



Annual Report 2012

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Overview

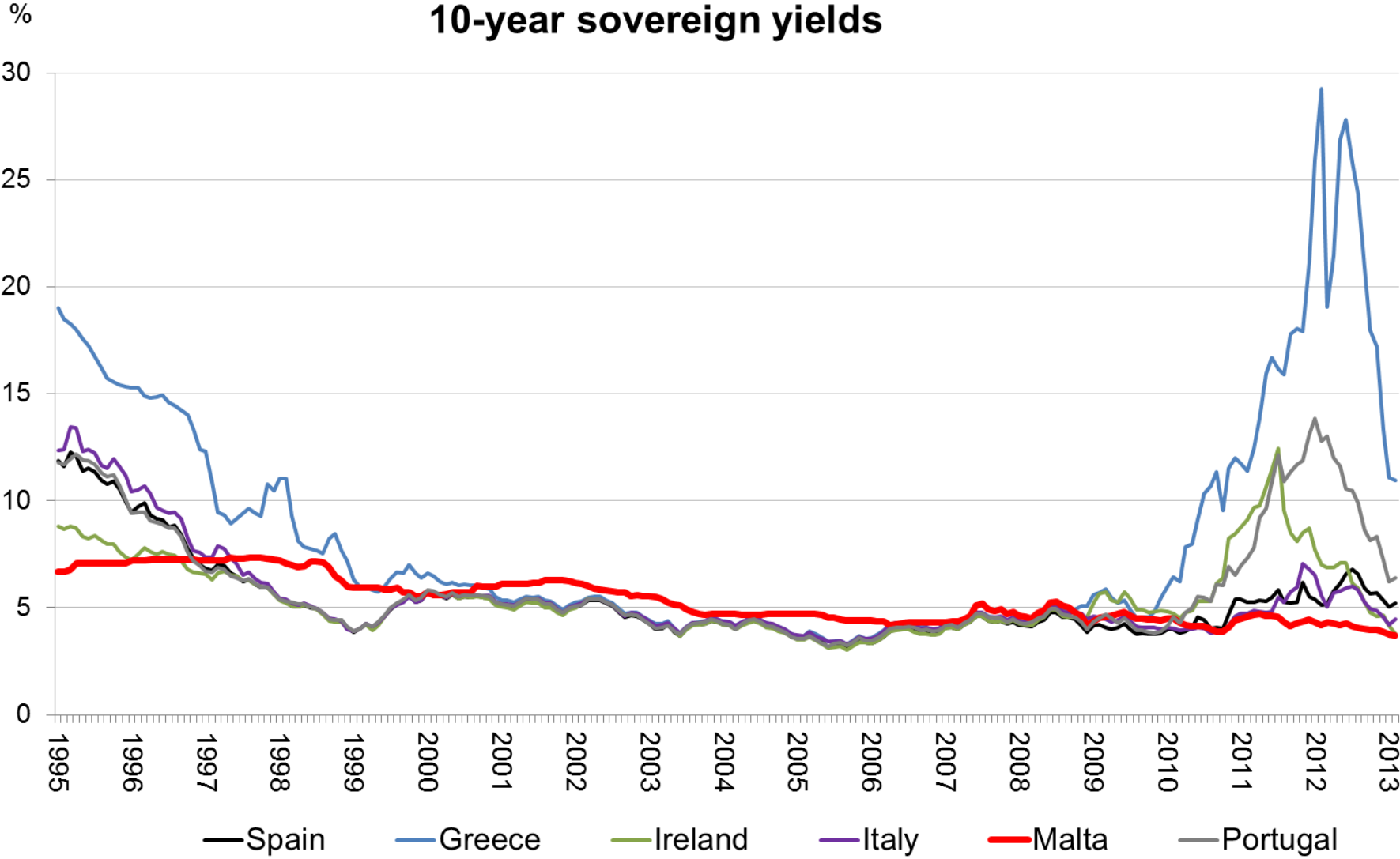
Financial sector stability and macroeconomic performance are deeply intertwined.

- Maltese banking and financial system is sound and robust with high solvency, profitability and liquidity ratios
- The performance of the Maltese economy remains positive notwithstanding a continuing slowdown in foreign demand
 - ▶ Malta registered positive **GDP growth**, above euro area average
 - ▶ **Inflation** moderated in the second part of 2012
 - ▶ **Unemployment** rate is substantially below euro area average



Yields confirm general stability

10-year sovereign yields



Source: Eurostat



The banking sector in Malta



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The Maltese banking sector is diversified...

Core domestic banks: systemically important, operate along traditional lines, extensive branch network, attract deposit funds domestically, lend locally, hold securities issued in Malta. Their provision of loan & deposit facilities is crucial to the economy.

Non-core domestic banks: play a more restricted role, as the volume of operations and the banking services they offer to residents is limited.

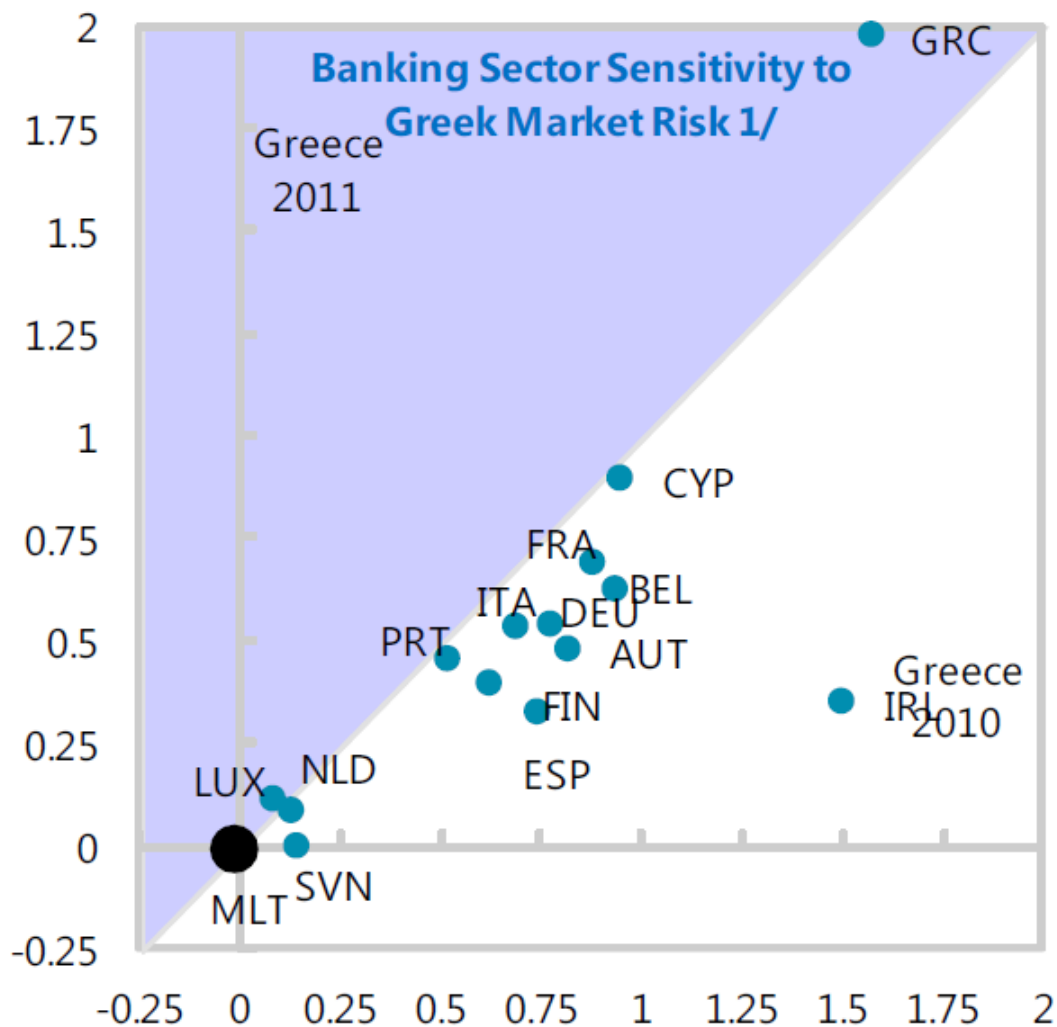
International banks: have virtually no links with the domestic economy. Their activities and transactions are almost entirely outside the country.

...and sound.

Selected Financial Soundness Indicators					
	Malta*				EU banks**
	Core domestic banks	Non-core domestic banks	International banks	Total banks	Total banks
Total assets as a % of GDP (2012)	218.2%	77%	493.7%	788.8%	
	2012	2012	2012	2012	2012
Solvency					
Capital Adequacy Ratio	14.3	29.1	102.7	53.3	14.1
Profitability					
Return on assets	1.6	1.4	1.3	1.4	0.1
Return on equity	23.9	6.5	3.6	5.9	2.7
Liquidity					
Liquid assets to short-term liabilities	49.1	82.4	146.3	55.6	n/a
	Malta*				Euro area**
	Core domestic banks	Non-core domestic banks	International banks	Total banks	Total banks
	2012	2012	2012	2012	H1 2012
Liquid assets to total assets	28.8	14.4	9.9	19.7	10.0

Source: * Central Bank of Malta ** ECB

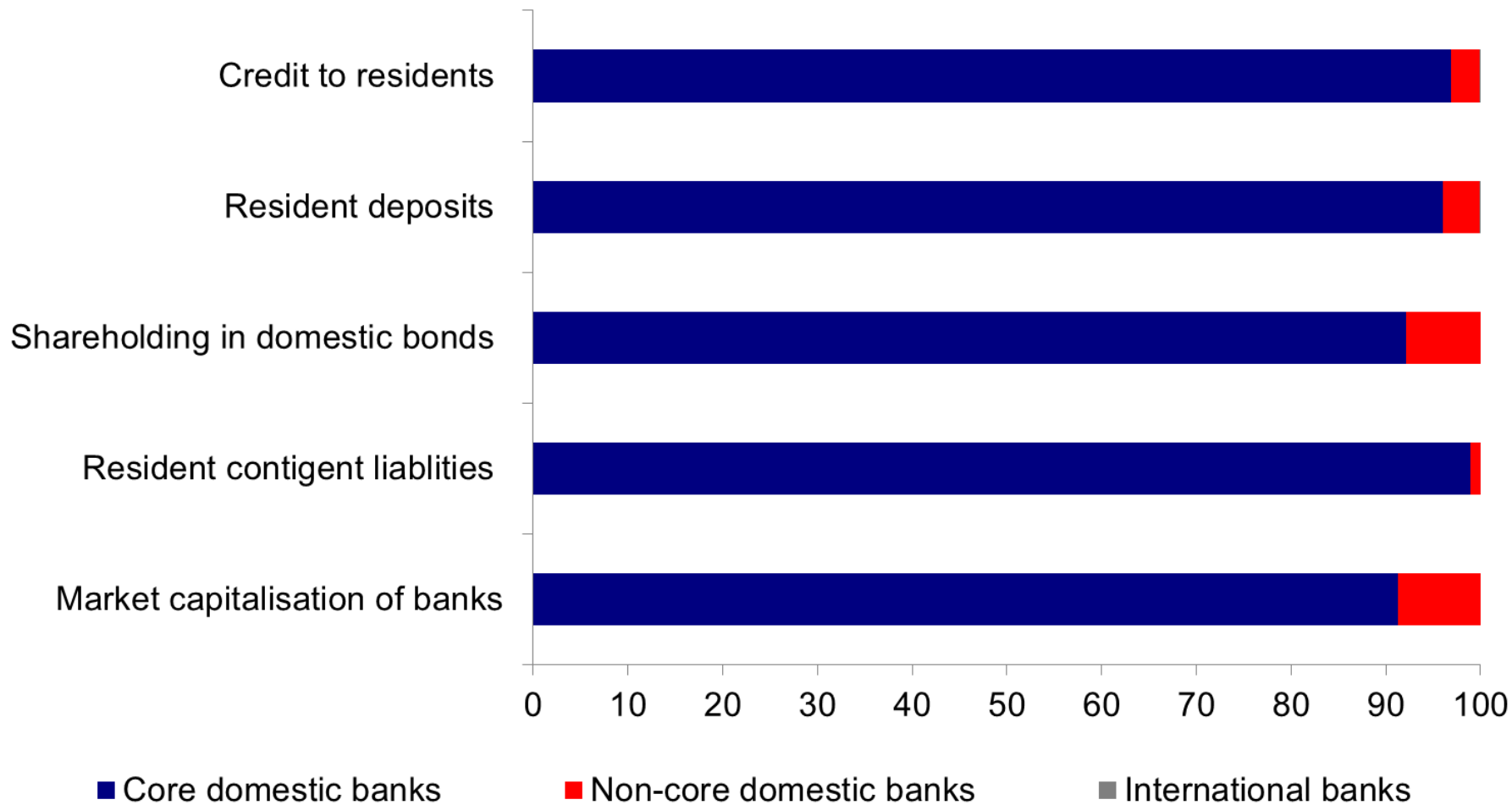
Low sensitivity of Malta's banking sector to Greek market risk





Core domestic banks are of primary relevance...

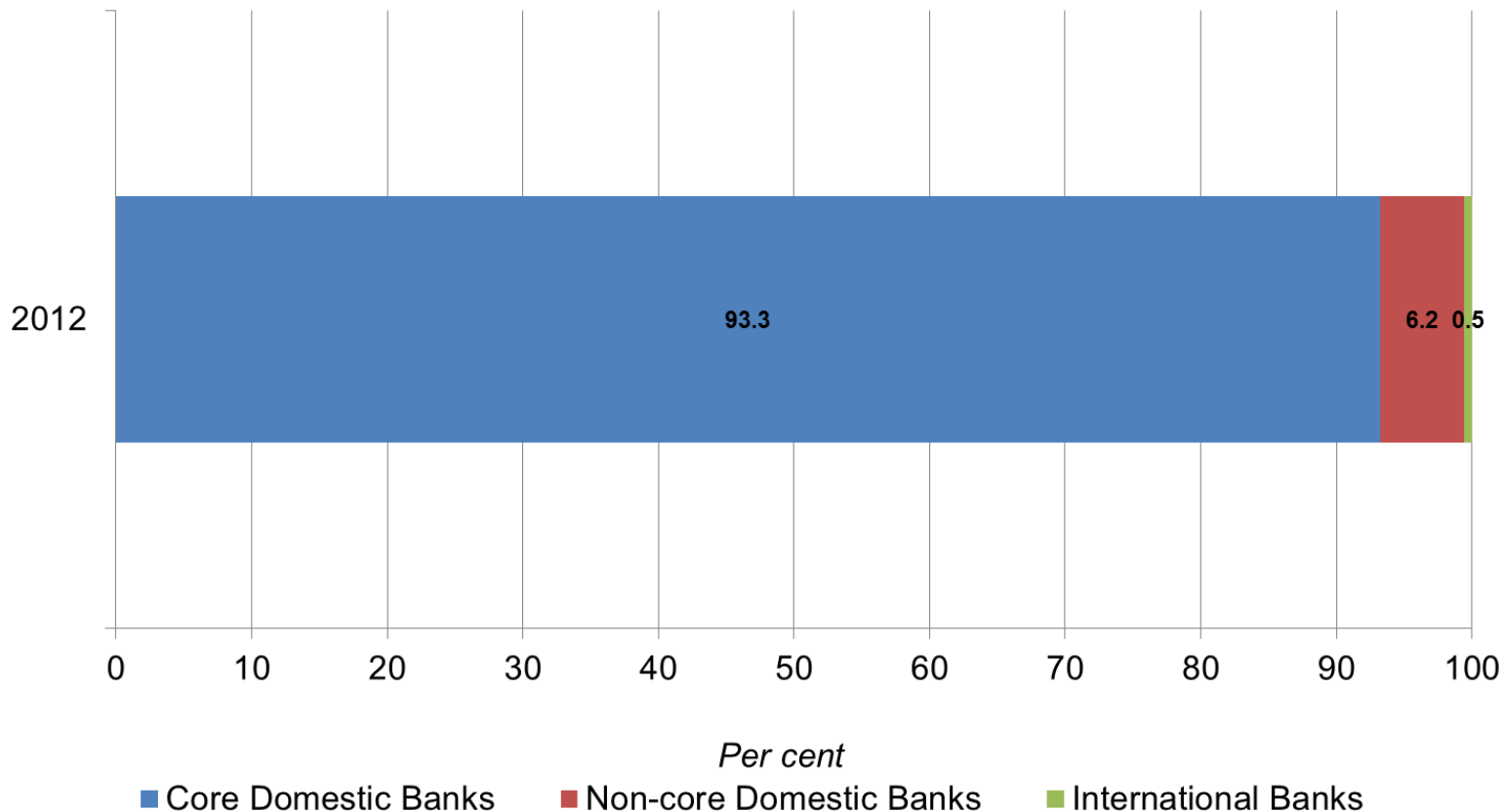
(per cent)





...and are the main providers of insured deposits.

COVERED DEPOSITS BY THE DEPOSIT COMPENSATION SCHEME





Core domestic banks

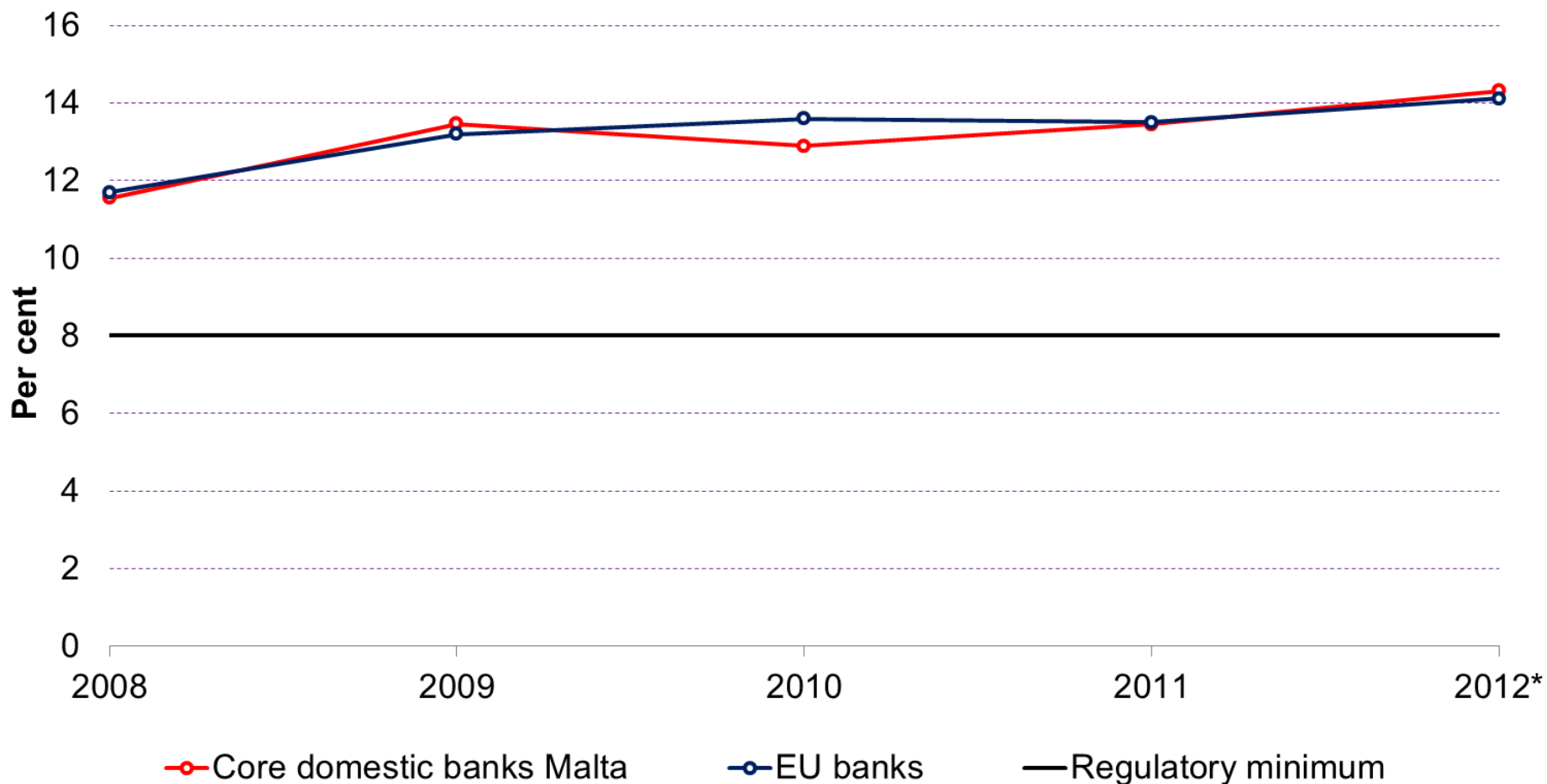


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Core domestic banks have capital adequacy ratios above the regulatory minimum...

Capital Adequacy Ratio

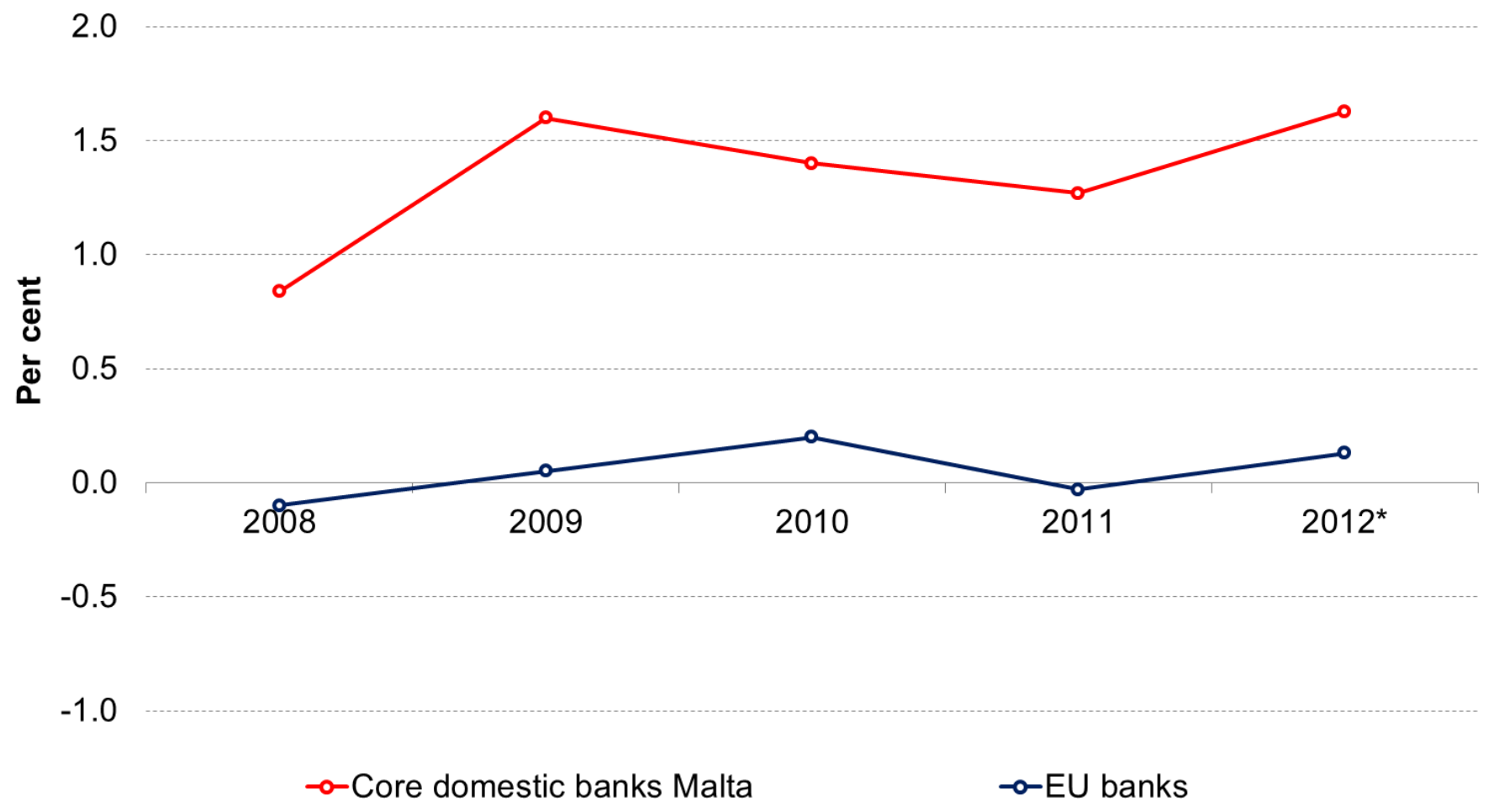


Source: Central Bank of Malta and Consolidated Banking Data (ECB)
Ratio defined as total own funds to risk weighted assets
*relates to H1 2012 with regard to EU banks



...with a higher return on assets...

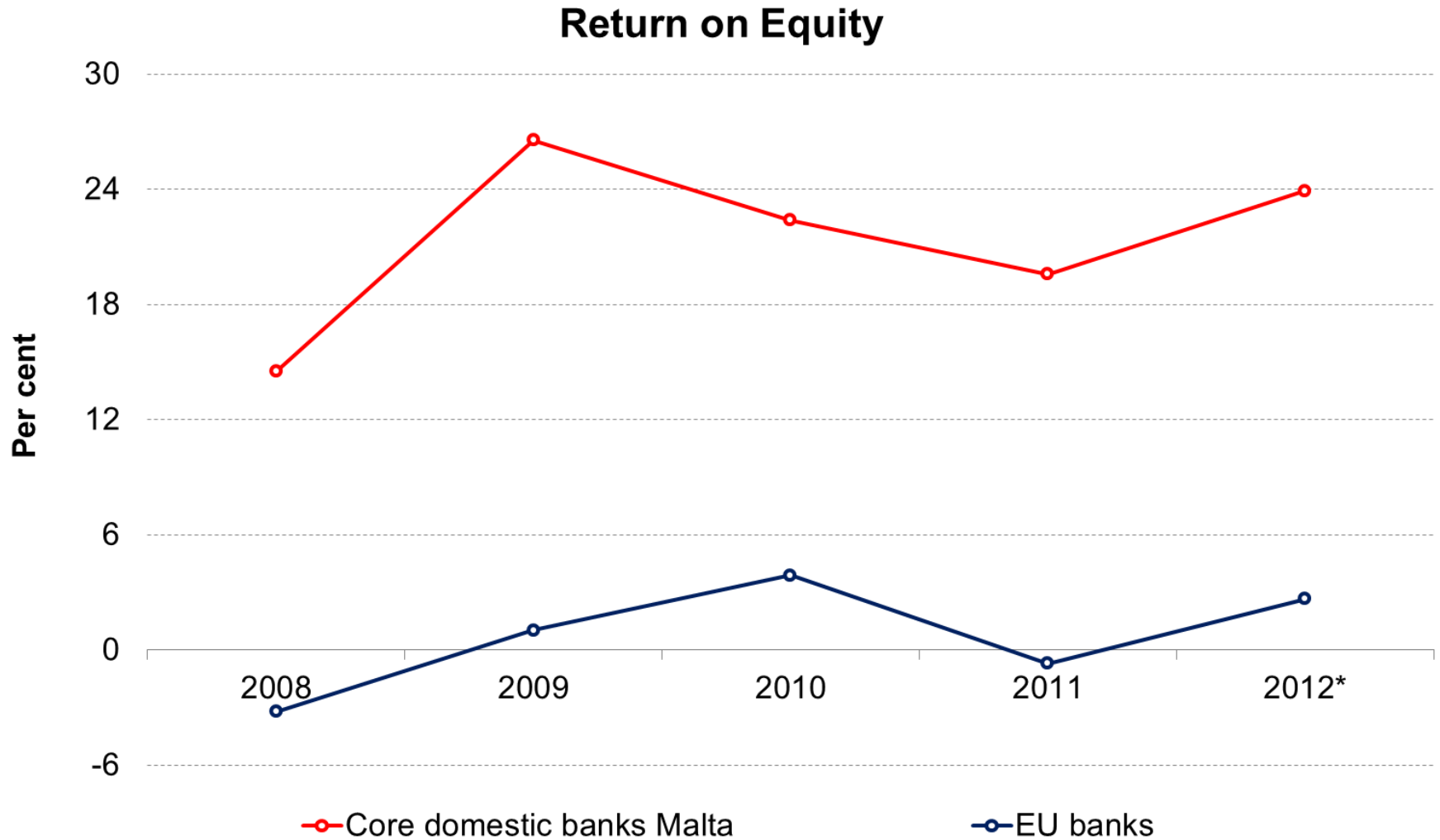
Return on Assets



Source: Central Bank of Malta and Consolidated Banking Data (ECB)
*relates to H1 2012 with regard to EU banks



...and higher return on equity than EU average...



Source: Central Bank of Malta and Consolidated Banking Data (ECB)
*relates to H1 2012 with regard to EU banks

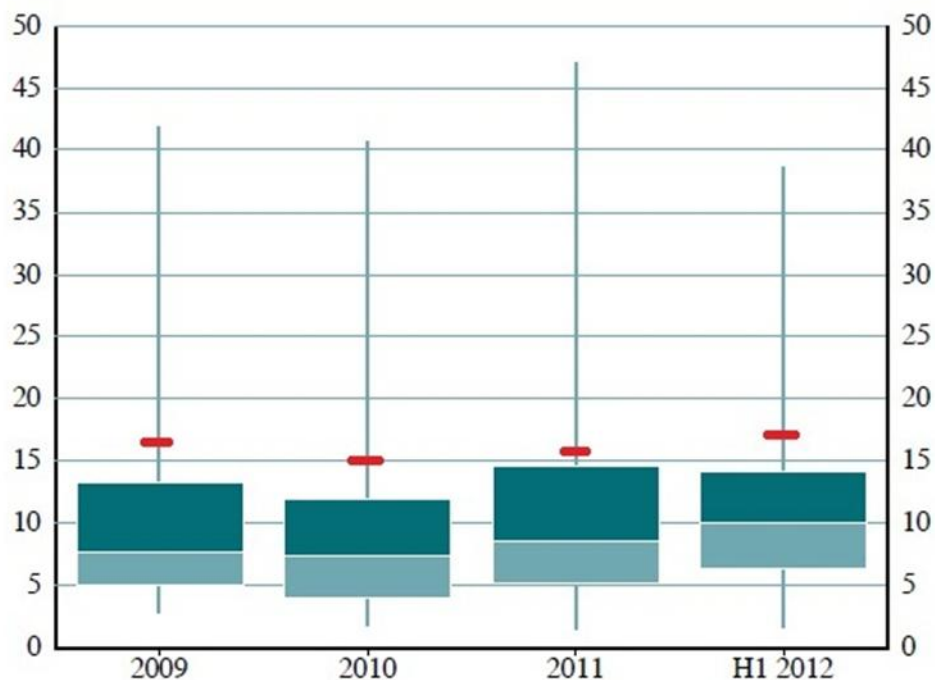


...as well as higher ratio of liquid assets to total assets.

Liquid assets ratio

(2009 - H1 2012; percentage of total assets; minimum, maximum and interquartile distribution) - euro area domestic banks

— Malta



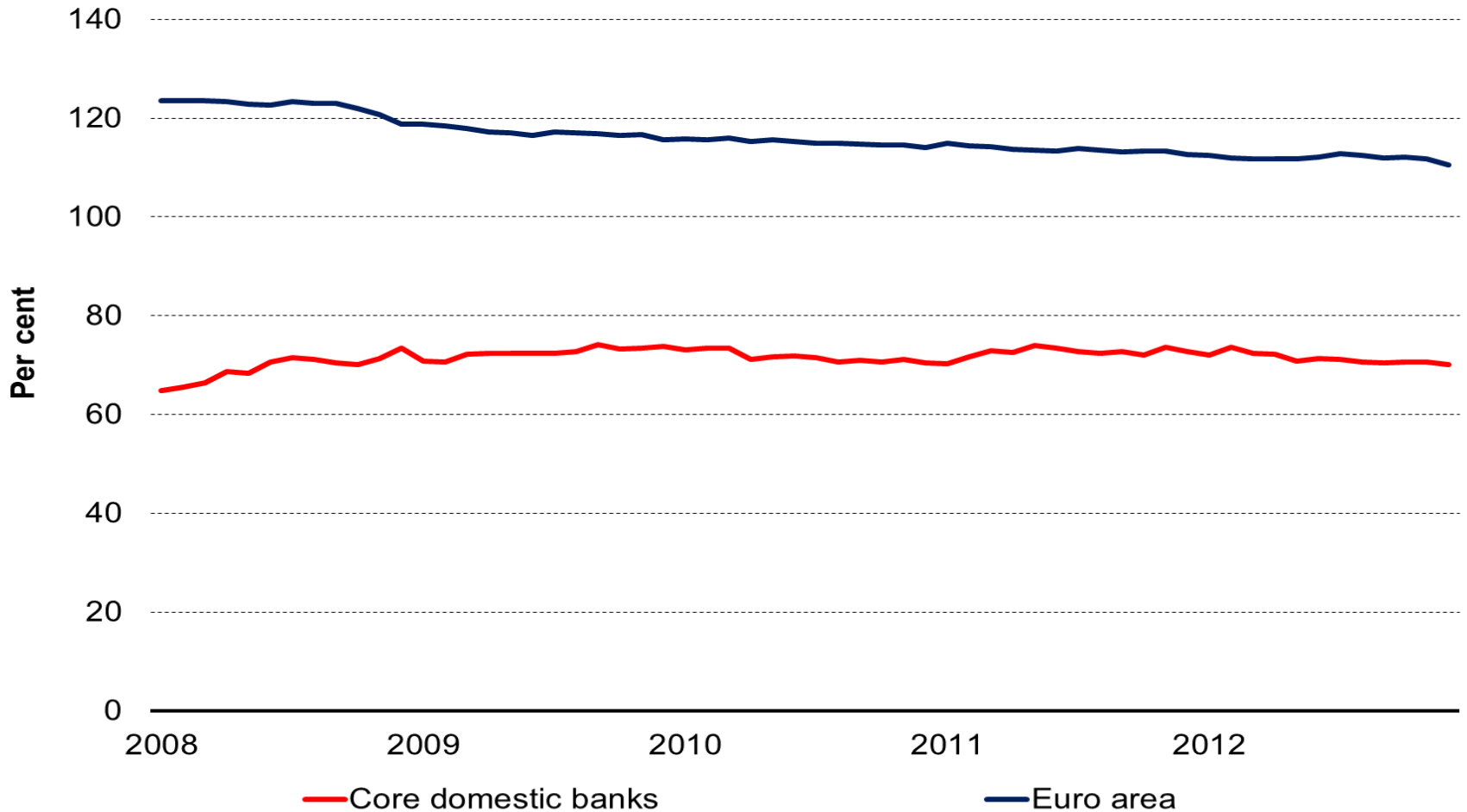
Source: ESCB. CBM

Notes: All euro area domestic banks consolidated across borders and sectors, excluding insurers and non-financial corporations. Liquid assets comprise cash and trading assets. The distribution of the ratios is across euro area countries.



Loans of core domestic banks are funded from deposits.

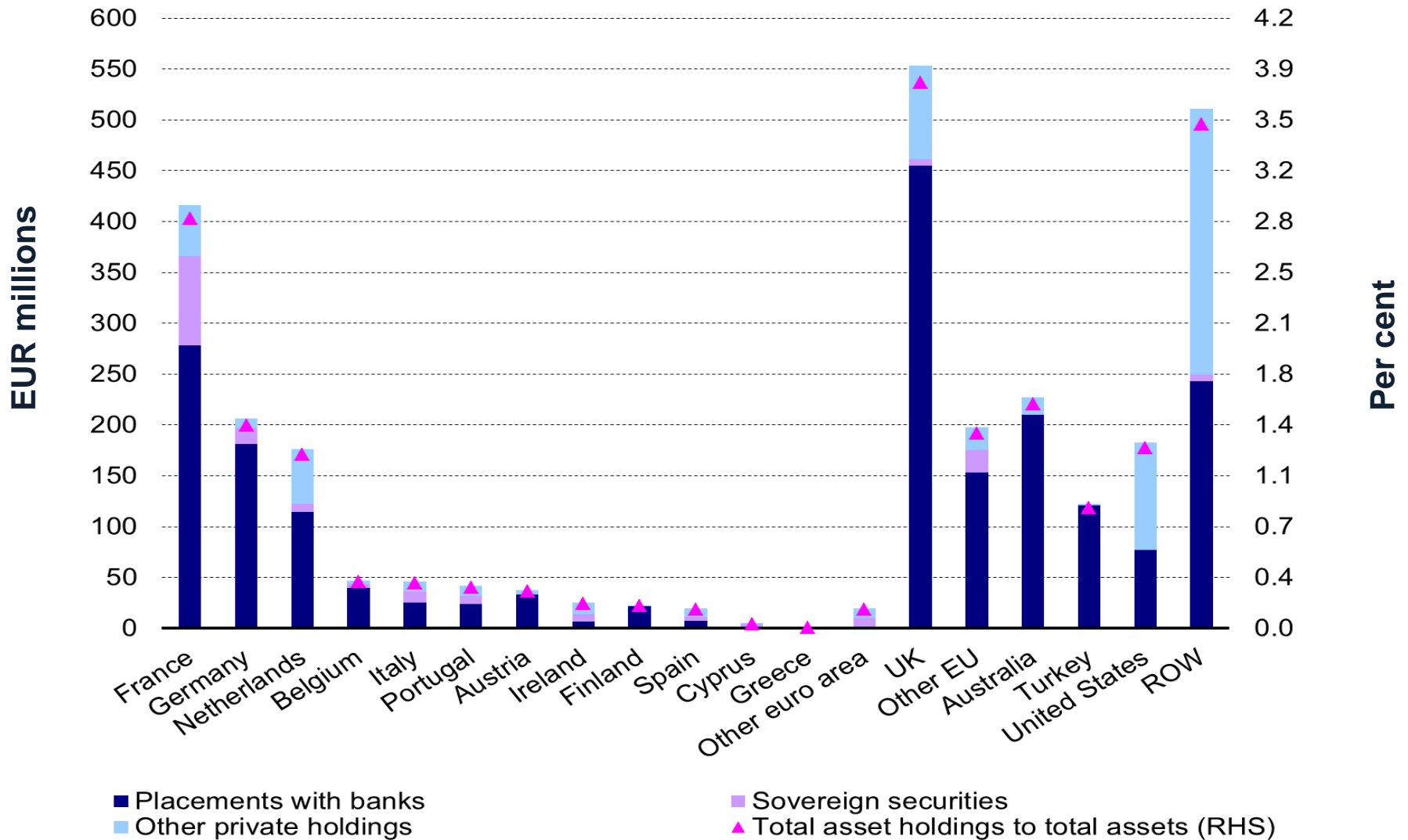
Customer loan to deposit ratio



Source: European Central Bank and Central Bank of Malta



Core domestic banks' investments have limited exposure.





The banking sector can be further strengthened through a number of measures

Short-term

- Banks are encouraged to increase loan loss provision
- Maturity structure of deposit liabilities should be lengthened

Medium-term

- Banks should enhance their capital buffers through higher profit retention

Long-term

- Further diversification of lending portfolio and collateral base
- Banks should ensure higher funding for the Depositor Compensation Scheme
- Reduce the risk retention of the long-term business insurance providers



Malta's economic performance

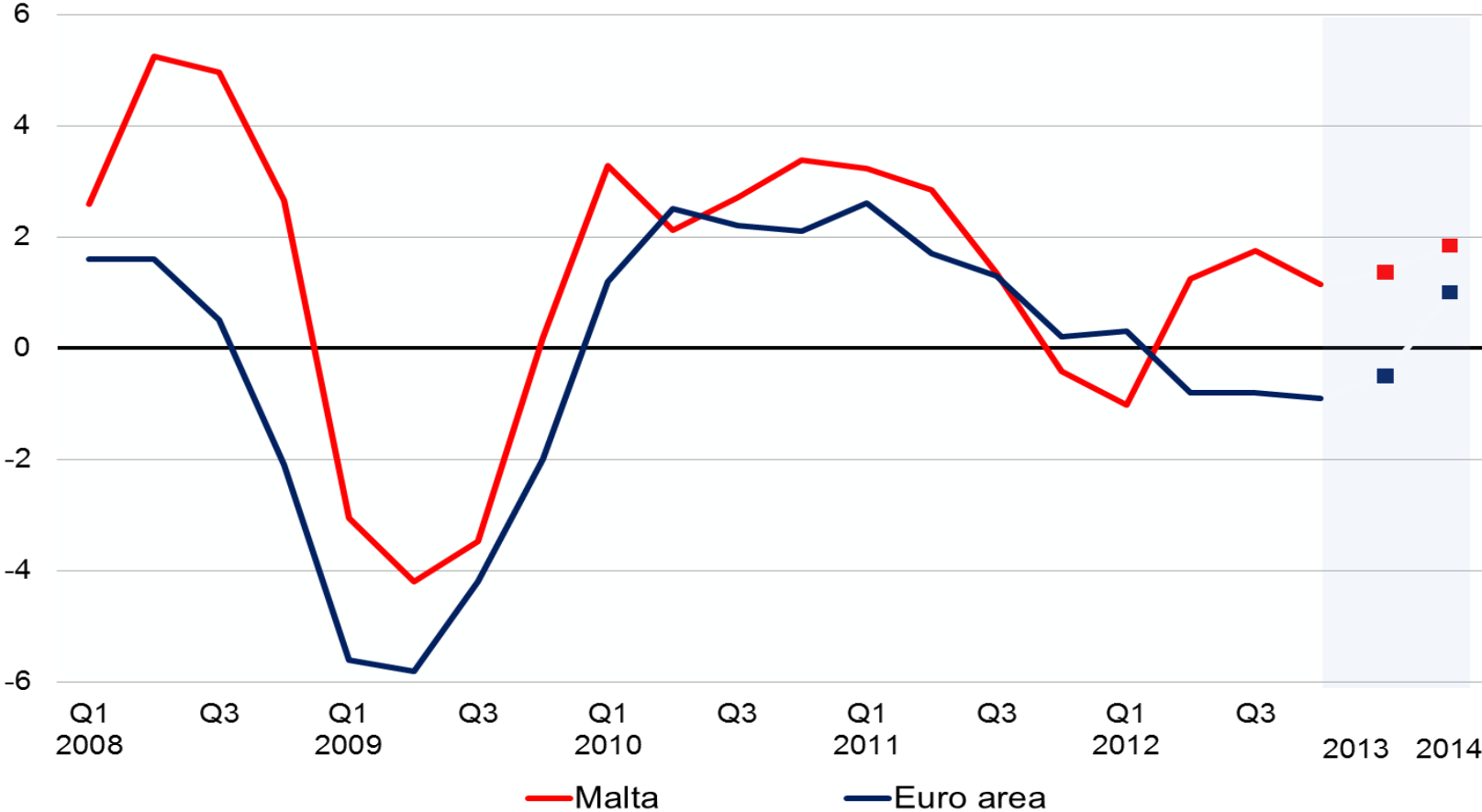


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Malta's GDP outpaced euro area growth...

Real GDP growth (annual percentage change)



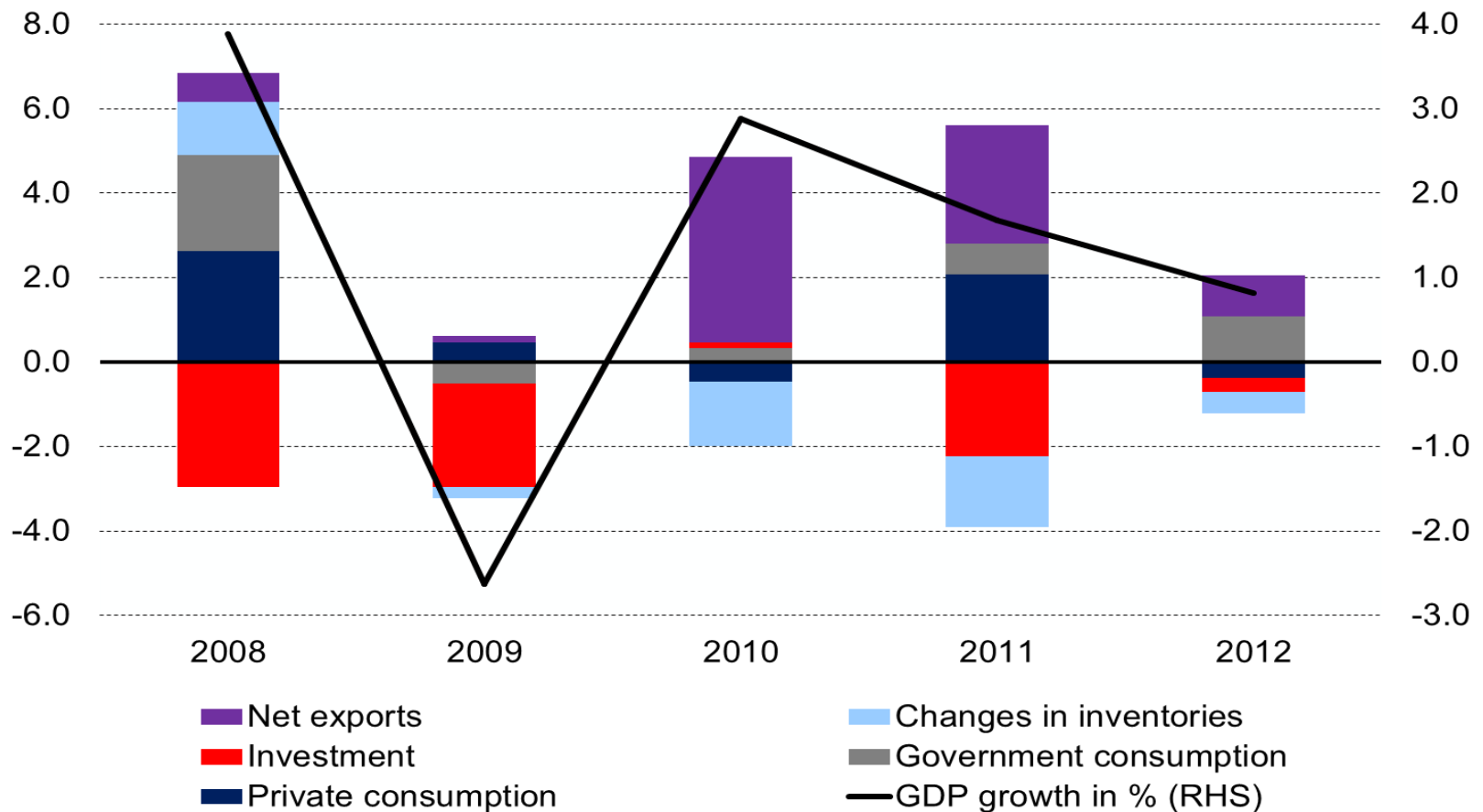
Source: National Statistics Office, Eurostat, Central Bank of Malta and European Central Bank
Data from 2008 to 2012 are sourced from NSO and Eurostat. Data for 2013 and 2014 are annual forecasts. Forecasts for Malta are sourced from the Bank's *Annual Report 2012*. Those for the euro area are taken from the *March 2013 ECB staff macroeconomic projections for the euro area*.



...mainly driven by net exports...

Real GDP growth and its components

(percentage point contributions; annual percentage change)



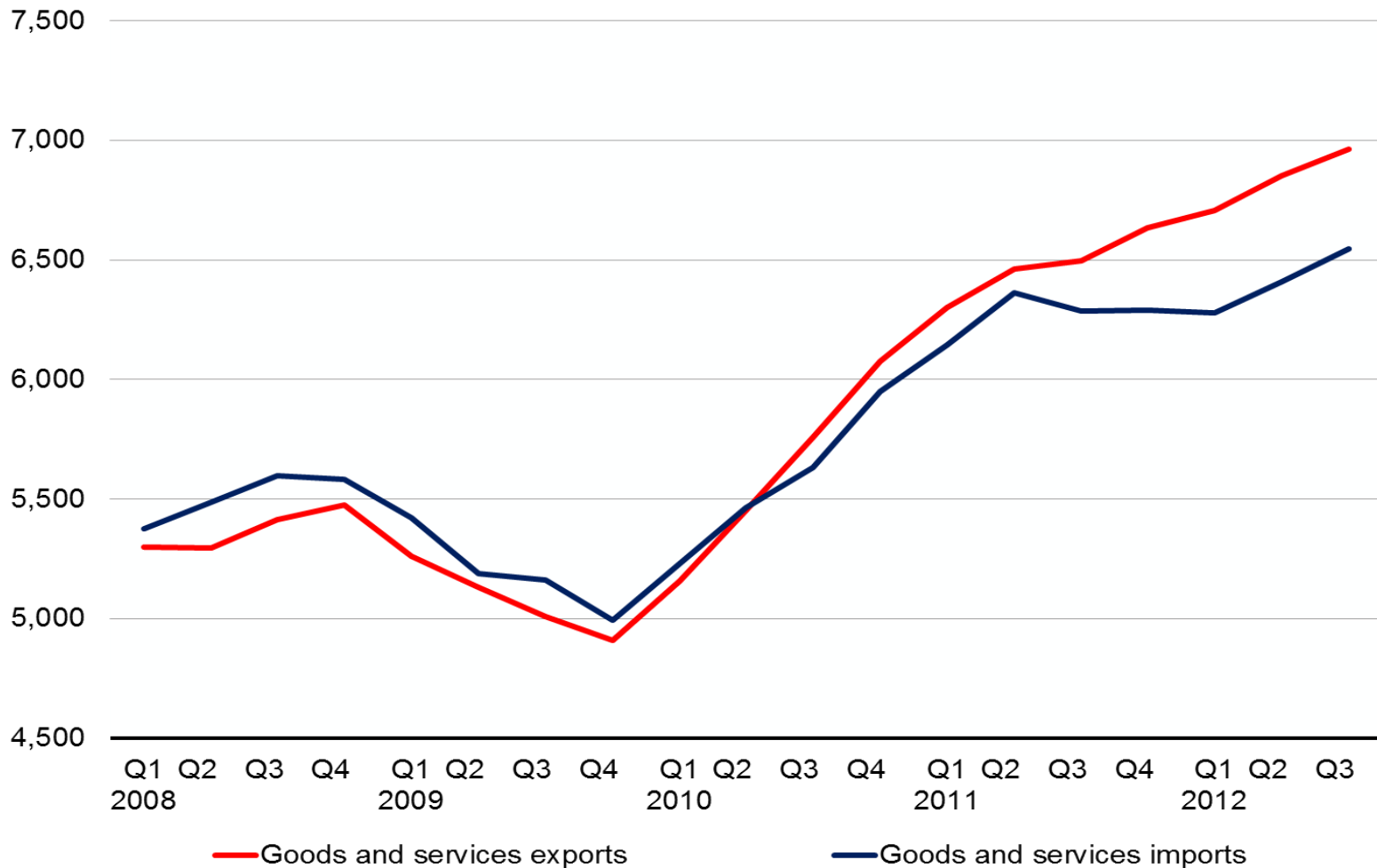
Source: National Statistics Office

Data for 2008 - 2012 are based on actual GDP data. Data for 2013 and 2014 are CBM forecasts.



...with exports growing faster than imports...

Exports and imports
(four-quarter moving sums in EUR millions)

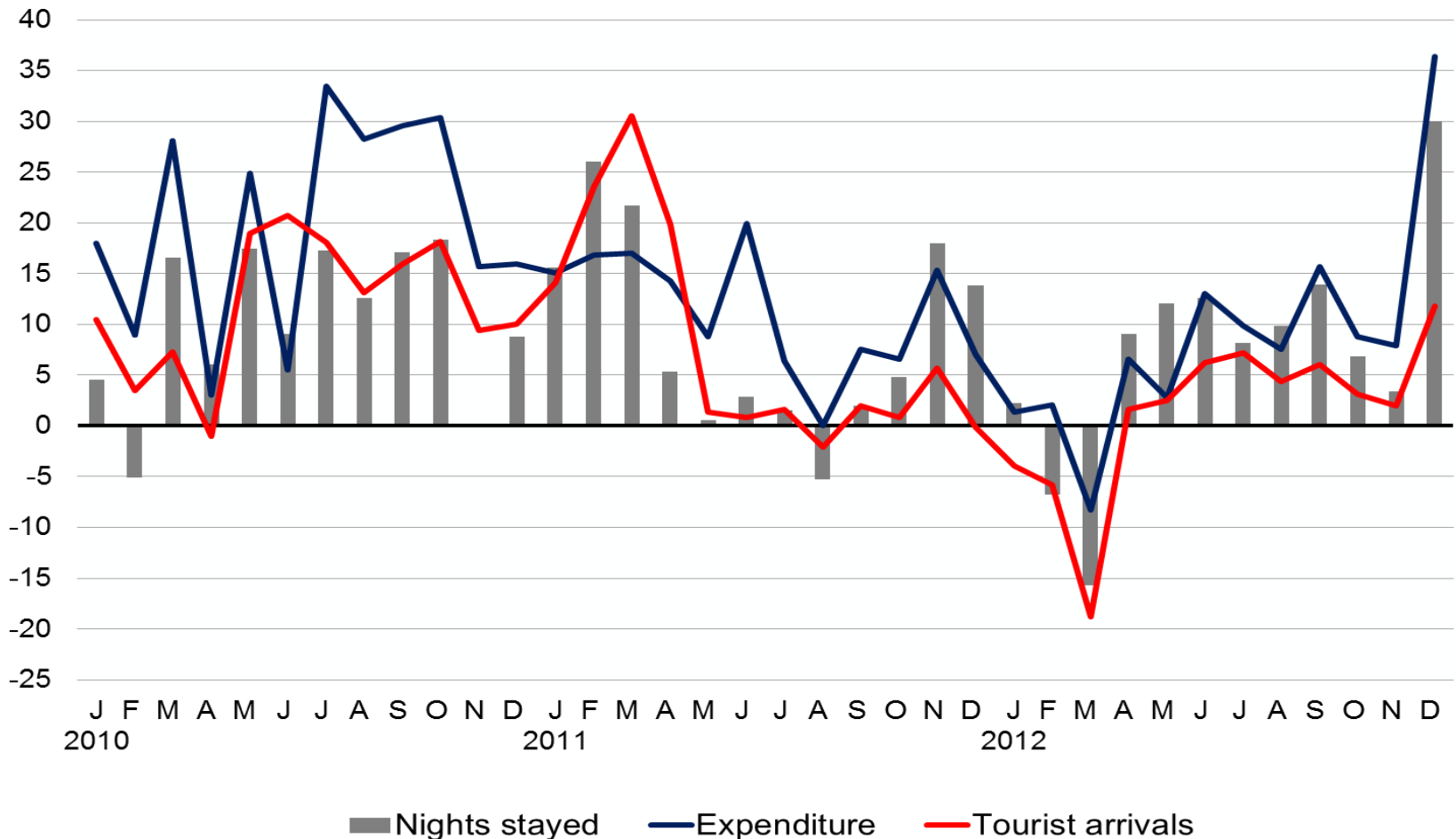




...including a strong performance by the tourism sector...

Tourism indicators

(annual percentage changes)

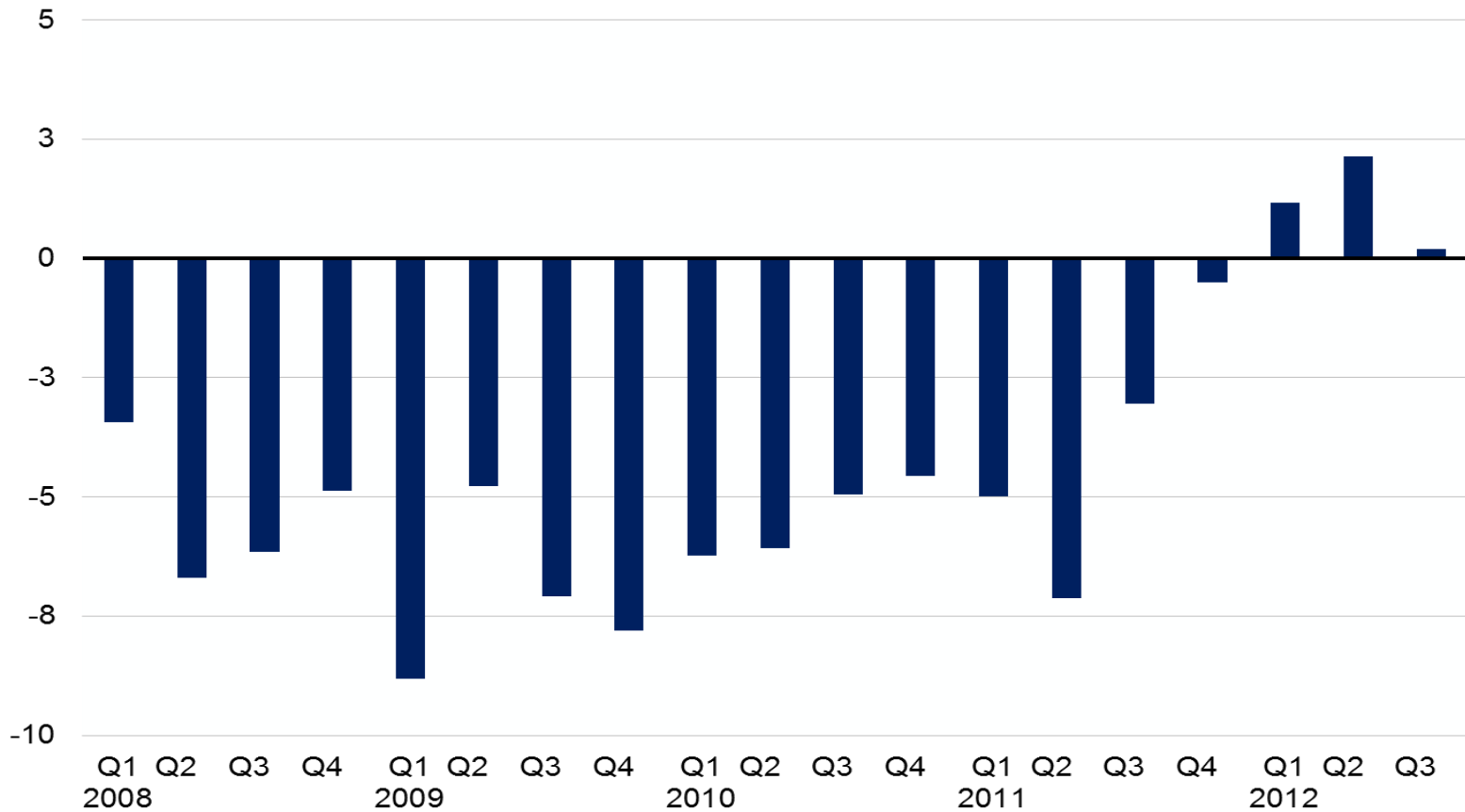


Source: National Statistics Office



...resulting in a current account surplus.

Current account balance
(four-quarter moving sums as a percentage of GDP)

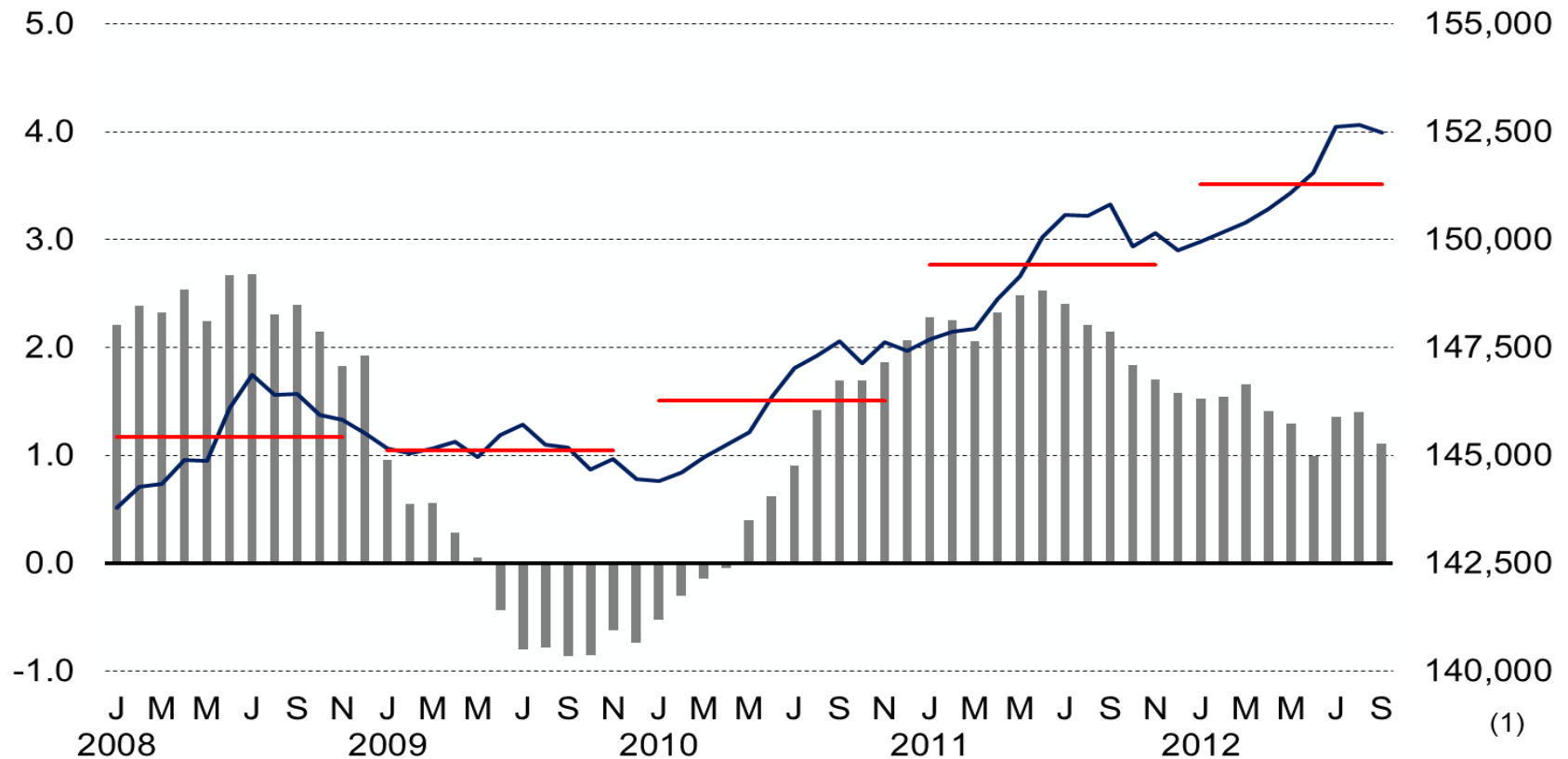


Source: National Statistics Office



Employment growth continues...

Gainfully occupied population based on ETC records (annual percentage changes; persons)



■ Annual percentage changes — Gainfully occupied population (right scale) — Period average

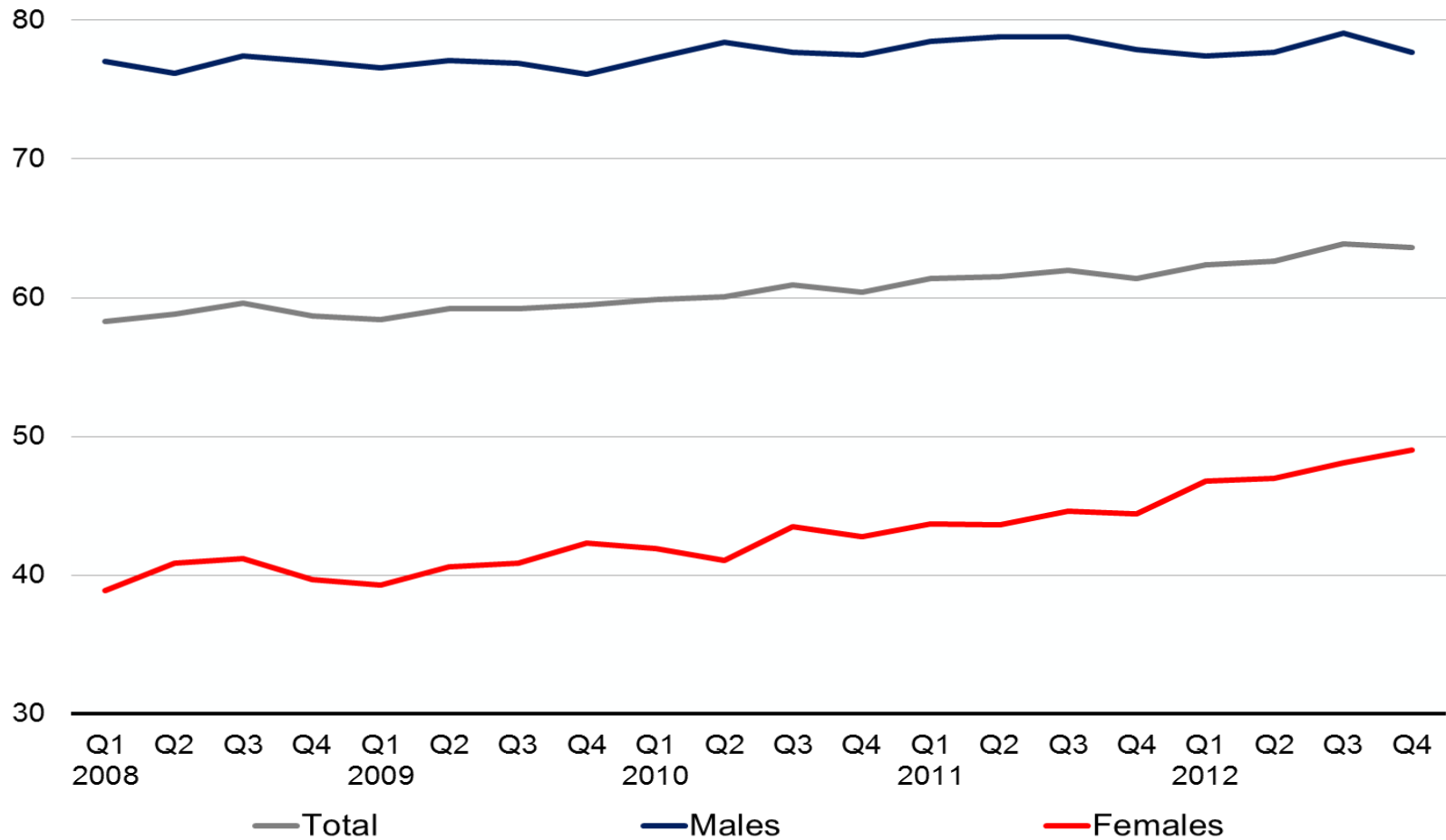
(1) Period averages for 2008-2011 are based on averages for the whole year, while for 2012 the average is based on data for the first nine months of the year.

Source: National Statistics Office



...driven by an increase in female participation...

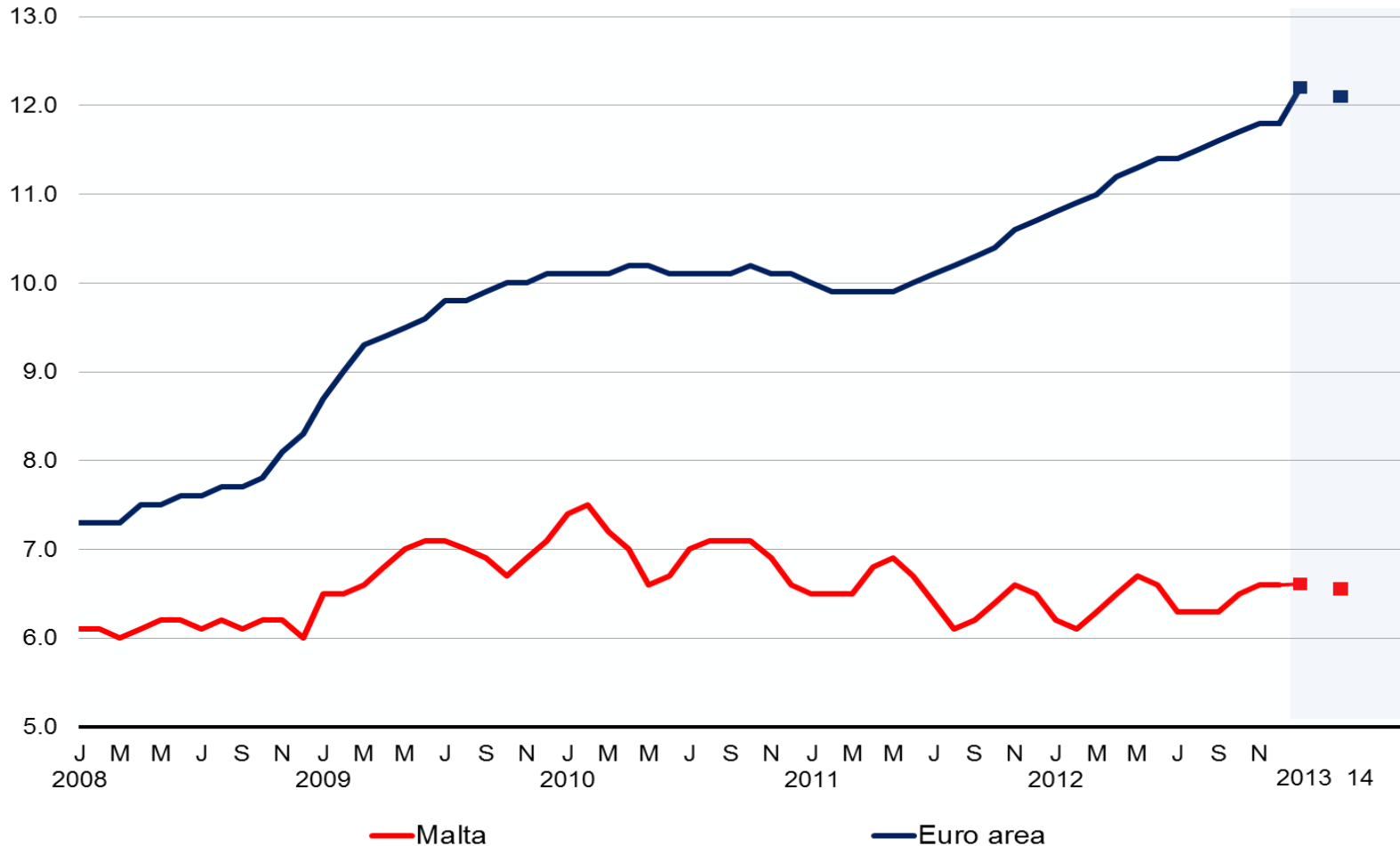
Activity rate based on the LFS
(per cent)





...the unemployment rate remained well below the euro area average...

Unemployment rate
(seasonally adjusted; per cent)

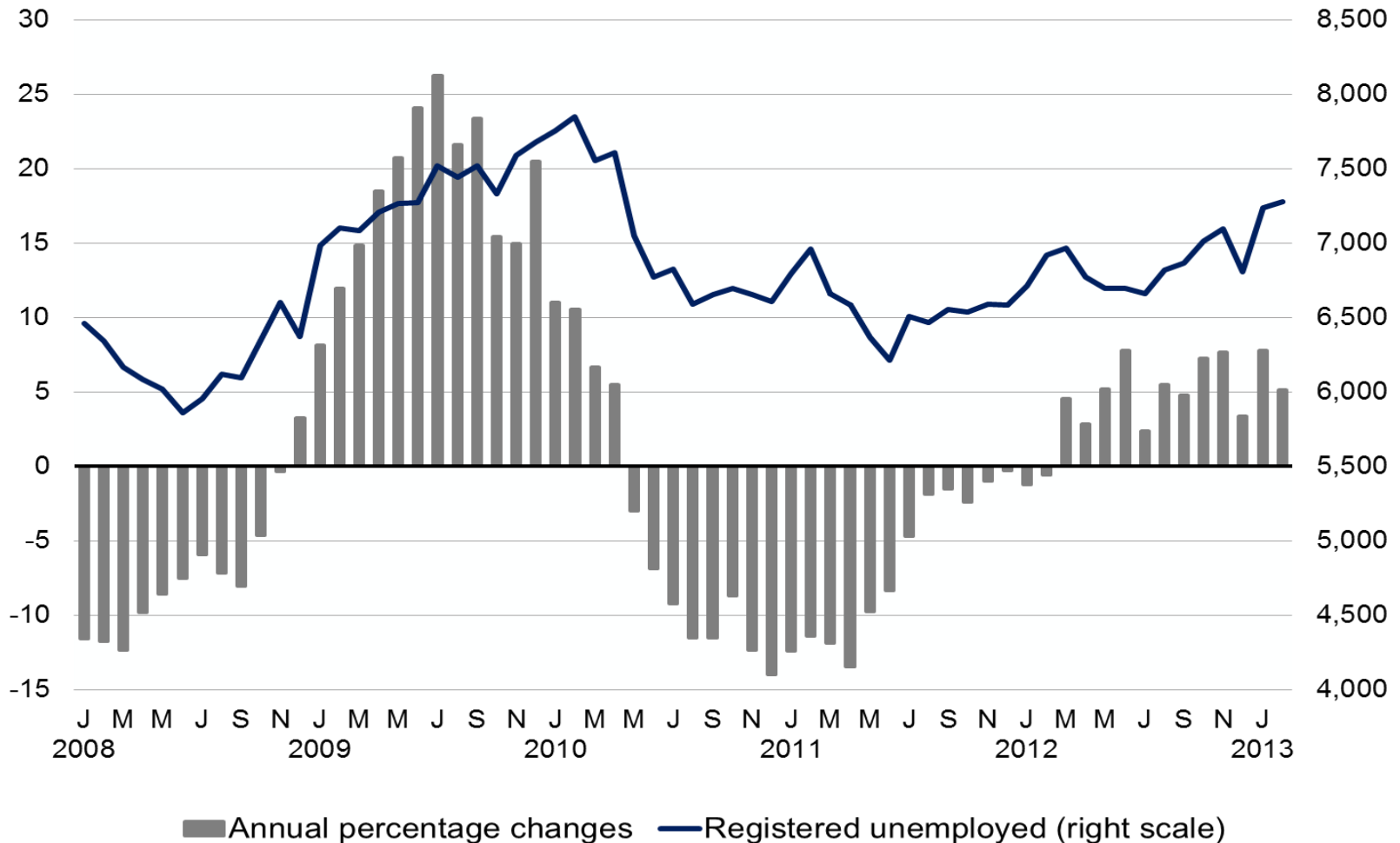


Source: Eurostat, CBM Annual Report 2012 forecasts, Winter 2013 European Commission forecasts. Data for 2008 to 2012 are sourced from Eurostat. Data for 2013 and 2014 are annual forecasts. Forecasts for Malta are taken from the Bank's Annual Report 2012. Those for the euro area are sourced from the European Commission.



...although unemployment is edging upwards.

Registered unemployed
(annual percentage changes; persons)

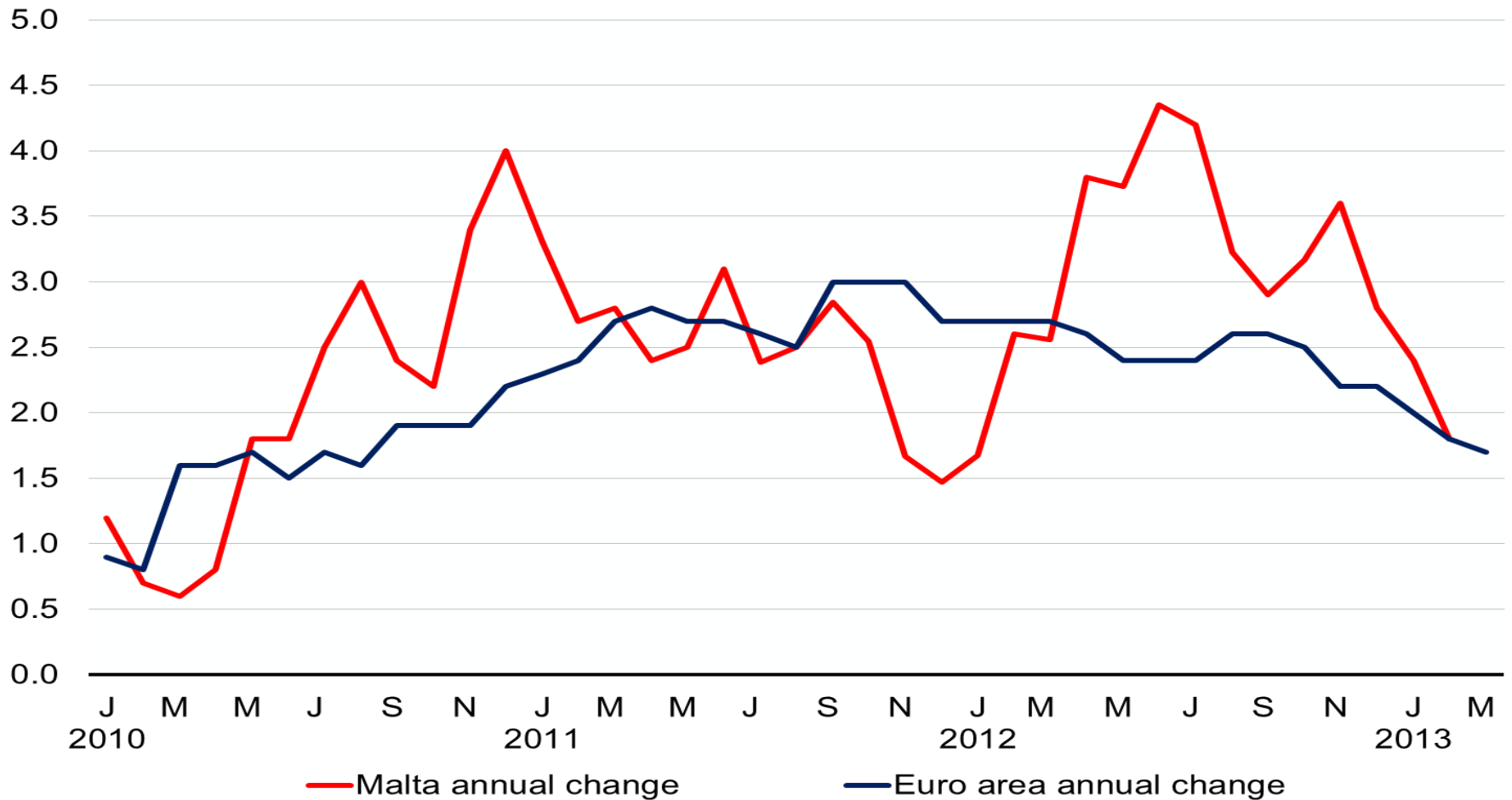


Source: National Statistics Office



Inflation picked up in 2012...

HICP Inflation rates in Malta and the euro area
(annual percentage changes)

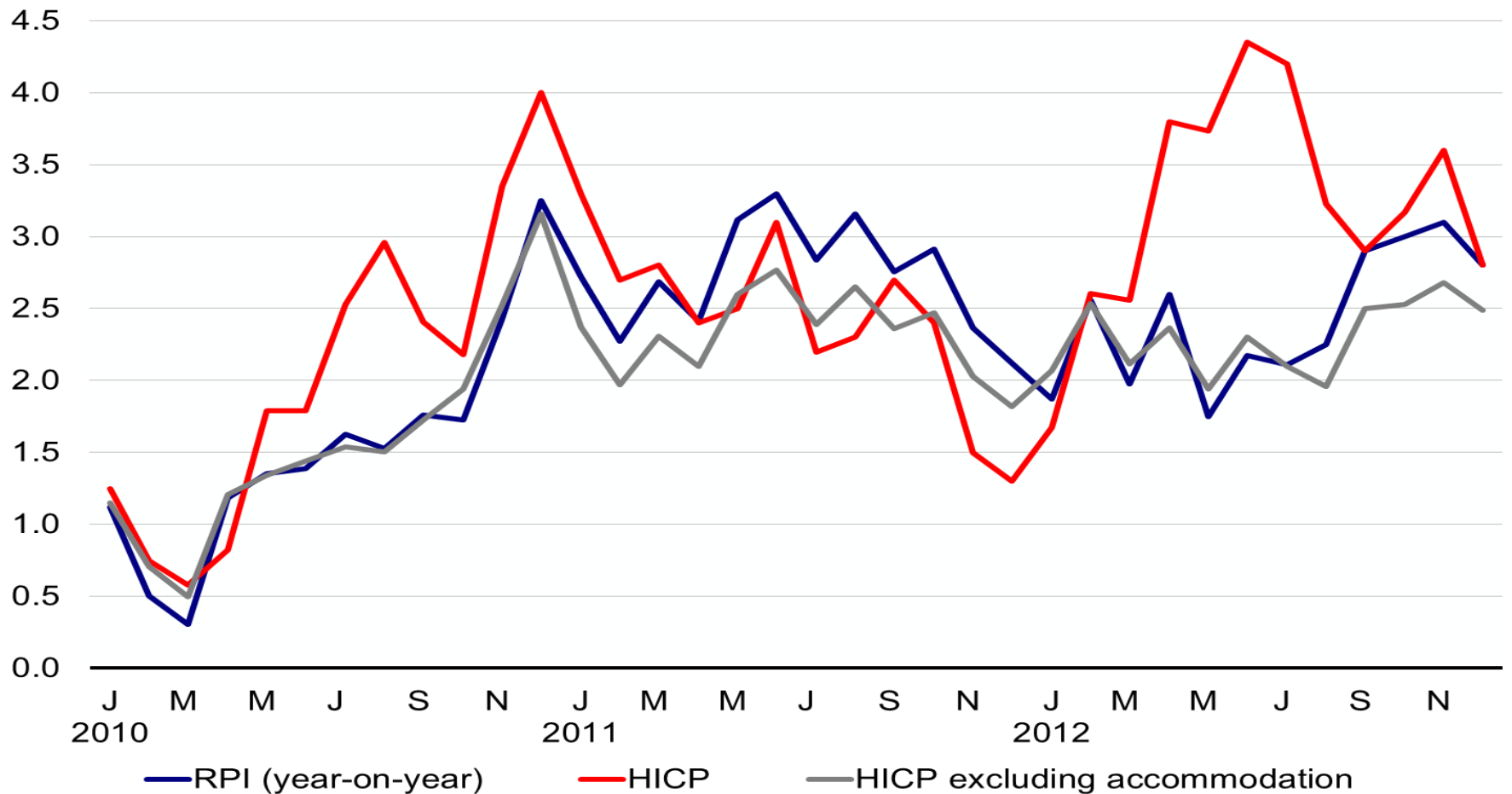


Sources: National Statistics Office; Eurostat



... driven by hotel accommodation rates.

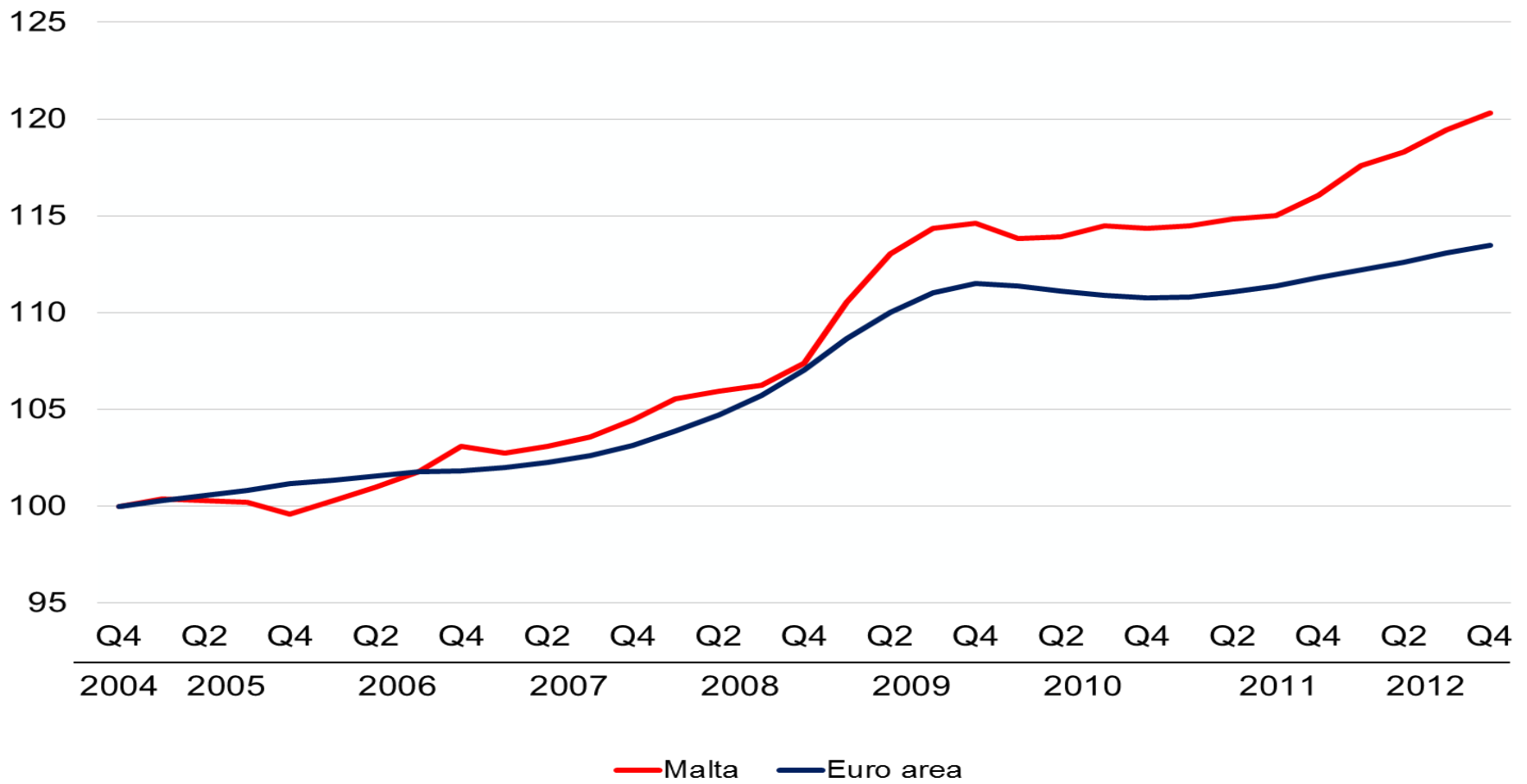
RPI AND HICP
(annual percentage changes)





Unit labour costs outpaced euro area average...

Unit labour costs in Malta and in the euro area *(four-quarter moving average indices; 2004 Q4 = 100)*

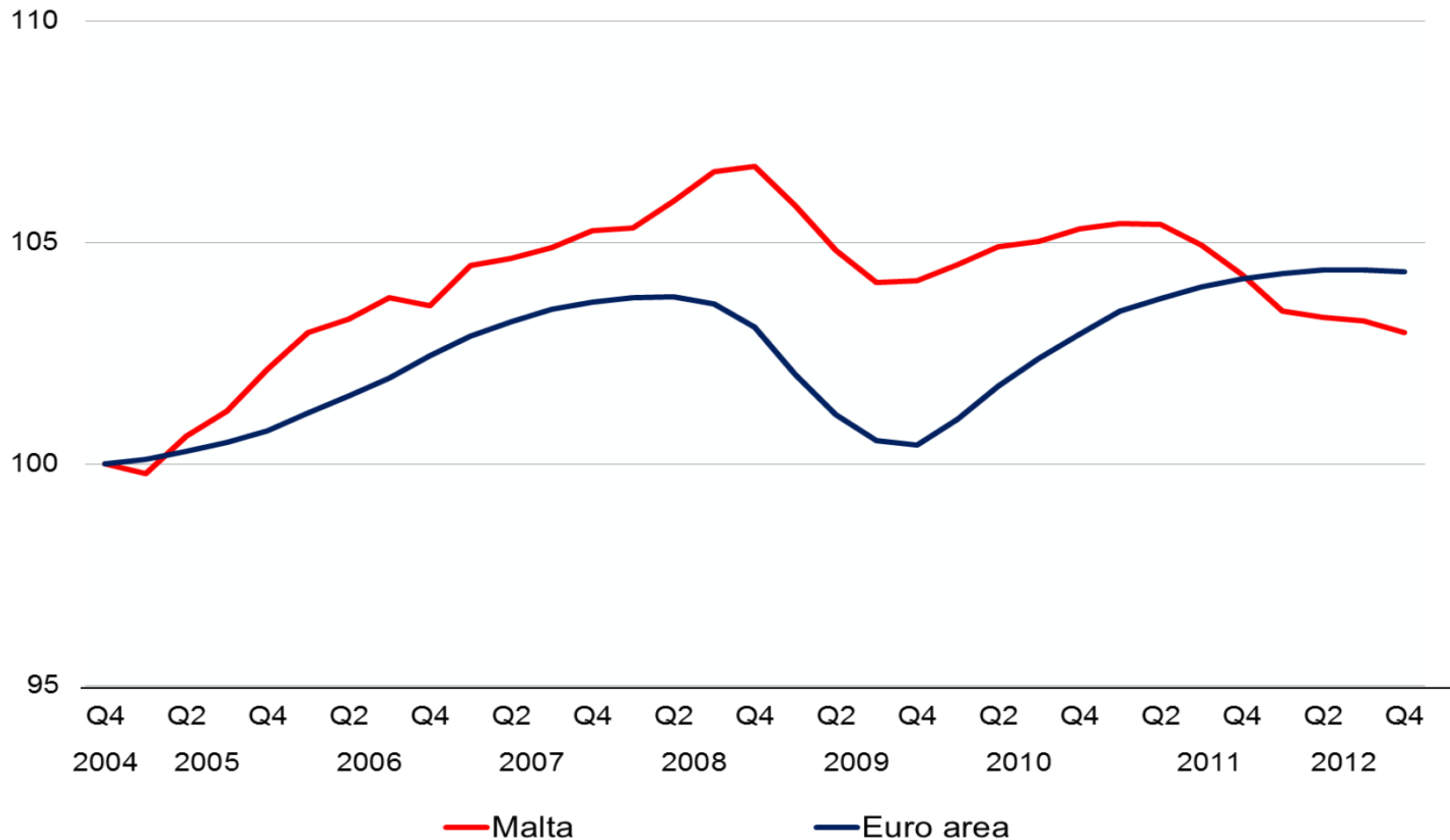


Sources: European Central Bank, Eurostat



...as productivity continued to drop...

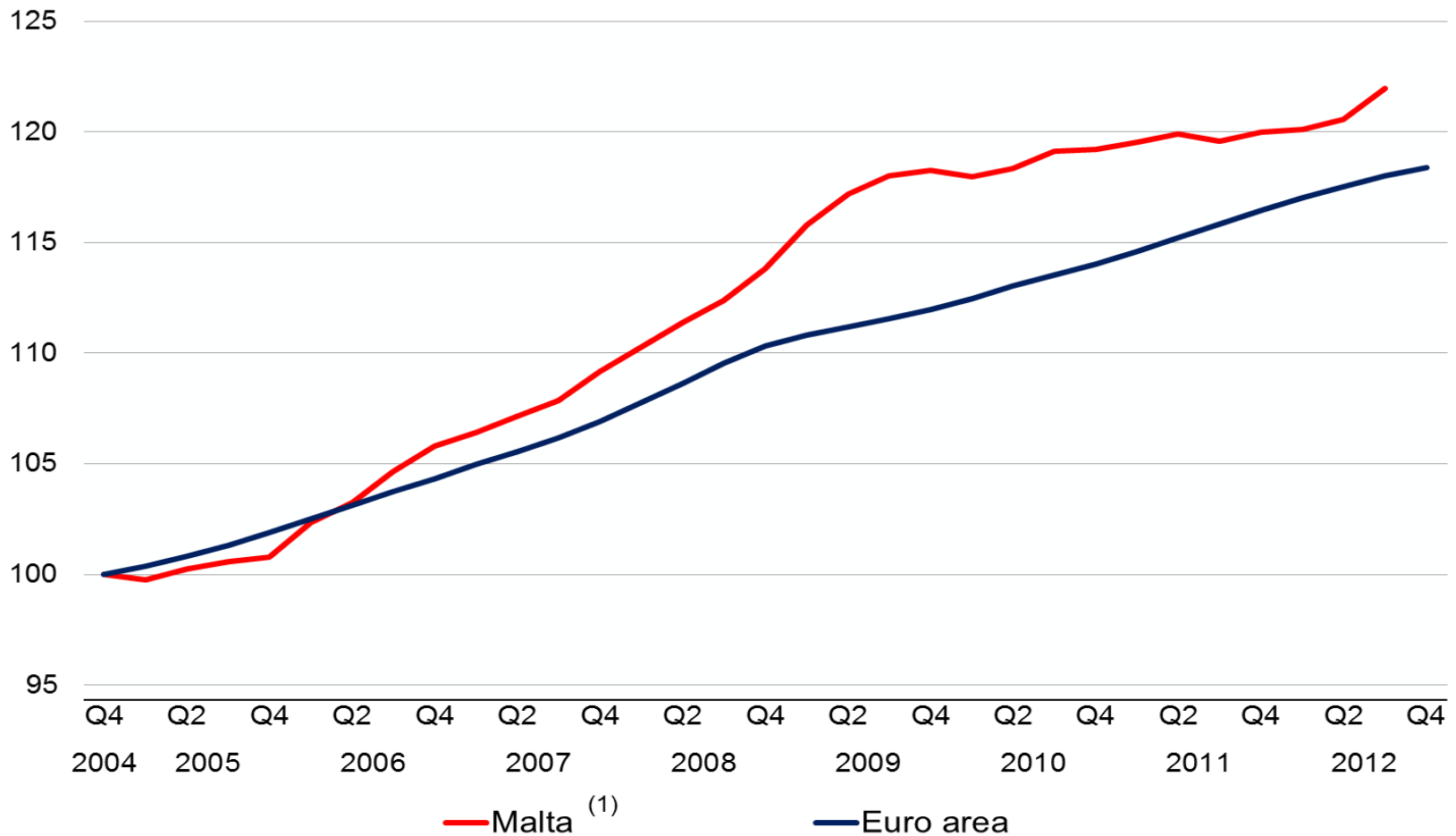
Productivity in Malta and the euro area
(four-quarter moving average indices; 2004 Q4 = 100)





...and compensation per employee increased further.

Compensation per employee in Malta and the euro area (four-quarter moving average indices; 2004 Q4 = 100)



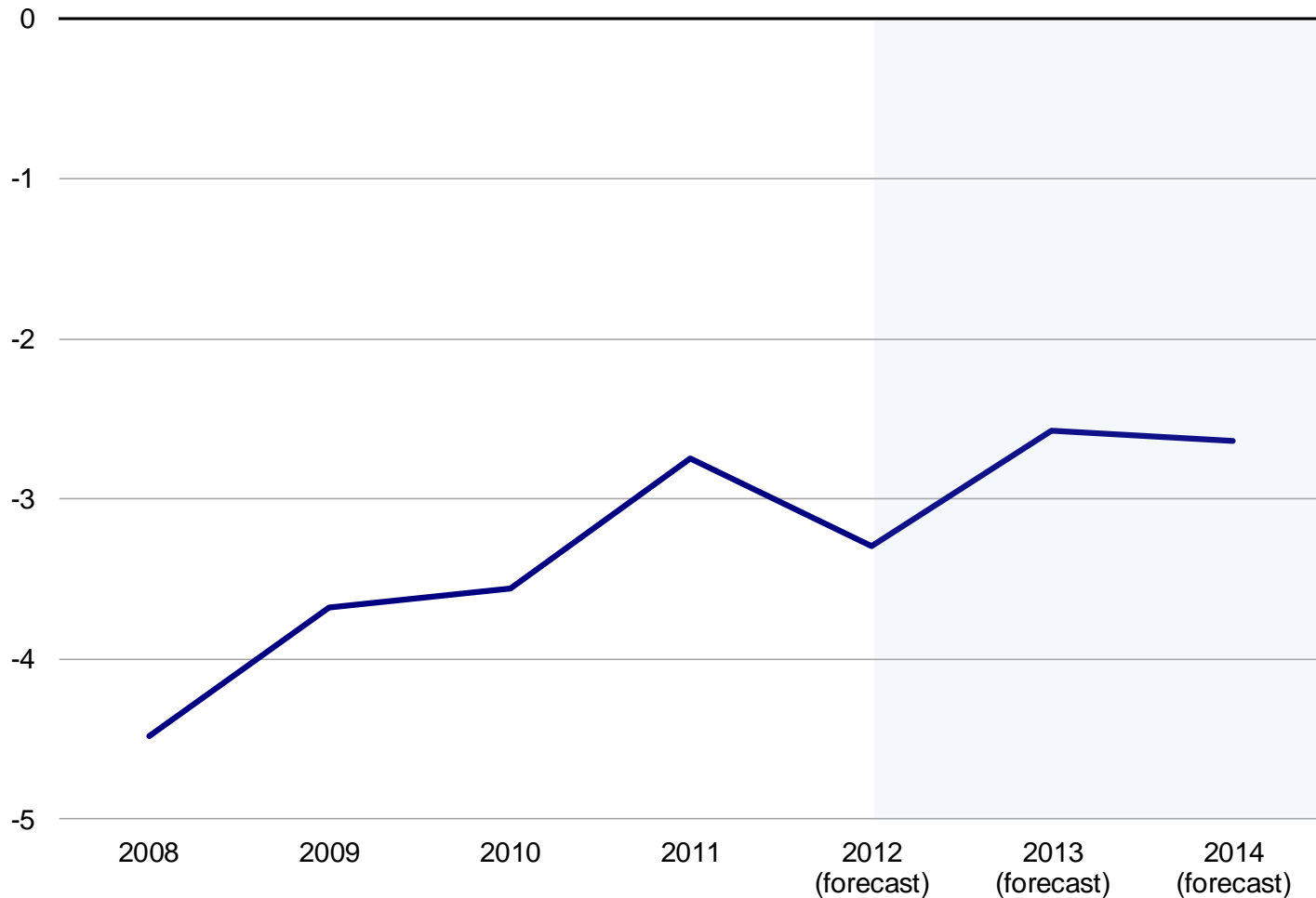
(1) Seasonally adjusted data for Malta for Q4 2012 are not available



The general Government fiscal deficit ratio is forecast to remain stable...

BALANCE TO GDP RATIO

(per cent)

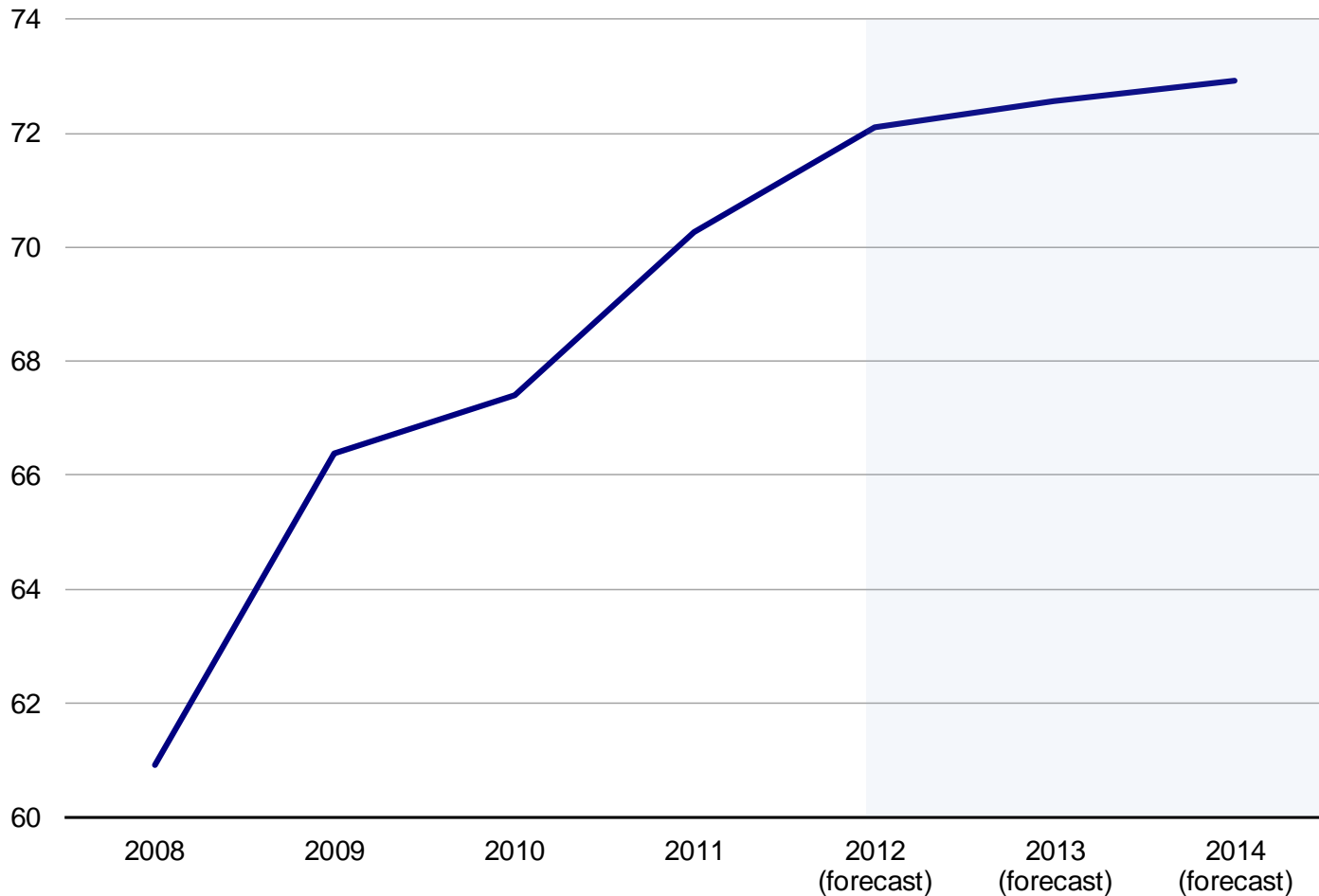


Source: Central Bank of Malta



...whilst the general Government debt is forecast to grow above 70% of GDP...

DEBT TO GDP RATIO (per cent)



Source: Central Bank of Malta



Malta's financial system should be complemented by a Development Bank

- In the light of the level of public debt and the existence of a funding gap in the financial system, the establishment of a Development Bank is recommended
- The financial system can thereby be improved to meet medium and long-term financing needs, particularly for infrastructural, social and environmental projects
- A Development Bank would be instrumental in contributing to a more effective mobilisation of the excess liquidity characterising the financial system and to an efficient deployment of certain government assets, especially underutilised real estate.



Central Bank of Malta's operations



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The Bank's Strategic Plan 2013-2015

The Plan outlines the key strategic priorities that will enable the Bank to:

- Effectively contribute to the formulation and implementation of Eurosystem monetary policy
- Provide independent advice on economic and financial policy matters by playing a leading role in economic and financial analysis
- Fulfil its financial stability function by assuming a leadership role in macro-prudential decisions
- Ensure the robustness and smooth functioning of the financial market and of the payment system, and effectively manage currency issuance
- Manage its resources in an economic, effective and efficient way, thus ensuring a sustainable financial position



A structural macro-econometric model of the Maltese economy is updated

- The model is one of the tools used by the Bank to analyse economic developments, prepare forecasts, and evaluate the potential impact of different economic shocks.
- It is thoroughly revised to include important structural changes experienced by the Maltese economy since EU accession and euro adoption:
 - ▶ growing importance of the services sector
 - ▶ disaggregated financial sector
 - ▶ more realistic monetary policy transmission mechanism
- The model is estimated quarterly, and consists of 19 equations and 130 identities organised into four blocks: supply, aggregate demand, the wage/price block, and the financial block.

The Bank's profit increases

	2010	2011	2012
	<i>(EUR 000's)</i>		
Net Interest Income	55,568	68,679	74,802
Net result of financial operations	6,229	-912	12,194
Other income/expense	12,010	-593	6,266
Staff Costs	-10,934	-9,423	-9,605
Administrative expenses	-3,879	-4,449	-4,863
Other costs and depreciation	-1,376	-838	-567
<i>Net operating profit</i>	<i>57,618</i>	<i>52,464</i>	<i>78,227</i>
CBM provisions	0	0	-11,400
Profit for the year	57,618	52,464	66,827
Transferred to Reserves	-9,618	-10,464	-14,827
Payable to Government	48,000	42,000	52,000



THANK YOU



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