

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

**Analysis of the Banking Sector in Malta
(2010)**

June 2011

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The International Banking Sector

The international banking market continued to recover in 2010 despite having to face a number of new and recurring challenges along the way. The sovereign debt crisis that came to a head in several euro area economies and the fear that this could trigger the collapse in the banking and financial system led European Governments, central banks and regulators to take emergency measures and triggered off a new round of negotiations on the longer term measures required to address the situation. Various banks saw their profit levels weakening while others were required to take action by regulators to address their weakening capital levels. Funding also became an issue of major concern as the market turned more expensive with investors demanding high premiums for buying sovereign debt.

The Banking Sector in Malta

In spite of the international situation, conditions in the banking sector had registered a marked improvement by the end of 2010. The banking sector in Malta, which was less exposed to the international crisis, continued to perform strongly, registering an overall 21 per cent growth in the assets. Profits also increased though not at the same level recorded in 2009.

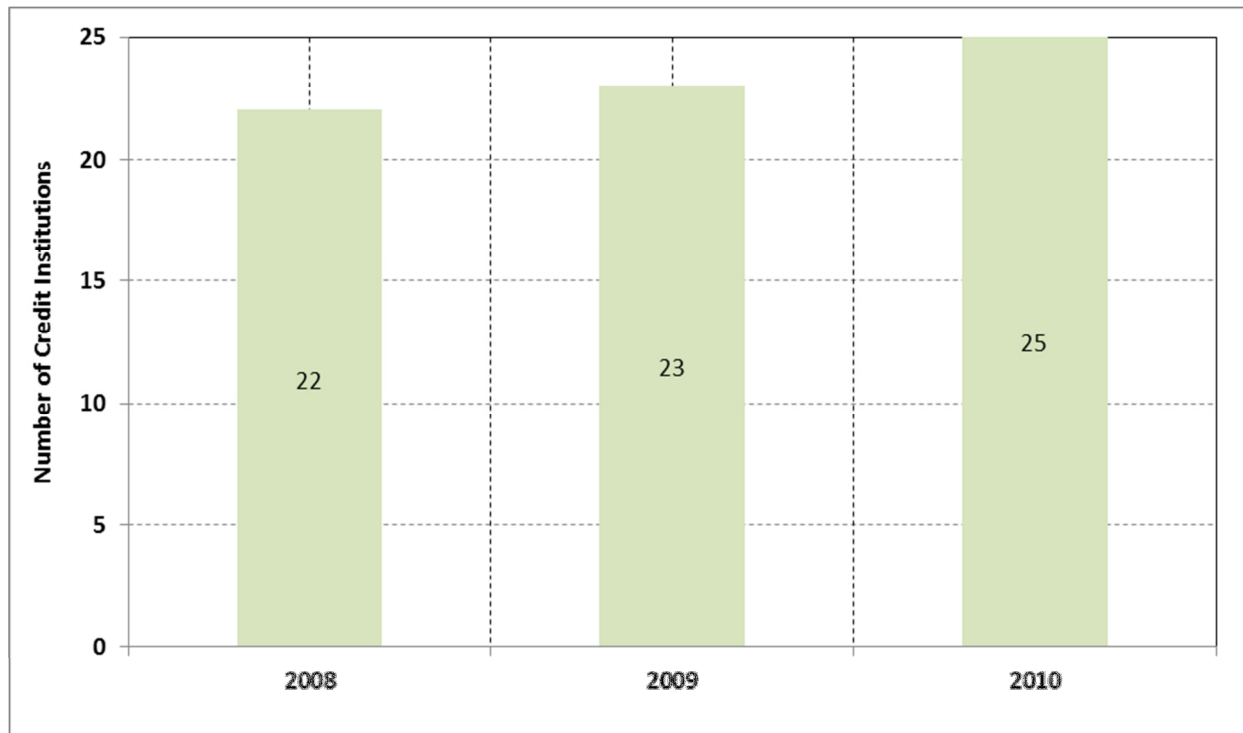
Earlier in 2010, the Committee of European Banking Supervisors (CEBS), in cooperation with the European Commission, the European Central Bank, and the national supervisory authorities, undertook an EU-wide bank stress test of selected banking groups. The Malta Financial Services Authority in conjunction with the Central Bank of Malta carried out the stress test on one of the local banks which was amongst the sample of 91 European banks selected for this exercise. Other locally licensed subsidiary banks with foreign parents were also in the sample but were assessed with their parent institution by their home supervisory authorities. The overall result emanating from the study confirmed the resilience of the selected locally licensed bank and subsidiary banks.

Credit Institutions in Malta

As at end 2010, the total number of registered credit institutions was 25, two more than in the previous year (Figure 1 refers). During 2010, two companies were licensed to carry out banking activities as credit institutions, namely *FCM Bank Limited* and *IIG Bank (Malta) Limited*. Another company, namely *Deutsche Bank (Malta) Limited*, had its license upgraded from a financial institution licence to a credit institution licence.

In accordance with the provisions of the Banking Act, the Authority revoked the credit institution licence granted to *The International Banking Corporation (Malta) plc* in 2007.

Figure 1: Number of credit institutions in Malta.



Source: Malta Financial Services Authority.

Branch Network and Electronic Delivery Channels

The number of bank offices and branches throughout Malta increased from 133 in 2009 to 136 in 2010. The number of ATMs reached 181 while there were 670,300 cards with a cash function.

Table 1: Distribution of bank offices, ATMs, POS terminals, and payment cards in Malta.

	2008	2009	2010
Bank Offices	129	133	136
ATMs	166	179	181
POS terminals	10,297	11,438	12,000
Payment cards	606,906	640,922	670,300

Source: ECB, Malta Financial Services Authority.

Notes to Statistics

1. The 2010 figures available of a number of credit institutions were still unaudited at the time of presentation of this report and may be subject to change.
2. The banking sector comprises of all 25 credit institutions licensed by the MFSA and one bank which operates through the freedom of establishment.

Capital Requirements Ratio and Ratio of Original Own Funds

The capital requirements ratio of the aggregate banking sector, which is defined as the percentage of the aggregate banks' total own funds to their total risk-weighted assets, increased from 24.34 per cent in 2009 to 57.06 per cent in 2010. This reflects an increase of 32.72 percentage points over the period 2009 – 2010.

Aggregate original own funds expressed as a percentage of total risk-weighted assets increased from 23.47 per cent to 54.69 per cent over the period 2009 - 2010 resulting in an increase of 31.22 percentage points.

Table 2: Capital requirements ratio and ratio of original own funds.

	2008	2009	2010
Capital requirements ratio (%)	17.86	24.34	57.06
Original own funds to risk-weighted assets (%)	16.17	23.47	54.69

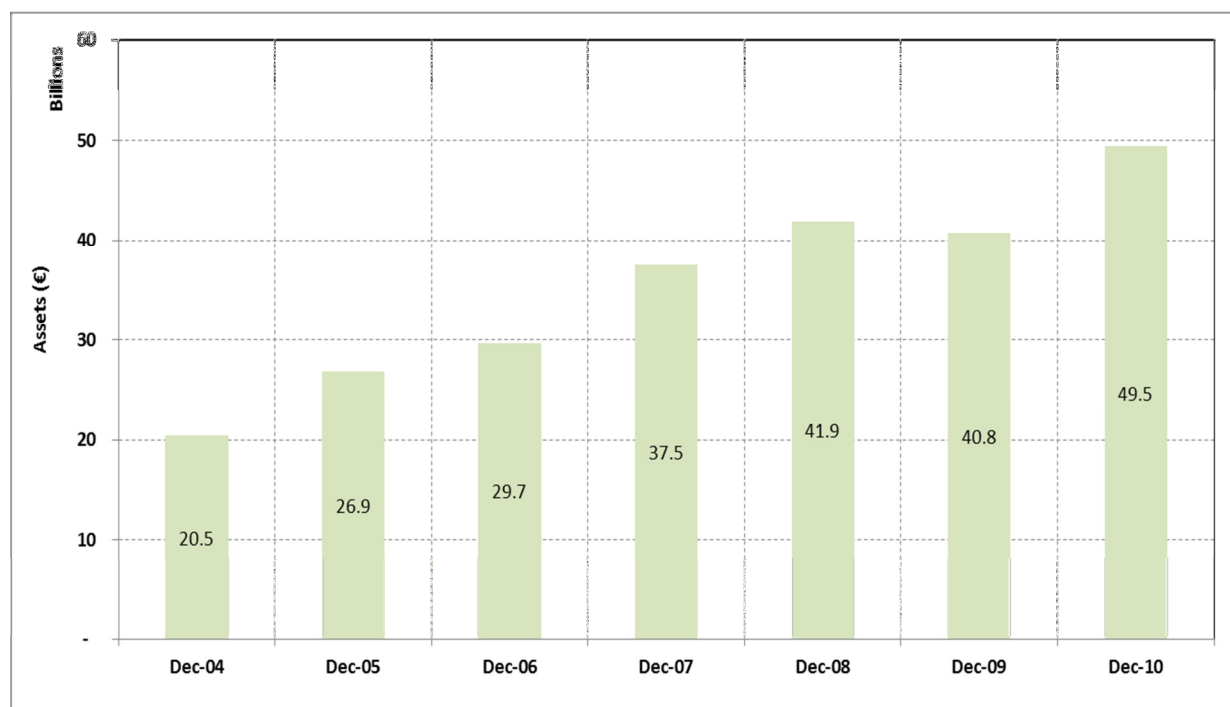
Source: Malta Financial Services Authority.

Total Assets in the Banking Sector

There was an increase of almost nine billion euros or 21 per cent in the total assets of the banking sector in Malta over the period 2009 - 2010. As at end 2010, the total assets of the banking sector in Malta amounted to €49.5 billion (Figure 2 refers).

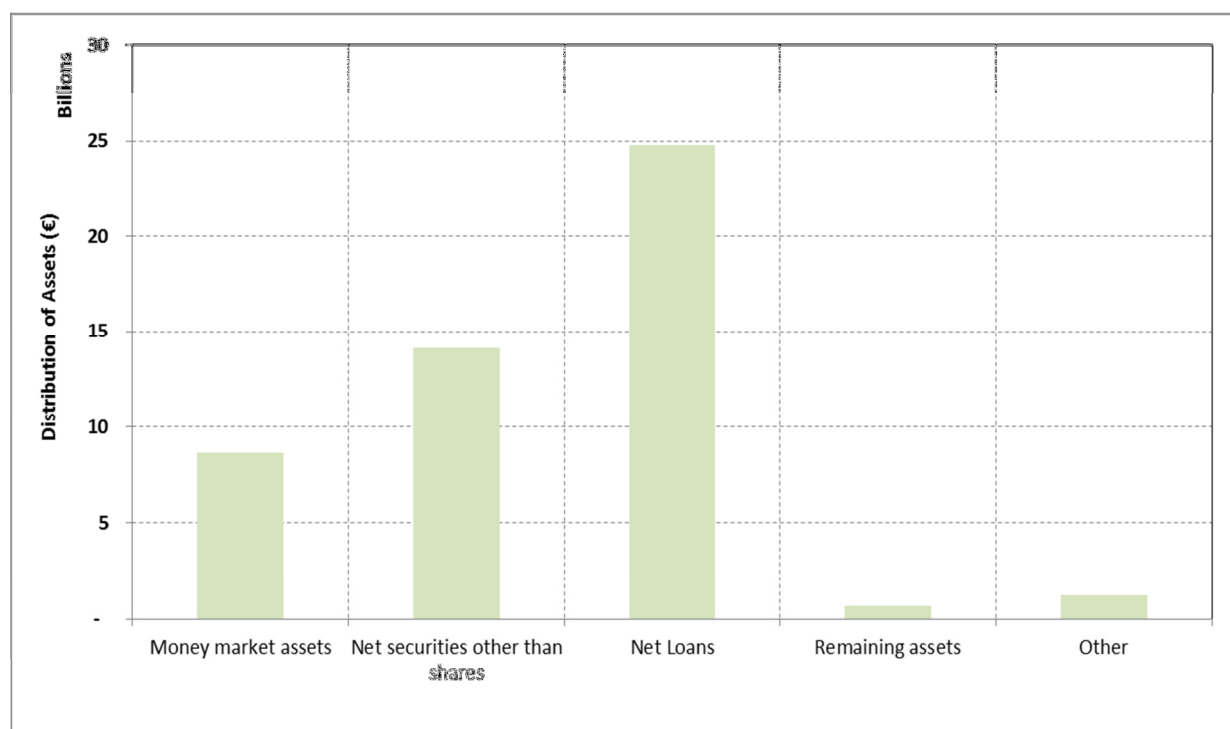
The distribution of bank assets in the banking sector was as follows: 'Net loans' contributed 50 per cent of the total assets distribution in 2010, 'Net securities other than shares' had a share of 28.6 per cent and 'money market assets' contributed to 17.6 per cent of the total assets in 2010 (Figure 3 refers).

Figure 2: Total assets in the banking sector.



Source: Malta Financial Services Authority.

Figure 3: Distribution of total assets in the banking sector in 2010.

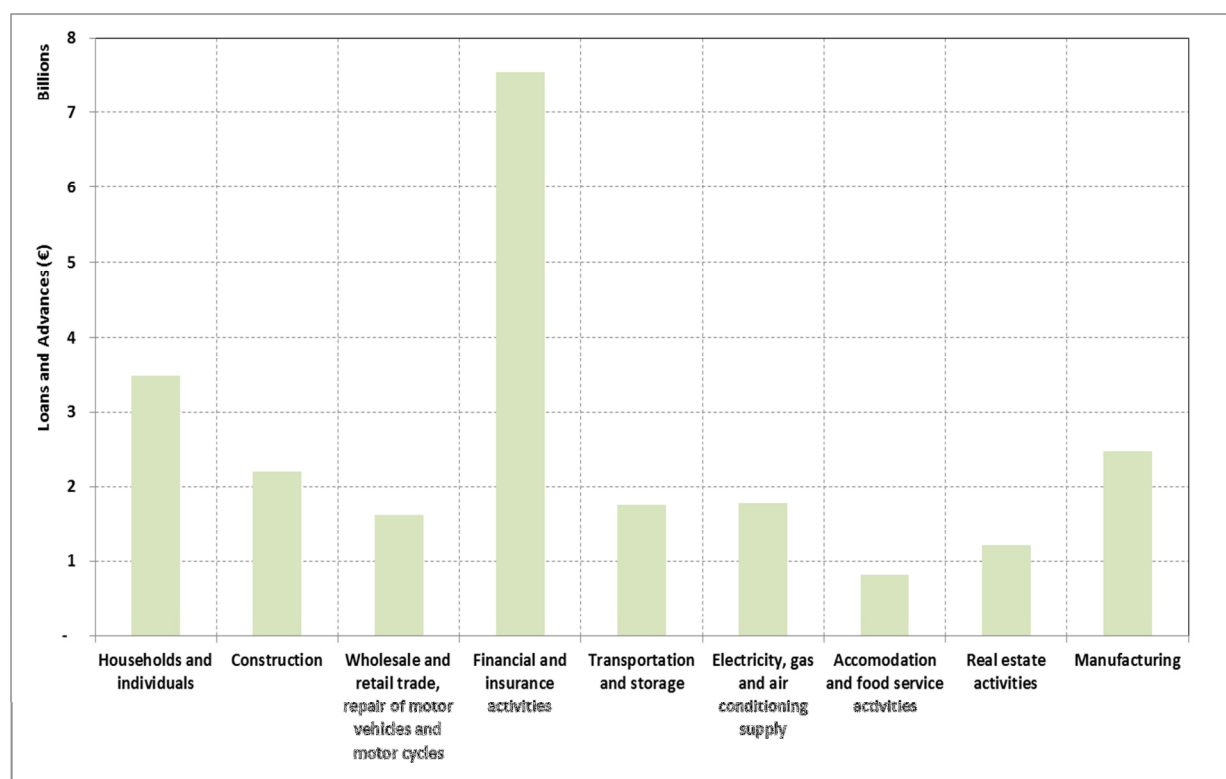


Source: Malta Financial Services Authority.

Loans and Advances by Sector

Loans and advances in the banking sector in Malta increased by 11.6 per cent over the period 2009 – 2010 after registering a drop of 13.7 per cent over the period 2008 - 2009. In 2010, 30 per cent of the loans in the banking sector were advanced to the '*financial and insurance*' sector. This was followed by the '*households and individuals*' sector with a share of 14 per cent and '*manufacturing*' sector with a contribution of almost 10 per cent.

Figure 4: Loans and advances by sector in 2010.



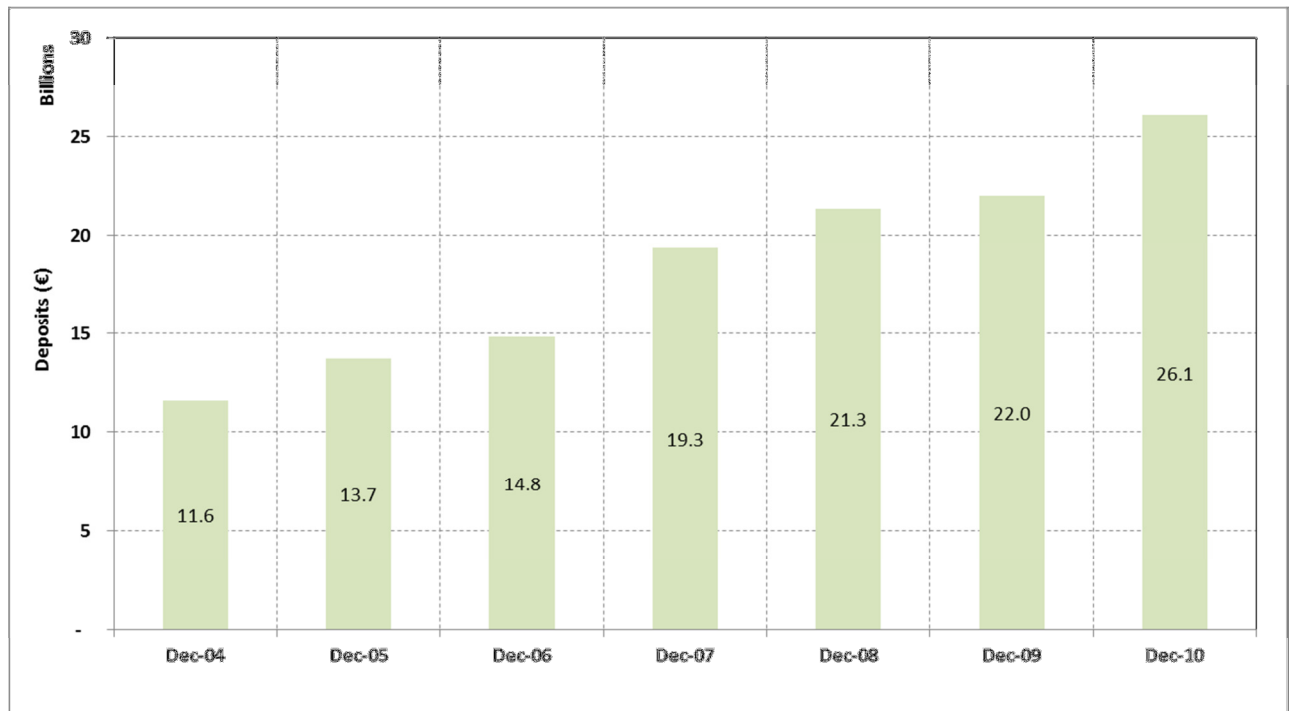
Source: Malta Financial Services Authority.

Total Deposits in the Banking Sector

The total deposits in the banking sector reached €26.1 billion in 2010. This represents an increase of almost four billion euros, or 18.6 per cent, over 2009 and an increase of 14.5 billion euros, or 124.3 per cent, over the period 2004 – 2010 (Figure 5 refers).

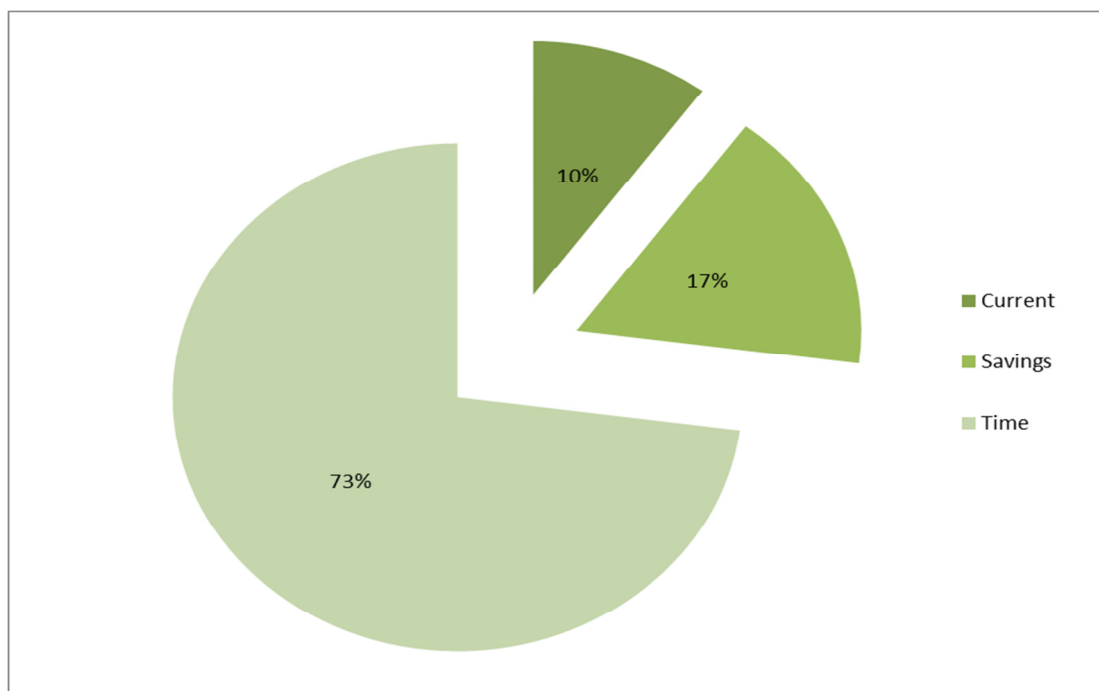
The composition of deposits in the banking sector in 2010 was: 72.9 per cent were time deposits, 17 per cent were savings accounts while current accounts amounted to 10.1 per cent of total aggregate deposits (Figure 6 refers).

Figure 5: Total deposits in the banking sector.



Source: Malta Financial Services Authority.

Figure 6: Distribution of total bank deposits in 2010.

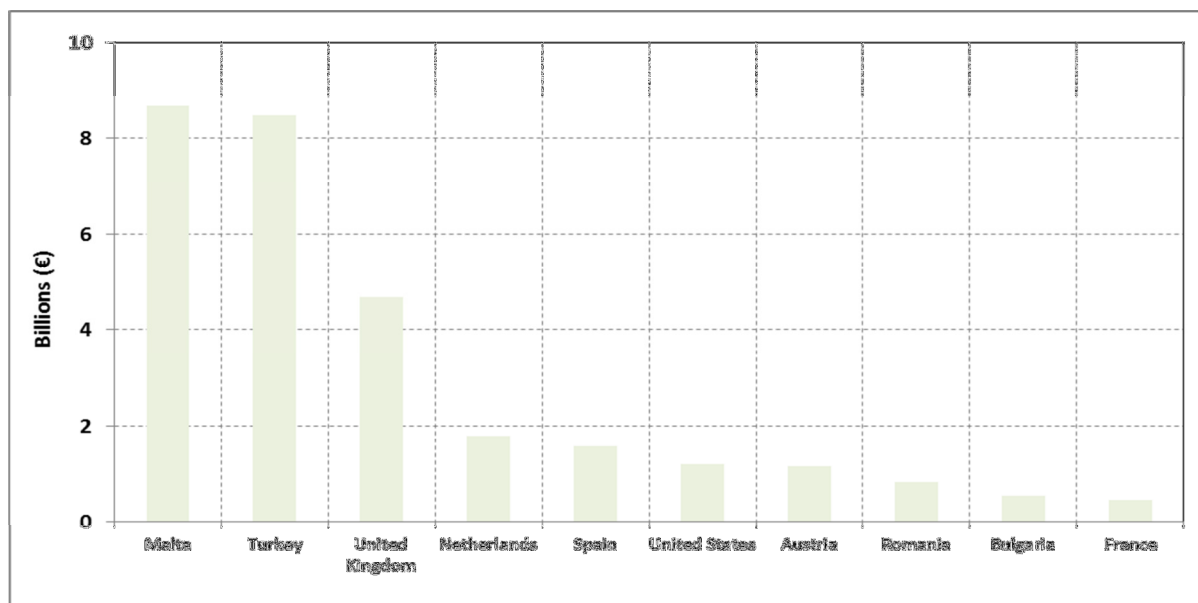


Source: Malta Financial Services Authority.

International Assets (including loans) and Liabilities (including borrowing and deposits)

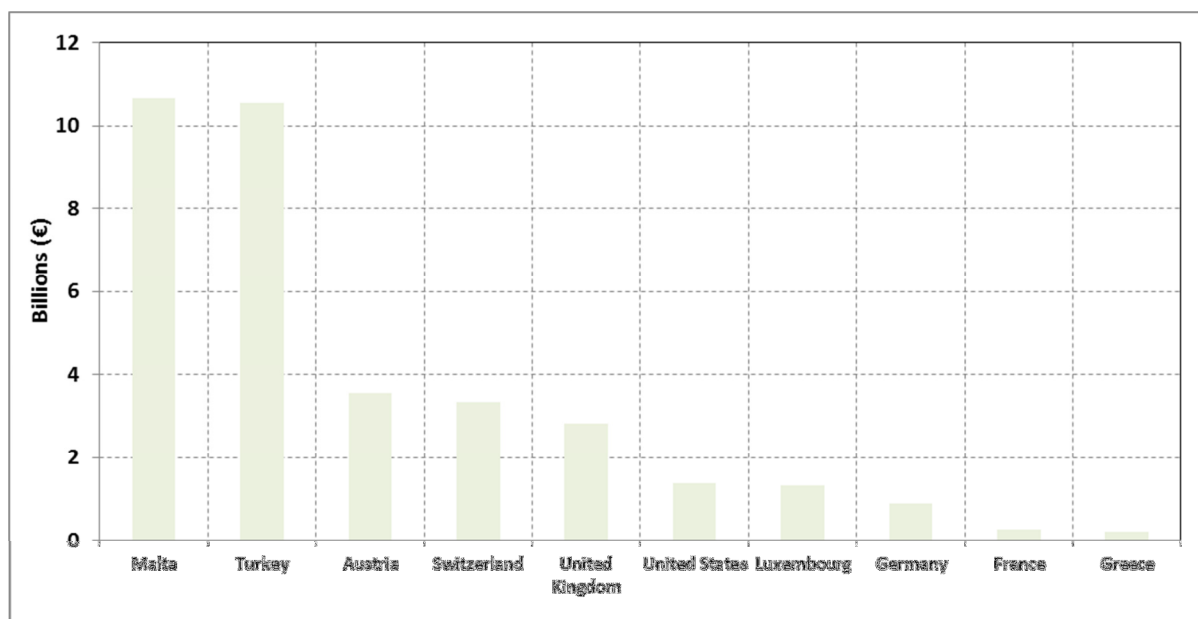
An analysis was carried out on the level of international lending and borrowing by credit institutions licensed in Malta in 2010. The top ten countries by bank borrowing/lending in the aggregate banking sector are illustrated in figures 7 and 8 respectively.

Figure 7: International lending and borrowing – top ten countries by assets.



Source: Malta Financial Services Authority.

Figure 8: International lending and borrowing – top ten countries by liabilities.



Source: Malta Financial Services Authority.

More detailed analysis about the performance of the Banking Sector in Malta can be found in the MFSA's Annual Report 2010.