

Half Yearly Report

March 2007



	The Group		The Bank	
	Mar-07 Lm'000	Mar-06 Lm'000	Mar-07 Lm'000	Mar-06 Lm'000
Interest receivable and similar income				
- on loans and advances, balances with Central Bank of Malta and treasury bills	36,040	26,525	36,040	26,525
- on debt and other fixed income instruments	21,237	20,572	21,237	20,572
Interest payable	(29,988)	(23,332)	(29,992)	(23,338)
Net interest income	27,289	23,765	27,285	23,759
Dividend income	153	28	867	778
Fees and commissions income	8,546	8,041	7,241	6,566
Fees and commissions expense	(1,188)	(1,186)	(1,183)	(1,088)
Trading profits	4,542	5,082	4,553	5,075
Net losses on investment securities and hedging instruments	(54)	(3)	(54)	(4)
Operating income	39,288	35,727	38,709	35,086
Administrative expenses	(14,747)	(14,378)	(14,378)	(14,013)
Depreciation	(1,481)	(1,457)	(1,458)	(1,424)
Operating profit before impairment losses	23,060	19,892	22,873	19,649
Net impairment losses	(785)	(3,878)	(785)	(3,878)
Operating profit	22,275	16,014	22,088	15,771
Share of profits of associated and jointly controlled entities	2,037	2,797	-	-
Profit before tax	24,312	18,811	22,088	15,771
Tax on profit	(7,866)	(5,679)	(7,785)	(5,339)
Profit for the period	16,446	13,132	14,303	10,432
Profit attributable to shareholders of the Bank	16,293	12,926	14,303	10,432
Profit attributable to minority interest	153	206		
Profit for the period	16,446	13,132		
Earnings per share	14c7	11c7	12c9	9c4

	The Group		The Bank	
	Mar-07 Lm'000	Sep-06 Lm'000	Mar-07 Lm'000	Sep-06 Lm'000
Assets				
Balances with Central Bank of Malta, treasury bills and cash	175,260	158,306	175,260	158,306
Financial assets at fair value through profit or loss	554,195	575,499	552,849	574,565
Investments	310,422	316,414	310,355	316,347
Loans and advances to banks	125,226	190,926	125,226	190,926
Loans and advances to customers	1,096,216	987,122	1,096,216	987,122
Investments in associated and jointly controlled entities	25,953	22,578	11,482	10,143
Investments in subsidiary companies	-	-	661	662
Intangible assets	1,458	1,848	1,458	1,848
Property, plant and equipment	32,744	32,992	32,503	32,719
Current tax	-	1,120	-	1,561
Deferred tax	18,364	17,917	18,387	17,940
Other assets	3,062	4,504	2,669	4,208
Prepayments and accrued income	14,518	16,823	14,518	16,814
Total Assets	2,357,418	2,326,049	2,341,584	2,313,161
Liabilities				
Financial liabilities at fair value through profit or loss	5,033	3,215	5,033	3,215
Amounts owed to banks	407,303	403,445	407,303	403,445
Amounts owed to customers	1,694,417	1,673,710	1,694,904	1,674,382
Debt securities in issue	11,789	12,386	11,789	12,386
Other liabilities	33,071	31,735	32,739	31,571
Accruals and deferred income	15,569	20,451	15,569	20,284
Current tax	2,635	-	1,868	-
Financial liabilities held for hedging	2,235	2,662	2,235	2,662
Subordinated liabilities	19,991	19,991	19,991	19,991
Total Liabilities	2,192,043	2,167,595	2,191,431	2,167,936
Equity				
Called up share capital	27,708	27,708	27,708	27,708
Share premium account	424	424	424	424
Revaluation reserves	9,353	10,793	9,487	10,937
Other reserves	966	966	-	-
Retained earnings	126,634	118,266	112,534	106,156
	165,085	158,157	150,153	145,225
Minority interest	290	297	-	-
Total equity	165,375	158,454	150,153	145,225
Total Liabilities and Equity	2,357,418	2,326,049	2,341,584	2,313,161
Contingent liabilities	63,268	60,785	63,268	60,785
Commitments	453,758	431,918	453,758	431,918

These accounts were approved by the Board of Directors on 27 April 2007.

	The Group		The Bank	
	Mar-07 Lm'000	Mar-06 Lm'000	Mar-07 Lm'000	Mar-06 Lm'000
Cash flows from operating activities				
Interest and commission receipts	66,093	54,034	64,790	52,542
Interest and commission payments	(36,721)	(27,051)	(36,553)	(27,105)
Payments to employees and suppliers	(14,084)	(14,398)	(13,715)	(14,049)
Operating profit before changes in operating assets and liabilities	15,288	12,585	14,522	11,388
(Increase)/decrease in operating assets:				
Loans and advances	(93,003)	(100,522)	(93,003)	(100,522)
Reserve deposit with Central Bank of Malta	(2,554)	(4,154)	(2,554)	(4,154)
Fair value through profit or loss securities	20,146	3,995	20,558	4,238
Fair value through profit or loss equity instruments	819	(5,826)	819	(5,826)
Treasury bills with original maturity more than 3 months	(6,537)	29,846	(6,537)	29,846
Other assets	1,442	(61)	1,539	(620)
Increase/(decrease) in operating liabilities:				
Customer accounts and deposits by banks	22,871	86,578	22,686	86,707
Other liabilities	2,104	(4,128)	1,926	(4,204)
Net cash from/(used in) operating activities before tax	(39,424)	18,313	(40,044)	16,853
Tax paid	(3,776)	(2,512)	(4,021)	(2,510)
Net cash flows from/(used in) operating activities	(43,200)	15,801	(44,065)	14,343

	The Group		The Bank	
	Mar-07 Lm'000	Mar-06 Lm'000	Mar-07 Lm'000	Mar-06 Lm'000
Cash flows from investing activities				
Dividends received from equity shares	153	28	153	28
Dividends received from associated and jointly controlled entities	-	134	-	134
Dividends received from subsidiary companies	-	-	714	466
Interest received from held-to-maturity debt and other fixed income instruments	7,162	7,377	7,162	7,377
Investments in associated and jointly controlled entities	(1,000)	-	(1,000)	-
Purchase of equity investments	-	(230)	-	(230)
Purchase of debt instruments	(7,172)	(15,482)	(7,172)	(15,482)
Proceeds on sale or maturity of debt instruments	10,330	10,967	10,330	10,967
Purchase of property, plant and equipment	(868)	(1,671)	(852)	(1,667)
Proceeds on disposal of property, plant and equipment	25	12	-	-
Net cash flows from investing activities	8,630	1,135	9,335	1,593
Cash flows from financing activities				
Dividends paid to group's shareholders	(7,925)	(5,403)	(7,925)	(5,403)
Dividends paid to minority interests	(160)	(200)	-	-
Cash used in financing activities	(8,085)	(5,603)	(7,925)	(5,403)
Increase/(Decrease) in cash and cash equivalents	(42,655)	11,333	(42,655)	10,533
Effect of exchange rate changes on cash and cash equivalents	(218)	(632)	(218)	(632)
Net increase/(decrease) in cash and cash equivalents	(42,437)	11,965	(42,437)	11,165
Increase/(Decrease) in cash and cash equivalents	(42,655)	11,333	(42,655)	10,533
Cash and cash equivalents at 1 October	195,078	104,873	195,078	104,873
Cash and cash equivalents at 31 March	152,423	116,206	152,423	115,406

	Attributable to shareholders of the Bank							Total Equity Lm'000
	Called up Share Capital Lm'000	Share Premium Account Lm'000	Revaluation Reserves Lm'000	Other Reserve Lm'000	Retained Earnings Lm'000	Total Lm'000	Minority Interest Lm'000	
The Group								
At 30 September 2006	27,708	424	10,793	966	118,266	158,157	297	158,454
Net fair value adjustments on financial instruments	-	-	(1,440)	-	-	(1,440)	-	(1,440)
Net losses not recognised in the income statement	-	-	(1,440)	-	-	(1,440)	-	(1,440)
Profit attributable to the shareholders	-	-	-	-	16,293	16,293	153	16,446
Dividends	-	-	-	-	(7,925)	(7,925)	(160)	(8,085)
	-	-	-	-	8,368	8,368	(7)	8,361
At 31 March 2007	27,708	424	9,353	966	126,634	165,085	290	165,375
The Bank								
At 30 September 2006	27,708	424	10,937	-	106,156	145,225	-	145,225
Net fair value adjustments on financial instruments	-	-	(1,450)	-	-	(1,450)	-	(1,450)
Net losses not recognised in the income statement	-	-	(1,450)	-	-	(1,450)	-	(1,450)
Profit attributable to the shareholders	-	-	-	-	14,303	14,303	-	14,303
Dividends	-	-	-	-	(7,925)	(7,925)	-	(7,925)
	-	-	-	-	6,378	6,378	-	6,378
At 31 March 2007	27,708	424	9,487	-	112,534	150,153	-	150,153

Basis of preparation

The published figures, which have been prepared in accordance with IFRS for interim financial statements (IAS 34 'Interim Financial Reporting'), have been extracted from the Bank of Valletta Group's unaudited management accounts for the six months ended 31 March 2007. These have been drawn up in accordance with the accounting policies used in the preparation of the annual audited financial statements. The half-yearly results are being published in terms of Chapters 8 and 9 of the Listing Rules of the Malta Financial Services Authority.

Review of performance

The Bank of Valletta Group has recorded a net profit before tax of Lm24.3 million for the six months which ended on 31 March 2007, an increase of 29.2% over the net profit before tax of Lm18.8 million for the six months ended on 31 March 2006. The Group has achieved an annualised return of 30.0% on average shareholders' funds (March 2006: 25.3%). Earnings per share amount to 14.7 cents (March 2006: 11.7 cents).

The results for the six months under review were influenced by a number of factors:-

- An increase in net interest income of Lm3.5 million, which was driven in the main by robust growth in the loan book and a favourable (rising) interest rate environment;
- A reduction in the impairment charge of Lm3.1 million, resulting from the continuing improvement in credit quality and certain recoveries of sums previously provided;
- Satisfactory growth of 13.8% in net exchange, fees and commission income;
- Effective cost control, with increases in costs being contained at just 2.5%;
- A reduction of approximately Lm2.2 million in profits from portfolio price movements and the contribution from associates. This reduction is attributable to the very strong performance of the local equity market experienced in the first half of FY 2006 which, as expected, was not repeated in FY 2007.

Operating income amounted to Lm39.3 million, an increase of Lm3.6 million, or 10%; this comprised interest margin of Lm27.3 million, an increase of Lm3.5 million (14.8%) over March 2006, and commission and trading income of Lm12.0 million, a marginal increase over March 2006 resulting from the net impact of improved exchange, fees and commission income being counterbalanced by the reduction from portfolio price profits referred to above.

The Group's share of profit from its associated and jointly-controlled companies, which are engaged in the business of general insurance and life assurance, amounted to Lm2.0 million, down by Lm0.8 million from last year, also explained above.

Total costs, amounting to Lm16.2 million, increased by Lm0.4 million, or 2.5%, over March 2006. This arose mainly on higher personnel remuneration, contributions to the community and IT depreciation. The Group cost-income ratio has improved from 41.1% in March 2006 to 39.3% for this half year.

As a result of the above, profit before impairment charges amounted to Lm25.1 million, an increase of Lm2.4 million or 10.6% over the equivalent result of Lm22.7 million for March 2006.

Net impairment losses amounted to Lm0.8 million, compared to Lm3.9 million in March 2006. These include a specific impairment charge amounting to Lm0.3 million (March 2006: Lm3.3 million), recoveries of Lm0.4 million (March 2006: Lm0.4 million), and a charge for collective impairment amounting to Lm0.9 million (March 2006: Lm1.0 million). Non Performing Loans as a percentage of the total loan book continued to improve, and stood at 5.9% as at 31 March 2007 (March 2006: 8.4%).

Total assets at the end of March 2007 stood at Lm2.36 billion (September 2006: Lm2.33 billion), while equity amounted to Lm165.4 million (September 2006: Lm158.5 million). Advances, net of impairment allowances, stood at Lm1.1 billion, an increase of Lm109 million, or 11.0%, since 30 September 2006. Growth in lending has come from sustained demand from both the home loan and business sectors. Customer deposits reached the Lm1.69 billion level, an increase of Lm20.6 million (1.2%) over the six months.

The Board of Directors noted the satisfactory results for the half year. Given the size of the Financial Markets portfolio, the Bank's results are always subject to a degree of volatility that might arise if there should be any turbulence in capital market conditions. However, whereas the Board does not issue profit forecasts, it is expecting that, barring unforeseen circumstances, the rate of profitability through the second half of the current financial year should be marginally below or much in line with that achieved during the first six months, as the benefits arising from the current favourable interest rate environment gradually unwind.

The Board is grateful to all BOV customers who do business with the Group, and wishes to reiterate the Group's continued commitment to provide top quality service and innovative financial products. The Board also wishes to congratulate and thank all Group employees for the hard work and dedication that made the reported results possible.

Interim dividend

An interim dividend of 6.75 cents per share, gross of tax, has been declared by the Board in respect of the six months ended 31 March 2007, as compared to last year's interim dividend of 5.5 cents per share – an increase of 22.7%.

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 10th May 2007 will be paid the interim dividend on 30th May 2007.