Bank of Valletta

Bank of Valletta p.l.c.
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BOV/175

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 30th October 2009, approved the audited financial statements for the financial year ended 30th September 2009. The Board resolved that these audited financial statements be submitted for the approval of the shareholders at the forthcoming Annual General Meeting which is scheduled for Wednesday 16th December 2009. 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 €0.215 per share making for a final Net Dividend of €0.13975 per share which, if approved by the Annual General Meeting, would make for a total gross dividend for the year of €0.250 per share (total net dividend per share €0.1625).

2. A bonus share issue of one share for every four shares held which will be allotted to shareholders on the Bank's share register as at close of business on 15th January 2010[1]. The bonus issue will be funded by a capitalisation of reserves amounting to €40 million.

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 Tuesday 10th November 2009[2] will receive notice of the Annual General Meeting, together with the Financial Statements for the financial year ended 30th September 2009.

The final dividend, if approved at the Annual General Meeting, will be paid on the 17th December 2009 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 Tuesday 10th November 2009.

Unquote

Catherine Formosa

Dr. Catherine Formosa B.A., LL.D.
Company Secretary

30th October 2009

[1] Friday 15th January 2010 will include trades undertaken up to and including Tuesday 12th January 2010.
[2] Tuesday 10th November 2009 will include trades undertaken up to and including Thursday 5th November 2009.

Bank of Valletta p.l.c.
Preliminary Statement of Annual Results
for the year ended 30 September 2009

BASIS OF PREPARATION

These figures have been extracted from the Bank of Valletta Group's audited financial statements for the year ended 30 September 2009, as approved by the Directors on 30 October 2009, and are being published in terms of MFSA Listing Rule 9.35.

ABRIDGED INCOME STATEMENTS for the year ended 30 September 2009

	The Group		The Bank	
	2009 €000	2008 €000	2009 €000	2008 €000
Interest income	240,065	291,124	240,065	291,124
Interest expense	(124,694)	(164,997)	(124,694)	(165,005)
Net interest income	115,371	126,127	115,371	126,119
Net commission income	37,870	32,966	33,375	27,242
Trading and other income	19,542	(39,332)	22,711	(34,772)
Operating expense	(77,055)	(77,770)	(74,969)	(75,771)
Net impairment losses	(4,016)	(3,093)	(4,016)	(3,093)
Operating profit	91,712	38,898	92,472	39,725
Share of profits from associate and jointly controlled entity	(9,894)	1,705	-	-
Profit before tax	**81,818**	**40,603**	**92,472**	**39,725**
Income tax expense	(32,403)	(13,821)	(32,293)	(13,442)
Profit for the year	**49,415**	**26,782**	**60,179**	**26,283**
Attributable to:				
Shareholders of the Bank	49,014	26,132	60,179	26,283
Minority interest	401	650	-	-
	49,415	**26,782**	**60,179**	**26,283**
Earnings per share	30c6	16c3	37c6	16c4

BALANCE SHEETS as at 30 September 2009

	The Group		The Bank	
	2009	2008	2009	2008
ASSETS	€000	€000	€000	€000
Balances with Central Bank of Malta, treasury bills and cash	278,270	191,251	278,270	191,251
Financial assets at fair value through profit or loss	1,101,202	1,391,619	1,099,763	1,388,784
Investments	1,159,422	909,985	1,159,350	909,913
Loans and advances to banks	207,481	441,526	207,481	441,526
Loans and advances to customers	3,245,899	3,039,184	3,245,899	3,039,184
Investments in associate and jointly controlled entity	54,886	63,026	34,025	31,271
Investments in subsidiary companies	-	-	1,393	1,307
Intangible assets	3,853	4,016	3,853	4,016
Property, plant and equipment	77,825	79,737	77,542	79,390
Current tax	-	19,775	-	20,970
Deferred tax	41,368	35,429	41,368	35,429
Other assets	8,978	13,433	8,075	12,771
Prepayments and accrued income	37,230	42,187	37,202	42,164
Total Assets	**6,216,414**	**6,231,168**	**6,194,221**	**6,197,976**
LIABILITIES				
Financial liabilities at fair value through profit or loss	36,114	5,207	36,114	5,207
Amounts owed to banks	668,584	999,307	668,584	999,307
Amounts owed to customers	4,766,278	4,625,384	4,767,502	4,626,923
Debt securities in issue	24,936	25,501	24,936	25,501
Current tax	507	-	583	-
Other liabilities	126,574	60,949	126,075	60,601
Accruals and deferred income	41,789	64,802	41,288	64,156
Financial liabilities designated for hedge accounting	20,430	10,061	20,430	10,061
Subordinated liabilities	96,567	46,567	96,567	46,567
Total Liabilities	**5,781,779**	**5,837,778**	**5,782,079**	**5,838,323**
EQUITY				
Equity attributable to shareholders of the Bank				
Called up share capital	160,000	100,000	160,000	100,000
Share premium account	988	988	988	988
Revaluation reserves	21,810	20,010	21,688	19,888
Retained earnings	251,199	271,675	229,466	238,777
	433,997	392,673	412,142	359,653
Minority interest	638	717	-	-
	434,635	393,390	412,142	359,653
Total Liabilities and Equity	**6,216,414**	**6,231,168**	**6,194,221**	**6,197,976**
MEMORANDUM ITEMS				
Contingent liabilities	167,875	134,777	167,875	134,777
Commitments	1,049,013	993,749	1,049,013	993,749

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2009

	Attributable to Shareholders of the Bank						
The Group	**Share Capital €000**	**Share Premium Account €000**	**Revaluation Reserves €000**	**Retained Earnings €000**	**Total €000**	**Minority Interest €000**	**Total Equity €000**
At 30 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 30 September 2008	**100,000**	**988**	**20,010**	**271,675**	**392,673**	**717**	**393,390**
Net fair value adjustments on financial instruments	-	-	3,602	-	3,602	-	**3,602**
Net gains released on disposal of available-for-sale assets	-	-	(922)	-	(922)	-	**(922)**
Revaluation of property net of deferred tax	-	-	(880)	-	(880)	-	**(880)**
Net income recognised directly in equity	-	-	1,800	-	1,800	-	**1,800**
Profit for the year	-	-	-	49,014	49,014	401	**49,415**
Total recognised income for the year	-	-	1,800	49,014	50,814	401	**51,215**
Bonus issue	26,667	-	-	(26,667)	-	-	**-**
Increase in paid up value	33,333	-	-	(33,333)	-	-	**-**
Dividends - final 2008	-	-	-	(5,850)	(5,850)	(480)	**(6,330)**
- interim 2009	-	-	-	(3,640)	(3,640)	-	**(3,640)**
	60,000	-	-	(69,490)	(9,490)	(480)	**(9,970)**
At 30 September 2009	**160,000**	**988**	**21,810**	**251,199**	**433,997**	**638**	**434,635**

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2009

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
The Bank					
At 30 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 30 September 2008	**100,000**	**988**	**19,888**	**238,777**	**359,653**
Net fair value adjustments on financial instruments	-	-	3,602	-	**3,602**
Net gains released on disposal of available-for-sale assets	-	-	(922)	-	**(922)**
Revaluation of property net of deferred tax	-	-	(880)	-	**(880)**
Net income recognised directly in equity	-	-	1,800	-	**1,800**
Profit for the year	-	-	-	60,179	**60,179**
Total recognised income for the year	-	-	1,800	60,179	**61,979**
Bonus issue	26,667	-	-	(26,667)	-
Increase in paid up value	33,333	-	-	(33,333)	-
Dividends - final 2008	-	-	-	(5,850)	**(5,850)**
- interim 2009	-	-	-	(3,640)	**(3,640)**
	60,000	-	-	(69,490)	**(9,490)**
At 30 September 2009	**160,000**	**988**	**21,688**	**229,466**	**412,142**

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

CASH FLOW STATEMENTS for the year ended 30 September 2009

	The Group		The Bank	
	2009 €000	2008 €000	2009 €000	2008 €000
Cash flows from operating activities				
Interest and commission receipts	280,592	342,747	277,635	334,992
Interest and commission payments	(150,404)	(160,006)	(151,784)	(158,329)
Payments to employees and suppliers	(69,488)	(71,347)	(67,528)	(69,464)
Operating profit before changes in operating assets and liabilities	60,700	111,394	58,323	107,199
(Increase)/decrease in operating assets:				
Loans and advances	(199,473)	(414,421)	(199,473)	(414,315)
Reserve deposit with Central Bank of Malta	9,110	86,251	9,110	86,251
Fair value through profit or loss financial assets	278,557	(345,858)	278,557	(345,858)
Fair value through profit or loss equity instruments	3,506	(887)	2,110	(1,725)
Treasury bills with original maturity of more than 3 months	(54,751)	67,902	(54,751)	67,902
Other assets	4,455	(5,194)	4,696	(5,304)
Increase/(decrease) in operating liabilities:				
Amounts owed to customers	140,894	321,648	140,579	322,656
Amounts owed to banks	(284,826)	90,704	(284,826)	90,704
Other liabilities	67,355	(27,072)	67,114	(27,007)
Net cash used in operating activities before tax	25,527	(115,533)	21,439	(119,497)
Tax paid	(19,378)	(20,273)	(17,997)	(19,839)
Net cash used in operating activities	6,149	(135,806)	3,442	(139,336)
Cash flows from investing activities				
Dividends received	1,788	2,678	3,950	5,447
Interest received from held-to-maturity debt and other fixed income instruments	42,175	49,203	42,175	49,203
Investment in associate and jointly controlled entity	(2,754)	(2,197)	(2,754)	(2,197)
Proceeds from disposal of investment in subsidiary	-	-	-	292
Proceeds from sale of equity instruments	-	84	-	-
Purchase of debt instruments	(416,978)	(269,690)	(416,978)	(269,690)
Proceeds from sale or maturity of debt instruments	199,727	185,780	199,727	185,780
Purchase of property, plant and equipment	(5,652)	(5,139)	(5,587)	(5,011)
Receipts from disposal of property, plant and equipment	1	187	1	6
Net cash used in investing activities	(181,693)	(39,094)	(179,466)	(36,170)
Cash flows from financing activities				
Proceeds from issue of subordinated liabilities	50,000	-	50,000	-
Dividends paid to bank's shareholders	(9,490)	(34,355)	(9,490)	(34,355)
Dividends paid to minority interests	(480)	(606)	-	-
Net cash from/(used in) financing activities	40,030	(34,961)	40,510	(34,355)
Net change in cash and cash equivalents	(135,514)	(209,861)	(135,514)	(209,861)
Effect of exchange rate changes on cash and cash equivalents	13	(1,238)	13	(1,238)
Net change in cash and cash equivalents	(135,527)	(208,623)	(135,527)	(208,623)
	(135,514)	(209,861)	(135,514)	(209,861)
Cash and cash equivalents at 1 October	281,879	491,740	281,879	491,740
Cash and cash equivalents at 30 September	**146,365**	**281,879**	**146,365**	**281,879**

COMMENTARY ON FINANCIAL STATEMENTS FOR THE YEAR ENDED 30th SEPTEMBER 2009

Background

Following the collapse of Lehman Brothers in September 2008, banks and other financial institutions all around the world stopped believing in one another. As a result of this loss of belief and confidence, credit stopped flowing, and the global financial system shuddered to a halt, triggering the most severe global economic recession since the 1930's.

Recognising the dangers posed by the extreme crisis, central banks and other policy-makers around the world took a series of bold steps in efforts to stabilise the situation and avert a potentially catastrophic meltdown of the global financial system. These measures were also aimed at attempting to contain the calamitous spill-over impact into the global economy. Across both Europe and the United States major banks that were hitherto pillars of the financial establishment were either nationalised or obliged to seek very substantial financial assistance from governments by way of guarantees and/or additional capital. Co-ordinated measures taken by central banks included the provision of huge pools of liquidity and radical reductions in interest rates, in an effort to counter the sharp downturn in economic activity and lack of credit being experienced on a global basis. Between October 2008 and May 2009, the European Central Bank (ECB) intervention rate was reduced by 3.25%, from 4.25% to 1.0% - an adjustment in rates unprecedented in both speed and scale.

Following the extreme conditions that prevailed during the first half of the current financial year, a sense of calm and cautious optimism very gradually emerged in the international financial markets after the middle of March, as the markets started to believe that the bold action of the policy makers was indeed taking effect, and that there was a firm commitment among the leaders of the G20 that "another Lehman" would not be permitted to occur. Banks started to believe in each other once again, and the flow of credit is gradually being restored. Both equity and debt markets have improved, and the more positive tone and sentiment have been sustained through the summer. However, the damage to the global economy has been severe and widespread, and will take longer to repair.

As anticipated, Malta's wide open economy has not been immune to the global recession, although the impact has been more gradual and relatively mild when compared with other developed economies. However, experience has taught us that Malta is often late in and late out of recessionary trends, and the expectation must be that the situation could continue to remain challenging in the short to medium term.

Review of Performance

The Bank of Valletta group has recorded a profit before taxation of €81.8 million for the year ended 30th September 2009. This compares with a pre-tax profit of €40.6 million for the equivalent period ended 30th September 2008, and the marked improvement in profitability has resulted from the gradual stabilisation of conditions in the global financial markets in the second half of the year, and the consequent write back of some of the unrealised fair value markdowns on BOV's Financial Markets portfolio previously recognised in the Bank's accounts for FY 2008 and the first six months of FY 2009. The results for the year are summarised below. The table should be read in conjunction with the explanatory notes that follow.

Bank of Valletta Summary Results Year to 30th September	note	2009 € million	2008 € million
Net Interest Margin	(a)	115.4	126.1
Net Commission and Trading Income	(b)	51.7	47.0
Operating Expenses	(c)	(77.1)	(77.8)
Net Impairment Charges	(d)	(4.0)	(3.1)
Net Operating Profit before Fair Value movements	(e)	86.0	92.2
Fair Value movements	(f)	5.7	(53.3)
OPERATING PROFIT		91.7	38.9
Share of results of jointly controlled and associated companies	(g)	(9.9)	1.7
Profit before tax		81.8	40.6

(a) Net interest margin

Net interest margin for the period has declined year on year by €10.7 million or 8.5%. The principal reason for this decline has been the sharp and sustained reduction in interest rates implemented by the ECB in its efforts to encourage liquidity and combat growing recessionary pressures. Between 1st October 2008 and 13th May 2009, the ECB lowered its reference rate seven times from 4.25% to 1.0 %. As explained in the half yearly report, this rapid rate of decline in interest rates has had an adverse impact on bank profits for three reasons:-

(i) whereas the application of any reduction in interest rates applying to loans and advances is immediate, the re-pricing of the rate of interest payable on deposits is more gradual, due to the time (fixed) nature of certain deposits. This re-pricing has gradually taken place during the second half of the year, and this, together with measures taken for the widening of certain select lending margins, have seen a modest recovery in overall spreads;

(ii) the balance sheet of all banks includes items on which no or lower rates of interest are incurred, (for example, shareholders equity and current accounts). In an environment where overall interest rates on loans and advances are reducing, the net margin or spread (i.e. the difference between interest earned and interest paid) on these lower cost items is necessarily compressed. The impact of this factor will only reverse when interest rates start to move upwards – not something that is expected to occur for some time due to the fragile state of the global economic recovery;

(iii) the low interest rate environment (exacerbated by the current shortage of credit/liquidity) inevitably results in competitive pressures for deposits and the further compression of margins. Competition for deposits is expected to remain keen.

<u>(b) Commission and Trading income</u>

Net commission and trading income for the year is 10% above that earned in the previous year. Income from foreign trade business has been strong, as have revenues from the cards business. The Capital Markets division has had an excellent year, managing or co-managing most of the bond issues brought to the market over the past 12 months. Commission income on investment products was soft in the first half of the year, as investors took risk-averse positions, but have shown encouraging signs of recovery in the second half. Both Valletta Fund Management (VFM) and Valletta Fund Services (VFS) have performed well in very difficult market conditions. VFM's funds under management have grown to record levels, albeit with a substantial proportion being represented by the La Vallette Malta Money Fund, on which minimal margins are earned. VFS' portfolio of international business has shown encouraging growth, justifying the separate focus that was the rationale behind the establishment of this new and dedicated business entity, which is playing an important role in Malta's development as an international financial services centre.

(c) Operating expenses

Management has implemented cost control measures, particularly in respect of discretionary expense items. As a result, overhead costs for the year have been maintained at fractionally below FY 2008 levels. This feat will be difficult to repeat in FY 2010 due to inbuilt increases in the Collective Agreement, and a heavier than usual IT spend, which will trigger an increased depreciation charge as well as higher maintenance costs on the new systems which are planned for implementation.

(d) Impairment charge

The impairment charge for the year at €4 million is a little under €1 million up on the charge for FY 2008. In the current economic environment, some deterioration in credit quality is to be expected.

(e) Net Operating Profit

The net operating profit from core corporate and retail banking operations for the year amounts to €86.0 million (2008: €92.2 million). The reduction in profits can be largely attributed to the compression in net interest margin for the reasons explained in (a) above, mitigated by an improvement in commission income. As noted, a gradual improvement in the net interest margin has been seen in the second half of the year as deposits re-price, and as the measures taken for the modest widening of certain select lending margins were implemented.

(f) Fair Value Movements

The significant reduction in the fair value movements charge has been as a result of the marked improvement witnessed in the credit markets since March 2009. Confidence and liquidity have gradually been restored, and these have resulted in narrower spreads and improved prices. As has been consistently stated since the onset of the financial crisis, BOV's FM+I portfolio is deployed across a wide spread of holdings of moderate duration debt securities issued by quality, credit rated, sovereign, supranational, corporate and financial institutions. The second half of FY 2009 has seen the beginning of the much anticipated and very welcome claw-back of part of the substantial fair value markdowns (totalling €84 million) reported in FY 2008 and the first half of FY 2009. It remains the Board's view that most, but not all, of these mark downs will be clawed back over time, as interest rate hedges that are in place gradually unwind and the credit instruments involved are held through to redemption. Further Fair Value gains for the period on investment holdings designated as "Available for Sale" amounted to €4.1 million before taxation (2008: €0.8 million), and are taken directly to reserves.

(g) Jointly controlled entities and associates

The share of losses of jointly controlled and associated entities relates to BOV's share of losses incurred by the Middlesea Group in the period under review. Whereas the operations of Middlesea Insurance and Middlesea Valletta have performed satisfactorily, the operations of Progress Assicurazioni - the Middlesea subsidiary in Italy - have been most unsatisfactory, with substantial losses being reported. The position concerning the Middlesea Group is discussed further below.

Review of Balance Sheet position

BOV has continued to manage its balance sheet in the deliberately prudent and conservative manner that has served the Bank well through the recent financial crisis. Liquidity has remained strong at 45%, and the Tier I capital ratio of 11.2% is well above European and US banking sector norms, as is our total capital ratio of 14.0%. This latter ratio was reinforced during the year with the successful €50 million 5.35% subordinated bond issue completed in June 2009. This issue added a further 150 basis points to our already very strong Capital Ratio base. The Loan to Deposit ratio remains modest at 69%, and the Bank continues to be in the position whereby the loan book is wholly funded by retail liabilities, with no dependence for this purpose on the short term inter-bank or commercial paper market. Total assets at the end of September 2009 stood at €6.2 billion, much in line with the September 2008 level, while shareholders' equity amounted to €434 million, as compared with €393 million of a year earlier.

Credit

In our FY 2008 Annual Report, BOV pledged that we would support the Maltese economy and the business community in a responsible manner through the current economic downturn. This we have done, ensuring that credit has been available to both the corporate and personal sectors. Advances stood at €3.3

billion at the year end, an increase of €207 million, or 6.8%, since 30th September 2008. Credit quality has remained good, with Non Performing Loans standing at 3.9% of gross advances (September 2008: 4.0%).

Growth has come from carefully selective increases to the business sector, and a continuing demand for home loans in the first time buyer segment. During the year to 30th September 2009, the Bank approved €261 million of new home loans (of which €217 million were drawn down), whilst credit actually utilised by the business sector over the year increased by €210 million (or 10.7%), net of two large identified facilities that were repaid in full during the early part of the year. As noted above, BOV's Capital Markets team have also been very active, establishing the Bank as the clear market leader in this sector, with the Bank acting as Manager during the year for 8 bond and equity issues, which between them raised a total of close to €220 million.

Conditions in the Maltese economy remain uncertain, and it is to be expected that some deterioration in credit quality will be experienced - particularly should, as is anticipated, the current economic downturn continue into FY 2010. However, through to the end of FY 2009 any deterioration experienced has been limited and contained.

Customer Deposits

Customer Deposits have continued to grow in a satisfactory manner, with an increase of €141 million over the year, to stand at €4.8 billion as at 30th September 2009. Notwithstanding acute competition for deposits and a high level of bond issuance activity, FY 2009 has, once again, seen a further consolidation of BOV's position as the market leader in the domestic euro-deposit retail and corporate sectors. The Bank has recognised that it has to manage both sides of its balance sheet, and has accordingly maintained deposit rates at competitive levels, introducing "special product" campaigns at regular intervals over the course of the year. These campaigns have seen strong take up from our existing retail customer base, and have also served to attract “new money”. In the non euro sector, Malta’s ongoing development as an international financial centre is witnessing material money flows, but these tend to be more short term in nature, with significant periodic fluctuations taking place.

The Board took a policy decision not to pass on the ECB rate cuts totalling 0.75% announced in March and April 2009 to either loans or deposits. As announced at the time, the reasons for this decision were that (i) it was felt necessary to maintain deposit rates paid to our customers in order to remain competitive, and, (ii) the Board was entirely satisfied that the Bank’s lending rates were already competitive, and compared well with lending rates prevailing elsewhere in Europe.

Dividend and Bonus issue

The Board of Directors is recommending a final gross dividend to our shareholders of €0.215 per share, which taken together with the gross interim dividend of €0.035 per share paid on 28th May of this year makes for a total gross dividend of €0.25 per share for FY 2009 (FY 2008: €0.16875 per share (as adjusted for bonus issue), and would represent a gross yield of 7.58% by reference to the closing share price of €3.30 per share as on 30th September 2009. The total dividend will be 1.9 times covered by the post tax profits for the year.

The Board is also recommending, effective 15th January 2010, a bonus issue of 1 share for every 4 shares held. The bonus issue will be funded by a capitalisation of reserves amounting to €40 million. This bonus issue will serve to further increase the permanent capital base of the Bank (from €160 million to €200 million), and will also serve to enhance the affordability and liquidity of the Bank’s shares.

The Middlesea Group

The clear disappointment in the results for FY 2009, is the negative share of results of jointly controlled and associated companies for the year amounting to a loss of €9.9 million (FY 2008: profit of €1.7 million). BOV holds 23.7% of Middlesea Insurance (MSI) and 50% of Middlesea Valletta (MSV), with the remaining 50% being held by MSI. Progress Assicurazioni (Progress) is a quasi wholly owned subsidiary of the Middlesea Group. Whereas the results of MSI and MSV have been satisfactory in what were extremely difficult market conditions, the results of Progress were wholly unsatisfactory, with significant losses being reported for the year ended 31st December 2008, and the six months to June 2009. The causes behind the deterioration in Progress' results have been articulated in the various statements issued by the Middlesea Group – as have the remedial steps that are being taken to address these matters. However, the "tail" nature of the insurance business is such that the impact of remedial measures is not expected to be immediate. The losses incurred by Progress have inflicted significant damage on the Middlesea Group balance sheet, and it is clear that a re-capitalisation of the Group is required. As was indicated in the Middlesea Company Announcement issued on 25th August 2009, discussions are ongoing with the major shareholders and the regulators in connection with measures to be taken to strengthen the Middlesea Group balance sheet through the raising of additional capital.

Looking Ahead

Whereas a degree of stability has been restored to the global financial system since March of this year, there can be little doubt but that the financial crisis has caused significant and lasting damage to the global economy. Credit remains tight, unemployment high and consumer confidence low in many large economies. Government finances everywhere are under pressure, with demands for stimulus support coming against a backdrop of a contraction in tax revenues. Repairing this damage is going to be long and sometimes painful – and the global economic recovery is likely to be a fragile and gradual process, with set-backs occurring from time to time. Looking forward, it is very much hoped that the higher level of confidence in the financial markets will be sustained. The international economic environment continues to be very challenging. The extent of the impact of the global recession on the Maltese economy remains an important issue, but it is expected that some degree of deterioration in credit quality will be experienced as the current economic downturn continues into FY 2010.

Bank of Valletta's deliberately prudent funding, asset quality, liquidity and capital ratio policies have stood it well through the financial crisis that witnessed some of the most brutal conditions experienced in the history of modern banking. Throughout this period BOV has continued to provide credit and liquidity to the Maltese economy, and to our customers in the retail and business communities. We will stay with these policies as we move into FY 2010. We will continue to manage our balance sheet in a prudent and conservative manner, maintaining high liquidity and strong capital ratios; we will also continue to actively manage both sides of our balance sheet, seeking to meet the reasonable demands and expectations of our depositors and borrowers alike, whilst at the same time being acutely aware of our responsibilities to our other stakeholders – shareholders, employees and the wider community.

Conclusion

The Board of Directors would like to express our sincere thanks to our many customers for the business they bring to the Bank, and, particularly, for the great confidence and trust that they have demonstrated in Bank of Valletta throughout, and especially during the recent period of stress in the global financial markets. In turn, our commitment to support our many customers and the economy as a whole through the current downturn remains firm and resolute, and it is clear that this has been acknowledged and appreciated. The overwhelming demand for BOV's recent bond issue was a manifestation of the strong support that the Bank enjoys in the local community.

Sincere thanks are also extended to Tonio Depasquale, the Chief Executive, his senior management team and all of the Bank's staff for their hard work and unflinching commitment over a period of extreme pressure and stress in the financial services sector. Particular thanks are extended to the FM+I team of executives, ably assisted by their colleagues in Risk Management and in Finance, who were in the front line of the crisis in the international markets. Their professionalism, judgement and skills were instrumental in enabling the Bank to navigate its way over the past 18 months through some of the toughest conditions experienced in the banking markets for many generations. Finally, Victor Cardona retired from the Bank at the beginning of October, after 37 years of distinguished service – 22 of them as our highly esteemed Company Secretary. We wish him every success and happiness in his well deserved retirement.

As expected, market conditions and developments, as well as the international economic environment, have meant that we have maintained a regular and open dialogue with the regulatory authorities at the MFSA and the Central Bank, as well as with the Ministry of Finance. They have been helpful and constructive throughout, and we are grateful to them for their support, wise counsel and advice.

By Order of the Board
30th October 2009

Notice is hereby given that Tuesday 10th November 2009 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 Tuesday 10th November 2009 will:

i) receive notice of and be entitled to attend and vote at the Bank's Annual General Meeting scheduled for Wednesday 16th December 2009, and
ii) be paid, on the Thursday 17th December 2009, 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 Tuesday 10th November 2009 will include trades undertaken up to and including Thursday 5th November 2009.