

Stock Market Review



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A strong half-year performance by BoV

The announcement by Bank of Valletta plc last Friday reporting pre-tax profits of €47.5 million for the first six months of their 2009/10 financial year was welcome news for its many shareholders and the market in general. There was great anticipation for these results especially following the announcement a few days earlier of the sizeable losses incurred by the Middlesea Group as many investors questioned the impact of these losses on the overall profitability of BoV. However, these fears were quickly dispelled as the March 2010 financial statements revealed that the loss suffered by BoV through its investment in Middlesea was easily absorbed by the strong performance in other areas.

The uncertainty surrounding the impact from the Middlesea investment had led to a rather subdued performance by BoV's equity in recent weeks. After touching a high of €3.76 in January, the equity traded within a tight range of €3.25 to €3.30 until the final week of April. Apart from the Middlesea effect, BoV's share price was also negatively impacted by the downturn in HSBC following their disappointing 2009 full-year results announcement on February 22.

BoV's equity had staged a mild recovery to €3.45 on April 27 but following the sharp losses suffered by Middlesea announced later on that same afternoon, BoV's share price quickly dropped to €3.30 within two days. However, last Friday's announcement by BoV was greeted with enthusiasm on Monday as the bank's share price reacted positively closing Monday's session four per cent higher at €3.50.

The extent of the profitability generated during the six months to March 31, 2010 given the general economic background is testament to the resilience of the BoV Group as it managed to register its second highest all-time profitability level. At the half-year stage, BoV had registered record profits in March 2007 with pre-tax profits of €56.6 million at the time.

Although the official level of interest rates by the European Central Bank remained unchanged during the past six months at a historic low of one per cent, the total net interest income generated by BoV improved by €3.5 million (six per cent) to €61.9 million. This improvement came about from an increase in the size of the loan book as well as a positive

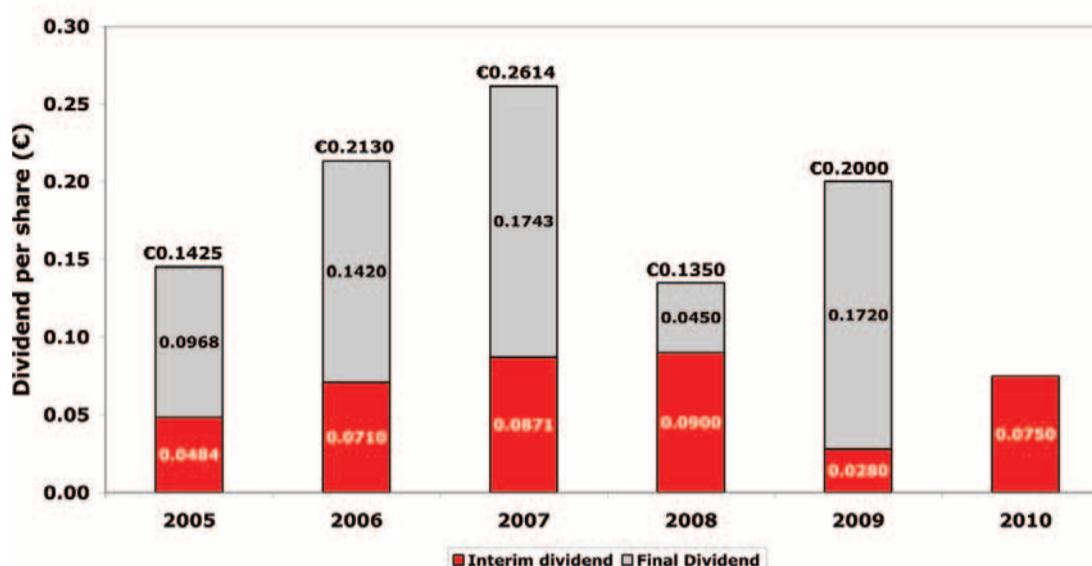
effect from the time lag effect on the re-pricing of deposits.

BoV had suffered from a lower interest margin in the previous financial year following the sharp reduction in interest rates by the ECB between the final three months of 2008 and the first quarter of 2009. While the bank is now benefitting from this "re-pricing" effect, overall interest rates remain low and BoV is very well positioned to benefit from increased income levels once interest rates begin to rise. However, BoV chairman Roderick Chalmers explained during last week's stockbrokers' meeting that the ECB is not expected to affect any rate hikes until late this year or the first quarter of 2011.

Apart from the increased contribution from interest margin, the BoV Group registered another very strong increase in net fee and commission income which grew by 23.6 per cent to a record €22.2 million. This was attributable to a good performance from investment related activities on improved investor sentiment. Moreover, while the last two financial years were negatively impacted by the markdowns on their overseas investment portfolio, during the six-month period to March 31, 2010, BoV saw a recovery in the value of their portfolio and recognised a reversal of a further €6 million following the strong upturn in the second half of last year.

On the other hand, given the increased size of the loan book and the cautious outlook on certain sectors of the economy, BoV took a prudent approach and set aside €4.6 million against potential problem-

Bank of Valletta plc
Dividends from 2005 to 2010



atic loans. Total impairment allowances amounted to €7.2 million (the highest level in five years) as special impairments and write-offs net of recoveries amounted to €2.6 million.

The other dampening figure on BoV's performance was the negative contribution from Middlesea amounting to €3.6 million. In the first half of last year the share of losses was €3.8 million. These increased to €10 million by the end of their financial year in September. Effectively the effect of the write-off of the Italian company Progress from the Middlesea accounts had already been largely provided for in the September 2009 full-year results and, therefore, the loss of "only" €3.6 million taken in the March 2010 interim results was possibly lower than anticipated by many market observers who may have feared another substantial impact as that seen in 2009.

The overall cost base of the BoV Group only edged marginally higher to €40.3 million as strict cost control procedures were maintained. This helped the cost to income ratio improve towards the 40 per cent level again as this important indicator had deteriorated in the past two reporting periods due to the lower income as a result of the markdowns on the investment portfolio.

BoV shareholders would also be pleased to note the continued increase in deposits. BoV's deposit base surpassed the €5 billion level for the first time in their history as deposits rose by €246 million during the past six months despite the large number of bond issues and

increased competition. Moreover, the rate of growth in deposits at BoV contrasts to the lower figure seen in HSBC which had reported a rise of €70 million in 2009 to €4.1 billion.

Apart from the growth in the deposit base, BoV's loan book also continued to rise. As at March 31, 2010 outstanding loans stood at €3.5 billion, up by €240 million since September 2009. The loans to deposit ratio remains at a prudent level of 70 per cent and notwithstanding the challenging economic conditions the quality of the loan book remained solid with non-performing loans as a percentage of total loans remaining unchanged at 4.1 per cent.

In line with the sharp increase in profitability after-tax from just €2.5 million in March 2009 to €29.2 million in the six months to March 31, 2010, BoV declared a higher gross interim dividend of €0.075 per share. Although this represents a strong increase from the low distribution at the start of last year, the gross dividend of €0.075 is lower than the interim payments made in March 2007 and March 2008. The recent dividend declaration is welcome news for shareholders and reflects the importance given by BoV's directors of an attractive return for the bank's shareholders. Moreover, Mr Chalmers explained that BoV will maintain its 50 per cent dividend payout ratio during the current financial year and this should translate into an increased dividend payment over last year confirming BoV as one of the top dividend yielders on the local equity market.

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