Bank of Valletta

Bank of Valletta p.l.c.
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BOV/161

COMPANY ANNOUNCEMENT

The following is a company announcement issued by Bank of Valletta p.l.c. pursuant to Malta Financial Services Authority Listing Rules Chapters 8 and 9:

Quote

The Board of Directors of Bank of Valletta p.l.c. (the Bank) has today, the 31st October 2008, approved the final audited financial statements for the financial year ended 30th September 2008. The Board resolved that these final audited financial statements be submitted for the approval of the shareholders at the forthcoming Annual General Meeting which is scheduled for Wednesday, 17th December 2008. 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 €0.0675 per share making for a final Net Dividend of €0.0439 per share which, if approved by the Annual General Meeting, would make for a total gross dividend for the year of €0.2025 per share (total net dividend per share €0.1316).

2. An increase in the nominal value of the authorised and issued shares from €0.75 to €1.00 each share with effect from 15th January 2009. To capitalise €33.33 million from reserves in paying up the increase in the nominal value of the 133,333,333 ordinary shares in issue.

3. A bonus share issue of one share for every five shares held which will be allotted to shareholders on the Bank's share register as at close of business on 15th January 2009[1]. The bonus issue will be funded by a capitalisation of reserves amounting to €26.67 million.

4. Renewal of share buy back authorisation.

5. Amendments to the Memorandum and Articles of Association in respect of:

    - Co option (where appropriate) of a non-executive independent director competent in accounting and/or auditing to ensure compliance with the Listing Rules;
    - Electronic payment of dividends;
    - The location of the unlisted share and debenture registers and the minute book of general meetings.

Regulatory approvals for the resolutions that involve changes to the Bank's share capital and amendments to the Bank's Memorandum and Articles of Association, are currently being sought. Application will be made for the necessary authorisations concerning the listing of the bonus share issue on the Malta Stock Exchange.

Shareholders on the Bank's share register, at the Central Securities Depository of the Malta Stock Exchange, as at the close of business on Monday, 10th November 2008[2] will receive notice of the Annual General Meeting, together with the Financial Statements for the financial year ended 30th September 2008.

The final dividend, if approved at the Annual General Meeting, will be paid on the 18th December 2008 to the shareholders on the Bank's share register, at the Central Securities Depository of the Malta Stock Exchange as at the close of business on Monday, 10th November 2008.

Unquote

Victor J. Cardona ACIB, BA (Hons) Econ. CSA
Company Secretary

31st October 2008

[1] Thursday 15th January 2009 will include trades undertaken up to and including Monday 12th January 2009.

[2] Monday 10th November 2008 will include trades undertaken up to and including Wednesday 5th November 2008.

Bank of Valletta p.l.c.
Preliminary Statement of Annual Results
for the year ended 30 September 2008

ABRIDGED INCOME STATEMENTS

	The Group		The Bank	
	2008	**2007**	**2008**	**2007**
	€000	**€000**	**€000**	**€000**
Interest income	291,124	279,164	291,124	279,164
Interest expense	(164,997)	(149,623)	(165,005)	(149,639)
Net interest income	126,127	129,541	126,119	129,525
Net commission income	32,966	34,487	27,242	28,985
Trading and other income	(39,332)	5,473	(34,772)	10,717
Operating expense	(77,770)	(73,918)	(75,771)	(72,043)
Net impairment losses	(3,093)	352	(3,093)	352
Operating profit	38,898	95,934	39,725	97,536
Share of profits from associate and jointly controlled entity	1,705	5,795	-	-
Profit before tax	**40,603**	**101,730**	**39,725**	**97,536**
Income tax expense	(13,821)	(33,195)	(13,442)	(32,721)
Profit for the year	**26,782**	**68,535**	**26,283**	**64,815**
Attributable to:				
Shareholders of the Bank	26,132	67,855	26,283	64,815
Minority interest	650	680	-	-
	26,782	**68,535**	**26,283**	**64,815**
Earnings per share	19c6	50c9	19c7	48c6

BALANCE SHEETS	The Group		The Bank	
	2008	2007	2008	2007
ASSETS	€000	€000	€000	€000
Balances with Central Bank of Malta, treasury bills and cash	191,251	361,857	191,251	361,857
Financial assets at fair value through profit or loss	1,391,619	1,130,382	1,388,784	1,126,718
Investments	909,985	836,799	909,913	836,643
Loans and advances to banks	441,526	492,926	441,526	492,926
Loans and advances to customers	3,039,184	2,621,232	3,039,184	2,621,337
Investments in associate and jointly controlled entity	63,026	60,941	31,271	29,075
Investments in subsidiary companies	-	-	1,307	1,542
Intangible assets	4,016	4,242	4,016	4,242
Property, plant and equipment	79,737	80,906	79,390	80,391
Current tax	19,775	11,794	20,970	13,044
Deferred tax	35,429	37,242	35,429	37,242
Other assets	13,433	8,239	12,771	7,467
Prepayments and accrued income	42,187	40,613	42,164	40,589
Total Assets	**6,231,168**	**5,687,173**	**6,197,976**	**5,653,073**
LIABILITIES				
Financial liabilities at fair value through profit or loss	5,207	18,011	5,207	18,011
Amounts owed to banks	999,307	759,970	999,307	759,970
Amounts owed to customers	4,625,384	4,303,736	4,626,923	4,304,267
Debt securities in issue	25,501	25,779	25,501	25,779
Other liabilities	60,949	74,915	60,601	74,477
Accruals and deferred income	64,802	52,474	64,156	52,136
Financial liabilities designated for hedge accounting	10,061	4,663	10,061	4,663
Subordinated liabilities	46,567	46,567	46,567	46,567
	5,837,778	**5,286,115**	**5,838,323**	**5,285,870**
EQUITY				
Equity attributable to shareholders of the Bank				
Called up share capital	100,000	64,543	100,000	64,543
Share premium account	988	988	988	988
Revaluation reserves	20,010	19,527	19,888	19,366
Retained earnings	271,675	315,327	238,777	282,306
	392,673	400,385	359,653	367,203
Minority interest	717	673	-	-
	393,390	401,058	359,653	367,203
Total Liabilities and Equity	**6,231,168**	**5,687,173**	**6,197,976**	**5,653,073**
MEMORANDUM ITEMS				
Contingent liabilities	134,777	136,714	134,777	136,714
Commitments	993,749	938,070	993,749	938,070

STATEMENT OF CHANGES IN EQUITY
For the year ended 30th September 2008

	Attributable to Shareholders of the Bank							
	Share Capital €000	**Share Premium Account €000**	**Revaluation Reserves €000**	**Other Reserve €000**	**Retained Earnings €000**	**Total €000**	**Minority Interest €000**	**Total Equity €000**
The Group								
At 30th September 2006	**64,543**	**988**	**25,141**	**2,250**	**275,488**	**368,410**	**692**	**369,102**
Net fair value adjustments on financial instruments	-	-	(10,445)	-	-	(10,445)	-	**(10,445)**
Revaluation of property, net of deferred tax	-	-	4,328	-	-	4,328	-	**4,328**
Net expense recognised directly in equity	-	-	(6,117)	-	-	(6,117)	-	**(6,117)**
Profit for the year	-	-	-	-	67,855	67,855	680	**68,535**
Total recognised income and expense for the year	-	-	(6,117)	-	67,855	61,738	680	**62,418**
Transfer to retained earnings	-	-	503	(2,250)	1,770	23	-	**23**
Dividends - final 2006	-	-	-	-	(18,458)	(18,458)	(699)	**(19,157)**
- interim 2007	-	-	-	-	(11,328)	(11,328)	-	**(11,328)**
	-	-	503	(2,250)	(28,016)	(29,763)	(699)	**(30,462)**
At 30th September 2007	**64,543**	**988**	**19,527**	**-**	**315,327**	**400,385**	**673**	**401,058**
Net fair value adjustments on financial instruments	-	-	511	-	-	511	-	**511**
Transfer of former subsidiary's revaluation reserve	-	-	(28)	-	28	-	-	**-**
Net income recognised directly in equity	-	-	483	-	28	511	-	**511**
Profit for the year	-	-	-	-	26,132	26,132	650	**26,782**
Total recognised income for the year	**-**	**-**	**483**	**-**	**26,160**	**26,643**	**650**	**27,293**
Bonus issue	16,875	-	-	-	(16,875)	-	-	-
Increase in paid up value	18,582	-	-	-	(18,582)	-	-	-
Dividends - final 2007	-	-	-	-	(22,655)	(22,655)	(606)	(23,261)
- interim 2008	-	-	-	-	(11,700)	(11,700)	-	(11,700)
	35,457	**-**	**-**	**-**	**(69,812)**	**(34,355)**	**(606)**	(34,961)
At 30th September 2008	**100,000**	**988**	**20,010**	**-**	**271,675**	**392,673**	**717**	**393,390**

STATEMENT OF CHANGES IN EQUITY

For the year ended 30th September 2008

The Bank	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
At 30th September 2006	**64,543**	**988**	**25,476**	**247,277**	**338,284**
Net fair value adjustments on financial instruments	-		(10,438)	-	**(10,438)**
Revaluation of property, net of deferred tax	-		4,328	-	**4,328**
Net expense recognised directly in equity	-	-	(6,110)	-	**(6,110)**
Profit for the year	-		-	64,815	**64,815**
Total recognised income and expense for the year	-		(6,110)	64,815	**58,705**
Dividends - final 2006	-		-	(18,458)	**(18,458)**
- interim 2007	-		-	(11,328)	**(11,328)**
	-		-	(29,786)	**(29,786)**
At 30th September 2007	**64,543**	**988**	**19,366**	**282,306**	**367,203**
Net fair value adjustments on financial instruments	-		522	-	**522**
Net income recognised directly in equity	-		522	-	**522**
Profit for the year	-		-	26,283	**26,283**
Total recognised income for the year	-		522	26,283	**26,805**
Bonus issue	16,875		-	(16,875)	-
Increase in paid up value	18,582		-	(18,582)	-
Dividends - final 2007	-		-	(22,655)	**(22,655)**
- interim 2008	-		-	(11,700)	**(11,700)**
	35,457		-	(69,812)	**(34,355)**
At 30th September 2008	**100,000**	**988**	**19,888**	**238,777**	**359,653**

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

CASH FLOW STATEMENTS

	The Group		The Bank	
	2008	2007	2008	2007
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	342,747	361,944	334,992	351,267
Interest and commission payments	(160,006)	(155,424)	(158,329)	(150,279)
Payments to employees and suppliers	(71,347)	(66,285)	(69,464)	(64,519)
Operating profit before changes in operating assets and liabilities	111,394	140,235	107,199	136,469
(Increase)/decrease in operating assets:				
Loans and advances	(414,421)	(292,816)	(414,315)	(292,921)
Reserve deposit with Central Bank of Malta	86,251	(13,687)	86,251	(13,687)
Fair value through profit or loss financial assets	(345,858)	154,749	(345,858)	154,749
Fair value through profit or loss equity instruments	(887)	(1,561)	(1,725)	(73)
Treasury bills with original maturity of more than 3 months	67,902	(5,751)	67,902	(5,751)
Other assets	(5,194)	2,253	(5,304)	2,336
Increase/(decrease) in operating liabilities:				
Customer accounts and deposits by banks	412,352	212,022	413,360	210,988
Other liabilities	(27,072)	6,918	(27,007)	6,848
Net cash (used in)/from operating activities before tax	(115,533)	202,362	(119,497)	198,958
Tax paid	(20,273)	(33,774)	(19,839)	(33,473)
Net cash (used in)/from operating activities	(135,806)	168,588	(139,336)	165,485
Cash flows from investing activities				
Dividends received from equity shares	860	829	856	829
Dividends received from associate and jointly controlled entity	1,818	2,898	1,818	2,898
Dividends received from subsidiary companies	-	-	2,773	2,416
Interest received from held-to-maturity debt and other fixed income instruments	49,203	36,650	49,203	36,650
Investment in associate and jointly controlled entity	(2,197)	(5,448)	(2,197)	(5,448)
Disposal of investment in subsidiary	-	-	292	-
Purchase of equity instruments	-	(217)	-	(217)
Proceeds from sale of equity instruments	84	461	-	461
Purchase of debt instruments	(269,690)	(244,543)	(269,690)	(244,543)
Proceeds from sale or maturity of debt instruments	185,780	113,720	185,780	113,720
Purchase of property, plant and equipment	(5,139)	(5,183)	(5,011)	(5,136)
Receipts from disposal of property, plant and equipment	187	58	6	-
Net cash used in investing activities	(39,094)	(100,775)	(36,170)	(98,370)
Cash flows from financing activities				
Dividends paid to bank's shareholders	(34,355)	(29,785)	(34,355)	(29,785)
Dividends paid to minority interests	(606)	(698)	-	-
Net cash used in financing activities	(34,961)	(30,483)	(34,355)	(29,785)
Net change in cash and cash equivalents	(209,861)	37,330	(209,861)	37,330
Effect of exchange rate changes on cash and cash equivalents	(1,238)	(2,879)	(1,238)	(2,879)
Net change in cash and cash equivalents	(208,623)	40,210	(208,623)	40,209
	(209,861)	37,330	(209,861)	37,330
Cash and cash equivalents at 1st October	491,740	454,410	491,740	454,410
Cash and cash equivalents at 30th September	**281,879**	**491,740**	**281,879**	**491,740**

These figures have been extracted from the Bank of Valletta Group's audited financial statements for the year ended 30 September 2008, as approved by the Directors on 31 October 2008, and are being published in terms of MFSA Listing Rule 9.35.

The Bank of Valletta Group has registered a profit of €40.6 million before taxation for the year under review, a decrease of 60% when compared to €101.8 million for financial year 2007. Return on equity for the year was of 10.2% (2007: 26.4%), while earnings per share amounted to €0.196 (2007: €0.509).

The effects of the credit turmoil have been felt since the last few months of FY 2007, and have persisted throughout the current financial year - with a marked escalation in the second half of September 2008. While Bank of Valletta could not expect to be insulated from the crisis in the global financial markets, the following policies and precautionary measures adopted by the Group have helped to mitigate the impact of these events:-

1. A solid capital base: the gradual build up of capital, with close to €100 million having been added to reserves in the four years to September 2008, has ensured that the Group is well capitalised with sound capital ratios. The Group's capital adequacy ratio is 11.5% (2007: 12.8%), of which 10% is represented by Tier 1 Capital, which is well above the comparable level in the European banking sector.

2. A conservative loan to deposit ratio: applying a business model with a loan to deposit ratio of below 70% meant that the Bank had no need to resort to inter-bank financing to fund its lending operations. Inter-bank lending used for treasury and financial markets operations were backed by readily realisable securities that are eligible for ECB purposes.

3. A strong liquidity position: the Group has, throughout the year, maintained liquidity ratios of over 50%, well above the prudential statutory requirement of 30%. As such, there was no need, at any time, for the Bank to sell any of its holdings in a distressed market. In fact, the Bank is able to hold its investments through to maturity, if it so desires.

4. A conservative investment portfolio: the Group's portfolio is spread over a large number of highly rated sovereign, supranational and institutional names, with a relatively short weighted average maturity of less than 3.5 years.

The overall effect of the above measures has been that BOV was well capitalised and liquid throughout the crisis, and has maintained its discipline in terms of asset quality. In summary therefore, the Bank has concentrated on securing strong capital and liquidity positions, whilst at the same time diversifying its investment book, and risk exposure, across a wide range of quality holdings. The importance of the strong capital and liquidity positions has meant that BOV has been, and remains, in a position to retain its holdings through to redemption, and has not been obliged to dispose of the debt securities in the highly strained and distressed market conditions that have prevailed over the past year.

The largest single item which impacted the performance for FY 2008 was the unrealised fair value markdowns totalling €41 million, of which €14 million arose in the last two weeks of the financial year. These mark downs on debt instruments were taken as a result of the very negative sentiment prevailing in the markets, especially close to the financial year end. Credit spreads at 30 September 2008 remained extremely elevated, and this had an impact on quoted bond prices in an almost frozen market. This caused these mark downs to be booked to the FY 2008 earnings as a result of the mark to market accounting policy under IAS 39 as adopted for the FVTPL portfolio. Apart from these unrealised mark downs, the Group also recognised a direct charge on Lehman Brothers of €12.7 million following the latter's failure in mid September 2008.

The impact of the financial crisis has also affected other related areas of the business. The Group's share of profit of associates for the year, at €1.7 million, is €4 million below that recognised for FY 2007, and lower commissions were earned from the asset management, bancassurance and stock-broking businesses of the Bank.

As expected, tougher competition on both sides of the balance sheet put pressure on interest margins, which was to some extent mitigated by the increased volumes. The reduction in the base rate upon euro adoption also had a short term negative impact on margins due to the time lag inherent in the re-pricing of deposits. Suspended interest on loans was also €3 million higher than in FY 2007, due to lower recoveries on impaired accounts.

The adoption of the euro in January 2008 had a two-fold impact on performance: exchange income was €10 million, or 43%, below that for FY2007, while additional one off costs of about €1.0 million were incurred on the euro changeover.

Overall costs increased by 5%, largely due to a new collective agreement entered into by the Group which became effective on 1 January 2008.

During the year the Group has seen a growth of 15.9% in its net loan book, as well as a continuing improvement in the quality of that business. Growth has come from carefully selective increases to the business sector, and a continuing demand for home loans. Loans and advances to customers (net of impairment allowances), increased by €418 million, and now stand at €3.0 billion (2007: €2.6 billion). Impaired lending, as a percentage of the total loan book, has decreased from 4.8% at September 2007 to 4.0% as at the year end. The impairment charge for the year of €3.1 million is modest in relation to the total book, but is €3.4 million higher than that for FY 2007 since higher recoveries from impaired accounts were concluded last year.

Customer deposits continue to increase, and amount to €4.6 billion at September 2008, an increase of €322 million, or a growth rate of 7.5% over 2007. Growth was experienced in both euro and foreign currency deposits.

A gross interim dividend of €0.135 per share was paid on 28 May 2008. The directors propose a gross final dividend of €0.0675 per share. This results in a gross total dividend of €0.2025 per share for the full year, compared to €0.3921 for 2007, a decrease that reflects the lower profits for the year under review. The aggregate net dividend for the year is €17.5 million (2007: €34.0 million).

The Board is also recommending, effective 15 January 2009, an increase in the nominal and paid up value of the ordinary shares in issue from €0.75 per share to €1.00 per share. The increase will be funded by a capitalisation of reserves amounting to €33.3 million. Furthermore, and also effective 15 January 2009, the Board is recommending a bonus issue of 1 share for every 5 shares held. The bonus issue will be funded by a capitalisation of reserves amounting to €26.67 million. Besides strengthening the balance sheet through the increase in the permanent paid up capital of the Bank to €160 million, these moves will also serve to enhance the affordability and liquidity of the Bank’s shares.

Notice is hereby given that Monday 10 November 2008 is the "effective date" for the purposes of Article 2 (f) of the Bank's Articles of Association.

All shareholders appearing on the Bank's Register of Members as at the close of business on Monday 10 November 2008 will:
i) receive notice of and be entitled to attend and vote at the Bank's Annual General Meeting scheduled for Wednesday 17 December 2008, and
ii) be paid, on the Thursday 18 December 2008, the final dividend as approved by the Annual General Meeting.

Pursuant to the Malta Stock Exchange Bye-Laws, the Bank's Register of Members as at close of business on Monday 10 November 2008 will include trades undertaken up to and including Wednesday 5 November 2008.

By order of the Board
31 October 2008