



Bank of Valletta

Bank of Valletta p.l.c.
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BOV/276

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 30 October 2015, approved the audited financial statements for the financial year ended 30 September 2015. 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 Thursday, 17 December 2015. 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 €0.085 per share making for a final net dividend of €0.05525 per share which, if approved by the Annual General Meeting, would make for a total gross dividend for the year of €0.124 per share (total net dividend per share €0.0806).
2. A bonus share issue of one (1) share for every twelve (12) shares held which will be allotted to shareholders on the Bank's share register as at close of business on Friday, 15 January 2016¹. 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 Tuesday, 17 November 2015², will receive notice of the Annual General Meeting together with the Financial Statements for the financial year ended 30 September 2015.

The final dividend, if approved at the Annual General Meeting, will be paid on the 18 December 2015 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, 17 November 2015.

Unquote

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

30 October 2015

- ¹ Friday, 15 January 2016 will include trades undertaken up to and including Wednesday, 13 January 2016.
- ² Tuesday, 17 November 2015 will include trades undertaken up to and including Friday, 13 November 2015.

Statements of profit or loss for the year ended 30 September 2015**Basis of preparation:**

These figures have been extracted from the Bank of Valletta Group's audited financial statements for the year ended 30 September 2015, as approved by the Directors on 30 October 2015, and are being published in terms of MFSA Listing Rule 5.54.

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
Interest income and similar income				
- on loans and advances, balances with Central Bank of Malta and treasury bills	157,068	153,430	157,068	153,430
- on debt and other fixed income instruments	57,432	59,466	57,432	59,466
Interest expense	(69,722)	(86,893)	(69,722)	(86,893)
Net interest income	144,778	126,003	144,778	126,003
Fee and commission income	70,922	64,112	62,919	56,834
Fee and commission expense	(8,346)	(8,150)	(8,346)	(8,150)
Net fee and commission income	62,576	55,962	54,573	48,684
Dividend income	2,352	1,372	12,151	8,496
Trading profits	34,067	25,654	34,068	25,621
Net gain on investment securities and hedging instruments	3,098	814	3,098	814
Operating income	246,871	209,805	248,668	209,618
Employee compensation and benefits	(61,700)	(57,537)	(59,994)	(55,891)
General administrative expenses	(38,651)	(28,644)	(37,347)	(27,322)
Amortisation of intangible assets	(2,574)	(2,202)	(2,574)	(2,202)
Depreciation	(5,107)	(5,116)	(5,022)	(5,013)
Net impairment losses	(32,710)	(19,431)	(32,666)	(19,408)
Operating profit	106,129	96,875	111,065	99,782
Share of results of equity-accounted investees, net of tax	11,786	7,227	-	-
Profit before tax	117,915	104,102	111,065	99,782
Income tax expense	(37,971)	(34,718)	(38,715)	(35,336)
Profit for the year	79,944	69,384	72,350	64,446
Attributable to:				
Equity holders of the Bank	79,378	68,945	72,350	64,446
Non-controlling interest	566	439	-	-
	79,944	69,384	72,350	64,446
Earnings per share	22c0	19c2	20c1	17c9

Statements of profit or loss and other comprehensive income for the year ended 30 September 2015

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
Profit for the year	79,944	69,384	72,350	64,446
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments				
- change in fair value	9,968	6,613	9,968	6,613
- deferred tax thereon	(3,488)	(2,314)	(3,488)	(2,314)
- change in fair value transferred to profit or loss	(3,747)	(763)	(3,747)	(763)
- deferred tax thereon	1,311	267	1,311	267
Items that will not be reclassified to profit or loss:				
Property revaluation	1,319	809	1,319	809
- deferred tax thereon and effect of changes in property tax rates	718	(97)	718	(97)
Remeasurement of actuarial losses on defined benefit plans	(1,451)	(3,028)	(1,451)	(3,028)
- deferred tax thereon	508	1,059	508	1,059
Other comprehensive income for the year, net of tax	5,138	2,546	5,138	2,546
Total comprehensive income	85,082	71,930	77,488	66,992
Attributable to:				
Equity holders of the Bank	84,516	71,491		
Non-controlling interest	566	439		
	85,082	71,930		

Statements of financial position as at 30 September 2015

	The Group		The Bank	
	2015 €000	2014 €000	2015 €000	2014 €000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	126,652	130,966	126,652	130,966
Financial assets at fair value through profit or loss	417,522	527,774	415,558	523,480
Investments	3,376,305	2,422,237	3,376,305	2,422,237
Loans and advances to banks	1,656,346	1,045,988	1,656,346	1,045,988
Loans and advances to customers at amortised cost	4,001,839	3,861,532	4,001,839	3,861,532
Investments in equity-accounted investees	96,904	88,553	52,870	52,870
Investments in subsidiary companies	-	-	1,230	1,230
Intangible assets	12,722	11,642	12,722	11,642
Property and equipment	89,801	88,117	89,651	87,888
Current tax	965	-	-	-
Deferred tax	86,654	78,550	86,654	78,550
Assets held for realisation	11,601	9,755	11,601	9,755
Other assets	2,990	7,659	2,990	7,659
Prepayments and accrued income	21,661	24,018	22,094	22,469
Total Assets	9,901,962	8,296,791	9,856,512	8,256,266
LIABILITIES				
Financial liabilities at fair value through profit or loss	25,077	44,903	25,077	44,903
Amounts owed to banks	197,760	86,579	197,760	86,579
Amounts owed to customers	8,559,731	7,119,530	8,563,107	7,120,674
Debt securities in issue	95,400	95,400	95,400	95,400
Current tax	-	16,090	71	15,934
Deferred tax	4,382	5,100	4,382	5,100
Other liabilities	172,905	130,169	172,743	130,068
Accruals and deferred income	21,317	27,643	20,725	27,174
Derivatives designated for hedge accounting	35,201	36,909	35,201	36,909
Subordinated liabilities	120,000	120,000	120,000	120,000
Total Liabilities	9,231,773	7,682,323	9,234,466	7,682,741
EQUITY				
Called up share capital	360,000	330,000	360,000	330,000
Share premium account	988	988	988	988
Revaluation reserves	35,217	29,136	35,105	29,024
Retained earnings	272,713	253,244	225,953	213,513
Total Equity attributable to equity holders of the Bank	668,918	613,368	622,046	573,525
Non-controlling interest	1,271	1,100	-	-
Total Equity	670,189	614,468	622,046	573,525
Total Liabilities and Equity	9,901,962	8,296,791	9,856,512	8,256,266
MEMORANDUM ITEMS				
Contingent liabilities	251,670	233,451	251,670	233,451
Commitments	1,612,122	1,647,091	1,612,122	1,647,091

Statements of changes in equity for the year ended 30 September 2015

	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 01 October 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, net of tax	-	-	(496)	-	(496)	-	(496)
Property revaluation							
- property revaluation, net of tax	-	-	712	-	712	-	712
Remeasurement of 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 to equity holders	-	-	-	(34,466)	(34,466)	-	(34,466)
	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
Profit for the year	-	-	-	79,378	79,378	566	79,944
Other comprehensive income							
Available-for-sale investments							
- change in fair value, net of tax	-	-	6,480	-	6,480	-	6,480
- change in fair value transferred to profit or loss, net of tax	-	-	(2,436)	-	(2,436)	-	(2,436)
Property revaluation							
- property revaluation, net of tax	-	-	2,037	-	2,037	-	2,037
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(943)	(943)	-	(943)
Total other comprehensive profit / (loss)	-	-	6,081	(943)	5,138	-	5,138
Total comprehensive income for the year	-	-	6,081	78,435	84,516	566	85,082
Transactions with owners, recorded directly in equity							
Bonus issue	30,000	-	-	(30,000)	-	-	-
Dividends to equity holders	-	-	-	(28,967)	(28,967)	(395)	(29,362)
	30,000	-	-	(58,967)	(28,967)	(395)	(29,362)
At 30 September 2015	360,000	988	35,217	272,713	668,918	1,271	670,189

Statements of changes in equity for the year ended 30 September 2015 (continued)

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
The Bank					
At 01 October 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					
- property revaluation, net of tax	-	-	712	-	712
Remeasurement of 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 on merger of subsidiary	-	-	-	(83)	(83)
Bonus issue	30,000	-	-	(30,000)	-
Dividends to equity holders	-	-	-	(34,466)	(34,466)
	30,000	-	-	(64,549)	(34,549)
At 30 September 2014	330,000	988	29,024	213,513	573,525
Profit for the year	-	-	-	72,350	72,350
Other comprehensive income					
Available-for-sale investments					
- change in fair value, net of tax	-	-	6,480	-	6,480
- change in fair value transferred to profit or loss, net of tax	-	-	(2,436)	-	(2,436)
Property revaluation					
- property revaluation, net of tax	-	-	2,037	-	2,037
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(943)	(943)
Total other comprehensive profit / (loss)	-	-	6,081	(943)	5,138
Total comprehensive income for the year	-	-	6,081	71,407	77,488
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	-
Dividends to equity holders	-	-	-	(28,967)	(28,967)
	30,000	-	-	(58,967)	(28,967)
At 30 September 2015	360,000	988	35,105	225,953	622,046

Statements of cash flows for the year ended 30 September 2015

	The Group		The Bank	
	2015 €000	2014 €000	2015 €000	2014 €000
Cash flows from operating activities				
Interest and commission receipts	259,455	260,915	251,459	253,631
Interest, commission and compensation payments	(93,171)	(94,418)	(93,294)	(94,614)
Payments to employees and suppliers	(80,704)	(87,908)	(79,677)	(83,392)
Operating profit before changes in operating assets and liabilities	85,580	78,589	78,488	75,625
(Increase)/decrease in operating assets:				
Loans and advances	(322,101)	(245,922)	(322,057)	(245,899)
Reserve deposit with Central Bank of Malta	(15,731)	(8,108)	(15,731)	(8,108)
Fair value through profit or loss financial assets	122,279	52,835	122,279	52,835
Fair value through profit or loss equity instruments	2,930	(616)	600	838
Treasury bills with original maturity of more than 3 months	3,999	33,977	3,999	33,977
Other assets	2,823	(2,008)	2,823	(2,939)
Increase in operating liabilities:				
Amounts owed to banks and to customers	1,300,337	861,532	1,302,569	861,388
Other liabilities	8,791	29,266	8,738	29,321
Net cash from operating activities before tax	1,188,907	799,545	1,181,708	797,038
Tax paid	(64,799)	(32,658)	(64,351)	(33,800)
Net cash from operating activities	1,124,108	766,887	1,117,357	763,238
Cash flows from investing activities				
Dividends received	5,808	4,926	12,151	8,496
Interest received from held-to-maturity debt and other fixed income instruments	58,998	45,394	58,998	45,394
Purchase of equity instruments	(100)	(200)	(100)	(200)
Purchase of debt instruments	(1,560,089)	(1,167,952)	(1,560,089)	(1,167,952)
Proceeds from sale or maturity of debt instruments	706,613	475,452	706,613	475,452
Purchase of property and equipment and intangible assets	(9,132)	(14,649)	(9,119)	(14,570)
Proceeds from disposal of property and equipment	-	8	-	8
Net cash used in investing activities	(797,902)	(657,021)	(791,546)	(653,372)
Cash flows from financing activities				
Dividends paid to Bank's equity holders	(28,967)	(34,466)	(28,967)	(34,466)
Dividends paid to non-controlling interests	(395)	-	-	-
Net cash used in financing activities	(29,362)	(34,466)	(28,967)	(34,466)
Net change in cash and cash equivalents				
Effect of exchange rate changes on cash and cash equivalents	64	-	64	-
Net change in cash and cash equivalents after effect of exchange rate changes	296,780	75,400	296,780	75,400
Net change in cash and cash equivalents	296,844	75,400	296,844	75,400
Cash and cash equivalents at 1 October	1,012,503	937,103	1,012,503	937,103
Cash and cash equivalents at 30 September	1,309,347	1,012,503	1,309,347	1,012,503

Review of Performance

Bank of Valletta Group reports a profit before tax of €117.9 million for the financial year ended on 30 September 2015. This represents an increase of 13% when compared to the pre-tax profit of €104.1 million reported last year. These results were achieved in a period characterised by high levels of liquidity and persisting low interest rates, in the context of steady economic growth on the local scene, and a subdued euro area economic scenario.

Core Profit for the period of €91.3 million is up by €3.4 million, or 4% when compared to September 2014. Key performance indicators were satisfactory with a Return on Equity (ROE) of 18.4% and a Cost/Income ratio of 41.8%, compared to 17.5% and 43.1% respectively for FY 2014. Gains attributed to external non-core factors, namely fair value gains and share of profit from our insurance business amounted to €26.6 million and are €10.4 million higher than those for the comparative period.

The results for the year are driven by an improved margin income and satisfactory growth in commission and trading income. Increased regulatory costs and continued investment in HR and IT resulted in a higher cost base. During the year, the Bank adopted a new provisioning methodology which shifts the focus from collective provisioning to a greater emphasis on the assessment of individual exposures deemed to have specific risks.

The following table provides a summary of BOV Group's results for the financial year.

	Sep-15 € million	Sep-14 € million	Change € million	%
Net interest income	144.7	126.0	18.7	15
Net commission and trading income	87.3	74.8	12.5	17
Operating expense	(108.0)	(93.5)	(14.5)	(16)
Impairment charge	(32.7)	(19.4)	(13.3)	(69)
Core Profit	91.3	87.9	3.4	4
Fair value movement	14.8	9.0	5.8	64
Operating Profit	106.1	96.9	9.2	9
Share of profit from associates	11.8	7.2	4.6	64
Profit before tax	117.9	104.1	13.8	13

Net interest margin for the year of €144.7 million is up by 15% over last year. The persisting low interest rate scenario impacted both the Retail and the Treasury segments. The retail margin reflects a lower effective interest rate on advances, which is partly due to the changing mix of the loan book. This was offset by a reduction in interest payable, as customers' preference for short term deposits continued. While the pressure on the margin earned on the Treasury business continued, it was partly mitigated by higher volumes of investments.

Net commission and trading income of €87.3 million represents an increase of 17% over last year. Products and services offered across all the main business lines performed satisfactorily, especially investment related services, including bancassurance, while growth continued to be experienced in the card business. Earnings from foreign exchange transactions are also up, year on year, primarily due to higher volumes transacted.

Operating costs for the year amounted to €108.0 million, an increase of 16% over the previous year. The introduction of a new regulatory reporting regime as part of the Single Supervisory Mechanism, as well as the contributions towards the Deposit Guarantee Scheme and the Single Resolution Fund resulted in a substantial increase in regulatory costs. Increases in costs arising from the continued investment in human resources and IT were partly offset by the curtailment of the discretionary spend. The replacement of the core banking system project was launched during the year, and substantial investment in our IT infrastructure is expected to be made in the coming years 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 European Central Bank last year emphasised the need for banks to adopt a more prudent view towards provisioning, an approach which has been applied consistently by BOV over these past few years. In line with the recommendations made by supervisory authorities, during the year the Bank revised its provision methodology. Those exposures deemed to have specific risks are now being individually assessed, and this revised methodology results in a more prudent view of provisions required for such exposures than when these were assessed collectively. In fact, the impairment charge for FY 2015 of €32.7 is mostly specific in nature.

The price gains of €14.8 million included in this year's profit reflect the positive performance of local holdings, and include the profit realised from the sale of Government bonds arising from BOV's participation in the quantitative easing programme set forth by the European Central Bank. Another gain of €4.0 million, net of tax, was recognised in Equity. The satisfactory performance on the sale

of insurance products by our associate companies, Mapfre Middlesea and MSV Life, resulted in a share of profit for FY 2015 of €11.8 million, compared to the €7.2 million recognised last year.

Review of Financial Position

Total assets as at 30 September 2015 stood at €9.9 billion (September 2014: €8.3 billion), while equity attributable to the shareholders of the Bank increased by a further 9% to reach €670.2 million.

BOV's Common Equity Tier 1 ratio stands at 11.3% while the Group's liquidity position remains strong with a net advances to deposit ratio of 50%.

Gross loans and advances to customers, at €4.3 billion, are up by €167.8 million over September 2014, an increase of 4%. The growth was primarily driven by an increased demand for mortgages as first time buyers benefited from Government concessions on stamp duty.

Customer deposits at the year end stand at €8.6 billion, an increase of €1.4 billion, or 20% over September 2014. This growth occurred in short term and call deposits, and originated from both retail as well as from the corporate and institutional customer segments.

Incoming funds not applied to lending were channelled into good quality short dated investments and liquid assets, in line with the Bank's conservative Treasury Management Policy.

Dividend and Bonus Issue

While the current levels of capital are considered adequate, supervisory requirements in the coming years are expected to become more demanding. The Board is therefore aware of the need to continue building up the Bank's capital base through the ploughback of earnings when considering dividend distribution. Accordingly, the Board of Directors will, at the forthcoming Annual General Meeting, be recommending a final gross dividend of €0.085 per share which, taken together with the gross interim dividend of €0.039 per share paid in May 2015, makes a total gross dividend of €0.124 per share for FY 2015. While this results in a lower payout ratio when compared to last year, the total dividend for the year represents a gross yield of 5.2% by reference to the closing share price of €2.37 per share at 30 September 2015 and a net dividend cover of 2.6 times.

Similar to previous years, the Board is also recommending a bonus issue of 1 share for every 12 shares held on 15 January 2016 by capitalisation of reserves amounting to €30 million increasing the issued capital from €360 million to €390 million.

Looking Ahead

While the results for FY 2015 are considered to be satisfactory, the coming years are expected to be challenging. The change in banking supervision brought about by the Single Supervisory Mechanism, which BOV now forms part of, is driving the banking industry to re-assess existing business models. The strengthening of capital levels remains a strategic priority so as to safeguard the long term sustainability of the Bank. Early in FY 2016, BOV will be increasing its Tier 2 capital through the issuance of subordinated debt on the local market as part of its capital planning programme.

In the coming years the Bank will continue to focus on the project to replace its core banking system, which is being considered as a driver of process efficiency and enhanced customer service. The strengthening of corporate governance is another area of priority, especially in view of the new guidelines issued by the European Banking Authority.

The Maltese economy is expected to remain resilient. This, together with the continued custom and support provided to BOV by the various stakeholders, should augur well in facing the challenging years ahead.

By Order of the Board

30 October 2015

Notice is hereby given that Tuesday 17 November 2015 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 Tuesday 17 November 2015 will:

- i) receive notice of and be entitled to attend and vote at the Bank's Annual General Meeting scheduled for Thursday 17 December 2015, and
- ii) be paid, on Friday 18 December 2015, 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 Tuesday 17 November 2015 will include trades undertaken up to and including Friday 13 November 2015.