Malta’s banking sector is robust and stable

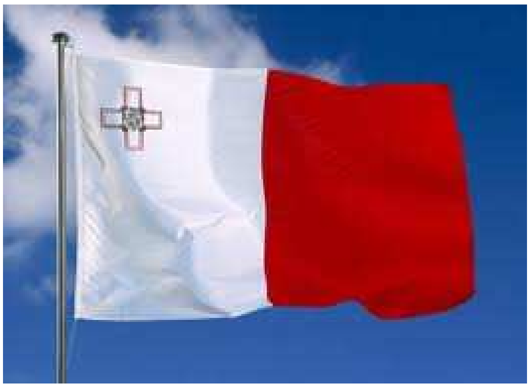
Preamble: What happened in Cyprus?

It is widely known that the two Cyprus largest banks were significantly affected by the Greek financial crisis and suffered severe asset write downs and loses both from their loan portfolio and their holding of Greek government bonds. Consequently the Cypriot government underwrote a capital issue of Laiki Bank which made public finances unsustainable and resulted in the government requesting support from the European Stability Mechanism. As a result of the agreement reached with the Eurogroup:

CYPRUS

- Laiki Bank has entered into a resolution process and will be restructure into a bad bank and a good bank.
- All secured depositors, that is al customer credit balances up to an amount of € 100’000 will be transferred to the bad bank. The secured amount is per physical or legal person and not per account. Unimpaired assets will also be transferred to the good bank to ensure the good banks’ ability to repay its secures depositors.
- All uninsured balances together with non-performing assets will be transferred to the bad bank. On realization of those assets, the unsecured depositors should receive a partial payment on their frozen deposit. This process will obviously take time.
- The Laiki good bank will be merged with the Bank of Cyprus to create a new bank.
- The bank of Cyprus customers with credit balances of less than €100’000 of larger credit balances will be unaffected. A proportion of the excess over €100’000 will be converted into shares in the new bank so as to achieve a capital ratio of 9%. Preliminary estimates suggest that this proportion may be in the region of 35-40%.
- Of critical importance is the fact that these proposals do not affect other banks in Cyprus.
- As part of the Cyprus bailout plan it has been proposed that the corporate tax rate be increased from 10% to 12.5%.

Malta's situation



It is unfortunate that Malta has been undeservedly mentioned in international press as being a possible target for contagion from Cyprus.

Please see below a press release from Malta's Ministry for finance, where it is clearly specified that:

- Malta contributes actively to these institutions' oversight activities which have included the stress-testing of systemically important banks. Furthermore, the national financial regulatory and supervisory system is regularly subject to assessments by international organizations including the EU and the IMF.
- Malta supports the argument of the Luxembourg Government that the banking system of an EU Banking Union, cannot be regarded in isolation. Malta forms integral part of the euro area financial system.
- Malta fully supports an adjustment programme which is required by a Member State to re-establish sound macro-economic and financial stability. In this respect, Malta subscribes to the one-off measures undertaken with regards to Cyprus.
- The Euro Group's statement of 25 March concerning Cyprus calls for the downsizing of its domestic banking sector to reach the euro area average by 2018. The size of Malta's domestic banking system is at present below the euro area average. The five domestically –oriented banks have total assets of 218 percent of GDP, while the eight banks with limited links to the domestic market have assets totalling 77 percent of GDP. The rest of Malta's banking sector is made up of 14 international banks with no links to the domestic economy, with assets totalling 494 percent of GDP.
- Moreover, the asset holding of the total banking sector is well diversified and with very limited exposure to the programme countries. The World Economic Forum ranks Malta 13th out of 144 countries in terms of the soundness of its banking sector. The banking system has strong solvency ratios. It is also well capitalised with an overall capital adequacy ratio above 50 percent, exceeding significantly the minimum regulatory requirement of 8 percent under the Capital Requirement Directive.

Malta's domestic banking system is sound, with total deposits of well under 300% of GDP. There is no risk of contagion and the local government will ensure that Malta remains a safe haven for international business.

Please feel free to contact us with any questions or queries.

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