KPMG

Banking in Malta

2016 / 2017

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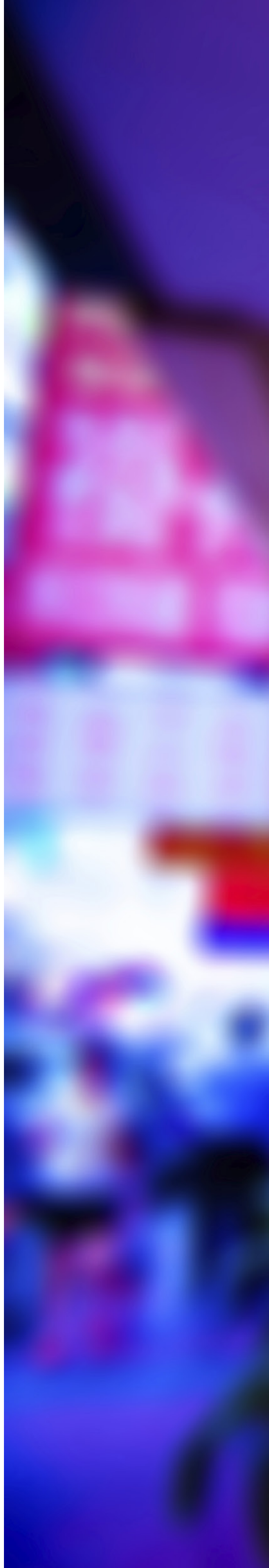


Our Leading Experts

Noel Mizzi,
Partner
Audit Services

Noel heads the operations side of the Audit practice in Malta and started off his professional career with KPMG when he graduated in 1988. He has undergone financial services specific training with KPMG in London and Brussels and at INSEAD in France. He has been critical in developing dedicated financial services audit resources in the Malta office and over the years has been responsible for most of the firm's financial services entities. Noel is the principal technical advisor on the firm's financial sector clients and his audit portfolio over the years has included financial and credit institutions, insurance companies, fund administration companies etc. Noel is also a member of the firm's Executive Management Committee and Professional Practice Committee.

Anthony Pace,
Partner
Head of Tax Advisory Services

Anthony commenced his career in the firm's audit function in 1990. In 1995 he joined the taxation services department and has since specialised in income tax and value added tax. Anthony has led numerous direct and indirect tax advisory engagements in the financial services industry and has also led several tax due diligence engagements. Anthony is a member of the Executive Management Committee at KPMG Malta. He is also a visiting lecturer in taxation at the University of Malta.

Alex Azzopardi,
Director
Risk Consulting Advisory

Alex joined the firm in 2005 and is a leader within the Risk Consulting Advisory team. His portfolio includes AML Advisory, Internal Audit, Corporate Governance Advisory and Regulatory Compliance services. Alex has worked on a number of AML-related assignments including ones whose objective was to determine alignment with requirements and good practice as well as larger projects designed to assist clients to enhance their controls following their visits by the Regulator. Alex, an accountant by profession, has been involved in assignments within a number of sectors including Gaming, Banking, Financial Institutions, Investment Services and Insurance. He has led a number of engagements in the AML/CFT and ABC space focusing on internal audits of controls, provision of training and enhancements of policies and procedures including Business Risk Assesments. Alex regularly pens articles in local business-related periodicals and is the Chairman to the Committee of the Malta Forum of Internal Auditors. Alex is also the Head of IARCS, KPMG Islands Group.

Why Malta?

"Fitch expects the Maltese economy will continue to outperform EU peers, with projected average real GDP growth of 3.2% in 2016-2017, broadly in line with the 'A' median." (Reuters, 2016)

A big part of Malta's economic growth can be attributed to the excellent regulation of banks and the financial services sector. Maltese banks have a strong local deposit base, and the banking sector is not significantly exposed to foreign sovereign debt risks. Furthermore, assets held by the island's five core banks are twice the size of Malta's GDP, which itself is only half the EU average. (FinanceMalta, 2015)

Malta's economy is growing strongly. Real GDP growth has been one of the highest in the euro area since the beginning of the crisis, supported by vibrant domestic demand, large infrastructure projects, and a stable banking sector. Unemployment is at historical lows and labor participation is increasing. (IMF, 2016)

The financial service market contributes to GDP up to 13% with more than 10,000 individuals employed in the sector. In Malta, the GDP has been increasing at over 3% per annum compared to the EU average of 1.3%. (FinanceMalta,2015)

"The outlook is strong. Growth is expected to remain solid in 2016–17, driven initially by domestic demand and later by a gradual recovery of external demand."(IMF, 2016)

"We project that the Maltese Economy will expand by 2.8% annually in real terms during 2016-18. The Outlook remains positive." (S&P, 2016)

Following the financial crisis, unlike other EU peers, Malta's financial services sector remained strong.

A robust growth outlook and reliable access to domestic funding.

Public debt is mainly held by Maltese residents at 97%.

Malta has high education attendance with around 60% of students going on to tertiary education.

Overview of the Maltese Economy

Malta has a robust regulatory framework and enjoys a flexible and proactive Regulator that is considered to be approachable and business-minded.

Malta boasts a strong tourism industry at 25% of GDP.

The gaming industry in Malta has certainly made its mark. An important sector that not only attracts foreign investment but also creates important employment opportunities.

The Tourism industry in Malta is a necessity for further Economic Growth. The number of tourists on the island on average in the summer months is approximately 360,000.

Factors contributing to Malta's competitive advantage

Considered to be a stepping stone into other European and also North African markets.

No restrictions on the granting of work permits for EU and EEA nationals.

International Financial Reporting Standards, as adopted by the EU, are entrenched in company legislation and have been applicable since 1997.

An ever-growing supply of high-quality office space for rent at cheaper prices than Western Europe.

Specific training in financial services is offered at various post-secondary and tertiary education levels. The accounting profession is well-established on the island. Accountants are either university graduates or in possession of a certified accountant qualification (ACA/ACCA).

A reputable Stock Exchange

Flexible legal and regulatory environment with a legislative framework in line with EU Directives.

With an excellent infrastructure, Malta may boast of more than 16 years of offering cross-border financial services.

A very competitive tax regime, also for expatriates, and an extensive and growing double taxation treaty network, which stands at over 65 treaties in force.

Major International accountancy firms, including the Big 4 firms are also present on the island. Many legal firms tend to form part of international legal networks whilst many professionals in both areas pursue studies and training overseas.

Maltese standard time is one hour ahead of Greenwich Mean Time (GMT) and six hours ahead of US Eastern Standard Time (EST) so business runs smoothly with the international community.

International Rankings

The World Economic Forum, in the 2016-2017 Global Competitiveness Report, placed Malta amongst the top 15 financial services jurisdictions, out of 144 world economies. The World Economic Forum's Global Competitiveness Report 2016-2017 places Malta at:

- **2nd** place for expats to live in*
- **15th** place in terms of Strength of Auditing and reporting
- **16th** soundest banking System
- **19th** quality of Educational System
- **29th** place for availability of Financial Services
- **30th** place for affordability of Financial Services
- **31st** place in terms of country credit rating

**(World Economic Forum's: The top 10 countries for expats article by Sarah Schmalbruch August 2015)*

Regulators

Malta Financial Services Authority (MFSA)

Since its establishment in 2002, the MFSA has been the sole Regulator for financial services in Malta. Its key functions include regulating the conduct of the financial services industry, by publishing rules, regulations and guidance notes to the industry, supervising the industry through its various Supervision Units and liaising with national and supranational organisations such as the European Central Bank (ECB). The regulation and supervision conducted by the MFSA mainly encompasses credit institutions, financial institutions, securities and investment services, regulated markets, insurance companies, pension schemes and trustees. Malta's Registry of Companies is also housed within the MFSA.

On the 4th November 2014, the ECB announced that it would be responsible for the supervision of Euro Area banks. Credit Institutions are currently supervised by the Single Supervisory Mechanism (SSM) and the MFSA (National Competent Authority for Malta) through a joint-supervisory approach.

Significant Institutions (SI's) are supervised directly by the ECB while Less Significant Institutions (LSI's) are supervised directly by National Competent Authorities (NCAs) with indirect supervision from the ECB.

The Malta Financial Services Authority is the single Regulator for the insurance, pensions and investment services (securities) business in Malta while in the case of banking, it acts as a National Competent Authority (NCA). The MFSA adopts a firm but flexible approach to regulation. The MFSA operates under the supervision of the European Central Bank through the Single Supervisory Mechanism regulating Credit Institutions across the EU.

The licensing process is personalised

Regulation is business-friendly and mindful of business needs

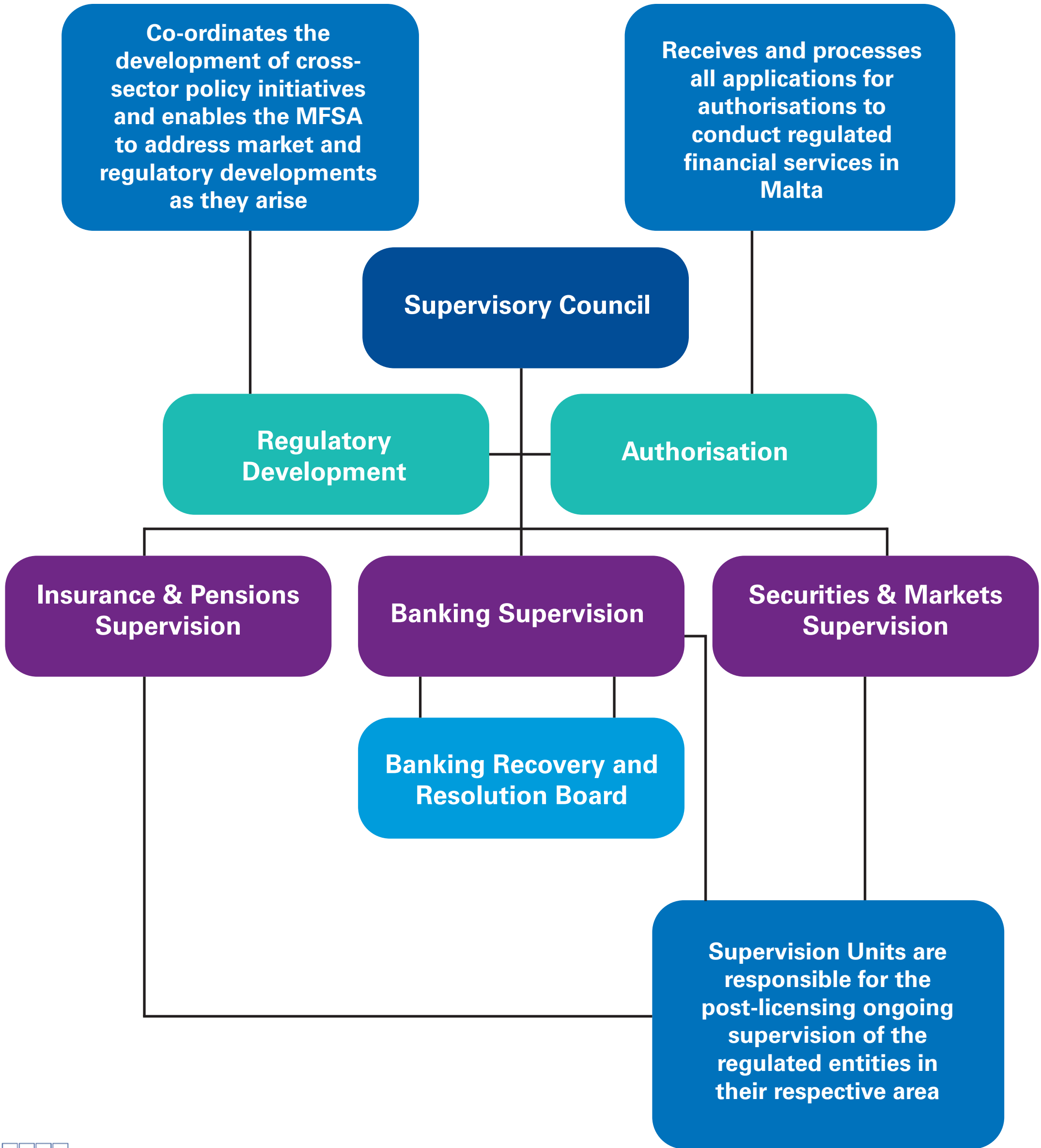
Business oriented and efficient at transposing all potentially beneficial discretionary clauses in EU Directives

Supervision is risk based and minimally intrusive

Several institutions in Malta choose to target "niche" segments of the market

The MFSA is open to new business models

The MFSA Structure



Central Bank of Malta (CBM)

The role of the CBM has evolved substantially since it was established in 1968. Originally, the Central Bank was tasked with the implementation of exchange rate policy, the management of the country's reserves, banking supervision, and the provision of currency and banking services to the government, public sector and banks.

In 1994, the CBM's operations and the industry as a whole began to modernise with the Bank gaining more autonomy in the determination of monetary policy. In 2002, the Central Bank was granted full autonomy as Malta prepared for EU membership. In 2004, responsibility for the supervision of the Malta Stock Exchange (MSE) and the banking sector was transferred to the MFSA. Since then, the Central Bank's sole focus has been the maintenance of financial stability.

Upon gaining EU and Eurosystem membership, in 2004 and 2008 respectively, the CBM became part of the European System of Central Banks (ESCB). The CBM is now integrated within the decision making bodies of the ECB.

Financial Intelligence Analysis Unit (FIAU)

The FIAU became operational in 2002, and as an independently operating unit, aids in the flow and analysis of information so as to combat money laundering and the funding of terrorism. The FIAU is part of the Egmont Group, the informal international association of Financial Intelligence Units, currently comprised of 147 members.

Alongside its watchdog obligations, the organisation is tasked with the education and training of professionals working in the financial services industry, so as to develop the relevant skills and awareness in anti-money laundering. The FIAU has recently expanded its operations, so as to increase its monitoring, analytical, and administrative capacity to enable it to fully meet the challenges it will face over the coming years.

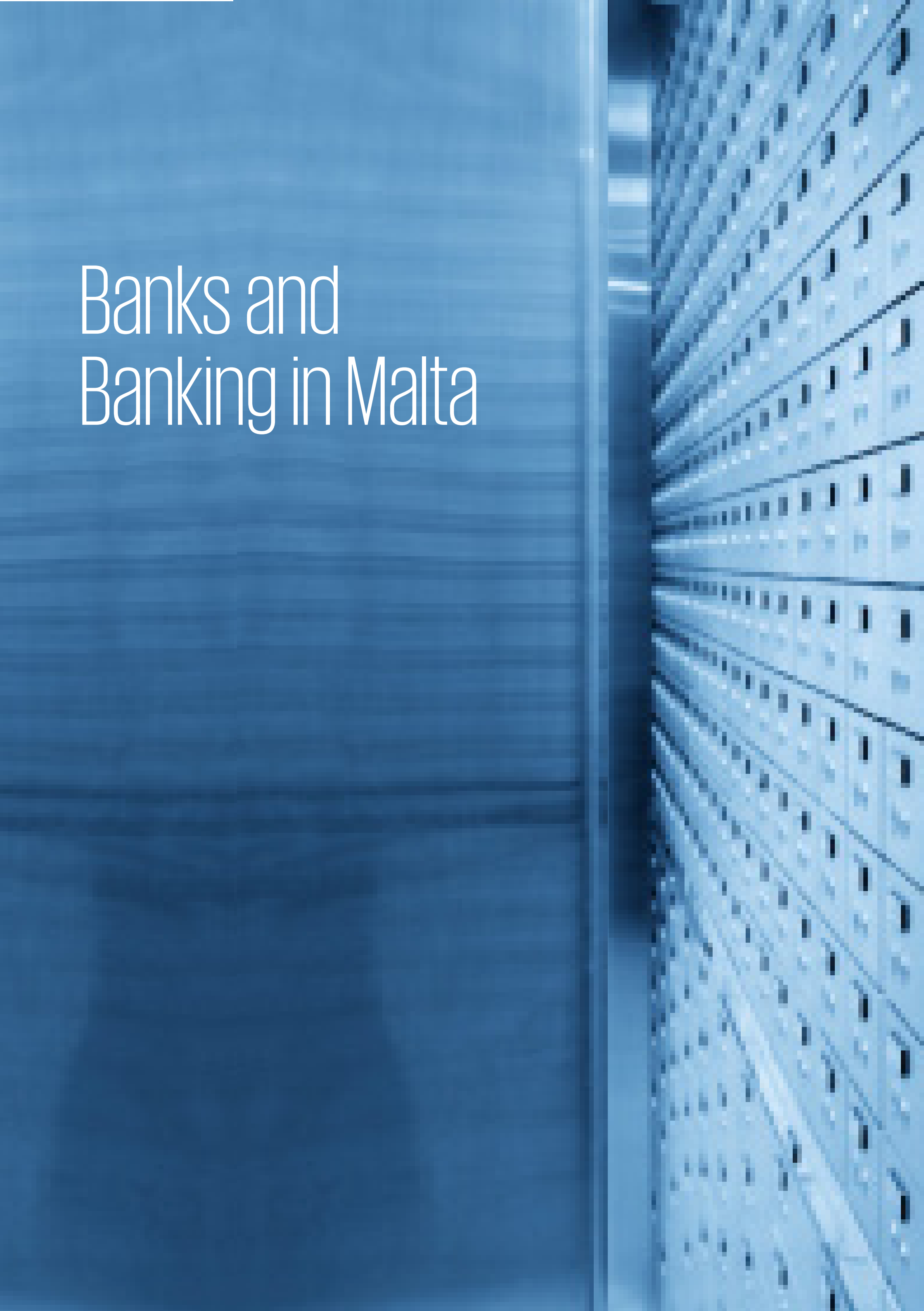
European Central Bank (ECB)

The ECB is an official EU institution at the heart of the Eurosystem and the Single Supervisory Mechanism. It performs a range of tasks in close cooperation with the National Central Banks within the Eurosystem and, for banking supervision, with the National Supervisors within the Single Supervisory Mechanism.

The main objective of the Eurosystem is to maintain price stability i.e. safeguarding the stability of the Euro. The ECB is responsible for prudential supervision of Credit Institutions located in the Euro Area and participating Non-Euro Area Member States, within the SSM, which also comprises the National Competent Authorities (MFSA). The integration between the MFSA and the ECB focuses on building a stronger regulatory environment in Malta.

Furthermore, the ECB contributes to the safety and soundness of the banking system and the stability of the financial system within the EU and each Member State, conjointly striving for the highest level of integrity, competence, efficiency, and accountability.

Banks and Banking in Malta



Malta's Banking System

Rich history in Banking which can be traced back to the early decades of the nineteenth century

Supported and driven by a professional and forward-looking regulator (MFSA)

26 credit institutions licensed to operate in and/from Malta (as at September 2016)

Includes a number of internationally renowned Financial Institutions

A wide array of banking activities, which may be split into three categories:

1. **Core Domestic Banks**
   Wide spread branch network, provide a full spectrum of banking services and are core providers of credit and deposit services in the local market

2. **Non-core Domestic Banks**
   Banks which play a more restricted role in the economy as they cater mainly for non-residents, with some activity in the local market (ex. deposit taking)

3. **International Banks**
   Banks which have virtually no links to the domestic economy.

Licensed Credit Institutions in Malta

26 Licensed Credit Institutions in Malta[7]

Core Domestic	Non-Core Domestic	International
APS Bank Limited	FCM Bank Limited	AgriBank plc
Banif Bank (Malta) plc	FIMBank plc	Akbank T.A.S
Bank of Valletta plc	IIG Bank (Malta) Ltd	CommBank Europe Limited
HSBC Bank Malta plc	Izola Bank plc	Credorax Bank Limited
Lombard Bank Malta plc	MFC Merchant Bank Ltd	ECCM Bank plc
Mediterranean Bank plc	Sparkasse Bank Malta plc	Ferratum Bank Limited
Mediterranean Corporate Bank Ltd		NBG Bank Malta Limited
		Nemea Bank plc
		Novum Bank Limited
		Pilatus Bank plc
		Satabank plc
		Turkiye Garanti Bankasi A S
		Yapi Kredi Bank Malta Ltd

Types of Banks in Malta

A Bank may operate in Malta in any of the following ways:

A Bank fully licensed by the MFSA and the ECB, whether set up as a subsidiary of a Banking Group or as a stand-alone

An EU Bank (credit institution) exercising its right to passport into Malta, whether through freedom of services or the establishment of a branch

A non-EU licensed Bank establishing a branch of the same bank in Malta

A representative office of a Bank licensed in another jurisdiction

Performance of the Banking Sector in Malta

Despite uncertainty in the Euro Area, the domestic economy has remained resilient supported by a sound financial system.

Core Domestic banks continued to report healthy profits, reflected in further strengthened capital ratios. Banks are adequately capitalized, profitable, and liquid . The aggregate capital adequacy ratio of all bank peer groups is well above the required minimum.

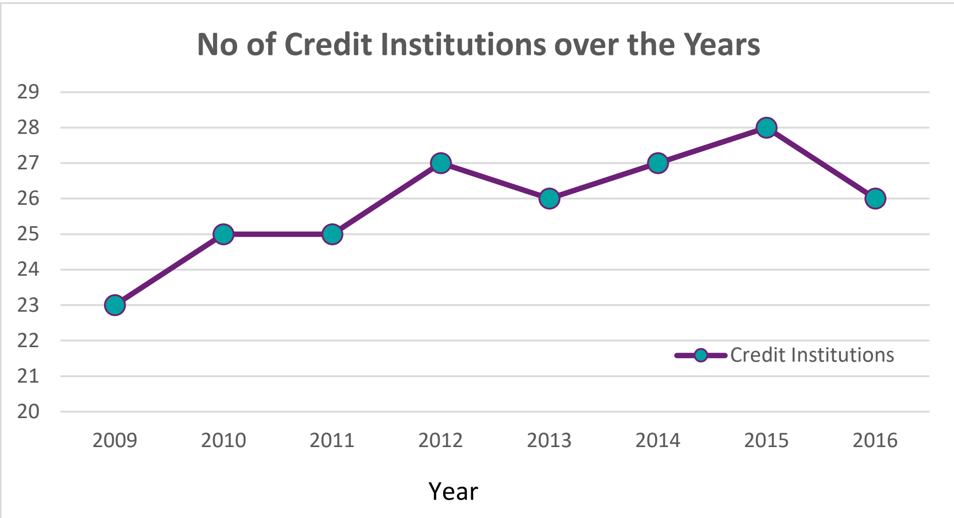
Core Domestic banks are mostly funded by customer deposits, maintaining healthy loan-to-deposit ratios. Loans to residents have also marginally increased, driven primarily by mortgage lending. The exposure of Maltese banks to EU sovereign debt is very low and diversified.

The profitability of Core Domestic banks improved owing to higher non-interest income and net-interest income. On the other hand, non-interest expenses increased due to higher regulatory costs.

Main Components of the Profit and Loss Account - Core Domestic Banks			2014		2015
(€ millions)	**2013**	**2014**	**H1**	**H2**	**H1**
Total net-interest income	345,829	344,570	163,555	181,015	183,465
Net interest income on intermediation	240,820	226,659	104,870	121,789	135,329
Other net interest income	105,009	117,911	58,684	59,227	48,136
Non-interest income	198,112	186,812	87,808	99,005	122,915
Trading profits	18,130	5,856	4,745	1,112	13,992
Other non-interest income	179,982	180,956	83,063	97,893	108,923
Non-interest expense	292,698	329,339	148,049	181,290	173,362
Net profit before tax	251,243	202,043	103,313	98,730	133,018
Net profit after tax	163,614	133,984	66,330	67,654	88,085

Licences of Credit Institutions in Malta

Credit Institutions licenses have increased from 22 in 2010 to the current 26 in 2016 (as displayed on the graph above). During 2014, 2015 and 2016 three new banking licenses were issued by the MFSA – all of which were assisted by our Financial Services team within KPMG.




Setting up in Malta

The local banking legislative and regulatory framework

Banking Act, 1994
Ch. 371 of the Laws of Malta

Supplemented by

- Regulations issued under the Act
- Banking Rules issued by the MFSA
- Capital Requirements Regulation (CRR)
- Capital Requirements Directive (CRD IV)
- Guidelines issued by the EBA

Establishment of a fully licensed Bank in Malta

- For an entity to be licensed as a Bank in Malta, the entity must have the intention to take deposits from the public
- The meaning of the word "public" should not be interpreted to mean only Maltese residents. Some banks are set up to provide services only to non-Maltese residents
- A Bank may be set up as a private or public limited liability company
- A Bank must have a minimum issued share capital of €5,000,000 (MFSA usually requests between €12m - €14m)
- The Bank would be licensed to carry out the business of Banking in terms of the Banking Act
- The Bank is to abide by the ongoing obligations of the Banking Act and the subsidiary legislation
- A Maltese Bank is supervised on an ongoing basis by the Malta Financial Services Authority (MFSA) and the Single Supervisory Mechanism recently launched by the European Central Bank (ECB)

The Application and Licensing process

MFSA and ECB

Phase One
Preparatory

- Initial meeting with the MFSA Authorisation Unit
- Communication of the applicant's intended activities to the Regulator
- Preliminary indication by the Regulator to move to the second stage

Phase Two
Licence Application

- Submission of documents in draft form to the MFSA Authorisation Unit
- Fit and proper tests carried out by MFSA on the applicant
- MFSA feedback on documents
- Provision of replies to queries from MFSA by applicant
- Applicant to finalise all outstanding matters and submit full application in final format
- Completion of review of the application and all documents to the satisfaction of the MFSA and the ECB, which has the final say
- MFSA will issue its 'in principle' approval subject to licence conditions
- Registration of company establishing the institution requesting a licence
- Issue of official licence

Phase Three
Post Licensing &
Pre Commencement
of Business

- Applicant to satisfy all post licensing matters prior to formal commencement of business
- Ongoing supervision by the Banking Supervision Unit

Over the years, the MFSA has built a reputation for a relatively quick turnaround of licensed applications.

Although the ECB is the ultimate institution responsible for bank's supervision, such supervision is conducted in collaboration with the MFSA.

Criteria for a Bank to be classified as a Significant Institution (SI)

Size	the total value of its assets exceeds €30 billion
Economic importance	for the specific country or the EU economy as a whole
Cross-border activities	the total value of its assets exceeds €5 billion and the ratio of its cross-border assets/liabilities in more than one other participating Member State to its total assets/liabilities is above 20%
Direct public financial assistance	it has requested or received funding from the European Stability Mechanism or the European Financial Stability Facility

The ECB will be responsible for Significant banks while the Less Significant banks will be supervised by the MFSA. However, if it deems necessary, the ECB may opt to take on direct supervision of Less Significant banks.

Criteria for licensing and Application Documents

Criteria for licensing a bank in Malta in terms of the Banking Act

Minimum amount of Own Funds – €5,000,000 or higher depending on the business model*.

Minimum of 2 individuals effectively directing the business ("four eyes principle").

"Fit and Proper" Test: Persons directing the business and all shareholders holding more than 10% in the Bank's equity are subject to extensive due diligence checks.

(*MFSA usually requests between €12m - €14m)

Application Documents

- Form 1 – of Banking Rule 01 (BR/01) – Application For Authority To Carry Out The Business Of Banking In or From Malta.
- Form 2 – of BR/01 – Questionnaire for Institutional Shareholders.
- Form 3 – of BR/01 - Personal Questionnaire for individuals who are, or are proposing to become Directors, Controllers or Managers.
- A Business plan covering the first 3 years of operations, including three year financial projections and projected regulatory ratios on base case, pessimistic and optimistic case scenarios.
- Audited financial statements of the parent institution (if applicable).
- Memorandum and Articles of Association of the parent undertaking (if applicable).
- Draft Memorandum and Articles of Association of the proposed Bank.
- Details of the operations of the parent institution/entity.
- Internet and Electronic Banking Questionnaire as part of BR/01 (if required).

Typical set-up of a Bank

Proportional to the size of the bank

Board of Directors
The BoD should be made up of a mix of Executive and Non-Executive Directors, including independent NEDs

C Level
CEO, CFO, COO, CRO etc.

Heads
Finance, Compliance, Internal Control, IT, Operations, HR etc.

Operational Staff
Finance, Compliance, Internal Control, IT, Operations, HR, Secretarial etc.

Governance

The MFSA would at least require the following committees:

- Audit Committee
- Asset and Liability Committee

Other committees include:

- Remuneration Committee
- Nominations Committee
- Credit Committee
- Risk Committee

Independent Internal Audit Function (which may be outsourced)

Ongoing Obligations

Banking Union

The main aim is to transfer responsibility for banking policy from the national level to the EU level in several countries of the European Union as a response to the Eurozone crisis.

It is an important step towards a genuine EU-wide Economic and Monetary Union. It allows for a consistent application of EU banking rules in the participating countries. It also helps create a more transparent, unified and safer market for banks and stakeholders to the industry.

The following are three important objectives of the Banking Union:

Preventing crisis from occurring again, intervening early if a crisis occurs,

Crisis Prevention

- Stronger Banks with the introduction of CRDIV
- Supervision through the Single Supervisor and the European Banking Authority (EBA), European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA)

Early Intervention

- Bank Recovery and Resolution Directive (BRRD)
- Single Resolution Mechanism (SRM)

Crisis Management

- BRRD/SRM
- Depositor Guarantee and European Depositor Insurance Scheme

Reporting Requirements

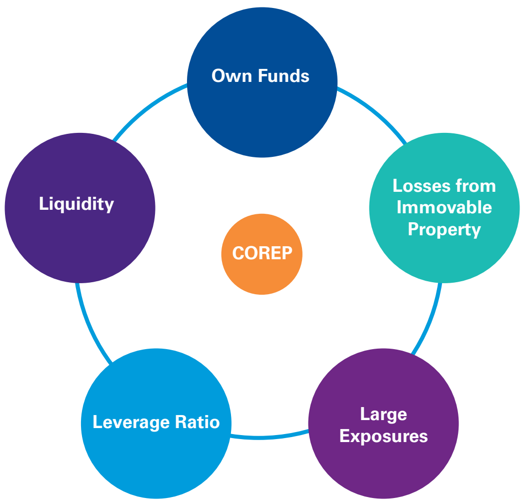
Reporting Requirements

Banks are required to publish Interim and Annual Reports

Regulatory Requirements

Following the introduction of CRR / CRD IV, banks in Malta are required to submit Regulatory Returns to the MFSA at specific intervals. Banks must also submit the following:

- **Internal Capital Adequacy Assessment Process** (ICAAP) - ICAAP is a report which is issued to ensure that banks adequately identify, measure, aggregate and monitor their risks and risk profiles. Furthermore, it identifies whether such banks hold adequate internal capital in relation to their profile.
- **Internal Liquidity Adequacy Assessment Process** (ILAAP) - a report that assesses the liquidity risks of a Bank.
- **Common Reporting Framework** (COREP) - is the standardised reporting framework issued by the EBA for the Capital Requirements Directive reporting. It covers credit risk, market risk, operational risk, own funds and capital adequacy ratios.
- **Financial Reporting** (FINREP) - a European Regulation that applies to Credit Institutions which increases the level of reporting of financial information to the Regulator.
- **Banking Rules Returns** - regular reports issued by banks regarding their financial positions.
- **Recovery Plan** - a report in which a Credit Institution's management team produces plans for the restoration of its financial situation following a significant deterioration.



Depositor Compensation Scheme

The Depositor Compensation Scheme is a rescue fund of failed banks that are licensed by the MFSA.

Every Credit Institution which is licenced in Malta under the Banking Act to accept deposits from eligible depositors held in any EU/EEA currencies shall participate in and contribute to the Scheme.

When a Credit Institution becomes a participant in the Scheme its obligations include that it shall pay contributions and establish a Reserve.

The Scheme is intended to promote confidence to the financial system as a whole. The rationale behind this Scheme is to make deposits a safer activity for clients and banks.

Depositor Compensation Scheme (DCS)

Funding & Contributions by Members:

"Available financial means shall amount to 1.3% of the covered deposits of member credit institutions." (Regulation 23)

If a shortfall occurs, payment of contributions continues until the target level is reached again.

Compensation Contribution:

- 1.3% of covered deposits excluding temporary high balances;
- In case the 'available financial means' are insufficient, members are to pay an extraordinary 0.5% of their covered deposits per financial year;
- With the consent of the competent authority, the Scheme may require higher contributions.

Depositor Compensation:	
Maximum Compensation (Aggregate Deposits of each Depositor)	€100,000
Maximum Sum Payable (Temporary High Balance)	€500,000

Ongoing Obligations Fees

Application and Processing Fees shall be payable on the submission of draft documentation under Banking Rule BR/01

On the granting of a licence under the Banking Act 1994, Credit Institutions shall pay the applicable supervision fee which shall be proportionate to the period between the date when the licence is granted and the end of that calendar year.

Supervision Fees are equivalent to 0.0002 of the Bank's deposit liabilities as reported at the end of the year immediately before the year in which the fee is payable.

Application and Processing Fee	Supervision Fee
€	€
35,000	0.0002 of deposit liabilities 25,000 (minimum)

	Company Registration Fee	Company Annual Return Fee
	€	€
Public and Private Limited Companies	2,250 (maximum)	1,400 (maximum)

Taxation

Taxation in Malta

Maltese licensed banks and other licensed financial institutions may benefit from Malta's beneficial tax system and effectively be subject to tax at a maximum rate of 6.25%

- Banks and other financial institutions are subject to the general system of taxation. Malta operates full imputation tax system which completely eliminates the economic double taxation of company profits. Shareholders in receipt of dividends are entitled to a tax credit equal to the tax borne on the profits out of which the dividends are paid. Since the tax rate of 35% applicable to companies is also the highest tax rate in Malta, shareholders will not suffer any additional tax on the receipt of dividends.

- In support of Malta's drive to eliminate economic double taxation, ever since 1994 Malta has adopted a system of tax refunds to shareholders, upon a distribution of dividends. Various refunds are available which may reduce the effective tax rate on profits distributed by Maltese resident companies to between nil and 6.25%.

- The tax refund system, vetted by the EU Commission, extends to both resident and non-resident shareholders, and applies to all profits derived from both domestic and international activities, with the exclusion of profits derived directly, or indirectly from Maltese immovable property. Such profits include gross interest and any other income derived from the provision of loans which finance the acquisition, development or renovation of Maltese immovable property, as well as a notional amount for the use of property for business purposes.

Participation Exemption

A 100% participation exemption with respect to profits derived from qualifying equity holdings is available.

No Capital Gains

The transfer of shares in a resident company by a non-resident is exempt from tax, provided there are no interests in immovable property situated in Malta.

Transfer Pricing

There are no transfer pricing rules in Malta.

Thin Capitalisation

There are no thin capitalisation rules in Malta.

Controlled Foreign Company (CFC) rules

There are no CFC rules in Malta.

Value Added Tax (VAT)

Malta's VAT system is modelled on the EU VAT Directive, the standard rate of VAT being 18%. The supply of credit, banking and related services are exempt without credit for VAT purposes. A bank would still need to register for VAT purposes where it provides VAT-able services or receives goods/services from outside Malta on which it would be liable to account for VAT. Where credit, banking and related services are provided to non-EU established customers, banks are entitled to recover VAT on costs attributable to such output supplies to non-EU customers.

Personal Taxation

Highly Qualified Expatriates (HQE) working in senior-most positions in Financial Services may benefit from a 15% flat tax rate.

Expatriates are generally taxed at progressive rates of tax up to 35%. However expatriates employed by a company licensed and/or recognised by the MFSA, who hold an eligible office, may benefit from a 15% flat rate of tax for a determined number of years, subject to the fulfilment of certain conditions:

In order to accede to this beneficial tax rate, the individual must be employed. An 'eligible office' is an employment in one of the following posts:

Employment in eligible office, which includes inter alia position of CEO, CRO, CFO, COO, CIO, Trader, Portfolio Manager, Head of Marketing, Head of Investor Relations.

Minimum employment income from holding eligible office of €75,000 (2010) (excluding value of fringe benefits), adjusted annually in line with the Retail Price Index (€82,353 for 2016).

Employment contract must be in terms of Maltese law and must relate to the exercise of genuine and effective work for the employee.

Possession of professional qualifications proven to MFSA's satisfaction.

MFSA must be satisfied that the individual performs activities of an eligible office.

MFSA must be satisfied that the expatriate: (i) receives sufficient stable and regular resources; (ii) resides in a "comparable" accommodation meeting general health and safety standards; (iii) possesses a valid travel document; (iv) possesses sickness insurance; and (v) is not domiciled in Malta.

HQE 15% flat tax rate is only available for a period of 5 years if the HQE is an EEA/ Swiss national and for a period of 4 years if the HQE is a third country national.

Malta's Double Tax Treaty Network

Why KPMG?

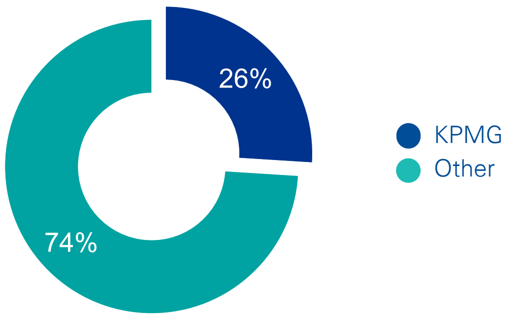
KPMG Malta was the advisory firm that assisted with the licensing process of the last three Banks that were licensed by the MFSA. KPMG has also been at the forefront of banking merger and acquisition activity over the years.

Our Experience

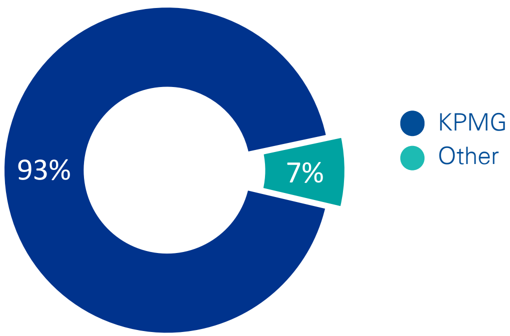
KPMG is a leader in providing professional services to the financial services industry worldwide. In fact, financial services is KPMG's largest line of business.

Locally KPMG is a leader in providing Audit, Tax and Advisory services to entities in the banking sector, as can be seen in the pie-charts below.

Audit Services to Local Banks



Audit, Tax and Advisory Services to Local Banks



Dedicated Risk Consulting Advisory Team of 15 individuals led by Juanita Bencini

The advisory team assisted twelve of the present complement of banks to set up in Malta

Specialised Expertise in Accounting for Banking headed by Noel Mizzi

Deep knowledge of the banking and financial services sector

Specialised Banking Team that is crossfunctional across Audit, Tax and Advisory

Our people have extensive day-to-day exposure to all areas of the banking industry and engage in constant communication with the Regulator

Appendix
Living in Malta

The Maltese Climate

The climate on the island of Malta is typically Mediterranean with temperatures averaging 10-15°C during the winter and between 25-35°C in the summer months.

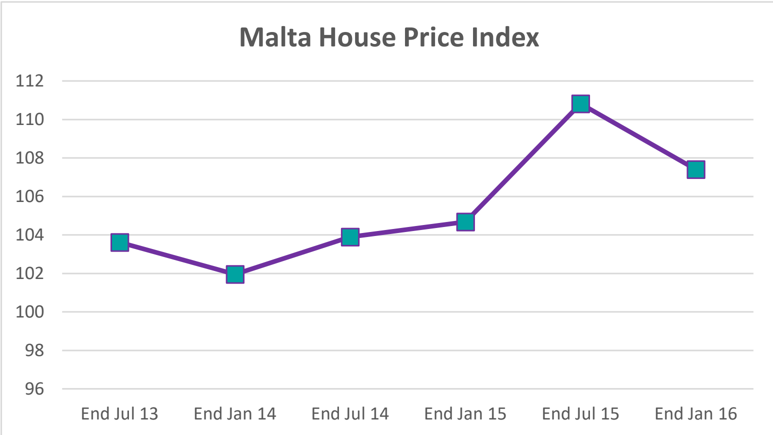
	Highest Temperature (on average)	Lowest Temperature (on average)
January	16.0	10.3
February	16.0	9.9
March	17.8	11.3
April	20.0	13.3
May	20.0	16.6
June	28.5	20.3
July	28.5	22.8
August	31.8	23.6
September	28.4	21.6
October	25.2	18.6
November	21.0	15.0
December	17.5	11.9

The Maltese islands benefit from 3,000 hours of sunshine during the year. In comparison, London enjoys an average of 1,460 hours of sunshine per annum.

Annual rainfall is quite low, with an average of 700mm of rain annually.

Malta's Housing Prices

Malta's housing prices are one of the most undervalued amongst the advanced economy countries, indicating there is no potential risk of correction in the property market. Both the price-to-income and price-to rent ratio remain one of the lowest among the advanced economies.



- Malta House Price Index is at a current level of 109.30 (Jan 2016), up from 104.33 which stood at the end of July 2015. This means that there was a 6.21% change in between the two periods (July 2015 – Jan 2016).

  Investing in Property in Malta in 2016: While over the years specific regions such as St. Julians and Sliema were attracting attention, now interest has increased to the Northern and Southern areas of the island (more investment opportunities are available).

- Financial considerations covering rental investments have also flourished. Investing in property has an average return of up to 6% which competes with other alternative investing options.

- Since people are earning more net income (reasonable progressive tax and cost of living adjustment reflection), this reflects positively on their standard of living and enables them to take on the luxury of investing in property.

Renting Property

In Malta one can find a variety of high-quality property for rent, ranging from villas, terraced houses, offices, maisonettes, houses of character, and apartments.

Apartment size	Average Rent per Month
Apartment (1 bedroom) in city centre	€609
Apartment (1 bedroom outside of centre)	€419
Apartment (3 bedroom) in city centre	€1035
Apartment (3 bedroom) outside of centre	€695

There are 2 main factors which determine the rental fee for property in Malta:

Quality – New developments generally cost more than existing ones.

Location – Sea front properties, or those with a country view can come at a premium. This also applies to apartments within modern residential lifestyle developments.

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