



Bank of Valletta

Bank of Valletta p.l.c.

OFFICE OF THE COMPANY SECRETARY

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BOV/166

COMPANY ANNOUNCEMENT

The following is a company announcement issued by Bank of Valletta p.l.c. pursuant to Malta Financial Services Authority Listing Rules 9.51 to 9.53, and covers the period from 1st October 2008 up to the date of this announcement:

Quote

As notified to shareholders in the Annual Report and at the Annual General Meeting, the first quarter of the current financial year witnessed a continuing period of extreme nervousness and volatility in the international financial markets, as major Governments around the world took exceptional measures in an attempt to stabilise the global financial system following the widespread fallout in the wake of the failure of Lehman Brothers in mid September 2008. In this environment, the markets have continued to re-price risk and to turn attention and concerns to the likely impact of the impending recession on the wider economy. This, together with the substantial ongoing de-leveraging being undertaken by financial institutions and hedge funds, has kept both bond and equity prices under considerable pressure. Heightened risk aversion has served to cause dysfunctional market behaviour and a marked absence of liquidity.

As anticipated, the impact of the above has been that Bank of Valletta's (BOV) Financial Markets portfolio has witnessed further unrealised fair value mark downs during the period under review, following the application of the current requirements of International Accounting Standard (IAS) 39. These unrealised mark downs have in part been mitigated by increases in the value of investments held under the Available for Sale (AFS) category. However, pursuant to IAS 39, these AFS gains are booked directly to equity, and not through the Income Statement.

Notwithstanding this volatility, the general belief is that the radical actions being undertaken by governments are in the process of securing the global financial system, and have demonstrated the determination of the G20 governments that no more Lehman-type failures should be permitted to occur. The actions of the authorities over the past weeks to re-capitalise, inter alia, the major US, UK, German and Dutch banks and to rescue Citigroup, Bank of America, Royal Bank of Scotland, Fortis, ING and Anglo Irish Bank (to mention major examples) confirms this policy in action. BOV's Financial Markets portfolio continues to be deployed across a wide spread of holdings of predominantly highly rated sovereign/supranational, corporate and financial sector debt securities of moderate duration, and the expectation of the Board remains that much, but not all, of the unrealised mark downs will be clawed back over time, as the majority of holdings are retained through to redemption. To date, the experience has been that all but a very small number of the holdings in the portfolio have and continue to pay interest and meet redemption obligations on due date.

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Registered Office: 58, Zachary Street, Valletta VLT 1130 - Malta Registration Number : C 2833

Bank of Valletta p.l.c. is authorised to act as a trustee by the Malta Financial Services Authority.

Bank of Valletta p.l.c. is a public limited company licensed to conduct Investment Services business by the Malta Financial Services Authority.

Bank of Valletta p.l.c. is a tied insurance intermediary of Middlesea Valletta Life Assurance Company Limited and regulated by the Malta Financial Services Authority.

Co-ordinated measures taken by central banks have included radical reductions in interest rates, in an attempt to counter the sharp downturn in economic activity being experienced on a global basis. Between 1st October 2008 and the end of January 2009, the European Central Bank (ECB) intervention rate has been reduced by 2.25%, from 4.25% to 2.0% - an adjustment in rates unprecedented in both speed and severity. BOV has passed on much of this rate reduction to our customers, and this will have an adverse effect on the profitability of the bank – both because of the lag or delayed time effect on the re-pricing of term deposits, and also because continuing competition for deposits has resulted in a compression of the net interest rate margin. The re-pricing of credit through the application of margins appropriate to the current environment is under way, but will necessarily be a gradual process.

On the corporate, retail and home loans sides of the business, there has, to date, been no evidence of any significant deterioration in credit quality, but a modest slowdown in the demand for credit, particularly on the home loans side, has been seen. Demand for investment and insurance products has remained subdued, although there has been something of an improvement since the turn of the year. Commission income on other banking services has shown a satisfactory increase over the corresponding period last year. Costs remain under tight control, running at close to FY 2008 levels. Satisfactory growth in customer deposits has been sustained throughout the period under review.

Overall, and as expected in the present international environment, BOV has experienced a particularly difficult start to FY 2009. The current levels of volatility being experienced on the international markets on an almost daily basis makes it extremely difficult to forecast forward performance, as does the global economic recession that is presently unfolding. However, the expectation remains that FY 2009 will be a very challenging year for the BOV group.

BOV has continued with its conservative policies insofar as balance sheet management is concerned, and liquidity and capital ratios are being maintained at levels well in excess of prudential regulatory requirements. As previously announced, it is the intention of the Board to boost our Tier II capital level through a subordinated loan issue during 2009, both to replace our current subordinated loan capital (redeemable in 2010) which is now gradually being amortised through to redemption, and in anticipation of international regulatory encouragement for higher capital ratios overall.

BOV remains wholly committed to supporting Malta's economy and our business community in a responsible manner through the current economic downturn, and the conservative loan to deposit ratio and liquidity policy adopted by the Bank means that credit is readily available for our customers. As always, BOV management and staff will continue to be assiduous in the support, care and attention extended to our corporate and retail customer base.

Unquote

Victor J. Cardona ACIB, BA (Hons) Econ. CSA
Company Secretary

2nd February 2009