,272	36,040
Amounts owed to customers	6,581,711	6,219,666	6,583,774	6,220,954
Debt securities in issue	95,400	95,400	95,400	95,400
Other liabilities	106,695	108,864	106,520	108,765
Accruals and deferred income	31,889	29,235	31,547	28,962
Current tax	15,312	4,697	15,300	5,065
Deferred tax	5,003	5,003	5,003	5,003
Financial liabilities designated for hedge accounting	31,012	31,229	31,012	31,229
Subordinated liabilities	120,000	120,000	120,000	120,000
Total Liabilities	7,148,690	6,680,953	7,150,224	6,682,237
EQUITY				
Equity attributable to shareholders of the Bank:				
Called up share capital	330,000	300,000	330,000	300,000
Share premium account	988	988	988	988
Revaluation reserves	23,707	24,621	23,595	24,509
Retained earnings	229,834	250,735	189,628	215,585
	584,529	**576,344**	**544,211**	**541,082**
Non-controlling interest	883	661	-	-
Total Equity	585,412	577,005	544,211	541,082
Total Liabilities and Equity	**7,734,102**	**7,257,958**	**7,694,435**	**7,223,319**
MEMORANDUM ITEMS				
Contingent liabilities	**235,311**	**213,598**	**235,311**	**213,598**
Commitments	**1,240,578**	**1,184,279**	**1,240,578**	**1,184,279**

These accounts were approved by the Board of Directors on 25 April 2014.

The revised Banking Rule 09 requires banks in Malta to hold additional reserves for general banking risks against non-performing loans. This reserve is required to be funded from planned dividend. As at the reporting date, under the three year transitionary rules, this reserve amounts to €3.058 million.

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 €000	Non-Controlling Interest €000	Total Equity €000
	Attributable to Equity holders of the Bank						
The Group							
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**
At 30 September 2013	**300,000**	**988**	**24,621**	**250,735**	**576,344**	**661**	**577,005**
Profit for the period	-	-	-	34,449	**34,449**	222	**34,671**
Other comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	(419)	-	**(419)**	-	**(419)**
- change in fair value transferred to profit or loss, net of tax	-	-	(495)	-	**(495)**	-	**(495)**
Total other comprehensive income	-	-	(914)	-	**(914)**	-	**(914)**
Total comprehensive income for the period	-	-	**(914)**	**34,449**	**33,535**	**222**	**33,757**
Transactions with owners, recorded directly in equity							
Bonus issue	30,000	-	-	(30,000)	-	-	-
Dividends	-	-	-	(25,350)	**(25,350)**	-	**(25,350)**
	30,000	-	-	(55,350)	**(25,350)**	-	**(25,350)**
At 31 March 2014	**330,000**	**988**	**23,707**	**229,834**	**584,529**	**883**	**585,412**

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 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**
At 30 September 2013	**300,000**	**988**	**24,509**	**215,585**	**541,082**
Profit for the period	-	-	-	29,393	**29,393**
Other comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	(419)	-	**(419)**
- change in fair value transferred to profit or loss, net of tax	-	-	(495)	-	**(495)**
Total other comprehensive income	-	-	**(914)**	-	**(914)**
Total comprehensive income for the period	-	-	**(914)**	**29,393**	**28,479**
Transactions with owners, recorded directly in equity					
Bonus issue	30,000	-	-	(30,000)	-
Dividends	-	-	-	(25,350)	**(25,350)**
	30,000	-	-	(55,350)	**(25,350)**
At 31 March 2014	**330,000**	**988**	**23,595**	**189,628**	**544,211**

Statements of cash flows for the six months ended 31 March

	The Group		The Bank	
	Mar-14	Mar-13	Mar-14	Mar-13
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	126,783	137,436	123,122	134,015
Interest and commission payments	(44,696)	(54,504)	(44,765)	(54,380)
Payments to employees and suppliers	(42,970)	(41,791)	(41,460)	(40,455)
Operating profit before changes in operating assets and liabilities	39,117	41,141	36,897	39,180
Increase in operating assets:				
Loans and advances	(24,196)	(9,537)	(24,196)	(9,537)
Reserve deposit with Central Bank of Malta	(4,040)	(2,071)	(4,040)	(2,071)
Fair value through profit or loss financial assets	102,563	94,208	102,563	94,208
Fair value through profit or loss equity instruments	2,938	376	2,146	(1,909)
Treasury bills with original maturity of more than 3 months	31,962	8,982	31,962	8,982
Other assets	(1,803)	5,009	(1,369)	6,194
Increase/(decrease) in operating liabilities:				
Amounts owed to banks and customers	341,268	168,124	342,043	168,798
Other liabilities	(682)	4,461	(756)	4,256
Net cash from operating activities before tax	487,127	310,693	485,250	308,101
Tax paid	(11,055)	(8,629)	(11,523)	(8,359)
Net cash from operating activities	476,072	302,064	473,727	299,742
Cash flows from investing activities				
Dividends received	263	263	2,571	2,571
Interest received from held-to-maturity debt and other fixed income instruments	21,654	21,336	21,654	21,336
Purchase of equity investments	(200)	-	(200)	-
Purchase of debt instruments	(546,394)	(397,175)	(546,394)	(397,175)
Proceeds from sale or maturity of debt instruments	226,413	192,031	226,413	192,031
Purchase of property, plant and equipment	(4,703)	(4,073)	(4,666)	(4,059)
Proceeds on disposal of property, plant and equipment	3	-	3	-
Net cash used in investing activities	(302,964)	(187,618)	(300,619)	(185,296)
Cash flows from financing activities				
Dividends paid to equity holders of the Bank	(25,350)	(22,816)	(25,350)	(22,816)
Net cash used in financing activities	(25,350)	(22,816)	(25,350)	(22,816)
Net change in cash and cash equivalents	**147,758**	**91,630**	**147,758**	**91,630**
Effect of exchange rate changes on cash and cash equivalents	-	235	-	235
Net change in cash and cash equivalents	147,758	91,395	147,758	91,395
	147,758	91,630	147,758	91,630
Cash and cash equivalents at 1 October	937,103	808,880	937,103	808,880
Cash and cash equivalents at 31 March	1,084,861	900,510	1,084,861	900,510

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 2014, 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 2014, 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 2013. IFRS13 - Fair value measurement, was adopted for the first time during this reporting period as the standard was effective for financial periods commencing 1 January 2013.

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 2013 to 31 March 2014 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		Group Total	
	Mar-14	**Mar-13**	**Mar-14**	**Mar-13**	**Mar-14**	**Mar-13**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
The Group						
Operating income for the six months	79,929	81,818	21,801	30,745	101,730	112,563
Profit before tax for the six months	25,714	27,099	25,006	37,464	50,720	64,563
	Mar-14	**Sep-13**	**Mar-14**	**Sep-13**	**Mar-14**	**Sep-13**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Total Assets	3,931,788	3,909,114	3,802,280	3,348,844	7,734,102	7,257,958

3. Fair value measurement

The Group	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 31 March 2014				
Assets				
Financial assets at fair value through profit or loss				
-debt and other fixed income instruments	328,699	18,983	-	347,682
-equity and other non-fixed income instruments	29,097	31,681	3,565	64,343
-loans and advances to customers	-	56,369	-	56,369
-derivative financial instruments	-	8,840	-	8,840
Investments				
Debt and other fixed income instruments				
-available-for-sale	220,635	63,007	-	283,641
-held-to-maturity	1,613,084	117,693	-	1,730,777
Equity and other non-fixed income instruments				
-available-for-sale	-	944	-	944
Loans and advances to banks	-	1,180,646	-	1,180,646
Loans and advances to customers at amortised cost	-	3,685,286	-	3,685,286
Property, plant and equipment	-	14,251	66,266	80,517
	2,191,514	**5,177,700**	**69,831**	**7,439,046**
Liabilities				
Financial liabilities at fair value through profit or loss				
-derivative financial instruments	-	32,396	-	32,396
Amounts owed to banks	-	129,272	-	129,272
Amounts owed to customers	-	6,581,711	-	6,581,711
Debt securities in issue	99,333	-	-	99,333
Financial liabilities designated for hedge accounting				
-derivative financial instruments	-	31,012	-	31,012
Subordinated liabilities	125,730	-	-	125,730
	225,063	**6,774,391**	**-**	**6,999,454**
At 30 September 2013				
Assets				
Financial assets at fair value through profit or loss				
-debt and other fixed income instruments	419,169	22,657	-	441,826
-equity and other non-fixed income instruments	66,362	-	-	66,362
-loans and advances to customers	-	61,932	-	61,932
-derivative financial instruments	-	11,411	-	11,411
Investments				
Debt and other fixed income instruments				
-available-for-sale	252,006	60,657	-	312,663
-held-to-maturity	1,103,065	286,536	-	1,389,600
Equity and other non-fixed income instruments				
-available-for-sale	-	744	-	744
Loans and advances to banks	-	860,957	-	860,957
Loans and advances to customers at amortised cost	-	3,667,739	-	3,667,739
Property, plant and equipment	-	12,674	67,449	80,123
	1,840,602	**4,985,306**	**67,449**	**6,893,357**
Liabilities				
Financial liabilities at fair value through profit or loss				
-derivative financial instruments	-	30,819	-	30,819
Amounts owed to banks	-	36,040	-	36,040
Amounts owed to customers	-	6,219,666	-	6,219,666
Debt securities in issue	99,300	-	-	99,300
Financial liabilities designated for hedge accounting				
-derivative financial instruments	-	31,229	-	31,229
Subordinated liabilities	124,900	-	-	124,900
	224,200	**6,317,754**	**-**	**6,541,954**

3. Fair value measurement (continued)

Level 1 in the fair value hierarchy represents quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 in the fair value hierarchy represents inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices).
Level 3 in the fair value hierarchy represents unobservable inputs.

During the six months under review financial assets at fair value through profit or loss amounting to €20.6 million were transferred from Level 2 to Level 1(FY 2013: €60.2 million), €43.3 million were transferred from Level 1 to Level 2 (FY 2013: €2.8 million) and €3.5 million transferred from Level 1 to Level 3 (FY 2013: €NIL). In the same period financial assets classified as available-for-sale amounting to €3.8 million were transferred from Level 1 to Level 2 (FY 2013: €NIL). The transfer from Level 2 to Level 1 was due to securities which had quoted prices on active markets as at 30 March 2014, and the securities transferred from Level 1 to Level 2 and Level 1 to Level 3 were those that did not have a quoted price in active markets as at the same date.

The carrying value of the loans and advances to customers approximates their fair value because they are repricable at the Group's discretion.

The majority of the loans and advances to banks reprice in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

The majority of the amounts owed to banks and customers reprice or mature in less than one year hence their fair value is not deemed to differ materially from their carrying amount at the repricing date.

The valuation techniques utilised in preparing these condensed interim financial statements were consistent with those applied in the prepartion of financial statements for the year ended 30 September 2013.

Independent Auditor's Report for the six months to 31 March 2014

The Bank and Group's condensed interim financial information has been reviewed by its independent auditor. The auditor's report, as at 31 March 2014, 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 2014 and the related condensed consolidated statements of profit or loss, statements of profit or loss and other 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

Deloitte Place
Mriehel Bypass, Mriehel
Malta

25 April 2014

Background

During the first six months of this financial year, the global economic situation and market outlook have improved and some economies, particularly that of the United States and Britain, are showing signs of growth.

In Continental Europe however, the picture remains somewhat subdued and the rate of economic growth does not reflect the levels of the other developed countries. The flow of credit to the real economy remains slow and problematic. Unemployment remains at record high, especially amongst the young population, and the austerity measures imposed in the peripheral countries is leaving little room for growth prospects.

In its annual report on Malta, the European Commission confirmed that the Maltese economy has outperformed the euro area, driven mainly by external competitiveness and the availability of funding for the private and public sector. A process of deleveraging in the corporate sector is taking place, after a number of years of strong lending growth. The European Commission confirms that Malta is experiencing structural shifts in its economy, from the traditional sectors to the new sectors which are mainly services-oriented.

In our last Annual Report, we had commented that the Single Supervisory Mechanism (SSM) had become a reality, and that during this year, 128

European banks deemed as “systemically significant” would be going through a comprehensive assessment before they form part of the supervisory regime of the European Central Bank (ECB). An Asset Quality Review (AQR), was initiated earlier this year, and Bank of Valletta, as one of the leading financial institutions in Malta, is currently going through this process. The AQR is an independent assessment of the credit quality of the Bank’s financial assets, and will be completed by end-June, following which the European Banking Authority (EBA) will conduct another stress test for all the banks involved in the exercise. The conclusions reached by the ECB from both the AQR and the stress test are expected to be announced in October of this year.

The SSM is the first of three pillars upon which the Banking Union within the euro area is being built. On the 20 March, the finance ministers of the euro area member states, delegates of the European Parliament and representatives of the EU Commission, agreed on the setting up of the Single Resolution Mechanism (SRM) that is expected to come into effect in January 2015.

Review of Performance

Within this context, the Bank of Valletta (BOV) Group has recorded a profit before taxation of €50.7 million for the six months ended 31 March 2014. This represents a decrease of 21% when compared to the pre-tax profit of €64.6 million earned during the first six months of the previous financial year.

During the period under review, gains attributed to external factors, namely fair value gains and contribution from our insurance business, are €11.7 million below those earned during the comparative period. Core Profit for the period is also down – a decrease of €2.2 million when compared to March 2013. Return on Equity (ROE) for the period was 17.5%, down from 21.1% for FY 2013.

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-14 € million	Mar-13 € million	*Change € million*	%
Net interest margin	(a)	61.6	66.2	*(4.6)*	-7%
Net Commission and trading income	(b)	35.4	33.2	*2.2*	7%
Operating *income*		**97.0**	99.4	*(2.4)*	-2%
Operating expense	(c)	(46.5)	(44.7)	*(1.8)*	4%
Net Impairment charge	(d)	(9.9)	(11.9)	*2.0*	-17%
Core Profit		**40.6**	**42.8**	***(2.2)***	**-5%**
Fair value movements	(e)	4.7	13.2	*(8.5)*	-64%
Operating Profit		**45.3**	**56.0**	***(10.7)***	**-19%**
Share of profit from associates	(f)	5.4	8.6	*(3.2)*	-37%
Profit before tax		**50.7**	**64.6**	***(13.9)***	**-21%**

(a) Net Interest Margin

During the first half of FY 2014, net interest margin amounted to €61.6 million, a decrease of €4.6 million over that of last year. This was influenced by two factors:

(i) lower revenue generated from interest on advances as a result of the Bank's decision to lower its lending base rate in November 2013, as well as competitive pressures; and

(ii) lower returns on the Bank's Financial Markets investment book as funds from maturing bonds were re-invested at lower yields.

(b) Net Commission and Trading Income

Net Commission and Trading Income improved by 7% during the first six months of this financial year to reach €35.4 million, as compared with €33.2 million for the same period last year.

Demand for credit has been muted, whilst investment related activities (Capital Markets, Funds Services, Stockbroking and Wealth Management) have maintained their contribution. Local capital markets activity in bond issuance started to pick up and is expected to continue in the coming months. Trade related activities are also up, while foreign exchange business continued to experience significant competition from other local intermediaries, resulting in a tightening of spreads. However, the Bank has attracted larger volumes of foreign exchange transactions, driven mainly by the ever-increasing number of international companies transacting business from Malta, as well as the number of professional investment funds that have established their operation locally.

Both Card-related activities and the 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 capacity to offer quality service to local and international companies.

(c) Operating Expense

Operating Expense for the six months totalled €46.5 million, an increase of 4% over the same period last year. The major contributors to this increase relate to cost of human resources, IT investments and depreciation. The significant increase in regulatory and supervisory fees was largely offset by the curtailment of an equivalent amount in discretionary expenses.

Investment in customer centric innovation continues to feature as a key element of the Bank's operations. During the first six months, the Bank introduced a fully integrated investment system with the aim of enhancing its wealth management product offering. We expect this system to be implemented throughout the entire branch network in the second half of this financial year. We have continued to promote the BOV Mobile service delivery channel during the first six months of this financial year, and we are encouraged by the growth in the usage of the service, with over 1.7 million logins effected through BOV Mobile as at the end of March 2014.

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

New substantial investments in the Bank's IT systems and infrastructure need to be made in the coming years in order for us to remain at the forefront of the financial sector and to serve the ever-increasing needs of our customers.

(d) Net Impairment Charge

The impact of the difficult economic conditions of the last few years on the overall quality of the credit book has been modest and manageable. Nonetheless, the Bank continues to adopt a cautious outlook in respect of certain vulnerable sectors. This approach takes into account the recommendations being made by the European Commission and the ECB, mainly that Maltese banks should strengthen their non-performing loans coverage ratios and exercise tighter 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 €9.9 million is being made for the first six months of this financial year.

(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. Overall, we are reporting a fair value gain of €4.7 million for the six month period, as compared with the figure recorded last year of €13.2 million.

(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 31.1% of the issued share capital of the company. The Group's share of profits from these businesses amount to €5.4 million, compared to €8.6 million last year.

Review of Financial Position

Total assets as at 31 March 2014 stand at €7.73 billion (September 2013: €7.25 billion), while equity attributed to the shareholders of the Bank amounts to €584.5 million.

Our net total loan book increased marginally by €12 million from September 2013 - the net advances stand at €3.74 billion. Net growth in business lending was slow, with the reported figures being influenced by the repayment of certain material facilities. There are, however, a number of significant credit proposals in the pipeline. The demand for home loans, particularly in the first buyer segment, continued to grow satisfactorily.

During the first six months of this financial year, the Bank continued with its final phase of the JEREMIE program in support of small and medium sized enterprises (SMEs). Concurrently, we have launched a new program, the BOV Start Plus, which is aimed at micro enterprises who are looking to start their business. Both these initiatives, which are joint program with the European Commission and the European Investment Fund, are directed at extending finance to SMEs and micro enterprises through the provision of credit risk protection. These programs are another example of the support extended by Bank of Valletta towards local enterprise.

Customer deposits have seen very encouraging growth in the first six months of this financial year, both from retail customers but even more so from the corporate and institutional segments. Customer deposits stand at €6.58 billion, an increase of €362 million, or 6% over the six month period since 30 September 2013.

The Bank has continued to exercise close and prudent asset and liability management, with the aim of strengthening core Tier 1 capital and liquidity ratios in line with the CRD IV regulatory regime and with the expectations of the ECB. Tier 1 ratio as at the end of March 2014 stands at 11.3%.

The Bank continues to rely on local deposits for all its funding needs and there is no reliance on the international money markets. At 58.7%, the loan to deposit ratio indicates the 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.

In February of this year, Fitch Rating Agency announced its affirmation of BOV's credit rating at BBB+, with a Stable Outlook. Fitch remarked that its affirmation reflects the Bank's strong and stable funding base and satisfactory profitability position. The Agency praises the high quality of BOV's regulatory capital, and notes with approval the Bank's continuing effort to increase its loan loss coverage ratio.

Interim Dividend

The Board has resolved to declare a gross interim dividend of €0.0425 per share, which represents a decrease of 22% on last year's interim dividend of €0.0545 per share (as restated for the bonus issue of January 2014). This dividend will be paid on 23 May 2014 to shareholders on the Bank's Register of Members at the close of business on 8 May 2014. 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, in particular the results of the AQR and the Stress Test which are being conducted by the ECB.

Dividend payout forms part of the Bank's capital management, since the main source of capital regeneration for the Bank is the plough-back of undistributed earnings into the business. Bank of Valletta safeguards its capital levels by following a prudent dividend payout policy, which seeks to balance the retention of profits with a fair return to its shareholders. As part of its risk management, the Bank also conducts regular internal stress tests to monitor the resilience of its capital buffers in extreme and remote but possible situations.

Outlook

We expect that Malta's debt metrics will stabilise in 2014 given the Government's commitment to fiscal consolidation. The local economy continues to be resilient and records growth which exceeds that of its European peers, particularly because Malta is relatively insulated from funding stresses and from the risk of contagion from the peripheral euro area.

In its last sovereign rating report, Moody's confirmed that Malta's credit profile balances the Government's high debit levels with its ability to easily access ample domestic resources to finance its deficits. A favourable debt structure and deceasing cost of funding will minimise the roll-over risk. It is also expected that further recovery in external demand will provide a boost to Malta's export-oriented services, which have proven to be resilient throughout the last few years. Sectors and companies that are export-oriented continue to perform well, notwithstanding significant competition.

The export performance of the Maltese economy has been successful and the economy was able to attract new, growing industries while the core, traditional ones have continued expanding. The robustness of external competitiveness and the attractiveness to foreign companies need to be preserved. It is important however that the economy continues to maintain high levels of productivity so as to sustain competitiveness. We believe that this is one of Malta's major challenges, going forward. Sustaining competitiveness and diversifying the sources of income generation are the two main ingredients for success.

Conclusion

The Bank continues to operate a conservative business model which reflects its status as Malta's largest financial services provider, and hence a decisive contributor to national financial stability. Mindful of this responsibility, the Board intends to continue to safeguard the quality and quantity of the Bank's capital and liquidity resources, through a responsible dividend policy, prudent lending and investment practices within its cautious risk appetite framework.

The Board of Directors wishes to express its sincere thanks to the senior executive management team and all the members of the staff for their commitment and continued contribution towards the achievement of these results. We are also very grateful to our many customers for the business that they bring to the Bank, and for the trust that they continue to show in Bank of Valletta.

Finally, we have maintained a healthy and open dialogue with the regulatory authorities at the MFSA and the Central Bank of Malta, and we are grateful for their counsel and advice.

By Order of the Board
25 April 2014

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 8 May 2014 (includes trades undertaken up to and including 5 May 2014) will be paid the interim dividend on 23 May 2014.