Bank of Valletta

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BOV/222

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 27 April 2012, 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 2012.

An interim dividend of €0.06 gross per share (€0.039 net of tax) has been declared by the Board of Directors in respect of the six months ended 31 March 2012. This will be paid on the 24 May 2012 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, 10 May 2012[1].

The Interim Unaudited Financial Statements for the period ended 31 March 2012 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

27 April 2012

[1] Pursuant to the Malta Stock Exchange Bye-Laws, the Bank's Register of Members as at close of business on Thursday, 10 May 2012 will include trades undertaken up to and including Monday, 7 May 2012

HALF YEARLY REPORT

MARCH 2012

Bank of Valletta p.l.c.

Income statements for the six months ended 31 March

	The Group		The Bank	
	Mar-12	Mar-11	Mar-12	Mar-11
	€000	€000	€000	€000
Interest receivable and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	85,848	75,326	85,848	75,326
- on debt and other fixed income instruments	36,188	35,430	36,188	35,430
Interest payable	(44,739)	(42,947)	(44,739)	(42,947)
Net interest income	77,297	67,809	77,297	67,809
Fee and commission income	23,906	24,064	20,879	20,490
Fee and commission expense	(3,047)	(3,034)	(3,047)	(2,689)
Net fee and commission income	20,859	21,030	17,832	17,801
Dividend income	271	278	1,439	2,932
Trading profits	8,212	2,947	8,213	2,973
Net gain on investment securities and hedging instruments	854	680	854	680
Operating Income	107,493	92,744	105,635	92,195
Employee compensation and benefits	(27,716)	(26,096)	(26,966)	(25,416)
General administrative expenses	(14,527)	(12,063)	(13,895)	(11,514)
Amortisation of intangible assets	(839)	(666)	(839)	(666)
Depreciation	(1,944)	(2,163)	(1,899)	(2,095)
Operating profit before impairment losses	62,467	51,756	62,036	52,504
Net impairment losses	(15,000)	(10,398)	(15,000)	(10,398)
Operating profit	**47,467**	**41,358**	**47,036**	**42,106**
Share of results of associated entities, net of tax	1,626	3,804	-	-
Profit before tax	**49,093**	**45,162**	**47,036**	**42,106**
Income tax expense	(16,959)	(14,548)	(16,402)	(14,809)
Profit for the period	**32,134**	**30,614**	**30,634**	**27,297**
Profit for the period attributable to:				
Equity holders of the Bank	31,980	30,348	30,634	27,297
Non-controlling interest	154	266	-	-
	32,134	**30,614**	**30,634**	**27,297**
Earnings per share	11c8	11c2	11c3	10c1

Statements of comprehensive income for the six months ended 31 March

	The Group		The Bank	
	Mar-12	Mar-11	Mar-12	Mar-11
	€000	€000	€000	€000
Profit for the period	32,134	30,614	30,634	27,297
Other comprehensive income				
Available-for-sale investments:				
- change in fair value	(5,249)	(2,983)	(5,249)	(2,983)
- deferred tax thereon	1,837	1,044	1,837	1,044
- change in fair value transferred to profit or loss	(749)	-	(749)	-
- deferred tax thereon	262	-	262	-
Other comprehensive income for the period, net of tax	(3,899)	(1,939)	(3,899)	(1,939)
Total comprehensive income	**28,235**	**28,675**	**26,735**	**25,358**
Total comprehensive income attributable to:				
Equity holders of the Bank	28,081	28,409		
Non-controlling interest	154	266		
	28,235	**28,675**		

Statements of financial position as at 31 March

	The Group		The Bank	
	Mar-12	Sep-11	Mar-12	Sep-11
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	89,798	170,844	89,798	170,844
Financial assets at fair value through profit or loss	806,150	895,938	802,489	893,710
Investments	1,410,786	1,307,601	1,410,761	1,307,577
Loans and advances to banks	471,870	400,931	471,870	400,931
Loans and advances to customers at amortised cost	3,693,623	3,607,064	3,693,623	3,607,064
Investments in associates	72,521	71,761	52,870	52,870
Investments in subsidiary companies	-	-	1,393	1,393
Intangible assets	8,677	6,598	8,677	6,598
Property, plant and equipment	69,187	70,495	68,875	70,162
Current tax	-	7,143	-	7,122
Deferred tax asset	51,996	44,949	51,996	44,949
Other assets	13,581	14,264	11,303	12,481
Prepayments and accrued income	27,371	25,282	27,371	25,227
Total Assets	**6,715,560**	**6,622,870**	**6,691,026**	**6,600,928**
LIABILITIES				
Financial liabilities at fair value through profit or loss	41,908	43,159	41,908	43,159
Amounts owed to banks	234,238	260,614	234,238	260,614
Amounts owed to customers	5,618,225	5,523,907	5,619,111	5,525,156
Debt securities in issue	55,400	55,400	55,400	55,400
Other liabilities	83,990	78,526	83,749	78,376
Accruals and deferred income	30,739	33,217	30,266	32,657
Current tax	9,048	356	7,967	-
Financial liabilities designated for hedge accounting	32,060	33,494	32,060	33,494
Subordinated liabilities	120,000	120,000	120,000	120,000
Total Liabilities	6,225,608	6,148,673	6,224,699	6,148,856
EQUITY				
Equity attributable to shareholders of the Bank:				
Called up share capital	270,000	240,000	270,000	240,000
Share premium account	988	988	988	988
Revaluation reserves	14,137	18,036	14,025	17,924
Retained earnings	203,711	214,211	181,314	193,160
	488,836	**473,235**	**466,327**	**452,072**
Non-controlling interest	1,116	962	-	-
Total Equity	489,952	474,197	466,327	452,072
Total Liabilities and Equity	**6,715,560**	**6,622,870**	**6,691,026**	**6,600,928**
MEMORANDUM ITEMS				
Contingent liabilities	**202,506**	**191,726**	**202,506**	**191,726**
Commitments	**1,050,313**	**1,066,597**	**1,050,313**	**1,066,597**

These accounts were approved by the Board of Directors on 27 April 2012.

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

	Attributable to Equity holders of the Bank						
	Called up 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 period	-	-	-	30,348	**30,348**	266	**30,614**
Other comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	(1,939)	-	**(1,939)**	-	**(1,939)**
Total other comprehensive income	-	-	(1,939)	-	**(1,939)**	-	**(1,939)**
Total comprehensive income for the period	-	-	(1,939)	30,348	**28,409**	266	**28,675**
Transactions with owners, recorded directly in equity							
Bonus issue	40,000	-	-	(40,000)	-	-	-
Dividends	-	-	-	(20,800)	**(20,800)**	-	**(20,800)**
	40,000	-	-	(60,800)	**(20,800)**	-	**(20,800)**
At 31 March 2011	**240,000**	**988**	**22,992**	**212,094**	**476,074**	**849**	**476,923**
At 30 September 2011	**240,000**	**988**	**18,036**	**214,211**	**473,235**	**962**	**474,197**
Profit for the period	-	-	-	31,980	**31,980**	154	**32,134**
Other comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	(3,412)	-	**(3,412)**	-	**(3,412)**
- change in fair value transferred to profit or loss, net of tax	-	-	(487)	-	**(487)**	-	**(487)**
Total other comprehensive income	-	-	(3,899)	-	**(3,899)**	-	**(3,899)**
Total comprehensive income for the period	-	-	**(3,899)**	**31,980**	**28,081**	**154**	**28,235**
Transactions with owners, recorded directly in equity							
Bonus issue	30,000	-	-	(30,000)	-	-	-
Dividends	-	-	-	(12,480)	**(12,480)**	-	**(12,480)**
	30,000	-	-	(42,480)	**(12,480)**	-	**(12,480)**
At 31 March 2012	**270,000**	**988**	**14,137**	**203,711**	**488,836**	**1,116**	**489,952**

Bank of Valletta p.l.c.

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 2010	**200,000**	**988**	**24,819**	**225,597**	**451,404**
Profit for the period	-	-	-	27,297	**27,297**
Other comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	(1,939)	-	**(1,939)**
- change in fair value transferred to profit or loss, net of tax					
Total other comprehensive income	-	-	**(1,939)**	-	**(1,939)**
Total comprehensive income for the period	-	-	**(1,939)**	**27,297**	**25,358**
Transactions with owners, recorded directly in equity					
Bonus issue	40,000	-	-	(40,000)	-
Dividends	-	-	-	(20,800)	**(20,800)**
	40,000	-	-	(60,800)	**(20,800)**
At 31 March 2011	**240,000**	**988**	**22,880**	**192,094**	**455,962**
At 30 September 2011	**240,000**	**988**	**17,924**	**193,160**	**452,072**
Profit for the period	-	-	-	30,634	**30,634**
Other comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	(3,412)	-	**(3,412)**
- change in fair value transferred to profit or loss, net of tax	-	-	(487)	-	**(487)**
Total other comprehensive income	-	-	**(3,899)**	-	**(3,899)**
Total comprehensive income for the period	-	-	**(3,899)**	**30,634**	**26,735**
Transactions with owners, recorded directly in equity					
Bonus issue	30,000	-	-	(30,000)	-
Dividends	-	-	-	(12,480)	**(12,480)**
	30,000	-	-	(42,480)	**(12,480)**
At 31 March 2012	**270,000**	**988**	**14,025**	**181,314**	**466,327**

Statements of cash flows for the six months ended 31 March

	The Group		The Bank	
	Mar-12	Mar-11	Mar-12	Mar-11
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	107,069	129,912	103,988	126,359
Interest and commission payments	(50,264)	(51,419)	(50,177)	(50,886)
Payments to employees and suppliers	(42,243)	(38,160)	(40,861)	(36,930)
Operating profit before changes in operating assets and liabilities	14,562	40,333	12,950	38,543
Increase in operating assets:				
Loans and advances	(104,069)	(56,659)	(104,069)	(56,659)
Reserve deposit with Central Bank of Malta	48,730	174	48,730	174
Fair value through profit or loss financial assets	102,708	7,013	102,708	7,013
Fair value through profit or loss equity instruments	(2,288)	133	(857)	(10)
Treasury bills with original maturity of more than 3 months	-	(15,947)	-	(15,947)
Other assets	683	(596)	1,178	(276)
Increase/(decrease) in operating liabilities:				
Amounts owed to customers	94,318	(1,233)	93,955	(844)
Amounts owed to banks	8,033	24,392	8,033	24,392
Other liabilities	802	2,010	711	2,008
Net cash from/(used in) operating activities before tax	163,479	(380)	163,339	(1,606)
Tax paid	(6,071)	(7,475)	(6,261)	(7,986)
Net cash from/(used in) operating activities	157,408	(7,855)	157,078	(9,592)
Cash flows from investing activities				
Dividends received	1,136	1,253	1,439	2,932
Interest received from held-to-maturity debt and other fixed income instruments	23,136	21,348	23,136	21,348
Purchase of equity investments	-	(1,341)	-	(1,341)
Purchase of debt instruments	(233,969)	(123,508)	(233,969)	(123,508)
Proceeds from sale or maturity of debt instruments	138,767	114,700	138,767	114,700
Purchase of property, plant and equipment	(3,483)	(4,718)	(3,456)	(4,660)
Proceeds on disposal of property, plant and equipment	7	2	7	2
Net cash (used in)/from investing activities	(74,406)	7,736	(74,076)	9,473
Cash flows from financing activities				
Redemption of debt securities in issue	-	(25,701)	-	(25,701)
Dividends paid to equity holders of the Bank	(12,480)	(20,800)	(12,480)	(20,800)
Net cash used in financing activities	(12,480)	(46,501)	(12,480)	(46,501)
Net change in cash and cash equivalents	**70,522**	**(46,620)**	**70,522**	**(46,620)**
Effect of exchange rate changes on cash and cash equivalents	-	18	-	18
Net change in cash and cash equivalents	70,522	(46,638)	70,522	(46,638)
	70,522	(46,620)	70,522	(46,620)
Cash and cash equivalents at 1 October	356,841	230,850	356,841	230,850
Cash and cash equivalents at 31 March	427,363	184,230	427,363	184,230

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 2012, 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 2012, 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 2011.

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 2011 to 31 March 2012 have not materially affected the performance for the period under review.

2. Segment Information

	Credit, deposit-taking and other retail		Financial markets, investments and non-retail		Total	
	Mar-12	**Mar-11**	**Mar-12**	**Mar-11**	**Mar-12**	**Mar-11**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
The Group						
Operating Income for the six months	87,080	78,896	20,413	13,848	107,493	92,744
Profit before tax for the six months	28,868	29,162	20,225	16,000	49,093	45,162
	Mar-12	**Sep-11**	**Mar-12**	**Sep-11**	**Mar-12**	**Sep-11**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Total Assets	3,946,820	3,849,906	2,768,740	2,772,964	6,715,560	6,622,870

Independent Auditor's Report for the six months to 31 March 2012

The Bank and Group's condensed interim financial information has been reviewed by its independent auditor. The auditor's report, as at 31 March 2012, 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 2012 and the related condensed consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the six month period then ended and the explanatory notes. The directors are responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the EU applicable to Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

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

27 April 2012

Background

In the Financial Year (FY) 2011 annual report and during the Annual General Meeting we stated that we believed that the long-running eurozone sovereign debt crisis would cast a pall of uncertainty over the outlook for 2012 and beyond. We also stated that we believed that three things seemed certain; (i) that a number of eurozone countries would be adopting stringent fiscal restraint, (ii) eurozone banks would continue to de-leverage their balance sheets in an attempt to meet more demanding capital requirements, and (iii) Greece's sovereign debt would be rescheduled under the guise of various euphemisms for what would be a *de facto* default. We were concerned that the aggregation of the above did not augur well for economic prospects over the following 12 to 24 months, and that Malta, notwithstanding our history of resilient economic performance, could not expect to be exempt from the downside pressures on our economy emanating from our major markets.

The first three months of the current financial year saw a deepening of the eurozone crisis, and a spillover into the credit and inter-bank markets, with a number of substantial European banks being shut out from access to funding, thus adding to the pressures to de-leverage. Relief was only brought about by the extraordinary measures taken by the European Central Bank (ECB) in December 2011, which through its Long Term Refinancing Operations (LTRO) made unlimited 3 year liquidity available to European financial institutions at very attractive rates. The December LTRO initiative was repeated in February 2012, and in total European banks took close to €1 trillion of the facility. This access to unlimited funding served to calm markets somewhat, and Italian and Spanish government bond yields reverted to more sustainable levels. In March 2012 the Greek government debt was duly rescheduled under the so called Private Sector Initiative, which involved all private sector institutions taking losses (or "haircuts") of 75% on their Greek holdings. Concurrently, the EU member states signed up to a Fiscal Pact, which involved the enactment by the Parliaments of individual member states of legislation obliging governments to conform to "golden rule" limitations on deficit and debt.

We believe that it would be a mistake to regard the eurozone crisis as being "over". Instead, we regard the ECB initiative as having won some time to allow for the implementation of the necessary corrective measures to address the root causes of the crisis – and the crisis will return if the markets sense any lessening of resolve. Indeed, April 2012 has already witnessed the return of a degree of nervousness in the markets, with Spanish and Italian government bond yields moving up past 6% for the first time in several months. Furthermore, it is uncertain whether the austerity measures that are the cornerstone of the policy approach to the crisis will receive the necessary degree of public support in a number of countries.

The Maltese economy experienced a mild contraction in the last quarter of calendar 2011, and, in general, business sentiment at the start of 2012 has been subdued – both as a result of domestic political uncertainty and, more importantly, as a result of concerns as to the likely economic impact of the austerity measures being implemented by governments right across the eurozone. Consequently, demand for credit has continued to be muted, and there are signs of some stress in certain sectors of the economy – most notably in the construction/property and retail sectors. On a more positive note, employment data remains firm, as does the services sector generally. Tourism started the year a little softer – but this off record numbers for 2011.

Review of performance

The Bank of Valletta Group has recorded a profit before taxation of €49.1 million for the six months ended 31 March 2012. This compares with pre-tax profits of €45.2 million earned in the first six months of the previous financial year. As can be seen from the table below, the Net Operating Profit before fair value movements for the period is very much in line with the results for the same period of the previous year. Fair value movements for the period showed a small gain of €0.5 million compared with a charge of €5.6 million recorded in the first half of the previous year. The share of profits from our insurance interests amount to €1.6 million, compared with €3.8 million for the same period last year - reflecting the difficult investment conditions that prevailed in the second half of calendar 2011.

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

Bank of Valletta Group Summarised Unaudited Results for six months to 31 March	Note	2012 € million	2011 € million
Net Interest Margin	(a)	77.3	67.8
Net Commission and Trading Income	(b)	29.7	30.6
Operating Expenses	(c)	(45.0)	(41.0)
Net Impairment Charges	(d)	(15.0)	(10.4)
Net Operating Profit before Fair Value movements		**47.0**	**47.0**
Fair Value Movements	(e)	0.5	(5.6)
Operating Profit		**47.5**	**41.4**
Share of results of associated companies	(f)	1.6	3.8
Profit before tax		**49.1**	**45.2**

(a) Net Interest Margin

Net Interest Margin for the period of €77.3 million increased by €9.5 million from €67.8 million for the six months to March 2011. This improvement in the interest margin was influenced by receipts during the period of interest totalling €5.2 million in respect of accounts on which provision had previously been made. The balance of the increase in the net interest margin contribution arose principally from higher year on year volumes of advances.

(b) Net Commission and Trading Income

Net Commission and Trading Income was virtually flat year-on-year. Demand for credit has been muted, and investment related activities (Capital Markets, Funds and Wealth Management, Bancassurance and Stockbroking) have been subdued, as negative sentiment returned to the markets in the second half of calendar 2011 in the wake of the deepening eurozone sovereign debt crisis. Local capital markets activity in bond issuance remained very limited, pending the further revision of the bond issuance regulations by the Listing Authority. The local equity market has continued to trend downwards on very low volumes – in marked contrast with the broad recovery seen across global equity markets in the first three months of calendar 2012. Foreign exchange business has seen a narrowing of margins in a competitive market environment, and our Cards business continues to deliver satisfactory results.

(c) Operating Expenses

Operating expenses for the six months totalled €45.0 million, an increase of 10% over the same period last year, with most of the increase arising from personnel, IT, consultancy, legal, professional and regulatory related expenses. Investment in customer centric innovation continues to feature as a key element of the Bank's operations. BOV became the first bank in Malta to respond to changing customer preferences, recently launching its mobile customer proposition. BOV Mobile uses the latest technology, harnesses the widespread use of mobile internet, and is set to change the way people prefer to bank and to pay. This new product has been well received by the market, with over 6,600 subscribers signing up in the short time since launch. Notwithstanding our continuing investment in IT - necessary to sustain and further competitiveness - strict and effective overall cost control over discretionary expenditure remains a priority for management.

(d) Net Impairment charges

As noted in the FY 2011 annual report, the difficult economic conditions of the recent past have had a knock-on effect on overall credit quality. The specific impact to date has been modest and manageable. However, the Bank's Board and management has chosen to adopt a cautious outlook in respect of certain vulnerable sectors at a time when the potential consequential impact of the eurozone crisis remains unclear, and the overall domestic economic situation remains characterised by some uncertainties. Therefore, management has deemed it appropriate to continue to build up the collective provision allowance during the period by increasing precautionary allowances in respect of exposures in vulnerable sectors. Overall credit quality remains satisfactory, with the proportion of non performing accounts to total loans and advances showing an improvement on the position at September 2011, principally as a result of certain recoveries during the period.

(e) Fair Value movements

After a very turbulent and volatile second half of calendar 2011, as mentioned above, a degree of calm returned to the eurozone sovereign debt markets following the actions taken by the ECB in December 2011 in the form of the unlimited 3 year liquidity facility made available to the European banking sector. Credit markets responded positively, as a result of which the mark to market markdowns incurred in the first quarter of FY 2012 were fully recouped over the second quarter. Overall, this resulted in a fair value gain of €0.5 million for the six month period, as compared with a charge of €5.6 million during the six month period to 31 March 2011.

(f) Associated Companies

The Associated Companies represent our insurance sector interests through our holdings in MSV Life plc, in which BOV has a direct equity interest of 50%, and in Middlesea Insurance plc (MSI), where our holding amounts to 31.08% of the issued share capital of the company. The Group's share of profits of €1.6 million (March 2011: €3.8 million) is made up as follows:-

Share of Profit - six months to 31 March	2012	2011
	€ million	€ million
MSV Life	1.2	2.7
MSI	0.4	1.1
Net share of results for the period	1.6	3.8

The above represents BOV's share of profits on its MSV Life and MSI shareholdings based on the audited accounts of these companies for the 6 months through to 31 December 2011 and 2010 respectively.

Review of Financial Position

Total Assets as at 31 March 2012 stood at €6.7 billion (30 September 2011: €6.6 billion), while Equity attributable to the shareholders of the Bank amounted to €488.8 million (30 September 2011: €473.2 million). Loans and Advances, net of impairment allowances, stood at €3.69 billion, an increase of just €87 million from the position as at 30 September 2011, reflecting the subdued demand for credit experienced during the period. The Non Performing Loans (NPL) ratio has improved, with NPLs at 31 March 2012 amounting to 4.1% of Gross Advances (September 2011: 5.1%).

During the period under review, the Bank continued to roll out the JEREMIE initiative in support of small and medium sized enterprises (SMEs). JEREMIE is a joint initiative with the European Commission and European Investment Fund, and is directed at extending finance to SMEs through the provision of credit risk protection. BOV has committed €51 million to this programme, and as at March 2012 over 250 facilities totalling €22.8 million have been extended to SMEs - with 77% of these facilities being extended to micro enterprises employing less than 10 persons. This programme is another example of the support extended by Bank of Valletta to local enterprises.

Customer Deposits, standing at €5.62 billion, are up €94 million since the 30 September 2011 year end, with modest growth being experienced in both the retail and institutional sectors, notwithstanding a high level of government debt issuance during the period and keen ongoing competition for deposits in the domestic market. Overall, Deposits have increased by €434 million or 8.4% since 31 March 2011.

During the period under review, the Bank has continued to manage its balance sheet in a deliberate and prudent manner, while furthering our preparations for the implementation of the Basel III/CRD IV regulatory regimes. A further €40 million 7 year Medium Term Note issue (with a coupon of 4.25%) was fully subscribed in March 2012, thus increasing the take up of MTNs to €95.4 million. The MTN programme is directed at broadening the choice available to our customers, whilst at the same time representing a balance sheet management initiative directed at lengthening the duration of liabilities in anticipation of the more demanding Basel III/CRD IV liquidity regulations. In the meantime, the Bank's liquidity ratio remains strong at 49%, with minimal use being made of inter-bank funding. At 68.7%, the loans to deposit ratio is little changed from September 2011.

As at 31 March 2012, our core Tier I Capital stood at 10.8% (30 September 2011: 10.5%), whilst our total overall capital ratio position was a strong 15.4% (30 September 2011: 14.9%). Return on equity (ROE) for the period is a satisfactory 20.4%. In February 2012, Fitch announced an affirmation of BOV's credit rating at BBB+ with a stable outlook – a welcome development at a time when many financial institutions and sovereigns have been facing downgrades. Fitch remarked that the affirmation reflects the Bank's strong funding base and satisfactory capitalisation and profitability positions.

Interim Dividend

The Board has resolved to declare a gross interim dividend of €0.06 per share, which represents an increase of 8% on last year's interim dividend of €0.0555 per share (as restated for the bonus issue of January 2012). This dividend will be paid on 24 May 2012 to shareholders on the Bank's Register of Members at the close of business on 10 May 2012. The final dividend will be determined by the Board later in the year, and will take account of the results for the year as a whole, as well as the conditions prevailing at the time.

Regulatory Matters

On the 28 December 2011, an administrative penalty of €175,000 was imposed by the Malta Financial Services Authority (MFSA or the Authority) on the Bank in connection with the alleged breach of certain provisions of the Investment Services Guidelines and Rules relating to a number of perpetual and preferred securities sold to investors. The Bank has filed an appeal before the Financial Services Tribunal against the MFSA's decision in this regard. On 20 January 2012, the Bank was notified of the outcome of the investigation carried out by the MFSA in connection with redemptions relating to the La Valette Multi Manager Property Fund (the Fund). The Authority concluded that *"its investigation did not reveal any evidence to substantiate the claim that BOV staff or persons connected to them used confidential information as a basis for their decision to redeem their shares* *from the Fund during the months prior to suspension of redemptions that took place on 8 August 2008."* The third and final investigation being undertaken by the MFSA in relation to the Fund, and which concerns the sales processes adopted by the Bank in connection therewith, is in the course of finalisation.

Outlook

As we move into the second half of FY 2012, the mood is one of heightened caution. The ECB LTRO initiatives referred to above have served to bring relief and calm to the markets – but we regard these as providing a temporary palliative rather than a permanent solution to the challenges being faced by the eurozone. Longer lasting solutions will require fiscal and structural reform, and the implementation of such measures will be both painful and difficult in an environment where a number of seemingly contrary and incompatible imperatives are at play – including encouraging banks to expand the availability of credit whilst demanding higher capital ratios, and the urgent need to stimulate economic growth to arrest a potentially socially destabilising rise in unemployment, against a backdrop of calls for austerity, fiscal pacts and "golden rule" limitations on debt and deficit.

Malta has a wide open economy - and Europe is by far our largest trading partner. It is inevitable therefore that the travails being faced by the eurozone economies will have a spillover effect on Malta - and it is principally this expectation that is causing the caution being demonstrated by the business community at this time. On the positive side, tourist arrivals to date seem to be holding up (whilst showing a distinct late booking trend), and the services sector generally (including financial services) remains steady - as, very importantly, do employment statistics. The mobilisation of a number of EU funded infrastructure projects are bringing vital long term capital investment to the economy, and some relief to the otherwise beleaguered construction sector. Government finances are being subjected to the fiscal tightening being mandated by the EU as a part solution to the eurozone crisis. As we have observed before, Malta's debt and budget deficit to GDP data remain respectable by EU-wide standards, but do require constant discipline and vigilance in order to ensure that they remain so. As is the case across many European economies, apart from dealing with the formidable challenges of current short term issues, Malta will also need to continue to address a number of longer term strategic policy matters, including those arising from the reform of state owned enterprises, the marked and ongoing demographic shifts and the impact that these will have on the sustainability of Government finances and the economy as a whole. As an island state with little natural resource other than the resilience and versatility of its people, Malta has always had to re-invent itself, and it will remain essential for Malta to continue to develop new sectors of economic activity which can deliver sustained growth over the longer term, in order to combat any incipient signs of fatigue in those areas which have been successful in recent times in providing economic growth.

Conclusion

The Board of Directors would like to express its sincere thanks to Charles Borg, who has made an excellent start in his role as Chief Executive, and to the entire senior executive team, as well as all of the Bank's staff for their dedication, commitment and hard work, over what has been yet another challenging period. We are also grateful to our many customers for the business they bring to the Bank, and for the great confidence and trust that they consistently demonstrate. BOV remains wholly committed to supporting our customers and the Maltese economy in a responsible manner during these uncertain and challenging times. This constant support and commitment has been clearly recognised, acknowledged and appreciated by our customer base. Finally, we have, as always, maintained a healthy and open dialogue with the regulatory authorities at the MFSA and the Central Bank, and we are grateful to them for their constant support, wise counsel and advice.

By Order of the Board
27 April 2012

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 10 May 2012 (including trades undertaken up to and including 7 May 2012) will be paid the interim dividend on 24 May 2012.