Bank of Valletta
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BOV/259

COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by Bank of Valletta p.l.c. pursuant to the Malta Financial Services Authority Listing Rules:

Quote

The Board of Directors of Bank of Valletta p.l.c. (the Bank) has today, the 31 October 2014, approved the audited financial statements for the financial year ended 30 September 2014. 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, 17 December 2014. 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 €0.0925 per share making for a final net dividend of €0.0601 per share which, if approved by the Annual General Meeting, would make for a total gross dividend for the year of €0.135 per share (total net dividend per share €0.0878).

2. A bonus share issue of one (1) share for every eleven (11) shares held which will be allotted to shareholders on the Bank's share register as at close of business on Friday, 16 January 2015[1]. The bonus issue will be funded by a capitalisation of reserves amounting to €30 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 Monday, 17 November 2014[2], will receive notice of the Annual General Meeting together with the Financial Statements for the financial year ended 30 September 2014.

The final dividend, if approved at the Annual General Meeting, will be paid on the 18 December 2014 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, 17 November 2014.

Unquote

Catherine Formosa

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

31 October 2014

[1] Friday, 16 January 2015 will include trades undertaken up to and including Wednesday, 14 January 2015.
[2] Monday, 17 November 2014 will include trades undertaken up to and including Thursday, 13 November 2014.

Statements of profit or loss for the year ended 30 September 2014

Basis of preparation:

These figures have been extracted from the Bank of Valletta Group's audited financial statements for the year ended 30 September 2014, as approved by the Directors on 31 October 2014, and are being published in terms of MFSA Listing Rule 5.54.

	The Group		The Bank	
	2014	**2013**	**2014**	**2013**
	€000	**€000**	**€000**	**€000**
Interest receivable and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	153,430	161,709	153,430	161,709
- on debt and other fixed income instruments	59,466	60,728	59,466	60,728
Interest payable	(86,893)	(91,423)	(86,893)	(91,423)
Net interest income	126,003	131,014	126,003	131,014
Fee and commission income	64,112	59,435	56,834	52,519
Fee and commission expense	(8,150)	(7,322)	(8,150)	(7,322)
Net fee and commission income	55,962	52,113	48,684	45,197
Dividend income	1,372	873	8,496	7,914
Trading profits	25,654	31,149	25,621	31,107
Net gain on investment securities and hedging instruments	814	2,978	814	2,978
Operating income	**209,805**	**218,127**	**209,618**	**218,210**
Employee compensation and benefits	(57,537)	(54,373)	(55,891)	(52,798)
General administrative expenses	(28,644)	(28,725)	(27,322)	(27,529)
Amortisation of intangible assets	(2,202)	(1,642)	(2,202)	(1,642)
Depreciation	(5,116)	(4,398)	(5,013)	(4,296)
Net impairment losses	(19,431)	(25,595)	(19,408)	(25,595)
Operating profit	**96,875**	**103,394**	**99,782**	**106,350**
Share of results of associates, net of tax	7,227	12,384	-	-
Profit before tax	**104,102**	**115,778**	**99,782**	**106,350**
Income tax expense	(34,718)	(36,305)	(35,336)	(35,861)
Profit for the year	**69,384**	**79,473**	**64,446**	**70,489**
Attributable to:				
Equity holders of the Bank	68,945	79,055	64,446	70,489
Non-controlling interest	439	418	-	-
	69,384	79,473	64,446	70,489
Earnings per share	20c9	24c0	19c5	21c4

Statements of profit or loss and other comprehensive income for the year ended 30 September 2014

	The Group		The Bank	
	2014	**2013**	**2014**	**2013**
	€000	**€000**	**€000**	**€000**
Profit for the year	69,384	79,473	64,446	70,489
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments:				
- change in fair value	6,613	9,210	6,613	9,210
- deferred tax thereon	(2,314)	(3,223)	(2,314)	(3,223)
- change in fair value transferred to profit or loss	(763)	(1,290)	(763)	(1,290)
- deferred tax thereon	267	452	267	452
Items that will not be reclassified to profit or loss:				
Property:				
- revaluation	809	6,703	809	6,703
- deferred tax thereon	(97)	(804)	(97)	(804)
Actuarial losses on defined benefit plans	(3,028)	-	(3,028)	-
- deferred tax thereon	1,059	-	1,059	-
Other comprehensive profit for the period, net of tax	2,546	11,048	2,546	11,048
Total comprehensive income	71,930	90,521	66,992	81,537
Attributable to:				
Equity holders of the Bank	71,491	90,103		
Non-controlling interest	439	418		
	71,930	90,521		

Statements of financial position as at 30 September 2014

	The Group		The Bank	
	2014	2013	2014	2013
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	130,966	194,587	130,966	194,587
Financial assets at fair value through profit or loss	527,774	581,531	523,480	578,691
Investments	2,422,237	1,665,820	2,422,237	1,665,820
Loans and advances to banks	1,045,988	860,957	1,045,988	860,957
Loans and advances to customers at amortised cost	3,861,532	3,667,739	3,861,532	3,667,739
Investments in associates	88,553	84,880	52,870	52,870
Investments in subsidiary companies	-	-	1,230	1,393
Intangible assets	11,642	11,495	11,642	11,495
Property, plant and equipment	88,117	80,123	87,888	79,872
Deferred tax	78,550	70,205	78,550	70,205
Assets held for realisation	9,755	10,607	9,755	10,607
Other assets	7,659	4,799	7,659	3,868
Prepayments and accrued income	24,018	25,215	22,469	25,215
Total Assets	**8,296,791**	**7,257,958**	**8,256,266**	**7,223,319**
LIABILITIES				
Financial liabilities at fair value through profit or loss	44,903	30,819	44,903	30,819
Amounts owed to banks	86,579	36,040	86,579	36,040
Amounts owed to customers	7,119,530	6,219,666	7,120,674	6,220,954
Debt securities in issue	95,400	95,400	95,400	95,400
Current tax	16,090	4,697	15,934	5,065
Deferred tax	5,100	5,003	5,100	5,003
Other liabilities	130,168	108,864	130,068	108,765
Accruals and deferred income	27,643	29,235	27,174	28,962
Financial liabilities designated for hedge accounting	36,909	31,229	36,909	31,229
Subordinated liabilities	120,000	120,000	120,000	120,000
Total Liabilities	**7,682,322**	**6,680,953**	**7,682,741**	**6,682,237**
EQUITY				
Attributable to equity holders of the Bank				
Called up share capital	330,000	300,000	330,000	300,000
Share premium account	988	988	988	988
Revaluation reserves	29,136	24,621	29,024	24,509
Retained earnings	253,245	250,735	213,513	215,585
	613,369	576,344	573,525	541,082
Non-controlling interest	1,100	661	-	-
Total Equity	**614,469**	**577,005**	**573,525**	**541,082**
Total Liabilities and Equity	**8,296,791**	**7,257,958**	**8,256,266**	**7,223,319**
MEMORANDUM ITEMS				
Contingent liabilities	233,451	213,598	233,451	213,598
Commitments	1,647,091	1,190,714	1,647,091	1,190,714

The revised Banking Rule 09 requires banks in Malta to hold additional reserves for general banking risks against non-performing loans. This reserve is required to be funded from planned dividend. As at the reporting date, under the three year transitionary rules, this reserve amounts to €3.081 million.

Statements of changes in equity for the year ended 30 September 2014

	Attributable to Equity holders of the Bank						
	Share Capital	**Share Premium Account**	**Revaluation Reserves**	**Retained Earnings**	**Total**	**Non-Controlling Interest**	**Total Equity**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
The Group							
At 30 September 2012	**270,000**	**988**	**13,573**	**236,196**	**520,757**	**243**	**521,000**
Profit for the year	-	-	-	79,055	**79,055**	418	**79,473**
Other comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	5,987	-	**5,987**	-	**5,987**
- change in fair value transferred to profit or loss, net of tax	-	-	(838)	-	**(838)**	-	**(838)**
Property revaluation:							
- property revaluation, net of tax	-	-	5,899	-	**5,899**	-	**5,899**
Total other comprehensive profit	-	-	11,048	-	**11,048**	-	**11,048**
Total comprehensive income for the year	-	-	11,048	79,055	**90,103**	418	**90,521**
Transactions with owners, recorded directly in equity:							
Bonus issue	30,000	-	-	(30,000)	-	-	-
Dividends - final 2012	-	-	-	(22,816)	**(22,816)**	-	**(22,816)**
- interim 2013	-	-	-	(11,700)	**(11,700)**	-	**(11,700)**
	30,000	-	-	(64,516)	**(34,516)**	-	**(34,516)**
At 30 September 2013	**300,000**	**988**	**24,621**	**250,735**	**576,344**	**661**	**577,005**
Profit for the year	-	-	-	68,945	**68,945**	439	**69,384**
Other comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	4,299	-	4,299	-	**4,299**
- change in fair value transferred to profit or loss,	-	-	(496)	-	**(496)**	-	**(496)**
Property revaluation:							
- property revaluation, net of tax	-	-	712	-	**712**	-	**712**
Actuarial losses on defined benefit plans, net of tax	-	-	-	(1,969)	**(1,969)**	-	**(1,969)**
Total other comprehensive profit / (loss)	-	-	4,515	(1,969)	**2,546**	-	**2,546**
Total comprehensive income for the year	-	-	4,515	66,976	**71,491**	439	**71,930**
Transactions with owners, recorded directly in equity:							
Bonus issue	30,000	-	-	(30,000)	**-**	-	**-**
Dividends - final 2013	-	-	-	(25,350)	**(25,350)**	-	**(25,350)**
- interim 2014	-	-	-	(9,116)	**(9,116)**	-	**(9,116)**
	30,000	-	-	(64,466)	**(34,466)**	-	**(34,466)**
At 30 September 2014	**330,000**	**988**	**29,136**	**253,245**	**613,369**	**1,100**	**614,469**

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
The Bank					
At 30 September 2012	**270,000**	**988**	**13,461**	**209,612**	**494,061**
Profit for the year	-	-	-	70,489	**70,489**
Other comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	5,987	-	**5,987**
- change in fair value transferred to profit or loss, net of tax	-	-	(838)	-	**(838)**
Property revaluation:					
- property revaluation, net of tax	-	-	5,899	-	**5,899**
Total other comprehensive profit	-	-	11,048	-	**11,048**
Total comprehensive income for the year	**-**	**-**	**11,048**	**70,489**	**81,537**
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	**-**
Dividends - final 2012	-	-	-	(22,816)	**(22,816)**
- interim 2013	-	-	-	(11,700)	**(11,700)**
	30,000	-	-	(64,516)	**(34,516)**
At 30 September 2013	**300,000**	**988**	**24,509**	**215,585**	**541,082**
Profit for the year	-	-	-	64,446	**64,446**
Other comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	4,299	-	**4,299**
- change in fair value transferred to profit or loss, net of tax	-	-	(496)	-	**(496)**
Property:					
- revaluation, net of tax	-	-	712	-	**712**
Actuarial losses on defined benefit plans, net of tax	-	-	-	(1,969)	**(1,969)**
Total other comprehensive profit / (loss)	-	-	4,515	(1,969)	**2,546**
Total comprehensive income for the year	**-**	**-**	**4,515**	**62,477**	**66,992**
Transactions with owners, recorded directly in equity:					
Accumulated losses acquired on merger of subsidiary	-	-	-	(83)	**(83)**
Bonus issue	30,000	-	-	(30,000)	**-**
Dividends - final 2013	-	-	-	(25,350)	**(25,350)**
- interim 2014	-	-	-	(9,116)	**(9,116)**
	30,000	-	-	(64,549)	**(34,549)**
At 30 September 2014	**330,000**	**988**	**29,024**	**213,513**	**573,525**

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

Statements of cash flows for the year ended 30 September 2014

	The Group		The Bank	
	2014	2013	2014	2013
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	260,915	264,199	253,631	257,299
Interest, commission and compensation payments	(94,418)	(102,977)	(94,614)	(102,762)
Payments to employees and suppliers	(87,908)	(76,517)	(83,392)	(73,746)
Operating profit before changes in operating assets and liabilities	78,589	84,705	75,625	80,791
Decrease/(increase) in operating assets:				
Loans and advances	(245,922)	31,064	(245,899)	31,064
Reserve deposit with Central Bank of Malta	(8,108)	(3,505)	(8,108)	(3,505)
Fair value through profit or loss financial assets	52,835	166,084	52,835	166,084
Fair value through profit or loss equity instruments	(616)	(5,323)	838	(7,044)
Treasury bills with original maturity of more than 3 months	33,977	(9,985)	33,977	(9,985)
Other assets	(2,008)	4,035	(2,939)	5,821
Increase in operating liabilities:				
Amounts owed to customers and banks	861,532	306,997	861,388	306,981
Other liabilities	29,266	(10,122)	29,321	(10,041)
Net cash from operating activities before tax	799,545	563,950	797,038	560,166
Tax paid	(32,658)	(54,430)	(33,800)	(53,165)
Net cash from operating activities	766,887	509,520	763,238	507,001
Cash flows from investing activities				
Dividends received	4,926	5,433	8,496	7,914
Interest received from held-to-maturity debt and other fixed income instruments	45,394	37,484	45,394	37,484
Purchase of equity instruments	(200)	-	(200)	-
Purchase of debt instruments	(1,167,952)	(678,365)	(1,167,952)	(678,365)
Proceeds from sale or maturity of debt instruments	475,452	299,081	475,452	299,081
Purchase of property, plant and equipment	(14,649)	(10,414)	(14,570)	(10,376)
Proceeds on disposal of property, plant and equipment	8	-	8	-
Net cash used in investing activities	(657,021)	(346,781)	(653,372)	(344,262)
Cash flows from financing activities				
Dividends paid to bank's equity holders	(34,466)	(34,516)	(34,466)	(34,516)
Net cash used in financing activities	(34,466)	(34,516)	(34,466)	(34,516)
Net change in cash and cash equivalents	75,400	128,223	75,400	128,223
Net change in cash and cash equivalents	75,400	128,223	75,400	128,223
Cash and cash equivalents at 1 October	937,103	808,880	937,103	808,880
Cash and cash equivalents at 30 September	**1,012,503**	**937,103**	**1,012,503**	**937,103**

Review of Performance

Bank of Valletta Group reported profit before tax of €104.1 million for the financial year ended 30 September 2014. This represents a decrease of €12 million when compared to the €115.8 million pre-tax profit for financial year 2013. This result was achieved in the context of a turbulent international environment characterized by a stagnant euro area economy and by rising geo-political risk in North Africa and Eastern Europe, significant regulatory changes as well as a historically low yield environment. As a result of restrained market sentiment the BOV Group did not benefit from the higher favourable market movements experienced during the previous year.

Core Operating Profit of €87.9 million, which excludes fair value movements and profits from associated companies, is up by 2% from last year. The drop in interest income, attributed to the persisting low yields and high levels of liquidity, was mitigated by a satisfactory growth in commission and trading income. The higher impairment charge last year resulted from an exercise which applied a more conservative view of the value of collateral held on non-performing exposures.

Return on equity of 17.5% (FY 2013: 21.1%) and Cost/Income Ratio of 43.1%, (FY 2013: 38.7%) compare favourably with international banks.

BOV Group's results for the financial year are summarised in the table below.

	Sep-14 € million	**Sep-13 € million**	***Change € million***	**%**
Net interest income	126.0	131.0	*(5.0)*	-4%
Net commission and trading income	74.8	69.7	*5.1*	7%
Operating expense	(93.5)	(89.1)	*(4.4)*	-5%
Impairment charge	(19.4)	(25.6)	*6.2*	24%
Core Profit	**87.9**	**86.0**	***1.9***	**2%**
Fair value movement	9.0	17.4	(8.4)	-48%
Share of profit from associates	7.2	12.4	*(5.2)*	-42%
Profit before tax	**104.1**	**115.8**	***(11.7)***	**-10%**

Net interest margin for the year of €126.0 million represents a decrease of 4% from last year. Lower returns were experienced on both the Retail and the Treasury segments despite the growth in volumes in both areas. The retail margin was particularly impacted as only around one fourth of incoming deposits was deployed in lending. The negative interest rates introduced by the European Central Bank (ECB) in June 2014 compounded the pressure on the Group's treasury operations.

Net commission and trading income of €74.8 million, an increase of 7% over the €69.7 million last year, contributing 37% towards operating income, up from 35% for FY 2013. Strong performance continued to be experienced in all major business lines, except for trade related income on business connected with North Africa. Fee income on investment services, bancassurance and credit card business show satisfactory growth. Foreign exchange earnings are also up, year on year, driven by an increase in the volume of transactions.

Operating costs for the year amounted to €93.5 million, an increase of 5%, or €4.4 million, over the previous year. The introduction of a new regulatory reporting regime and participation in the Asset Quality Review pushed up regulatory costs substantially. These were also impacted by an increase in the Bank's contribution towards the Deposit Guarantee Scheme resulting from the growth in customer deposits and higher contribution rates. Increases in human resource expense and IT costs were partly offset by the curtailment of the discretionary spend.

In the coming years, substantial investment in IT systems and infrastructure is expected to be made to ensure that BOV's technology platforms are able to meet the ever-increasing needs of its customers and regulatory requirements.

The Asset Quality Review and the stress tests carried out by the ECB earlier this year emphasised the need for banks to adopt a more conservative approach towards provisioning, an approach which BOV has consistently applied over these past years. Last year, in line with the recommendations made by both local and European regulators, the Bank increased its provisions on individually assessed exposures, and the impairment charge for FY 2013 was mostly specific in nature. The charge of €19.4 million for this year reflects a higher collective charge, as the more conservative view of collateral held was extended to performing exposures assessed on a collective basis. During FY 2014, the cautious view of provisions required on non performing exposures was retained.

Financial markets were generally calm during FY 2014, and price movements on financial instruments were more subdued that those experienced in the previous year. This influenced the overall performance for FY 2014 as the €9.0 million fair value gains this year are practically half the amount reported last year. Market movements also had an impact on the results of associates, resulting in a share of profit for FY 2014 of €7.2 million, which is 42% less than the €12.4 million recognised last year.

Review of Financial Position

Total assets as at 30 September 2014 stood at €8.3 billion (September 2013: €7.3 billion), while equity attributable to the shareholders of the Bank increased by a further 6% to €613.4 million.

BOV continued to strengthen its common equity Tier 1 ratio to 11.7% on a CRD IV basis and its total capital ratio which stood at 14.5%. At 30 September 2014, the Group's liquidity position remains strong with a net advances to deposit ratio of 55% and a liquidity ratio of 48.5%.

Gross loans and advances to customers, at €4.1 billion, are up by €214 million over September 2013, an increase of 5%. Demand for credit rose across all segments, with the highest increase being recorded in the mortgage book.

Customer deposits at the year-end stood at €7.1 billion, an increase of €900 million, or 14% over September 2013. This growth is mostly in short term deposits and came from both retail customers as well as from the corporate and institutional segments.

Excess funds were channeled into good quality short dated investments and liquid assets, in line with the Bank's conservative Treasury Management Policy.

Dividend and Bonus Issue

The Board is of the view that it should continue with a distribution policy that balances dividend expectations with the need to continue building up the Bank's capital base through ploughback of earnings. The Reserve for General Banking Risk, a requirement of the revised Banking Rule 09 issued in December 2013, is to be funded from the year's distributable profit. Accordingly, the Board of Directors is recommending a final gross dividend of €0.0925 per share which, taken together with the gross interim dividend of €0.0425 per share paid in May 2014, makes a total gross dividend of €0.135 per share. The total dividend for the year represents a gross yield of 6.05% by reference to the closing share price of €2.23 per share at 30 September 2014 and a net dividend cover of 2.4 times.

Similar to previous years, the Board is also recommending a bonus issue of 1 share for every 11 shares held on 16 January 2015 by capitalisation of reserves amounting to €30 million increasing the permanent capital from €330 million to €360 million.

The Impact of European Banking Regulation

Bank of Valletta will be one of the 130 European Banks to come under the direct supervision of the (ECB) in November 2014, in terms of the Single Supervisory Mechanism (SSM). The Bank has been categorised as a “significant credit institution” in view of its size when related to Malta’s GDP.

Before assuming its supervisory role, the ECB conducted a comprehensive assessment of the balance sheets of these banks. The assessment comprised an Asset Quality Review and a stress test. The results of this assessment were published on 26 October 2014, with BOV achieving satisfactory results.

The Comprehensive Assessment re-affirms that the Bank’s capital base exceeds the regulatory capital requirement even in an adverse scenario. The initial CET1 ratio of 11.2% at December 2013 fell to 10.7% as a result of the Asset Quality Review. In the stress test, the CET1 ratio rose to 11.93%, being the lowest ratio over a three year period under the baseline scenario, compared to the threshold of 8% set by the ECB. Under the adverse scenario, the CET1 ratio decreased to 8.92% compared to the required threshold ratio of 5.5%.

The SSM will undoubtedly prove challenging, but the Bank also considers it as a good opportunity to continue strengthening the excellent reputation which both BOV and the Maltese financial sector enjoy internationally.

Looking Ahead

The recovery across the EU has improved and domestic consumption and investment are expected to expand further, but global conditions remain vulnerable. The consequences of the crisis are expected to continue to hold back growth and job creation. Most central banks are unlikely to raise rates until economic indicators, especially employment, improve. This means that benchmark rates are expected to remain low during the coming financial year, especially as inflationary pressures remain subdued. Sustained recovery requires continued determined policies and structural reforms in both vulnerable and core member states.

The Maltese economy has remained resilient throughout these challenging years and continued to register economic growth driven mainly by the export-oriented sectors such as tourism and services. The European Commission considers Malta’s growth outlook to be robust and is projecting that domestic demand will be the main driver for economic growth. The GDP growth achieved to date is also expected to be attained in the coming year.

Bank of Valletta’s support of the local economy is acknowledged by a growing customer base. Long term sustainability remains our primary strategic objective. The conservative business model and prudent policies applied across the Group provide a sound base to meet the challenges that may be posed by the Single Supervisory Mechanism. Strong liquidity and robust capital ratios are necessary for BOV to remain resilient. BOV is also aware of its obligations towards all its stakeholders – shareholders, employees, depositors and the wider community – and remains committed to meet their various expectations in a responsible manner.

By Order of the Board

31 October 2014

Notice is hereby given that Monday 17 November 2014 is the "record 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 17 November 2014 will:

i) receive notice of and be entitled to attend and vote at the Bank's Annual General Meeting scheduled for Wednesday 17 December 2014, and
ii) be paid, on Thursday 18 December 2014, the final dividend as approved at 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 17 November 2014 will include trades undertaken up to and including Thursday 13 November 2014.