BOV

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BOV/245

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 31 October 2013, approved the audited financial statements for the financial year ended 30 September 2013. 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 Thursday, 19 December 2013. 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 ten (10) shares held which will be allotted to shareholders on the Bank's share register as at close of business on Friday, 17 January 2014[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 Tuesday, 19 November 2013[2], will receive notice of the Annual General Meeting together with the Financial Statements for the financial year ended 30 September 2013.

The final dividend, if approved at the Annual General Meeting, will be paid on the 20 December 2013 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 Tuesday, 19 November 2013.

Unquote

Catherine Formosa

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

31 October 2013

[1] Friday, 17 January 2014 will include trades undertaken up to and including Tuesday, 14 January 2014.
[2] Tuesday, 19 November 2013 will include trades undertaken up to and including Thursday, 14 November 2013.

Statements of profit or loss for the year ended 30 September 2013

Basis of preparation:

These figures have been extracted from the Bank of Valletta Group's audited financial statements for the year ended 30 September 2013, as approved by the Directors on 31 October 2013, and are being published in terms of MFSA Listing Rule 5.54.

	The Group		The Bank	
	2013	**2012**	**2013**	**2012**
	€000	**€000**	**€000**	**€000**
Interest receivable and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	161,709	166,497	161,709	166,497
- on debt and other fixed income instruments	60,728	72,048	60,728	72,048
Interest payable	(91,423)	(90,713)	(91,423)	(90,713)
Net interest income	131,014	147,832	131,014	147,832
Fee and commission income	59,435	51,055	52,519	44,857
Fee and commission expense	(7,322)	(6,619)	(7,322)	(6,619)
Net fee and commission income	52,113	44,436	45,197	38,238
Dividend income	873	672	7,914	2,126
Trading profits	31,149	24,721	31,107	24,649
Net gain on investment securities and hedging instruments	2,978	1,203	2,978	1,203
Operating income	**218,127**	**218,864**	**218,210**	**214,048**
Employee compensation and benefits	(54,373)	(54,914)	(52,798)	(53,405)
General administrative expenses	(28,219)	(26,608)	(27,023)	(25,261)
Net compensation in relation to the Property Fund and other securities	(506)	(4,555)	(506)	(515)
Amortisation of intangible assets	(1,642)	(1,623)	(1,642)	(1,623)
Depreciation	(4,398)	(3,965)	(4,296)	(3,866)
Net impairment losses	(25,595)	(22,817)	(25,595)	(22,793)
Operating profit	**103,394**	**104,382**	**106,350**	**106,585**
Share of results of associates, net of tax	12,384	6,348	-	-
Profit before tax	**115,778**	**110,730**	**106,350**	**106,585**
Income tax expense	(36,305)	(36,454)	(35,861)	(37,123)
Profit for the year	**79,473**	**74,276**	**70,489**	**69,462**
Attributable to:				
Equity holders of the Bank	79,055	74,995	70,489	69,462
Non-controlling interest	418	(719)	-	-
	79,473	74,276	70,489	69,462
Earnings per share	26c4	25c0	23c5	23c2

Statements of profit or loss and other comprehensive income for the year ended 30 September 2013

	The Group		The Bank	
	2013	2012	2013	2012
	€000	€000	€000	€000
Profit for the year	79,473	74,276	70,489	69,462
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments:				
- change in fair value	9,210	(6,116)	9,210	(6,116)
- deferred tax thereon	(3,223)	2,140	(3,223)	2,140
- change in fair value transferred to profit or loss	(1,290)	(749)	(1,290)	(749)
- deferred tax thereon	452	262	452	262
Items that will not be reclassified to profit or loss:				
Property:				
- revaluation	6,703	-	6,703	-
- deferred tax thereon	(804)	-	(804)	-
Other comprehensive profit/(loss) for the period, net of tax	11,048	(4,463)	11,048	(4,463)
Total comprehensive income	90,521	69,813	81,537	64,999
Attributable to:				
Equity holders of the Bank	90,103	70,532		
Non-controlling interest	418	(719)		
	90,521	69,813		

Statements of financial position as at 30 September 2013

	The Group 2013 €000	The Group 2012 €000	The Bank 2013 €000	The Bank 2012 €000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	194,587	296,134	194,587	296,134
Financial assets at fair value through profit or loss	581,531	768,284	578,691	763,723
Investments	1,665,820	1,338,456	1,665,820	1,338,456
Loans and advances to banks	860,957	676,639	860,957	676,639
Loans and advances to customers at amortised cost	3,667,739	3,702,217	3,667,739	3,702,217
Investments in associates	84,880	77,058	52,870	52,870
Investments in subsidiary companies	-	-	1,393	1,393
Intangible assets	11,495	8,743	11,495	8,743
Property, plant and equipment	80,123	70,035	79,872	69,720
Deferred tax	70,205	63,607	70,205	63,607
Other assets	15,406	20,362	14,475	21,217
Prepayments and accrued income	25,215	27,690	25,215	27,690
Total Assets	**7,257,958**	**7,049,225**	**7,223,319**	**7,022,409**
LIABILITIES				
Financial liabilities at fair value through profit or loss	30,819	60,879	30,819	60,879
Amounts owed to banks	36,040	250,352	36,040	250,352
Amounts owed to customers	6,219,666	5,809,300	6,220,954	5,810,604
Debt securities in issue	95,400	95,400	95,400	95,400
Current tax	4,697	13,405	5,065	12,952
Deferred tax	5,003	4,199	5,003	4,199
Other liabilities	108,864	106,235	108,765	105,995
Accruals and deferred income	29,235	30,590	28,962	30,102
Financial liabilities designated for hedge accounting	31,229	37,865	31,229	37,865
Subordinated liabilities	120,000	120,000	120,000	120,000
Total Liabilities	**6,680,953**	**6,528,225**	**6,682,237**	**6,528,348**
EQUITY				
Attributable to equity holders of the Bank				
Called up share capital	300,000	270,000	300,000	270,000
Share premium account	988	988	988	988
Revaluation reserves	24,621	13,573	24,509	13,461
Retained earnings	250,735	236,196	215,585	209,612
	576,344	520,757	541,082	494,061
Non-controlling interest	661	243	-	-
Total Equity	**577,005**	**521,000**	**541,082**	**494,061**
Total Liabilities and Equity	**7,257,958**	**7,049,225**	**7,223,319**	**7,022,409**
MEMORANDUM ITEMS				
Contingent liabilities	213,598	215,512	213,598	215,512
Commitments	1,184,279	1,049,804	1,184,279	1,049,804

Statements of changes in equity for the year ended 30 September 2013

	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 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, net of tax	-	-	(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**
Profit for the year	-	-	-	79,055	**79,055**	418	**79,473**
Other comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	5,987	-	**5,987**	-	**5,987**
- change in fair value transferred to profit or loss,	-	-	(838)	-	**(838)**	-	**(838)**
Property revaluation:							
- property revaluation, net of tax	-	-	5,899	-	**5,899**	-	**5,899**
Total other comprehensive profit	-	-	11,048	-	**11,048**	-	**11,048**
Total comprehensive income for the year	-	-	11,048	79,055	**90,103**	418	**90,521**
Transactions with owners, recorded directly in equity:							
Bonus issue	30,000	-	-	(30,000)	**-**	-	**-**
Dividends - final 2012	-	-	-	(22,816)	**(22,816)**	-	**(22,816)**
- interim 2013	-	-	-	(11,700)	**(11,700)**	-	**(11,700)**
	30,000	-	-	(64,516)	**(34,516)**	-	**(34,516)**
At 30 September 2013	**300,000**	**988**	**24,621**	**250,735**	**576,344**	**661**	**577,005**

Statements of changes in equity for the year ended 30 September 2013 (continued)

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
The Bank					
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**
Profit for the year	-	-	-	70,489	**70,489**
Other comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	5,987	-	**5,987**
- change in fair value transferred to profit or loss, net of tax	-	-	(838)	-	**(838)**
Property:					
- revaluation, net of tax	-	-	5,899	-	**5,899**
Total other comprehensive profit	-	-	11,048	-	**11,048**
Total comprehensive income for the year	**-**	**-**	**11,048**	**70,489**	**81,537**
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	**-**
Dividends - final 2012	-	-	-	(22,816)	**(22,816)**
- interim 2013	-	-	-	(11,700)	**(11,700)**
	30,000	-	-	(64,516)	**(34,516)**
At 30 September 2013	**300,000**	**988**	**24,509**	**215,585**	**541,082**

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

Statements of cash flows for the year ended 30 September 2013

	The Group 2013 €000	The Group 2012 €000	The Bank 2013 €000	The Bank 2012 €000
Cash flows from operating activities				
Interest and commission receipts	264,199	259,031	257,299	252,774
Interest, commission and compensation payments	(102,977)	(100,570)	(102,762)	(96,458)
Payments to employees and suppliers	(76,517)	(82,172)	(73,746)	(79,316)
Operating profit before changes in operating assets and liabilities	84,705	76,289	80,791	77,000
Decrease/(increase) in operating assets:				
Loans and advances	31,064	(115,283)	31,064	(115,283)
Reserve deposit with Central Bank of Malta	(3,505)	47,285	(3,505)	47,285
Fair value through profit or loss financial assets	166,084	166,676	166,084	166,676
Fair value through profit or loss equity instruments	(5,323)	(6,856)	(7,044)	(4,523)
Treasury bills with original maturity of more than 3 months	(9,985)	(27,991)	(9,985)	(27,991)
Other assets	4,035	(1,098)	5,821	(3,736)
Increase in operating liabilities:				
Amounts owed to customers and banks	306,997	260,675	306,981	260,660
Other liabilities	(10,121)	25,622	(10,041)	25,534
Net cash from operating activities before tax	563,951	425,319	560,166	425,622
Tax paid	(54,430)	(28,318)	(53,165)	(29,105)
Net cash from operating activities	509,521	397,001	507,001	396,517
Cash flows from investing activities				
Dividends received	5,433	1,723	7,914	2,126
Interest received from held-to-maturity debt and other fixed income instruments	37,484	50,165	37,484	50,165
Purchase of debt instruments	(678,365)	(364,420)	(678,365)	(364,420)
Proceeds from sale or maturity of debt instruments	299,081	357,845	299,081	357,845
Purchase of property, plant and equipment	(10,414)	(7,273)	(10,376)	(7,192)
Proceeds on disposal of property, plant and equipment	-	8	-	8
Net cash (used in)/from investing activities	(346,781)	38,048	(344,262)	38,532
Cash flows from financing activities				
Proceeds from issue of debt securities	-	40,000	-	40,000
Dividends paid to bank's equity holders	(34,516)	(23,010)	(34,516)	(23,010)
Net cash (used in)/from financing activities	(34,516)	16,990	(34,516)	16,990
Net change in cash and cash equivalents before effect of exchange rate changes	128,224	452,039	128,223	452,039
Effect of exchange rate changes on cash and cash equivalents	-	(46)	-	(46)
Net change in cash and cash equivalents after effect of exchange rate changes	128,224	452,085	128,223	452,085
Net change in cash and cash equivalents	128,224	452,039	128,223	452,039
Cash and cash equivalents at 1 October	808,880	356,841	808,880	356,841
Cash and cash equivalents at 30 September	**937,104**	**808,880**	**937,103**	**808,880**

Introduction

Throughout this financial year, the markets experienced low or even negative GDP growth rates, particularly in many European countries. The United States faced major fiscal headwinds, whereas the eurozone was going through one of its worst recessionary periods as tough austerity measures were introduced to stave off sovereign default in peripheral countries. Although insignificant in terms of size, the Cypriot crisis proved to be daunting as European leaders scrambled to avoid contagion in bigger countries such as Italy and Spain. However, for the first time, depositors with amounts over €100,000 were forced to contribute towards Cyprus's bailout package.

In the wake of all this, the ECB reduced its refinancing rate by 25bps to 0.50% on 2 May 2013, whilst maintaining its deposit rate at 0%. These record low interest rates prevailed throughout all major economies as central banks continued to support very loose monetary policies. This was coupled with extraordinary liquidity injections as governments tried their utmost to achieve at least modest growth.

Earlier on this year, some international financial commentators tried to compare the Maltese financial sector with that of Cyprus and this created a level of concern to the Maltese authorities and the local banking community. However, the quick response of the Central Bank of Malta and representatives from the banking community, convinced authoritative international agencies such as Bloomberg, Standard & Poor's, Reuters and Fitch Ratings to conclude that there was no comparison between the Cypriot and the Maltese banking system and what happened in Cyprus is not likely to be repeated here in Malta.

This was confirmed by the European Commission in April 2013 when it stated that the 'core domestic banks' in Malta constituted only 220 percent of the GDP as opposed to around 500 percent in Cyprus. Such authoritative opinions put paid to the idea that Malta's banking sector may be 'too big to bail out'. In addition, when one considers the negligible exposure of the Maltese banks to the euro area's peripheral nations, the risk to domestic financial stability appears to be small. Bloomberg commented in its report on Malta on the 23 May 2013, that 'the same factors that protected the Maltese banks from the ravages of the financial crisis of 2008 – the conservative business models and sound regulation – have functioned just as effectively in the case of the Cyprus crisis'.

Review of Performance

With this background, the BOV Group has recorded a profit before taxation of €115.8 million for the financial year ended 30 September 2013. This represents a 5% increase over the corresponding figure of €110.7 million pre-tax profit reported in the previous financial period. Continued growth in our balance sheet, the increase in our fee and commission income and the positive market movements in our Financial Markets investment book, were the main drivers underlying this positive result.

The Core Operating Profit of €86.5 million, which excludes price movements on our investment portfolio and returns from our associated companies, shows a decrease of 14% from September 2012 (€100.3 million). The prolonged low interest rate scenario has had a negative impact on our interest margins, particularly on the returns of our Financial Markets investment book.

Key performance indicators remain satisfactory. There was a steady improvement in our Cost/Income Ratio of 38.7%, down from 40.7% in FY 2012. The Return on Equity registered this year is 21.1% (FY 2012: 22.3%), which compares favourably with international banks.

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-13 € million	Sep-12 € million	*Change € million*	%
Net interest income	(a)	131.0	147.8	*(16.8)*	-11%
Net commission & trading income	(b)	69.7	62.4	*7.3*	12%
Operating expense	(c)	(88.6)	(87.1)	*(1.5)*	2%
Impairment charge	(d)	(25.6)	(22.8)	*(2.8)*	12%
Core Profit		**86.5**	**100.3**	***(13.8)***	**-14%**
Fair value movement	(e)	17.4	8.7	*8.7*	101%
Operating Profit		**103.9**	**109.0**	***(5.1)***	**-5%**
Share of profit from associates	(f)	12.4	6.3	*6.1*	95%
Net compensation related to the Property Fund and other securities		(0.5)	(4.6)	4.1	89%
Profit before tax		**115.8**	**110.7**	***5.1***	**5%**

(a) Net interest income

Net interest margin for the year of €131.0 million represents a decrease of 11% when compared to last year. This decrease is mainly attributed to lower returns from the Bank's Treasury assets. The Bank has retained a cautious risk appetite and consciously sacrificed returns for quality of the portfolio. The retail margin also tightened this year as a result of the increase in our retail deposits which were not deployed in lending as demand for credit remained relatively subdued.

The ECB retained its current level of interest rates during the year under review, in a bid to encourage banks to make more credit available within their respective economies. Given the current situation in the eurozone countries, our expectation is that the ECB will retain the current level of interest rates for most of 2014 and possibly going into 2015. Naturally 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 its depositors and borrowers.

(b) Net commission and trading income

Net commission and trading income increased by 12% from €62.4 million last year to €69.7 million this year. FY 2013 was characterised by stronger performance across all lines of business. We experienced higher interest being shown by Maltese and foreign companies wanting to do business in Libya and other parts of Africa and this resulted in a satisfactory growth in trade related fee income. While the volume of foreign currency transactions has increased, margins were tighter and foreign exchange earnings are marginally below last year. We managed to reverse last year's negative trend in bancassurance and this year we registered an increase in commissions earned on the sale of insurance products. Growth was also registered on other investment related products, with increases in commission income on wealth management and stockbroking as well as our fund management and funds services businesses. Credit related commissions are also up while our card business again shows satisfactory growth as more people use 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 progress has been registered in the implementation of a new card management system.

(c) Operating expense

Operating expenses for the year totaled €88.6 million, an increase of 1.7% over the previous year. This was largely due to our increased contribution to the Deposit Guarantee Scheme as a result of the growth in our deposits and higher contribution rates. All other operating expenses remained on the same levels as last year. The Bank has persisted in its efforts to improve its efficiency and curtail its discretionary expenses, and this is evident in this year's results.

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.

(d) Impairment charge

Notwithstanding the fact that our economy continues to show resilience, the challenging 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 will, at some point, result in additional pressures on the quality of our credit book.

We therefore continued, consistent with previous years, to make further specific and collective allowances appropriate to our cautious view of the economy.

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 European Commission commented that Maltese banks generally have low coverage ratios because they provide only for the unsecured portion of their credit exposures. It therefore recommended that the Maltese banking system strengthens its non-performing loan 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 €25.6 million is being made for this financial year. This charge for the year comprises both specific and collective impairment charges and the impact of this was an overall increase in our provisions by 12% over the same period last year. The year on year increase arises largely due to the Bank's more conservative view of the value of collateral held on non-performing exposures.

(e) Fair value movement

Financial markets performed well during 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. Most of the markdowns that we experienced between 2008 and 2011 have been recouped. We are reporting a fair value gain of €17.4 million for this financial year, as compared with a fair value gain of €8.7 million last year. This represents more than a 100% increase in positive fair value movement when compared to FY 2012.

(f) Share of profit from associates

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 Life and MSI for this financial year amounts to €12.4 million, a strong increase of 95% over the last financial year. These results were influenced by the positive performance of the local and international equity and fixed income markets.

BOV's share of profit from associates is made up as follows:

	2013	2012
	€ million	€ million
MSV Life	9.3	4.6
MSI	3.1	1.7
Share of Profit from Associates	12.4	6.3

Review of Financial Position

Total assets as at 30 September 2013 stood at €7.3 billion (September 2012: €7.0 billion), whilst equity attributable to the shareholders of the Bank increased by a further €55.6 million to €576.4 million, an increase of 11%.

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 the CRD IV regulatory regime. Tier 1 capital ratio as at the end of this financial year stood at 11.7%, up from 10.7% last year. The Bank's liquidity ratio remains strong at over 50%. Earlier this year, the Bank repaid its two LTROs amounting to a total of €170 million. The entire Bank's funding is now dependent on customer deposits and long-term senior and subordinated debt, with no reliance on the international money markets. The loan to deposit ratio of 61.7% reflects the prudent approach that the Bank maintained during the period. Moreover, most of BOV's investment book continues to be 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.

Loans and Advances

Total gross lending stands at €3.8 billion at the year end, a decrease of 0.9% when compared to September 2012. This reflects the subdued demand for credit, particularly in the business segment, coupled with the repayment of a number of large facilities.

The Bank's commitment towards the business community is reflected in the amount of funds injected in the economy through new lending, exceeding €233 million during this financial year. These funds were channelled to various sectors of the economy, both the traditional as well as the emerging sectors, in line with the diversification being experienced in the local economy. Assistance to small and medium size enterprises (SMEs) continued to be at the forefront of the Bank's strategic direction evidenced by the success of the JEREMIE Scheme, a risk sharing instrument specifically aimed at assisting SMEs. The

JEREMIE Scheme's total available pot of €51 million was fully committed by June 2013, ten months prior to the actual expiry of the Scheme, through which the Bank assisted more than 530 SMEs in their financing needs.

Despite the highly competitive landscape, results in the consumer retail segment were satisfactory with an increase exceeding 4% year-on-year. This increase was mainly driven by sustained demand for Home Loans. The Bank has this year integrated the functions responsible for home loans and personal lending into a dedicated Consumer Finance Division aimed at providing a higher value and a holistic service to our retail customer base.

Customer Deposits

Customer deposits at the year end stood at €6.2 billion, an increase of €410 million, or 7% over September 2012. The positive growth in customer deposits came both from our retail customers as well as from the corporate and institutional segments. This is indeed very encouraging, particularly in the light of increased competition in this area.

Dividend and Bonus Issue

The Board is of the view that it should continue with its distribution policy whereby the Bank's long term sustainability and dividend expectations are kept in balance. Accordingly, 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 in May 2013, makes a total gross dividend of €0.19 per share. The total dividend for the year represents a gross yield of 7.8% by reference to the closing share price of €2.42 per share at 30 September 2013 and a net dividend cover of 2.1 times.

Similar to previous years, the Board is also recommending a bonus issue of 1 share for every 10 shares held as on 17 January 2014 by capitalisation of reserves amounting to €30 million increasing the permanent capital to €330 million from €300 million.

Rating Results

On 25 February 2013, Fitch Ratings affirmed 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 either under review or actually being downgraded.

In their report Fitch confirmed Bank of Valletta's position 'as the largest bank in Malta, with a strong funding base, satisfactory liquidity and good profitability'. In its comments, Fitch Ratings confirmed that the Bank's net interest margin remains high despite the low interest rate environment, and expected the Bank to manage this situation successfully during 2013. They further commented that they expect the Bank to increase its loan impairment charges in order to improve the allowance coverage ratios. This will naturally mean additional pressure on the Bank's future profitability.

Fitch Ratings also commented that the Bank's funding is supported by a large and stable customer deposit base, whilst the loan-to-deposit ratio is very conservative in the 60% region, which implies that the refinancing risk is significantly mitigated by a large pool of unencumbered liquid assets.

The Impact of European Banking Regulation

The recent financial crisis, and the Euro sovereign debt crisis which followed it, have pushed the need for financial reform to the top of the European agenda. In 2012, European leaders took the extraordinary step of proposing the project of a Banking Union for Europe. Their aim was to break the toxic link between banks and sovereign debt, and to prevent a repeat of the crisis that called the survival of the single currency into question.

Since then the project has taken on a more concrete shape, albeit disagreement about some of the proposals remains. The Single Supervisory Mechanism (SSM), which was approved on 15 October 2013 by European finance ministers, is a first step towards realising the Banking Union, which will be based on four pillars – improved bank regulation, centralised bank supervision, a harmonised system for restructuring or closing down troubled banks and the protection of small depositors.

Under the SSM, the most significant banks in Europe, numbering around 130, will come under the direct supervision of the European Central Bank (ECB). Before assuming this role, the ECB will conduct a comprehensive assessment of the balance sheets of these banks. The assessment will comprise a supervisory risk assessment, an asset quality review and a stress test. This exercise will start in November 2013 and will last one year, with the ECB expected to take full supervisory responsibility in November 2014.

The ECB has also set an immediate minimum Core Equity Tier 1 ratio of 8% for these banks, thus anticipating the original Basel III capital proposals by five years.

BOV will be one of the 130 European banks to come under ECB supervision, in view of its size when related to Malta's GDP. The SSM will undoubtedly prove challenging, but we also view it as a good opportunity to continue strengthening the excellent reputation which the Bank and the Maltese financial sector enjoy internationally. The Bank has started its preparations for the ECB assessment, and is confident that it will fully meet the high expectations of the pan-European supervisor.

The ECB will undoubtedly give paramount importance to the long term sustainability of the banks under its oversight. In this respect, the Bank has always exercised, and continues to exercise, tight management over the three elements on which sustainability depends – capital, liquidity and asset quality. With regard to capital, we can confirm that BOV is well on its way to meeting the stringent requirements of the EU Capital Requirements Regulation (CRR). The Bank currently expects to meet these requirements from its own profit generation, and without the need to raise fresh equity capital on the market. With regard to liquidity, the Bank has already met CRR minimum requirements, five years in advance of statutory compliance date.

The Bank gives equal priority to maintaining asset quality, operating a classic “three lines of defence” risk management model. The primary responsibility for taking on credit risk is assumed by the business unit. The second line of defence – oversight – is exercised by the Risk Management and the Compliance functions, while independent assurance is provided by Internal Audit, which scrutinises both first and second lines.

Looking Ahead

Since the financial crisis in 2008, the world has gone through unprecedented turmoil, shaking entire industries and instilling uncertainty across all markets. This economic uncertainty is likely to linger over the coming months although the economic outlook for the next two years has started to turn optimistic.

Major central banks are increasingly turning to ‘forward guidance’ in their effort to keep short term interest rates low to defend the fragile economic recovery. Most of them are stating that they will not raise rates until economic figures, and especially employment, point to a strong recovery. This means that benchmark rates are expected to remain stable during the coming financial year, especially as inflationary pressures remain subdued.

Furthermore, 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. Unemployment, particularly amongst the younger generation in Europe, needs to be addressed.

Despite 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 tourism and services. 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. Traditional sectors, such as construction and wholesale and retail, are expected to continue to experience stress.

Malta, with its open economy, needs to ensure that it remains price competitive. The European Economic Advisory Group in its report for 2013 confirmed that Malta, together with Germany and Austria, has 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 remains below the euro-area average. The European Commission has however warned the Maltese Government that its debt needs to be reined 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.

Bank of Valletta remains wholly committed to supporting its customers and the Maltese economy in a responsible manner. This constant support and commitment has been clearly recognised and acknowledged by a growing customer base. We have to continue to manage both sides of our balance sheet actively and prudently, maintain high liquidity and strong capital ratios, while being conscious of our obligations to all stakeholders – shareholders, employees, depositors and the wider community. This delicate balance has to be managed at all times and we need to project a message of resilience, strength, vision and growth.

By Order of the Board

31 October 2013

Notice is hereby given that Tuesday 19 November 2013 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 Tuesday 19 November 2013 will:

i) receive notice of and be entitled to attend and vote at the Bank's Annual General Meeting scheduled for Thursday 19 December 2013, and

ii) be paid, on Friday 20 December 2013, 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 Tuesday 19 November 2013 will include trades undertaken up to and including Thursday 14 November 2013.