Half Yearly Report

March 2008

Bank of Valletta

	The Group		The Bank	
	Mar-08	Mar-07	Mar-08	Mar-07
	€'000	€'000	€'000	€'000
Interest receivable and similar income				
- on loans and advances, balances with Central Bank of Malta and treasury bills	95,471	83,951	95,471	83,951
- on debt and other fixed income instruments	49,416	49,469	49,416	49,469
Interest payable	(80,537)	(69,853)	(80,551)	(69,863)
Net interest income	64,350	63,567	64,336	63,557
Dividend income	353	356	2,029	2,020
Fee and commission income	18,833	19,908	15,967	16,867
Fee and commission expense	(2,368)	(2,767)	(2,368)	(2,756)
Profit on foreign exchange activities	7,724	11,687	7,723	11,713
Fair value movements on financial instruments	(25,824)	(1,108)	(25,824)	(1,108)
Net losses on investment securities and hedging instruments	(135)	(126)	(135)	(126)
Operating income	**62,933**	**91,517**	**61,728**	**90,167**
Administrative expenses	(36,460)	(34,351)	(35,592)	(33,492)
Depreciation	(3,061)	(3,450)	(2,999)	(3,396)
Operating profit before impairment losses	23,412	53,716	23,137	53,279
Net impairment losses	(1,467)	(1,829)	(1,467)	(1,829)
Operating profit	21,945	51,887	21,670	51,450
Share of profits of associated and jointly controlled entities	3,066	4,745	-	-
Profit before tax	**25,011**	**56,632**	**21,670**	**51,450**
Income tax expense	(7,836)	(18,323)	(7,767)	(18,134)
Profit for the period	**17,175**	**38,309**	**13,903**	**33,316**
Profit attributable to shareholders of the Bank	16,850	37,953	13,903	33,316
Profit attributable to minority interest	325	356		
Profit for the period	17,175	38,309		
Earnings per share (in €)	0.126	0.285	0.104	0.250

	The Group		The Bank	
	Mar-08	Sep-07	Mar-08	Sep-07
	€'000	€'000	€'000	€'000
Assets				
Balances with Central Bank of Malta, treasury bills and cash	222,696	361,857	222,696	361,857
Financial assets at fair value through profit or loss	1,116,715	1,130,382	1,112,682	1,126,718
Investments	848,092	836,799	847,936	836,643
Loans and advances to banks	344,191	492,926	344,191	492,926
Loans and advances to customers	2,806,906	2,621,232	2,806,906	2,621,337
Investments in associated and jointly controlled entities	64,005	60,941	29,074	29,074
Investments in subsidiary companies	-	-	1,540	1,540
Intangible assets	3,955	4,242	3,955	4,242
Property, plant and equipment	80,474	80,906	79,959	80,391
Current tax	12,200	11,794	13,507	13,044
Deferred tax	33,269	37,242	33,269	37,242
Other assets	11,530	8,239	11,813	7,466
Prepayments and accrued income	42,426	40,613	42,426	40,589
Total Assets	**5,586,459**	**5,687,173**	**5,549,954**	**5,653,069**
Liabilities				
Financial liabilities at fair value through profit or loss	26,083	18,011	26,083	18,011
Amounts owed to banks	453,190	759,970	453,190	759,970
Amounts owed to customers	4,517,501	4,303,736	4,518,643	4,304,267
Debt securities in issue	23,146	25,779	23,146	25,779
Other liabilities	70,284	74,915	69,892	74,472
Accruals and deferred income	41,302	52,474	40,915	52,136
Financial liabilities held for hedging	8,338	4,663	8,338	4,663
Subordinated liabilities	46,567	46,567	46,567	46,567
Total Liabilities	**5,186,411**	**5,286,115**	**5,186,774**	**5,285,865**
Equity				
Called up share capital	100,000	64,543	100,000	64,543
Share premium account	988	988	988	988
Revaluation reserves	24,326	19,527	24,096	19,367
Retained earnings	274,064	315,327	238,096	282,306
Equity attributable to shareholders	399,378	400,385	363,180	367,204
Minority interest	670	673	-	-
Total equity	**400,048**	**401,058**	**363,180**	**367,204**
Total Liabilities and Equity	**5,586,459**	**5,687,173**	**5,549,954**	**5,653,069**
Contingent liabilities	151,790	136,713	151,790	136,713
Commitments	1,099,391	994,307	1,099,391	994,307

These accounts were approved by the Board of Directors on 29 April 2008.

Bank of Valletta

	Attributable to shareholders of the Bank						
	Called up Share Capital €'000	Share Premium Account €'000	Revaluation Reserves €'000	Retained Earnings €'000	Total €'000	Minority Interest €'000	Total Equity €'000
The Group							
At 30 September 2007	**64,543**	**988**	**19,527**	**315,327**	**400,385**	**673**	**401,058**
Net fair value adjustments on financial instruments	-	-	4,799	-	**4,799**	-	**4,799**
	-	-	4,799	-	**4,799**	-	**4,799**
Profit attributable to the shareholders	-	-	-	16,850	**16,850**	325	**17,175**
Bonus issue	16,875	-	-	(16,875)	-	-	-
Increase in paid up value	18,582	-	-	(18,582)	-	-	-
Dividends	-	-	-	(22,656)	**(22,656)**	(328)	**(22,984)**
	35,457	-	-	(41,263)	**(5,806)**	(3)	**(5,809)**
At 31 March 2008	**100,000**	**988**	**24,326**	**274,064**	**399,378**	**670**	**400,048**
The Bank							
At 30 September 2007	**64,543**	**988**	**19,367**	**282,306**	**367,204**	-	**367,204**
Net fair value adjustments on financial instruments	-	-	4,729	-	**4,729**	-	**4,729**
	-	-	4,729	-	**4,729**	-	**4,729**
Profit attributable to the shareholders	-	-	-	13,903	**13,903**	-	**13,903**
Bonus issue	16,875	-	-	(16,875)	-	-	-
Increase in paid up value	18,582	-	-	(18,582)	-	-	-
Dividends	-	-	-	(22,656)	**(22,656)**	-	**(22,656)**
	35,457	-	-	(44,210)	**(8,753)**	-	**(8,753)**
At 31 March 2008	**100,000**	**988**	**24,096**	**238,096**	**363,180**	-	**363,180**

KEY FINANCIALS IN MALTESE LIRA

	The Group		The Bank	
	Mar-08 Lm'000	Sep-07 Lm'000	Mar-08 Lm'000	Sep-07 Lm'000
Total Assets	2,398,267	2,441,503	2,382,595	2,426,864
Total Equity	171,741	172,174	155,913	157,640
	Mar-08 Lm'000	Mar-07 Lm'000	Mar-08 Lm'000	Mar-07 Lm'000
Profit before tax	10,737	24,312	9,303	22,088
Profit attributable to shareholders of the Bank	7,234	16,293	5,968	14,303
Earnings per share	5c4	12c2	4c5	10c7

	The Group		The Bank	
	Mar-08 €'000	Mar-07 €'000	Mar-08 €'000	Mar-07 €'000
Cash flows from operating activities				
Interest and commission receipts	146,409	153,955	143,517	150,920
Interest and commission payments	(93,509)	(85,537)	(93,572)	(85,146)
Payments to employees and suppliers	(37,027)	(32,807)	(36,160)	(31,947)
Operating profit before changes in operating assets and liabilities	15,873	35,611	13,785	33,827
(Increase)/decrease in operating assets:				
Loans and advances	(212,961)	(216,639)	(212,855)	(216,639)
Reserve deposit with Central Bank of Malta	101,427	(5,949)	101,427	(5,949)
Fair value through profit or loss securities	(8,193)	46,928	(7,825)	47,887
Fair value through profit or loss equity instruments	2,834	1,908	2,834	1,908
Treasury bills with original maturity more than 3 months	18,378	(15,227)	18,378	(15,227)
Other assets	(3,291)	3,359	(4,347)	3,585
Increase/(decrease) in operating liabilities:				
Amounts owed to customers	213,765	48,234	214,376	47,803
Amounts owed to banks	(283,011)	5,041	(283,011)	5,041
Other liabilities	(2,225)	4,900	(2,331)	4,487
Net cash used in operating activities before tax	(157,404)	(91,834)	(159,569)	(93,278)
Tax paid	(6,910)	(8,796)	(6,803)	(9,366)
Net cash used in operating activities	(164,314)	(100,630)	(166,372)	(102,644)
Cash flows from investing activities				
Dividends received from equity shares	353	356	353	356
Dividends received from subsidiary companies	-	-	1,676	1,663
Interest received from held-to-maturity debt and other fixed income instruments	19,813	16,683	19,813	16,683
Investments in associated and jointly controlled entities	-	(2,329)	-	(2,329)
Purchase of debt instruments	(139,561)	(16,707)	(139,569)	(16,707)
Proceeds on sale or maturity of debt instruments	138,915	24,062	138,915	24,062
Purchase of property, plant and equipment	(2,341)	(2,021)	(2,279)	(1,984)
Proceeds on disposal of property, plant and equipment	5	58	5	-
Net cash from investing activities	17,184	20,102	18,914	21,744
Cash flows from financing activities				
Dividends paid to group's shareholders	(22,656)	(18,459)	(22,656)	(18,459)
Dividends paid to minority interests	(328)	(372)	-	-
Net cash used in financing activities	(22,984)	(18,831)	(22,656)	(18,459)
Decrease in cash and cash equivalents	(170,114)	(99,359)	(170,114)	(99,359)
Effect of exchange rate changes on cash and cash equivalents	(16,586)	(508)	(16,586)	(508)
Net decrease in cash and cash equivalents	(153,528)	(98,851)	(153,528)	(98,851)
Decrease in cash and cash equivalents	(170,114)	(99,359)	(170,114)	(99,359)
Cash and cash equivalents at 1 October	491,746	454,410	491,746	454,410
Cash and cash equivalents at 31 March	321,632	355,051	321,632	355,051

Statement pursuant to Listing Rule 9.44.3 issued by the Listing Authority

I confirm that to the best of my knowledge:

- The condensed interim financial statements, prepared in accordance with IAS 34, give a true and fair view of the financial position as at 31 March 2008, financial performance and cash flows for the period then ended, and conform with the requirements of the accounting standards adopted for use in the EU for interim financial statements, including adopted IAS 34 'Interim Financial Reporting' for the Group; and,
- The interim Directors' report includes a fair review of the information required in terms of Listing Rule 9.44.2

Tonio Depasquale
Chief Executive Officer

Bank of Valletta

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 2008. These have been drawn up in accordance with the accounting policies used in the preparation of the annual audited financial statements of the Group. 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 profit performance

The Bank of Valletta Group has recorded a net profit before taxation of €25.0 million for the six months which ended on 31 March 2008. This compares with a profit of €56.6 million for the equivalent period ended 31 March 2007. The Group has achieved an annualised return of 12.5% on average shareholders' funds (March 2007: 30.0%). Earnings per share amount to €0.126 (March 2007: €0.285, as restated).

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

- The impact of the extended disruption in the global financial markets since July 2007. The severe credit crunch that accompanied this disruption has impacted the liquidity of the bond markets and caused a marked widening of credit spreads, and a consequent reduction in the quoted market value of the Bank's Financial Markets and Investments (FM+I) portfolio. A major part of this portfolio (designated as Fair Value through Profit or Loss) is marked to market in accordance with the requirements of the accounting policies adopted by the Bank. This has resulted in a mark to market write down for the period of €26 million before taxation. However, it is important to note that the Bank's portfolio remains of high quality, and the Board of Directors expects the markdowns to be largely temporary in nature, with a significant proportion of the amount being clawed back over time, as the investments are held through to redemption, and the fair value adjustments unwind. A gain of €7.4 million (pre tax) on the Bank's Available for Sale portfolio has been taken directly to reserves.

- The disruption in the financial markets, and the consequent weak performance of most equity and bond instruments and exchanges, has also had an adverse effect on the stockbroking and asset management businesses of the Group, as volumes reduced and investors moved to adopt more cautious investment positions.

- An increase in net interest income of €0.8 million which was driven in the main by satisfactory growth in the loan book, countered by the impact of an increase in interest payable, arising from the deferred re-pricing of customer deposits in a falling interest rate environment, in contrast with the favourable rising interest rate scenario experienced in 2007. Recovery of suspended interest on impaired lending to March 2008 stood at €2.8 million, compared with €5.3 million in March 2007, a reduction of €2.5 million on what is, of course, a smaller impaired loan portfolio.

- The multi-faceted impact of euro adoption in January 2008. This impacted income for the period in the following manner:-
  - a decrease in foreign exchange earnings on Lm - euro transactions for the period estimated at €2.6 million;
  - increased costs directly related to the euro adoption changeover period estimated at €0.8 million;
  - a slowdown in revenue related activities at branches during the very busy transition period of December 2007 and January 2008.

- A modest impairment charge for the period under review of €1.5 million (March 2007: €1.8 million), resulting from the sustained improvement credit quality and certain recoveries of sums previously provided. Non Performing Loans as a percentage of the total loan book continued to improve, and stood at 4.3% as at 31 March 2008 (March 2007: 5.9%).

- Effective cost control, with overall increases in costs being contained at 2.6% after allowing for euro conversion related costs.

- A reduction of €1.7 million in the contribution from associates and jointly controlled companies, which are engaged in the business of general insurance and life assurance. This reduction is attributable to the impact of taxation and the financial markets conditions on the investment performance of these companies.

Review of Balance Sheet position

Total assets at the end of March 2008 stood at €5.6 billion (September 2007: €5.7 billion), while equity amounted to €400 million (September 2007: €401 million). Advances, net of impairment allowances, stood at €2.8 billion, an increase of €186 million, or 7%, since 30 September 2007. Growth in lending has come from sustained demand for home loans and a cross section of the business sector. Customer deposits reached the €4.5 billion level, an increase of €214 million (5%) over the six months. The net loan to deposit ratio remains at a modest 62%, (September 2007: 61%). Capital adequacy under the revised Basel II regime remains strong at 12%, as does the liquidity ratio at 52%.

Outlook

The Board of Directors noted that the results for the half year were well below those achieved in the previous year, and that this decline could be directly attributed to the effects of the international credit crisis. As previously notified to shareholders, due to the material size of the FM+I portfolio, the Bank's results are always subject to volatility arising from any untoward turbulence in international capital market conditions. The concentrated disruption in the international financial markets over the past eight months has been particularly severe, and it is thanks to the defensive nature of the Bank's investment strategy, the quality of the portfolio and the conservative liquidity policy adopted, that the overall post tax impact on the Group of this disruption has been contained at just €12.2 million on a portfolio of over €2 billion. This is because the Bank has no holdings whatsoever of US sub prime mortgages, complex debt instruments or leveraged debt positions – the asset classes most adversely affected by the downturn. It was noted that since the onset of the credit crisis in July 2007, not one single investment holding within the Bank's portfolio has defaulted on interest payment or on maturity.

The markets seem to have calmed somewhat since mid March, and the general consensus is that this particular credit crunch is nearer its end than its beginning, with the focus increasingly turning to capital rebuilding and to the wider consequential fallout in terms of global economic growth. However, market sentiment remains fragile, and bouts of volatility will emerge from time to time as the process of de-leveraging continues and liquidity remains tight. The Board is satisfied that the strong liquidity position of the Bank is such that it is able to hold the securities through to redemption – and, in fact, usually does so. It therefore expects to recoup much of the mark to market write downs over time, as the markets stabilise and the quality holdings are redeemed on maturity. In the meantime, notwithstanding intensified competition on the domestic scene, core retail and corporate banking operations remain robust, and profits therefrom are much in line with expectations.

Interim dividend

Given the exceptional nature of the markdowns affecting the results for the half year, the Board has resolved to declare an interim dividend at close to that paid in 2007. Accordingly, an interim dividend of €0.1350 per share, gross of tax, has been declared by the Board in respect of the six months ended 31 March 2008. This compares with last year's interim dividend (as restated) of €0.1307 per share – effectively resulting in an increase of 3.3%.

Conclusion

The Board is grateful to all BOV's many customers who do business with the Group. The Bank continues to implement its brand promise programme centred on providing a consistent and differentiated customer experience based on the principles of supportiveness and mutuality. It has further strengthened its position as the Bank of first choice in Malta for customer deposits, offering a number of attractive products, and the Board wishes to reiterate the Group's continued commitment to providing top quality service and innovative financial products. The Board also wishes to congratulate and thank all Group employees for their hard work and dedication, especially through the very challenging euro changeover period. As has been readily acknowledged by the authorities, BOV played a leading role in securing Malta's smooth and successful changeover to the euro.

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 9th May 2008 will be paid the interim dividend on 28th May 2008.