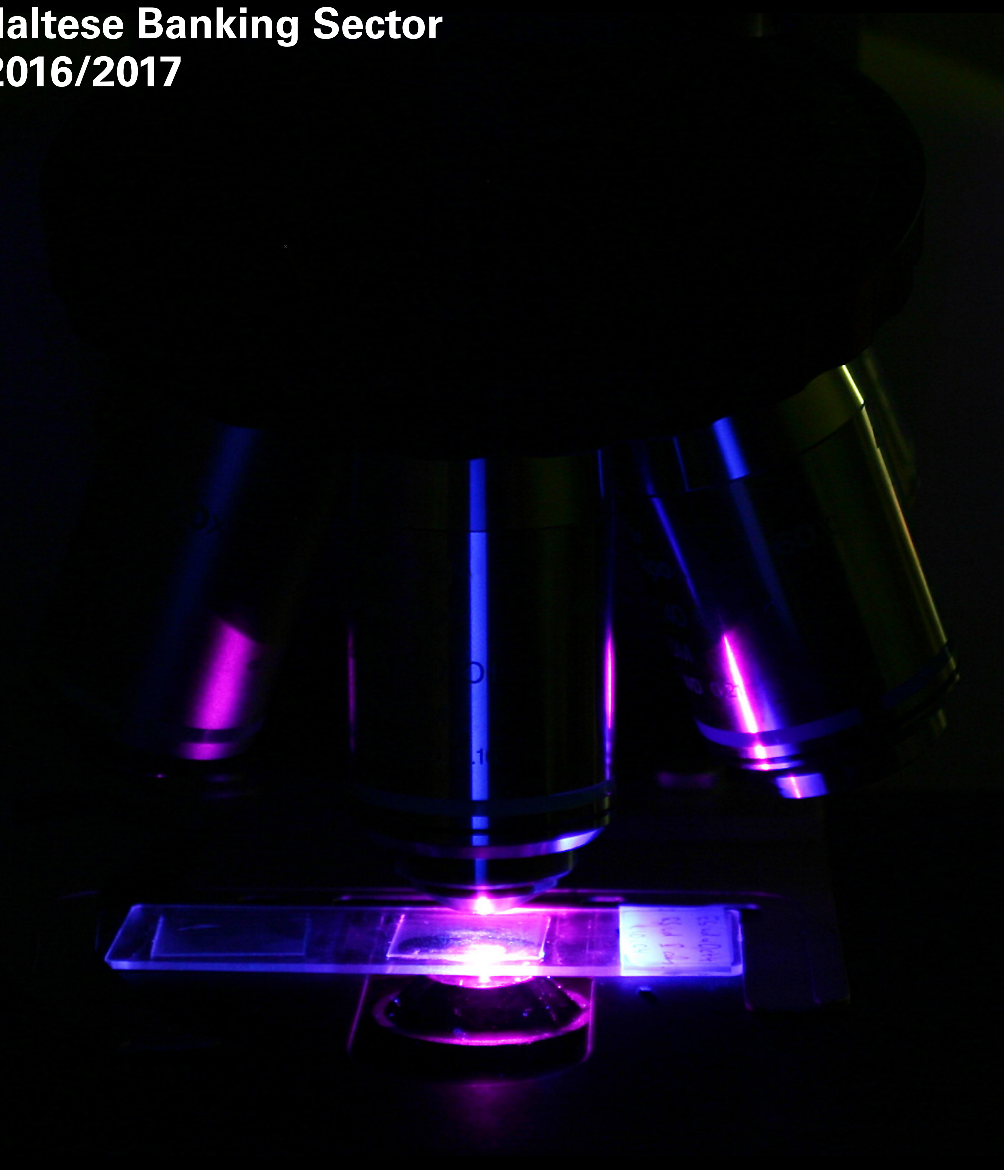
Under the Microscope

A Review of the Maltese Banking Sector for Financial Year 2016/2017



December 2017

kpmg.com.mt

Welcome message

Introduction

Following upon the success of the first two editions of *Under the Microscope* which were issued in 2015 and 2016, we are pleased to release the third edition of this publication, which has now become a staple contribution by KPMG in Malta to the Banking and Financial Services community, both locally and internationally.

In this edition of *Under the Microscope*, one can find articles about a swiftly evolving banking industry that is contemporaneously seeking to meet the accumulating requirements being imposed by a rapidly changing regulatory environment.

Insights into banking in Malta remains somewhat limited. For this reason, we have looked towards enhancing and refining the type and nature of financial metrics employed in our banking analysis, with a view to providing deeper insights into current key trends, as well as including an in-depth analysis of specific financial areas that are changing and shaping today's banking industry.

We trust you will enjoy the latest edition of *Under the Microscope*.

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Developments and Impacts to the Local Banking Industry in 2017

Over the years, Malta has developed into a leading European financial services centre that integrates high regulatory standards with stringent enforcement, underpinned by sound and stable banks. A regulated, well-oiled Banking machine is critical to maintaining a stable and flourishing financial system. Malta remains an attractive jurisdiction for entities looking to open and operate a Credit Institution, serving both the local community as well as Europe as a whole. As is the case for all jurisdictions, our Banking industry remains prone to external factors which provide a ripple effect – which could be positive or negative – in a number of cases, directed to the heart and soul of the Financial Services infrastructure. This calendar year has also seen the introduction and implementation of a number of supervisory and administrative measures under the Capital Requirements Directive IV, driven by the Single Supervisory Mechanism.

External factors that have transpired recently carry burdensome implications on Malta. Among these external factors that affect Malta, Brexit and Trump's appointment are two that stick out. Standard & Poor's ranked Malta as second out of the twenty countries which are most likely to be exposed by UK's exit from the EU. Brexit could impact the local banking sector in a number of ways, including on Maltese Sovereign debt, which some have argued could cause the credit rating on Maltese sovereign debt to decrease.

EU banks have seen an improvement on asset quality in the past two years. Nevertheless, the level of impaired and past due loans, locally and internationally, is still considered to be relatively high. High Non-performing loans are sources of macro and financial stability risks, and as such these concerns have been core drivers behind recent amendments of Banking Rule 09. These amendments have been aligned to the guidance issued by the European Central Bank, which recommends that banks with a level of non-performing loans higher than the EU average, are to implement a clear strategy in line with their business plan and risk management framework.

In the financial services sector we are seeing a form of stability emerge. However, this has come at a high cost. The European Macroeconomic environment continues to operate at artificially low interest rates, whilst our banks are experiencing dangerously high levels of liquidity, with limited options, in their view, to place locally.

https://mfsa.com.mt/files/publications/Newsletter/2017/2017_June_283.pdf

The regulatory machine continues to drive forward, with banks and financial institutions scrambling to minimise the disruption to their business model.

This has led to more and more banks to re-assess their business models, with the majority focusing on curing as many legacy issues as possible, attempting to keep in touch with the strides being made in financial technologies, whilst positioning themselves to ensure they can meet changing customer needs. They have realised that major change brings with it, major opportunities.

We cannot forget about pace of change which has been brought about by financial technology. The banking industry is investing more in financial technology, as this will be the key to survival and opportunity in the not so distant future.

Ten years ago, in 2007, the first Payment Services Directive was introduced. Since then, advances in payment technology have continued to develop swiftly. New regulatory measures, such as the Payment Services Directive 2 was introduced in 2016 (deadline for the implementation of such a regulatory measure is 13th January 2018), wherein it will be mandatory for credit institutions to facilitate payment institutions' access to their payment account services objectively.

Other technologies include blockchain, biometric verification and artificial intelligence, which will shape the way Banks conduct business as we know it today.

On a final note, this publication focuses on analysing the financial positions of the banks that are part of Malta's financial system, as well as bringing insights from our leading experts. We trust you find this valuable and insightful.

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Glossary

AEOI – Automatic Exchange of Information
AFS – Available-for-Sale
ASPSP - Account Servicing Payment Service Provider
AUD – Australian Dollar
BCBS - Basel Committee on Bank Supervision
Bn – Billions
BR – Banking Rule
B/S – Balance Sheet
CAR – Capital Adequacy Ratio
CapEx – Capital Expenditure
CBM – Central Bank of Malta
CET1 – Common Equity Tier 1
CRDIV – Capital Requirements Directive
CRR – Capital Requirements Regulation
CET 1 – Common Equity Tier 1
CEO – Chief Executive Officer
ECB – European Central Bank
ESCB – European System of Central Banks
EEC – European Economic Community
EBIT – Earnings before Interest and Tax
ERM – Exchange Rate Mechanism
EU – European Union
EUR – Euro
FI – Financial Institution(s)
FIAU – Financial Intelligence Analysis Unit
FinTech – Financial Technology
FY – Financial Year
FASB – Financial Accounting Standards Board
GBP – Great British Pound
GDP – Gross Domestic Product
GDPR – General Data Protection Regulation
GVA – Gross Value Added
HDI – Human Development Index
IFC – International Financial Centre
IFRS – International Financial Reporting Standards
ICT – Information Communication Technology
IT – Information Technology
IAS – International Accounting Standards
IASB – International Accounting Standards Board
ICAAP – Internal Capital Adequacy Assessment Process
ILAAP – Internal Liquidity Adequacy Assessment Process
IoT - Internet of Things
JFSB – Joint CBM/MFSA Financial Stability Board
JST – Joint Supervisory Team
LAC – Loans and Advances to Customers
LBT – Loss Before Tax
LCR – Liquidity Coverage Ratio
LR – Leverage Ratio
LSI – Less Significant Institution
L&A – Loans and advances
MFSA – Malta Financial Services Authority
MGS – Malta Government Stocks
N/A - Not Available
NCA – National Competent Authority
NCB – National Central Bank
NIL – Net Impairment Losses
NII – Net Interest Income
NPL – Non-Performing Loans
NSFR – Net Stable Funding Ratio
OECD – Organization for Economic Co-operation and Development
OpEx – Operating Expenditure
O-SII – Other Systematically Important Institution
PBT – Profit Before Tax
PISP - Payment Initiation Service Providers
PSD – Payment Services Directive
P2R - Pillar 2 Requirement
P&L – Profit and Loss
ROA – Return on Assets
ROE – Return on Equity
ROI – Return on Investment
RWA – Risk Weighted Assets
S&P – Standard & Poor's
SSM – Single Supervisory Mechanism
SI – Significant Institution
SME – Small to Medium Sized Enterprise
SREP – Supervisory Review and Evaluation Process
SRF – Single Resolution Fund
TCO – Total Cost of Ownership
TFFT - Task Force on Financial Technology
UK – United Kingdom
USD – United States Dollar
US – United States
VAT – Value-Added Tax

Banking in Malta: Where next?

1968

CBM

The CBM was established on the 17th of April 1968, wherein it was responsible for ensuring price stability. As from 2004, the Central Bank of Malta became a full member of the European System of Central Banks, as a result of Malta's accession to the European Union. Four years later, in 2008, the Central Bank of Malta joined the Eurosystem framework.

1988

BASEL I

Basel I is a set of comprehensive international banking regulations put forth by the BCBS. This was set up with the intention of setting out the minimum capital requirements for Credit Institutions with the goal of minimising credit risk.

1994

Banking Act & Financial Institutions Act

The Banking Act was introduced in Malta. This Act superseded the 1970 Banking Act, and aligned the local legal regime with modern international practice. In 1994, the Financial Institutions Act 1994 was also enacted.

CBM given more authority

The CBM was granted complete autonomy in the formulation and implementation of monetary policy.

Licensed

FIMBANK

izola Bank

LOMBARD
Lombard Bank Malta p.l.c.

1995

Licensed

APS bank

HSBC

Bank of Valletta plc

The licensing dates included for banks are as per the MFSA Financial Services Register.

1996

Licensed

ECCM Bank plc

(Previously Raiffeisen Malta Bank plc)

1998

ECB Set Up

On the 1st of June 1998, the ECB was set up. The CBM participates as an observer in the ECB's Supervisory Board, which is the body assigned to supervise credit institutions.

2000

AKbank T.A.S. licensed

2002

FIAU

The FIAU was set up on 1st October 2002 with the aim of combating money laundering and the funding of terrorism. Whilst its set-up lies within the Ministry for Finance, the FIAU has a separate judicial personality and operates autonomously.

MFSA

The MFSA became the sole regulator of financial services in Malta, after taking over supervisory functions carried out by the CBM, the Malta Stock Exchange and the Malta Financial Services Centre.

2003

Licensed

MFC MERCHANT BANK LTD

(Previously Bawag Malta Bank Ltd)

2004

Malta joins the EU

Passporting

Passporting regime becomes applicable.

2005

BASEL II

Basel II is a set of comprehensive international banking regulations introduced by the BCBS, with the primary aim of further harmonising international regulatory provisions through the issue of rules and guidelines.

ERM

Malta joined the ERM II.

Licensed

SPARKASSE Bank Malta plc

medirect Think ahead. Bank ahead.

(Previously Mediterranean Bank plc)

2007

Licensed

BNF BANK

(Previously Banif Bank (Malta) plc)

2008

Malta joins Eurozone

Global Financial Crisis

2009

PSD 1

The PSD is an EU initiative aimed to make payment service rules consistent across Europe. The directive was subsequently transposed in local law and came into force on 1st November 2009.

2010

Licensed

IIG Bank (Malta) Ltd

FCM BANK

2012

Licensed

novum BANK

FerratumBank More than money to everyone

Agri Bank

2013

CRDIV, CRR

The CRR and the CRDIV, which together form part of the "CRDIV Package" designed the legal framework for the efficient regulation and supervision of credit institutions.

Basel III

Basel III is a set of comprehensive reform measures, put forth by the BCBS, with the intention to strengthen the regulation, supervision and risk management of the banking sector. It is intended to better banks' ability to withstand shocks and enhance risk management.

2014

SSM and JSTs

The SSM, which is the system of banking supervision in Europe, was implemented in November 2014. It comprises the ECB and the national supervisory authorities of the participating countries. Its main aims are to ensure the safety and soundness of the European banking system, increase financial integration and stability and ensure consistent supervision.

JSTs are one of the main forms of cooperation between the ECB and national supervisors. There are three Credit Institutions in Malta that are directly supervised by JSTs.

The licensing dates included for banks are as per the MFSA Financial Services Register.

Deutsche Bank Malta – Surrender of licence

Deutsche Bank voluntarily surrendered its Credit Institution licence.

2016

PSD 2

PSD 2: On 12 January 2016, Directive (EU)2015/2366, relating to payment services in the internal market, entered into force in the EU. The Directive is applicable through its transposition in European Union member states' legislation as from 13th January 2018.

2015

Licensed

credorax BANK

IFRS 9

IFRS9 Financial Instruments is the IASB's replacement of IAS39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting.

(effective January 2018)

Licensed

PILATUS BANK

Satabank

YapıKredi Malta

SREP

Supervisors regularly assess and measure the risks for each bank. This core activity is called the SREP. The SREP isn't a new process, having previously been performed by national supervisors. The novelty of the SREP under the SSM is that now one common methodology and one common timeline are being applied to all Significant banks in the Euro Area.

TFFT

The European Commission launched an internal TFFT with the intention of making the most innovation in this area, whilst developing strategies that will address any challenges that FinTech might present.

2017

Nemea Bank plc licence withdrawal

On 23rd March 2017, the Regulators withdrew the Bank's licence.

2019

Basel III (implementation extension)

The implementation of Basel III was extended to 31st March 2019.

Basel IV

Basel IV shall build on the regulatory provisions and enhancements brought over by Basel III. Basel IV is a proposed standard on capital reserves for banks, to help reduce the risk generated by a financial crisis. The decision to move toward Basel IV was due to an expansion of the Basel Committee's requirements. The fallout of this proposed reform will be that many European Banks will face large capital shortfalls. Banks will be required to raise more capital.

FinTech and Blockchain

FinTech is an industry that encompasses a variety of expertise and forward-looking technology, with the potential of being a real game changer in the finance industry.

Blockchain is an unmovable log of transactions recorded within a network. Transactions – called 'blocks' – are logged in a digital ledger, and are then connected together into what is referred to as a blockchain.

https://www.mfsa.com.mt/pages/readfile.aspx?f=/Files/LegislationRegulation/legislation/Banking/CreditIns/Banking%20Act%20Summary%2005_07_2011.pdf
https://www.ecb.europa.eu/ecb/history/html/index.en.html
http://www.fiumalta.org/about
https://www.mfsa.com.mt/pages/viewcontent.aspx?id=136
https://www.um.edu.mt/__data/assets/pdf_file/0011/223769/TPPI_Malta_EU.pdf
https://www.ccmalta.com/publications/investment_services_passporting_rights
http://www.gonzi.com.mt/en/forex-and-binary-options/forex-and-binary-options-passporting-of-licence
http://www.independent.com.mt/articles/2005-04-30/local-news/Maltese-Lira-joins-ERM-II-74829
http://uk.reuters.com/article/uk-ecb-expansion-euro-malta/malta-joins-euro-zone-idUKL2712265120080101
http://www.independent.com.mt/articles/2008-10-12/opinions/the-impact-of-the-financial-crisis-on-the-maltese-economy-214497/
http://www.independent.com.mt/articles/2013-05-29/news/maltese-economys-resilience-in-financial-crisis-underscored-1711276035
https://www.hsbc.com.mt/1/2/mt/en/useful-information/payments-serv-directive
https://www.mfsa.com.mt/pages/viewcontent.aspx?id=533
https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2016/09/IFRS-9-for-banks-flyer-2016.pdf
https://www.mckinsey.com/business-functions/risk/our-insights/ifrs-9-a-silent-revolution-in-banks-business-models
https://www.iasplus.com/en/standards/ifrs/ifrs9
https://www.bankingsupervision.europa.eu/about/ssmexplained/html/srep.en.html
http://www.maltabankers.org/thebankingsector?l=1
https://www.bankingsupervision.europa.eu/about/thessm/html/index.en.html
https://www.bankingsupervision.europa.eu/about/ssmexplained/html/srep.en.html
http://www.justiceservices.gov.mt/DownloadDocument.aspx?app=lom&itemid=8843

**The above events are those which were identified as being key highlights of the banking industry in Malta over the years. Our views may differ from those of others.*

Banking on the Future

https://home.kpmg.com/content/dam/kpmg/au/pdf/2017/banking-on-the-future-edition-3.pdf

Banking in the background

Demand for invisible payments is increasing.

Gen Y professionals' fastpaced, time poor lifestyle is increasing demand for faster, more convenient payment methods.

Analysing spending habits: #YOLO (You only live once)

Gen Y professionals are prioritising spending on luxury items, experiences and travel more than Gen X whose spending habits are influenced by home ownership.

The relevance of wealth management and financial advice

The focus on saving, rather than investment, has continued, with the vast majority of Gen Y professionals using savings accounts as their primary investment tool.

75%
Savings Account

27%
Shares

15%
Property

13%
Term Deposit

8%
Managed Funds

4%
Other Wealth Product

74% of Gen Y professionals use spreadsheets to manage their finances

Only 19% use bank provided budgeting tools to manage their finances

A Bank that travels

80% of respondents noted ease of overseas use as extremely important or very important

60% of respondents noted low international transaction fees as extremely important or very important

We are starting to see important longer-term patterns, as well as emerging trends, concerning Gen Y professionals' (defined as those between the ages of 18 and 30, university educated, relatively well paid, tech savvy and more globally minded) expectations and experiences of banking and broader financial services. Gen Y will be significant drivers of retail banking revenue in the not-too-distant future, and their priorities and preferences are distinctive. For banks, these attributes will be important to consider as they shape their products, services and business models to meet their future clients' needs.

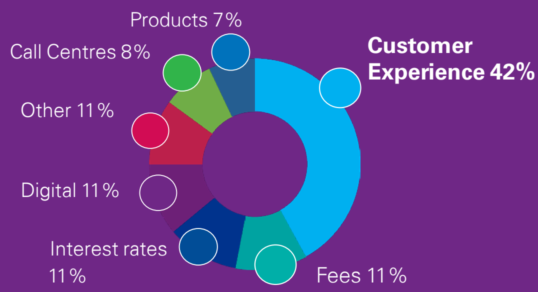
The eight trends below outline the fact that there is no single route to attracting and retaining Gen Y professionals. However, it is clear that banks must urgently consider their high expectations, particularly around digital aptitude and wealth, and step up their level of delivery to attract them.

Worker by day, entrepeneur by night

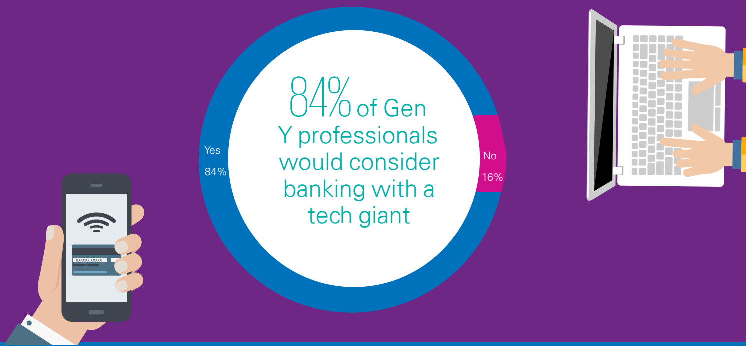
Over 50 percent of our focus group participants indicated that they consider themselves to be entrepeneurs, with many of them owning or planning to start their own business.

The next frontier: banking with tech giants

Customer experience is Gen Y professionals' biggest pain point with their bank...



...which is driving them to consider alternatives

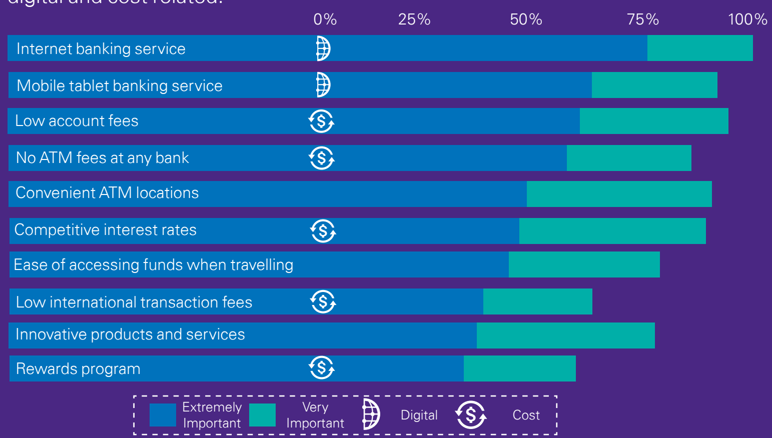


Digital remains king

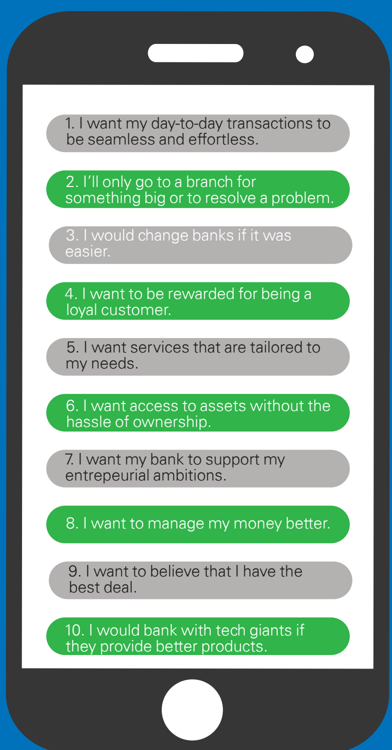
Mobile and tablet banking has risen to number 2 in the most valued attributes of a bank, with internet banking service retaining the top spot.

Digital and cost related benefits dominate

7 of the top 10 most valued attributes of a bank for Gen Y professionals are digital and cost related.



The Gen Y Ten Commandments



The FinTech Imperative

"Over the course of the last two years, there has been a distinct trend toward collaboration and partnership."

Mark Curmi
Associate Director
Banking
Advisory Services

Remaining competitive in this constantly changing environment is an enormous task. Banks, insurers and asset management companies are undertaking major transformation efforts – with a noticeable shift in established players looking at acquiring or partnering with FinTech operations.

KPMG International conducted a survey of more than 160 financial institutions from 36 countries to understand how institutions are approaching FinTech opportuntities.

It is evident that FinTech is the biggest disruptor of our time for financial institutions. Whether it's providing new ways to enhance the customer experience, responding to regulatory change (such as open banking), underpinning new payments or digital delivery models, making service delivery faster and more cost-effective, or improving the efficiency of back-office functions – the myriad FinTech solutions now available, or in development, are helping to rapidly reinvent the entire value chain of financial services.

The results from the survey show that no single path has emerged to define how companies should approach FinTech. Every organisation has the opportunity to forge a new FinTech future. Notwithstanding this reality, it is possible to capitalise and monetise on recorded best practices across leading financial institutions to date. High on the list is strategy. Having a clear FinTech strategy that aligns to organisational objectives, considers current assets and capabilities, and includes an execution plan for addressing gaps and managing transformation that may never have a defined end point, is critical. This begs the question: where does a company which aspires to be at the forefront of the FinTech revolution start?

In primis, an organisation needs to identify FinTech leaders. On the basis of research conducted thus far, FinTech leaders ought to have the below listed characteristics to be able to develop a FinTech strategy and successfully drive their organisation into a future which is likely to be dominated by FinTech.

Clarity of vision: Concrete vision for the future and a CEO and leadership team thoroughly committed to seeing the vision implemented.

Awareness: Aware of the signals of change occurring in the financial services market and is constantly seeking insights into what FinTech is and will evolve in the future.

Strategic: Well-developed yet adaptable strategy for leveraging FinTech innovation in order to achieve its strategic business objectives.

Customer-centric: Focused on customers first — using customer demands, pain points and challenges to drive technology innovation from the outside in, rather than the inside out.

Collaborative: Looks to create both internal and external relationships in order to drive its FinTech strategy and buy-in for specific initiatives.

Dedicated: Dedicated team for implementing FinTech innovation.

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https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/10/forging-the-future-global-fintech-study.pdf

Agile and adaptable: Able to make changes as required to address the challenges associated with a constantly evolving business and FinTech environment.

Outcome-oriented: Focused on outcomes, with specific plans to measure and assess the impact of FinTech innovation. At the same time, the company recognizes that ROI may take time to achieve and so has identified a range of other measures and metrics in order to help guide FinTech-related decisions.

Willing to learn: Open to learning — not only from its own experiences, but from the experiences of others both within and outside its industry.

Long-term and short-term focused: Able to focus on implementing the long-term, transformative changes required to reshape the work they do and how they do it — while also implementing the incremental changes required to respond to day-to-day challenges.

The next step is to strategise and identify the best approach to proceed. This can take the form of building, sourcing, white-labelling, acquiring and partnering. Building allows organisations to define the scope of their innovation initiatives, design tailor-made products and create buy-in among users over the course of the innovation initiative. However, very few financial institutions have the time, resources, capacity and agility to be able to focus on FinTech innovation efficiently and effectively.

With regards to sourcing, it transpires that many FinTech companies are looking to sell or licence their technologies to financial institutions. The benefits range from reduced cost of innovation and access to established solutions to talent and innovation capacity. However, in order to make the most of this option, financial institutions are evolving their procurement processes to accommodate taking on the capability from small, start-up FinTech companies that can help them solve problems in specific areas.

For financial institutions looking for custom solutions, there are a growing number of FinTech and other technology companies with the capacity to white label a product or service for them and that they can then brand and sell. The benefits include prescribed costs, a diversified approach to innovation and the ability to test value and fill productive/service gaps. Among the key challenges are less control than developing these products internally, and the need to integrate this innovation structure within the business and to share revenue.

While buying or investing in FinTech companies can be an effective way to leapfrog over the development process by acquiring access to FinTech capabilities, financial institutions are still working to find the best ways to evaluate a purchase or investment.

Over the course of the last two years, there has been a distinct trend toward collaboration and partnership [a.k.a. fintegration] with respect to how financial institutions approach FinTech opportunities and challenges. This distinct trend is – or will be - heartening for local Financial Institutions who are still playing on the side-lines of the FinTech revolution. Partnering offers numerous benefits, including access to talent, enablement of a portfolio approach and increased speed to market, although is not necessarily a straightforward process. Organisations that have established partnerships have found themselves mired in roadblocks, from lacking the application program interfaces (APIs) required to enable seamless integration to the time-consuming process of establishing governance structures and risk management processes. Without strong guiding principles and a strategy for managing partnerships, it is highly unlikely that financial institutions will be able to achieve the full value that working with FinTech companies can provide.

Taking a look at how leading companies approach partnerships culminates into 5 distinct but interlinked themes: laser-sharp focus, strong evaluation frameworks, outside the box thinking, a global mind-set and experienced advisors.

The latter plays a key role in the FinTech imperative as organisations need an extended network of experienced advisors, not only to help identify and establish partnerships, but also to supplement their existing skill-set and provide assistance with both evaluating partnership opportunities and with managing the legal and risk management issues that might arise during the development and execution of any partnership arrangements.

Financial institutions that take the time to define their FinTech strategy and align it to their business goals will be best positioned to help forge the future of financial services.

Key Sector Information

Malta's insurance sector employs a workforce of more than 1,200 people.

63 licensed insurance undertakings (September 2017):

- 47 Non-life
- 8 Life
- 2 Composite
- 6 Re-insurance enterprises

Banks

22 active Credit Institutions and 3 active branches (December 2017).

Ranked 17th out of 137 economies for soundness of banks in 2017/2018.

Taxation

International Financial Centre (IFC)

Double taxation treaties exist with more than 75 countries.

There is a corporation tax of 35% but with a full imputation tax system which completely eliminates the economic double taxation of company profits.

Apart from operating a full imputation system, Malta operates a tax refund system reducing this effective tax rate to between nil and 6.25%. In addition, recent introduction of tax rules in Malta provide for the possibility for Maltese registered companies to avail of a Notional Interest Deduction. This may further reduce the tax liability at the level of a Maltese registered company by allowing it to claim, against its chargeable income, a notional deduction for the cost of capital. The deduction is computed as a percentage of risk capital as at year end – this currently stands at 7% (2% risk free rate plus 5% premium).

The maximum personal taxation rate is 35%, for those earning €60,001 upwards. No tax is payable on income up to €9,100 for those paying tax at single rates. Highly qualified foreign executives can benefit from a flat rate of 15% tax on income up to €5m. Any income over and above this is tax free.

Economy

Total GDP 2016: €9.9bn (Q4 2016: €2.5bn, Q1 2017: €2.5bn, Q2 2017: €2.7bn, Q3 2017: €2.8bn) (GDP 2015: €8.8bn).

Real GDP Growth for 2016: 5.0%.

GDP per capita in Purchasing Power Standards relative to the EU-28 average (2016): 95%.

Unemployment rate (Q2 2017): 4.5%.

Inflation rate of 0.64% (2016) (2015: 1.1%).

Insurance

Trust and Funds

Total new funds (including sub-funds) licensed (2004 – Q2 2017): 1,402.

Total funds (including sub-funds) surrendered (2004 – Q2 2017): 757.

Net Asset Value of Malta domiciled Funds: €9.7 billion as at end June 2017.

Funds (including sub-funds) administered in Malta:

- Malta domiciled funds administered in Malta: 568 as at end June 2017
- Non-Malta domiciled funds administered in Malta: 167 as at end June 2017

Net Asset Value of funds (domiciled and non-domiciled in Malta) administered in Malta: €10.4 billion as at end June 2017.

Government

The current Labour Government came into power in 2013 and was re-elected in 2017. The next elections are due in 2022.

Malta's Sovereign rating:

- Fitch: A+
- S&P: A-
- Moody's: A3

Government's Deficit end 2016: 1.0% of GDP (2015: 1.5%).

Total Government debt end 2016: 58.3% of GDP.

(Global Competitiveness Report 2017/2018 – World Economic Forum).

Ranks Malta 37^{th} out of 137 economies. This index is a measure of national competitiveness.

Ranked 15^{th} out of 137 economies for strength of auditing and reporting standards.

Ranked 21^{st} out of 137 economies in capacity to attract talent.

Ranked 43^{rd} out of 137 economies for Financial Market Development.

Ranked 29^{th} out of 137 economies for Labour market efficiency.

Ranked 38^{th} out of 137 economies for Innovation.

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https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_A1/National_Accounts/Pages/Gross-Domestic-Product.aspx
http://ec.europa.eu/eurostat/documents/2995521/7844069/3-31012017-CP-EN.pdf/f7a98d76-13bc-4586-9e25-9e206e9b6f02
http://countryeconomy.com/ratings/malta
https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_A2/Public_Finance/Documents/2017/News2017_069.pdf
http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf
https://www.mfsa.com.mt/pages/licenceholders.aspx
http://www.financemalta.org/sections/funds
https://iconfinancemalta.blob.core.windows.net/libx-128-public/Investment%20Guide%20&%20Business%20Directory%202016-2017.pdf
https://mfsa.com.mt/pages/viewcontent.aspx?id=55

Are FinTech and Malta a match made in heaven?

"We may be at the dawn of a new economic revolution, one in which technology serves to fundamentally alter the core of professional services."

Jan Grech
Director
Management Consulting Advisory Services

Steve Stivala
Senior Manager
Management Consulting Advisory Services

FinTech requires technical expertise from both the world of finance and the world of cutting edge technology. When brought together and imbued with enough creativity and enthusiasm, the potential synergies which can be realised promise to revolutionise financial markets. From the automation of trading and risk management, to nascent technologies such as the blockchain, and intriguing concepts such as crowdsourcing of talent and finance, FinTech has the potential to bring real change to the finance industry.

Malta is ideally suited to play home to the next wave of FinTech pioneers. The country currently hosts rapidly growing financial services and IT industries. Between 2011 and 2016, Malta's IT industry saw its Gross Value Added[1] output increase by around 62%, while the finance and insurance industry has seen its GVA increase by around 30% during the same period. As at the end of Q1 2016, both these industries accounted for roughly 7% of the nation's total GVA, and together directly account for around 8% of total employment, providing nearly 16,000 individuals with challenging but rewarding work.

Malta's growth as a hub for remote gaming business has further reinforced the local labour force's skill in these areas. The gaming industry brought with it new technological, financial and regulatory challenges in order to be able to process large volumes of data and transactions originating from around the world in real-time. Through investment in people and infrastructure the nation has managed to establish itself as a preferred location for this creative industry, and has prepared us as a nation to welcome other such creative industries which make use of the competitive advantage offered by our local financial services and IT sectors.

Strong economic performance and a positive future outlook have also encouraged a new generation of entrepreneurs to take on the challenge of starting up their own businesses. The nation's dependence on the success of SMEs has, in turn, prompted action from government to aid the growth of start-ups, especially those in innovative industries.

In sum, Malta's favourable regulatory environment, optimistic outlook, and strong, established complimentary industries, are the core factors which make it right for FinTech.

Impact on the labour market

The Maltese economy has flourished in recent years. Between 2011 and 2016 total GVA has grown by around 46% while GDP per capita has increased by around 38% during the same period, indicating strong performance by any standards. Within the context of the EU, Malta's performance in these metrics is second only to that of Ireland[2]. This strong economic growth has manifested itself through record low levels of unemployment and an improvement in the standard of living, as evidenced by an improvement in Malta's HDI[3] score from 0.821 in 2011 to 0.856 in 2015, an improvement of around 4%, roughly double the average of other very highly developed nations[4].

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[1] Gross Value Added (GVA), a measure similar to Gross Domestic Product (GDP), quantifies the value of goods and services, as contribution of a particular sector to the economy. It is equivalent to the difference between output at basic prices and intermediate consumption at purchasers' prices of industries.
[2] Source: Eurostat, KPMG Analysis
[3] The Human Development Index (HDI) is a composite statistic (composite index) of life expectancy, education, and per capita income indicators, which are used to rank countries into four tiers of human development.
[4] Source: United Nations Development Programme, KPMG Analysis

Furthermore, foreign investment remains strong and existing market players continue to see healthy levels of growth. As a result, several employers have begun to source new talent from overseas, in a few years transforming Maltese society into one which is far more metropolitan and diverse than ever before.

This coming together of different peoples from across Europe and beyond, has brought along with it new ways of thinking and experience in serving clients from across the globe. This has strengthened the local labour market, making it more flexible in its ability to adequately service the needs of clients from across the globe with vastly different social and cultural backgrounds.

Historically Malta's location in the centre of the Mediterranean Sea has been an invaluable strategic asset. The nation's persistence, and the growth in the labour market's ability to deliver value to customers regardless of their geographic location, has allowed Malta to rise above its constraints as a peripheral region, and become a real competitor in global commerce. Little Malta has the potential to be the next big thing for the rising stars in the FinTech community.

Spill-over effects

From a macroeconomic standpoint, the FinTech industry in Malta would leave positive spill-over effects on other aspects of the economy. Synergies with financial services and IT industries will undoubtedly fuel additional growth in both these areas. Meanwhile an additional influx of expatriate workers in the industry will create new demand for accommodation, boosting the local construction and real estate industries.

Ultimately, those drawn to Malta with the promise of a bright future will settle and begin to build a life for themselves. As such they will contribute towards the future growth of the Maltese economy through their consumption of goods and services.

The future is bright but careful planning and management is required. The emergence and growth of a new high-value adding industry may cause certain crowding-out effects to take place. That is to say, a strong FinTech industry may begin to compete with the existing players in financial services, IT and remote gaming to attract talent. This may in turn lead to wage inflation as large industries compete with each other for the best and the brightest, a potential problem for other sectors which must make due with lower margins, such as retail. On a wider scale, wage inflation will ultimately feed into higher core inflation, and a deterioration of our nation's competitiveness.

Similarly, a new influx of professional expatriates may place additional strain on the local property market (presumably via the rental market) - an upward push in property prices would serve to reduce the affordability of housing to individuals in lower paid positions.

Conclusion

We may be at the dawn of a new economic revolution, one in which technology serves to fundamentally alter the core of professional services. Innovators in FinTech will have the opportunity to completely change the way consumers and financial services institutions interact with one another. While navigating this uncharted territory, market players, consumers and regulators will all require the right guidance, knowledge and insights to enable them to take informed decisions and reap the rewards of success in this exciting field.

Approach

This Report is primarily based on the 2016/2017 Annual Group/Solo financial results and preceding period comparatives of: AgriBank plc, APS Bank Limited, BNF Bank plc, Bank of Valletta plc, Commbank Europe Limited, Credorax Bank Limited, ECCM Bank plc, FCM Bank Limited, Ferratum Bank plc, FIMBank plc, HSBC Bank Malta plc, IIG Bank (Malta) Ltd, Izola Bank plc, Lombard Bank Malta plc, MeDirect Bank (Malta) plc, MFC Merchant Bank Limited, NBG Bank Malta Limited, Novum Bank Limited, Pilatus Bank plc, Satabank plc, Sparkasse Bank Malta plc, Yapi Kredi Bank Malta Ltd.

Akbank T.A.S and Garanti Bankasi A.S, being branches of Turkish banks operating in Malta, have been excluded from the analysis. Credit Europe Bank NV Malta, a Dutch branch operating in Malta, has also been excluded from the analysis.

In the assessments of Agribank plc and MeDirect Bank (Malta) plc we used the financial statements for the year ended 2017, given that for these banks their financial year ends during the calendar year. In the case of Bank of Valletta plc, HSBC Bank Malta plc, and MeDirect Bank (Malta) plc we also used the latest interim financial statements, dated 30th June 2017. Due to Bank of Valletta's change in financial year end date, the analysis was conducted over a 15 month period. Furthermore, in the assessment of Lombard Bank Malta plc, the results of Redbox limited have also been excluded.

All the data related to the analysis of the Bank's Financial Statements, has been obtained solely from publicly available sources. The analysis has, in most cases and as much as possible, utilised comparable data to provide meaningful results.

The profile of Maltese Banks

The Central Bank of Malta splits the 22 local banks into three categories:

- Core domestic banks: these can be loosely defined as those credit institutions which provide an array of banking services and are core providers of credit and deposit services in Malta. Typically, these banks operate through a branch network.
- Non-core domestic banks: these play a more restricted role in the Maltese economy, since the suite of banking services they offer to Maltese residents are somewhat limited and usually restricted to deposit taking.
- International banks: these banks are those which predominantly offer their services to persons residing outside Malta.

Malta also hosts three branches, namely two of Turkish credit institutions and one of Dutch origin.

Core Domestic Banks

- APS Bank Limited
- BNF Bank plc
- Bank of Valletta plc
- HSBC Bank Malta plc
- Lombard Bank Malta plc
- MeDirect Bank (Malta) plc

Total number of Core domestic Banks: 6

Non-Core Domestic Banks

- FCM Bank Limited
- FIMBank plc
- IIG Bank (Malta) Limited
- Izola Bank plc
- MFC Merchant Bank Limited
- Sparkasse Bank Malta plc

Total number of Non-core domestic Banks: 6

International Banks

- AgriBank plc
- CommBank Europe Limited
- Credorax Bank Limited
- ECCM Bank plc
- Ferratum Bank plc
- NBG Bank Malta Limited
- Novum Bank Limited
- Pilatus Bank plc
- Satabank plc
- Yapi Kredi Bank Malta Ltd

Total number of International Banks: 10

Branches

- Akbank T.A.S.
- Turkiye Garanti Bankasi Anonim Sirketi
- Credit Europe Bank NV Malta Branch

Total number of Branches: 3

Regulators

1 Malta Financial Services Authority

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 through the publication of guidance notes, rules and regulations, supervising the industry through its various Supervision Units and liaising with national and supranational organisations such as the ECB. The regulation and supervision conducted by the MFSA mainly encompasses credit institutions, financial institutions, securities and investment services, regulated markets, insurance companies, company service providers, pension schemes and trustees. Malta's Registry of Companies is also housed within the MFSA.

The MFSA is an accessible and commercial regulator yet it fully implements all EU and local regulations stringently, which allows for constructive working relationships with regulated entities.

2 European Central Bank

The ECB is an official EU institution at the heart of the Eurosystem and the SSM. It performs a range of tasks in close cooperation with the NCB within the Eurosystem and, for banking supervision, with the National Competent Authorities 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, through the SSM, is responsible for prudential supervision of significant Credit Institutions located in the Euro Area and participating Non-Euro Area Member States.

Furthermore, the ECB contributes to the well-being 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.

Joint Supervisory Teams

JSTs are one of the main forms of cooperation between the ECB and the NCAs and are responsible for carrying out the ongoing supervision of Significant banks. One of their main tasks is to perform the SREP on credit institutions. JSTs are composed of staff from the ECB and the relevant NCAs, and their size, overall composition, and organisation depends on the size, business model and risk profile of the SI they supervise.

3 Single Supervisory Mechanism

The SSM is an integrated system that is based on the cooperation between the NCA's and the ECB. This local integration between the MFSA and the ECB focuses on building a stronger regulatory environment and has led to certain key tasks of banking supervision falling into the direct hands of the ECB rather than under the remit of NCA's. The SSM also includes criteria for the classification of banks as SIs or LSIs. The SIs in Malta are Bank of Valletta plc, HSBC Bank Malta plc and more recently MeDirect Bank (Malta) plc. The fundamental reason for this distinction here is that SIs are supervised by JSTs which are established for each individual SI, while LSIs are directly supervised by the NCAs under ECB's oversight.

4 Central Bank of Malta

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 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 Euro-system membership, in 2004 and 2008 respectively, the Central Bank of Malta became part of the ESCB. The CBM is now integrated within the decision making bodies of the ECB.

5 Financial Intelligence Analysis Unit

The FIAU became operational in 2002, and as an independently operating government agency responsible for the analysis and dissemination of information with a view to combating money laundering and the funding of terrorism. The FIAU is also responsible for monitoring compliance with the relevant legislative provisions.

The FIAU is part of the Egmont Group, the informal international association of Financial Intelligence Units, currently comprised of 155 members.

Alongside its watchdog obligations, the agency 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.

Is PSD2 a threat for banks or a source of hidden revenue?

"Banking is at the highest point of disruption at the moment and PSD2 is but the latest in a long line of initiatives that are going to keep on piling pressure on banks."

Can banks be blamed for not having given much thought to PSD2? After all, the Directive (Payment Services Directive 2 or EU Directive 2015/2336 which comes into force on 1 January 2018) is aimed at those institutions that act as payment service providers, not banks, and with banks having to cope with CRDIV, recovery plans and ILAAPs, and an onsite visit or two from the regulator, it is very easy to keep on finding excuses to "one day read the Directive just in case there is anything in there that I need to know". In other words to turn away from a Directive that on the face of it may not seem that relevant or world shattering.

In reality, the Directive only contains one article that on closer reading affects banks – Article 66. To add to the misconception, this Article does not make direct reference to banks but to "account servicing payment service providers". In other words banks by another name, and obliges the ASPSPs to *"immediately after receipt of the payment order from a payment initiation service provider, provide or make available all information on the initiation of the payment transaction and all information accessible to the account servicing payment service provider regarding the execution of the payment transaction to the payment initiation service provider"* Art 66(4)(b).

There are two other important elements of the Directive to keep in mind. The customer (of the bank) must give his/her consent for the exchange of information in order to effect a payment through another third party provider or Payment Initiation Service Provider and the exchange of information must happen without the need for a contractual relationship to exist between the parties.

One article in an obscure Directive and the world of banking is set to change forever.

The transposition of the Directive across Member States in 2018 will set the stage for open banking in Europe. Banks will have to use Application Programming Interfaces to provide access for third party providers. It has been hitherto unheard of that regulation demands that European banks must open their data and infrastructure to lower the barriers for third-party providers. But this is what PSD2 will do – make banks give access to their most prized asset, data on their customer base.

How have banks across Europe reacted to this?

Some banks have lobbied aggressively against the Directive within EU circles but to no avail. Most banks have reacted with uncertainty, some with scepticism. Many banks are unsure how to respond to the new directive and are playing the wait and see game. Some see it as another compliance exercise driving up costs with no matching revenues.

Juanita Bencini
Consultant and Subject Matter Expert

A few have acknowledged and embraced it in different ways. A common strategy is for banks to partner with or purchase startups and FinTechs. Spain's second largest bank BBVA is at the forefront of FinTech acquisition and digital transformation and today is a major shareholder of British startup bank, Atom. Other banks such as Unicredit have taken the approach to build a completely new digital bank outside the walls of the current infrastructure. Unicredit's new "molecular" bank is called Buddybank. This is strategic thinking at its best and acknowledges that it is impossible to compete with new entrants in the market using a bricks and mortar bank, such as Unicredit, with all its legacy systems. So the strategy is to set up a new bank to develop new operations and with a new brand to which Unicredit can potentially shift in the future. These banks are viewing PSD2 as yet another milestone in a journey of financial disruption which is set to challenge the status quo forever.

What to do?

Trying to prevent access or playing delaying tactics (as some banks have done already) is not viewed favourably in the current environment. Banks need to look at exchange of data as a system of two way traffic. My bank will provide the data but in return what can I do with other banks' data if my bank becomes a PISP in its own right? That should be the discussion in the boardroom at this stage. In the UK, HSBC is aiming to become the first high street bank to offer its customers an app next year that allows them to see all their accounts – including those with other banks - in one place. Imagine all the data that the bank will have access to, as a result of this move!

Moreover, there is nothing in the Directive that says that banks cannot charge for access to the data. The only constraint is that the bank cannot discriminate and must charge PISPs the same pricing as the bank's retail customers. So yes, PSD2 can result in hidden revenues as well. Strategically, banks can also look into adding third party capabilities to their core business offerings and in so doing bolster their cross-selling efforts and/or enter new geographical markets. In the face of a reality that will see bank revenue from payments and interchanges dwindle substantially over the next 10 years, this opens up a new revenue stream - digital revenue.

Customer experience and choice are at the heart of PSD2. Customers today believe that banks are out to make a killing from them by charging high fees for every service. This perception needs to change as banks will, in the future, utilise data to provide advice to a customer on how to rearrange their affairs in order to pay less fees. This will involve developing apps that provide customers with enhanced insight into their spending habits and products, and on the back of that, the bank will jump in to provide services that will allow them to better manage their financial affairs, but in a way that suits their lifestyle, not the other way round. What open banking will do is shift the power from the bank back to the customer.

The one thing that banks have over new entrants into the market or "challengers" as they are often referred to is trust – trust of the customer. And banks will have to reinforce this message with their customers. By being the best at helping their customers to conduct their financial affairs better and save money in the process, banks will be cementing those trust relationships, thereby ensuring customer retention. A more personal relationship with customers is bound to lead to a more profitable relationship for the bank as well.

Banking is at the highest point of disruption at the moment and PSD2 is but the latest in a long line of initiatives that are going to keep on piling pressure on banks. The banks that will survive are the ones that can frame a strategic response to this disruption.

Key Figures

		Total Assets		Amounts Owed to Customers		NII		Net fee and commission income/ (expense)		Profit/ (loss) for the financial year		PBT	
		€ million		€ million		€ million		€ million		€ million		€ million	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Core Domestic Banks												
1	APS Bank Limited	1285	1111	1099	943	28	26	4	4	11	10	16	16
2	BNF Bank plc	523	517	483	474	10	10	2	2	2	1	2	1
3	Bank of Valletta plc	10722	9902	9181	8560	149	145	66	63	95	80	146	118
4	HSBC Bank Malta plc	7306	7241	5001	4950	126	127	24	27	40	29	62	47
5	Lombard Bank Malta plc**	844	763	725	654	14	13	3	2	4	4	7	6
6	MeDirect Bank (Malta) plc*	2571	2274	1902	1447	58	41	3	1	15	11	19	13
	Non-Core Domestic Banks												
7	FCM Bank Limited	66	57	57	49	0	0	0	0	(1)	(1)	(1)	(1)
8	FIMBank plc***	1651	1370	900	400	20	27	13	13	5	(6)	4	(11)
9	IIG Bank (Malta) Ltd***	146	183	114	136	5	5	1	1	3	4	4	6
10	Izola Bank plc	197	171	132	107	2	2	2	3	2	2	4	4
11	MFC Merchant Bank Limited	53	87	0	0	1	3	1	0	1	1	1	1
12	Sparkasse Bank Malta plc	485	604	454	572	1	2	5	5	3	4	4	6
	International Banks												
13	AgriBank plc*/***	29	29	21	11	1	1	0	1	0	0	0	0
14	CommBank Europe Limited*/***	618	668	0	0	15	18	1	2	12	48	14	18
15	Credorax Bank Limited	100	86	5	2	0	0	9	11	19	(1)	19	(1)
16	ECCM Bank plc	355	172	97	67	6	3	1	0	6	1	7	1
17	Ferratum Bank plc	169	50	98	3	60	41	(5)	(2)	3	5	3	7
18	NBG Bank Malta Limited	585	623	235	331	15	17	0	0	6	13	8	14
19	Novum Bank Limited	59	27	34	5	0	0	14	14	(1)	9	(1)	0
20	Pilatus Bank plc	309	326	258	226	4	2	0	0	3	3	4	3
21	Satabank plc	324	55	38	38	1	1	3	1	4	0	6	0
22	Yapi Kredi Bank Malta Ltd	149	90	0	0	2	1	0	0	(1)	(1)	(1)	(1)

For ease of perusal, all figures in the above table exceeding €0.5million were rounded up to the nearest € million.

**The figures for MeDirect Bank (Malta) plc, AgriBank plc, and CommBank Europe Limited are for the financial year ended 2017.*

***The figures for Lombard Bank Malta plc were based on a solo basis.*

****For these banks, the above figures were converted to Euro using the applicable ECB AUD/GBP/USD to EUR financial year end exchange rates (for Balance Sheet items) and average currency exchange rates (for Income Statement items).*

		ROE		CET1		Own Funds		LCR		CAR	
		percentage		€ million		€ million		number		number	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Core Domestic Banks										
1	APS Bank Limited	10%	9%	101	87	110	99	244	376	17	17
2	BNF Bank plc	7%	3%	19	19	25	23	280	313	11	9
3	Bank of Valletta plc	17%	18%	590	509	775	605	131	N/A	17	13
4	HSBC Bank Malta plc	13%	10%	362	330	390	380	479	526	14	14
5	Lombard Bank Malta plc**	5%	5%	83	78	86	82	477	594	17	17
6	MeDirect Bank (Malta) plc*	9%	N/A	217	194	253	237	577	270	14	16
	Non-Core Domestic Banks										
7	FCM Bank Limited	(15%)	(19%)	-	-	7	6	-	-	16	15
8	FIMBank plc***	3%	(4%)	128	138	176	191	1	1	13	16
9	IIG Bank (Malta) Ltd***	11%	18%	23	19	24	21	-	-	16	15
10	Izola Bank plc	8%	9%	25	23	25	25	-	-	33	40
11	MFC Merchant Bank Limited	2%	1%	51	87	51	87	-	-	89	97
12	Sparkasse Bank Malta plc	12%	16%	-	-	21	22	3	2	23	18
	International Banks										
13	AgriBank plc*/***	N/A	N/A	6	6	7	6	N/A	N/A	23	25
14	CommBank Europe Limited*/***	N/A	N/A	338	338	338	338	N/A	N/A	51	45
15	Credorax Bank Limited	N/A	N/A	25	13	25	20	N/A	N/A	28	34
16	ECCM Bank plc	N/A	N/A	107	104	257	104	N/A	N/A	90	73
17	Ferratum Bank plc	N/A	N/A	25	15	25	15	262	N/A	16	17
18	NBG Bank Malta Limited	N/A	N/A	222	221	223	221	86	N/A	48	50
19	Novum Bank Limited	N/A	N/A	-	12	10	12	N/A	N/A	26	60
20	Pilatus Bank plc	29%	24%	12	11	12	11	629	N/A	37	30
21	Satabank plc	N/A	N/A	12	10	12	10	268	127	18	50
22	Yapi Kredi Bank Malta Ltd	N/A	N/A	60	59	60	59	207	152	40	67

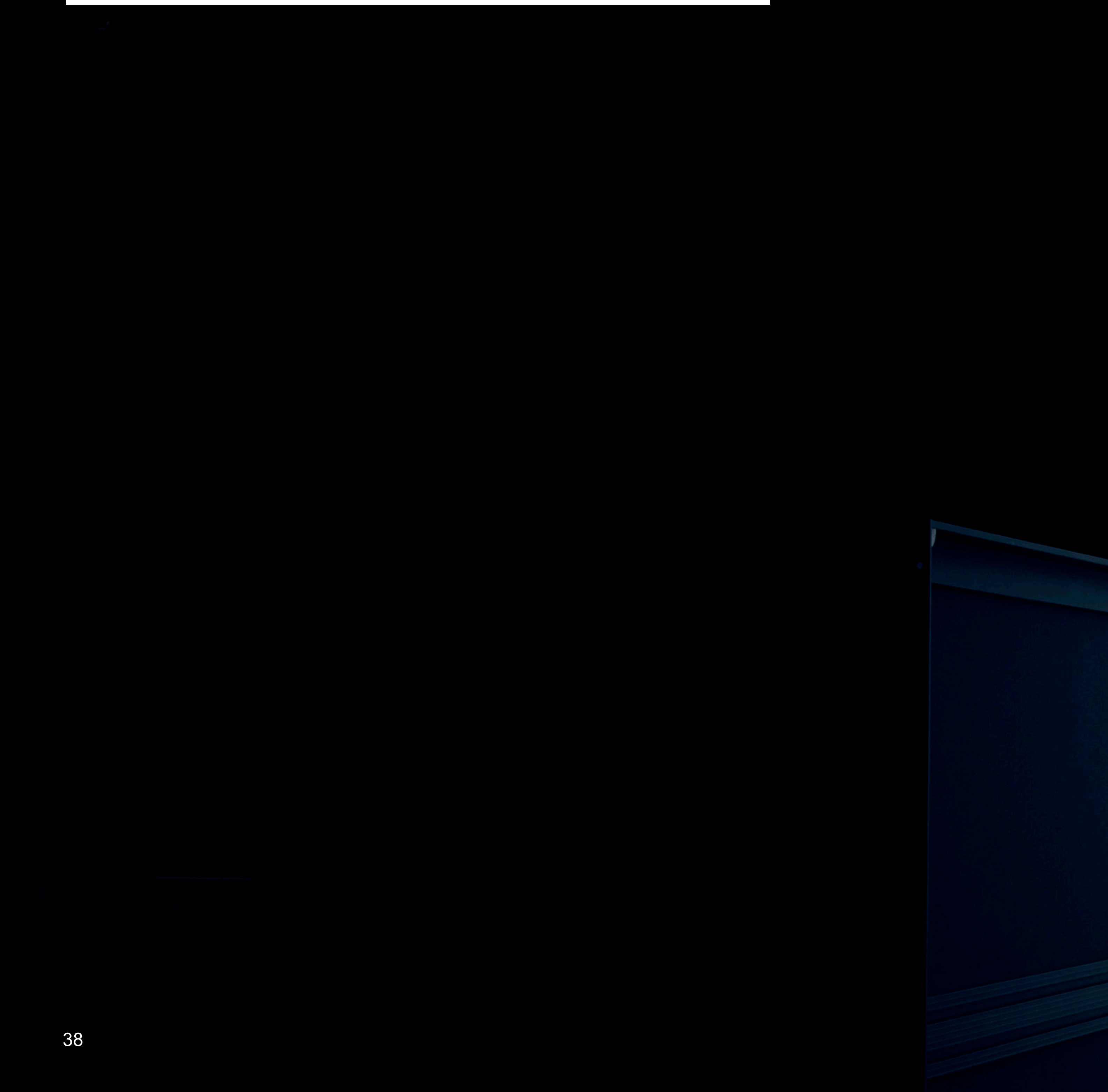
For ease of perusal, all figures in the above table exceeding €0.5million were rounded up to the nearest € million.

**The figures for MeDirect Bank (Malta) plc, AgriBank plc, and CommBank Europe Limited are for the financial year ended 2017.*

***The figures for Lombard Bank Malta plc were based on a solo basis.*

****For these banks, the above figures were converted to Euro using the applicable ECB AUD/GBP/USD to EUR financial year end exchange rates (for Balance Sheet items) and average currency exchange rates (for Income Statement items).*

Core Domestic Banks



APS Bank Limited

Financial year ended 31st December 2016

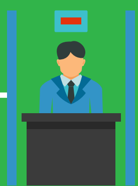
APS Bank offers a range of personal, wealth management and corporate banking services. During 2016/7 APS delivered positive financial results, which reflects its strong underlying performance, and is currently the fourth largest Banking Group in Malta in terms of asset size. The year 2016 saw APS Bank Group being composed of APS Bank Limited, APS Consult Limited, ReAPS Asset Management Limited and APS Funds SICAV plc, the latter consisting of two sub-funds. 2017 can be seen as a year of further transformation and growth. The Bank continued to expand its range of services and products, modernise its infrastructure, and strengthen its structures while remaining close to its business ethos, that of a progressive and a community bank.

Profit Before Tax

The Group's PBT for the year ended 31st December 2016 increased by €0.2m (or 1%), to €15.76m, when compared to the previous financial year. This was largely due to an increase in Interest Receivable on Loans and Advances of €1.69m (or 7%) to €27.29m, a reflection of the increase in the Loans and Advances for the year under review. Conversely, Interest Income from debt securities was negatively affected by the historical low interest rates which are prevailing in the Eurozone. The positive result in the PBT is also a reflection of the increase in Fees and Commission Income of €0.58m (or 15%) to €4.39m.

Leverage Ratio

As at 31st December 2016, the Bank's LR stood at 7.5%.

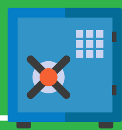


Return on Assets

The Group's ROA for the year ending 31st December 2016 was of 1.2%.

Return on Equity

The Group's ROE reported for financial year ending 31st December 2016 was at the same level at 10.1%.

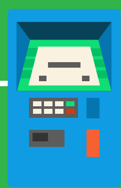


Capital Adequacy

The Group has registered a relatively strong CET1 ratio of 15.64% as at 31st December 2016 (2015: 14.79%), while its total CAR stood at 16.95% (2015: 16.69%). Total Own Funds, consisting of CET1 and Tier 2 Capital, amounted to €109.89m, representing an increase of €11.16m (or 11%) year-on-year. Furthermore, total Risk Weighted Assets also increased by €56.83m (or 10%) reaching an amount of €648.5m.

Net Impairment Losses

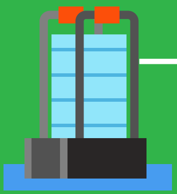
Net Impairment Losses for 2016 amounted to €0.99m, representing an increase of €0.28m (or 40%) over the previous year. Net Impairment Losses mainly consist of individual impairments on Loans and Advance to Customers and write-offs of bad debts which for the year ended 31st December 2016 amounted to €2.12m and €1.52m, respectively. The figure for 2016 was nonetheless partially offset by a reversal of write-downs in individual impairments on Loans and Advances to customers, amounting to €2.81m.



Liquidity

The Group's liquidity ratio stood at the 40% level for year ended 31st December 2016 (2015: 40%).

During 2016 the Bank's LCR fluctuated healthily above the applicable minimum requirement of 70% and as at 31st December 2016 stood at 244%.



Identified Risks

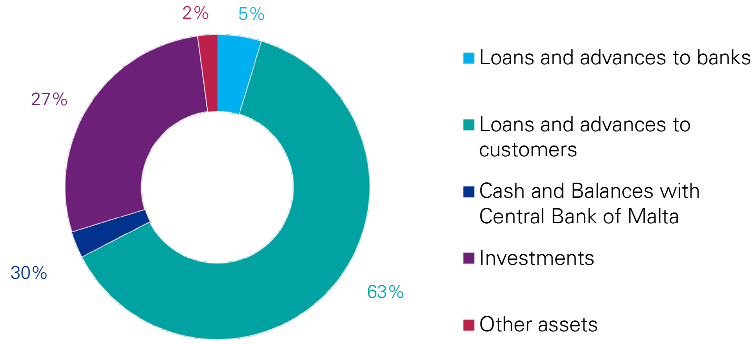
The Bank's 2016 ICAAP has identified credit, operational and market risk as the Bank's primary risks. Another risk arising from the Group's non-trading activities is the Interest Rate Risk in the Banking Book.

Total Assets and Liabilities

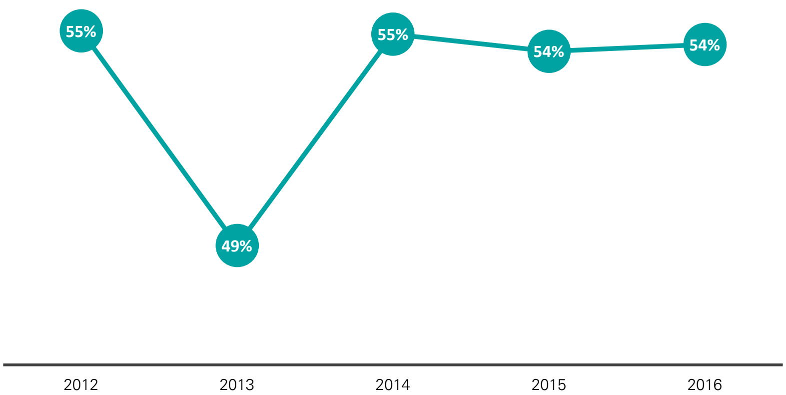
During the financial year under review, the Group undertook an expansion of its asset base which totalled €1.28bn for the year ended 31st December 2016, representing an increase of €173.05m (or 16%) year-on-year. The main reason behind this increase is attributed to an increase in Loans and Advances to Banks and Customers of €17.14m (or 40%) and €110m (or 16%) respectively. The increase in Loans and Advances to Banks was mainly for loans repayable on call and at short notice, while the increase in Loans and Advances to Customers was principally attributable to term loans and advances. There has also been an increase in Debt and other fixed income instruments classified as Available-for-Sale of €24.89m (or 8%) year-on-year. This increase in AFS instruments was mainly attributable to instruments issued by foreign banks.

As at financial year ended 31st December 2016, the Group's Liability base totalled €1.15bn, representing an increase of €0.16bn (or 16%) year-on-year. This increase was mainly driven by an increase in 'repayable on demand' customer deposits which led to an increase of the Amounts Owed to Customers by €0.16bn (or 17%) to €1.1bn.

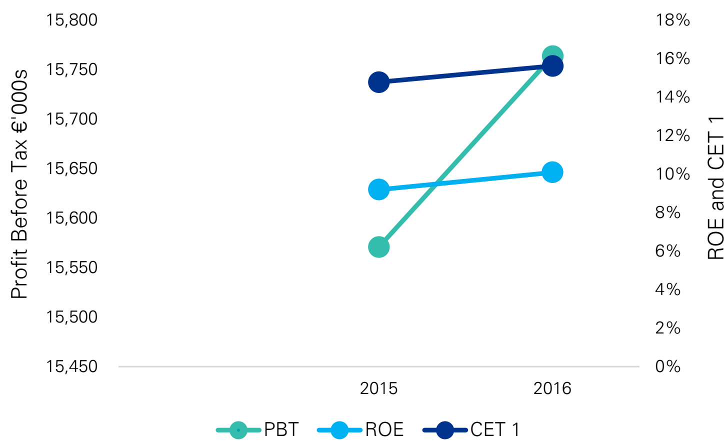
Total Assets



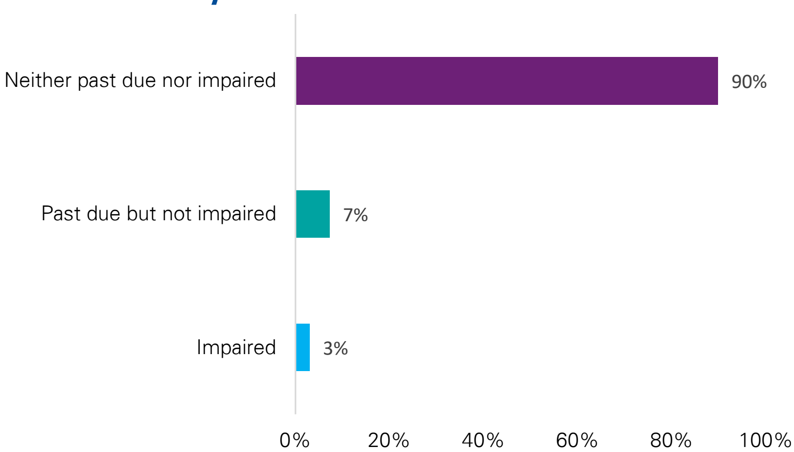
Cost-to-income ratio



Key Metrics



Credit Quality - Loans and advances to customers



Bank of Valletta plc

Financial year ended 31st December 2016

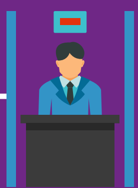
Bank of Valletta p.l.c. ("BOV" or "the Group") was established in 1974, subsequently becoming the first public company in Malta to be listed on the Malta Stock Exchange way back in 1992. BOV is the eldest credit institution in Malta, and the largest in terms of asset base. It offers its services through a network of 44 branches and agencies across Malta and Gozo as well as through a number of subsidiaries. The Group comprises Bank of Valletta p.l.c. ("the Bank"), BOV Asset Management Limited, BOV Fund Services Limited and BOV Investments Limited. Furthermore, the Group has an associated company, Middlesea Insurance p.l.c., and a jointly controlled entity, MSV Life plc. The Maltese Government holds 25.23%, whilst UniCredit S.p.A. holds 14.45% of the Group. The remaining equity is held by the general public. At present, BOV provides retail and commercial banking services, insurance services as well as administration and management services to various types of investment funds. Since November 2014, the Bank has been directly supervised by the European Central Bank through a Joint Supervisory Team. In June 2017, Bank of Valletta p.l.c. changed its accounting year end from 30th September to 31st December. As a result, the financial year 2017 is set to cover fifteen months rather than the typical twelve months, from 1st October 2016 to 31st December 2017. At an extraordinary general meeting held on 27th July 2017, BOV shareholders considered and approved resolutions to increase the issued share capital of their company to €1bn and empowered the board of directors to issue new shares. Moreover, the Bank has authorised a rights issue of €150m in October 2017 which will allow the Bank to meet the level of capital buffers required under the relevant banking regulations.

Profit Before Tax

The Financial year ended 30th September 2016 yielded positive results for the Group, with an increase in PBT of €27.99m (or 24%) to a level of €145.91m. This increase is largely attributable to a one-off gain on the Visa transaction of €27.51m which was brought about by the takeover of VISA Europe, in which BOV is a principal member, by VISA Inc. However, Net Interest Income and Net fee and Commission income have also improved by €4.05m (3%) and €3.51m (6%) year-on-year. The increase in Net Interest Income was brought about by a decrease of €5.41 (8%) in Interest Expense when compared to the previous year. This reduction in Interest Expense reflects the decrease in interest expenses on customer deposits. Similarly, Interest Income declined by €1.35m (0.6%) from September 2015, due to a reduction in Interest Income on debt and other fixed income instruments.

Leverage Ratio

As at 30th September 2016, the Group's Leverage Ratio stood at 5.34% (2015:5%).

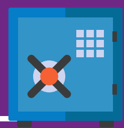


Return on Assets

The Group's ROA for the year ending 30th September 2016 was 1.1% (2015: 1.3%).

Return on Equity

The Group's ROE for the financial year ending 30th September 2016 was 16.9% (2015: 18.4%).

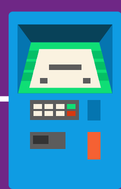


Capital Adequacy

The Group registered a total CAR of 16.84% as at 30th September 2016 (2015: 13.4%), out of which 12.82 % (2015:11.3%) is made up of CET1 Capital. The Group's total Own Funds amounted to €0.77bn (2015: €0.61bn) as at 30th September 2016, of which €0.59bn (2015: €0.51bn) are classified as CET1 Capital. As at September 2016, the Bank was also required to hold an 'Other Systemically Important Institution Buffer' of 0.5%[1].

Net Impairment Losses

The Group registered NIL of €23.14m throughout the financial year ended 30th September 2016. This represented a decrease of €9.57m (or 29%) year-on-year and was the result of a new provisioning methodology that was introduced in 2015, the aim of which was to concentrate on the assessment of individual exposures, rather than a collective assessment.

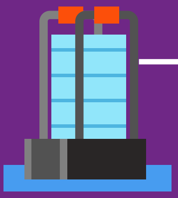


Liquidity

As at 30th September 2016, BOV's Loan to Deposit Ratio stood at 46.3% hovering well above the 30% statutory minimum requirement, albeit with a minimal decline of 2.9% year-on-year. This decrease in the Loan to Deposit ratio was a result of a significantly higher rise in customer deposits when compared to the increase in the Bank's lending portfolio.

As at 30th September 2016, the Bank's LCR stood at 131%.

[1] https://www.mfsa.com.mt/pages/readfile.aspx?f=/files/Announcements/Circulars/Banking/2016/Statement%20of%20Decision%20-%202016%20-%20OSII.pdf



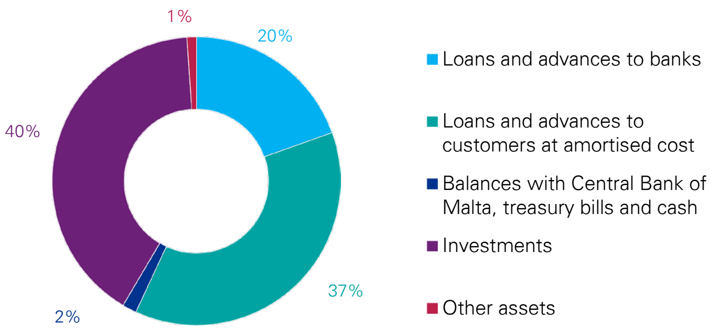
Identified Risks

The top risks for the year ended 2016 were identified as being credit risk, operational risk and foreign exchange risk. In addition to holding capital to cover these risks, the Bank is also holding a minimum capital requirement for non-credit obligation assets (that is, 'other assets' on the balance sheet).

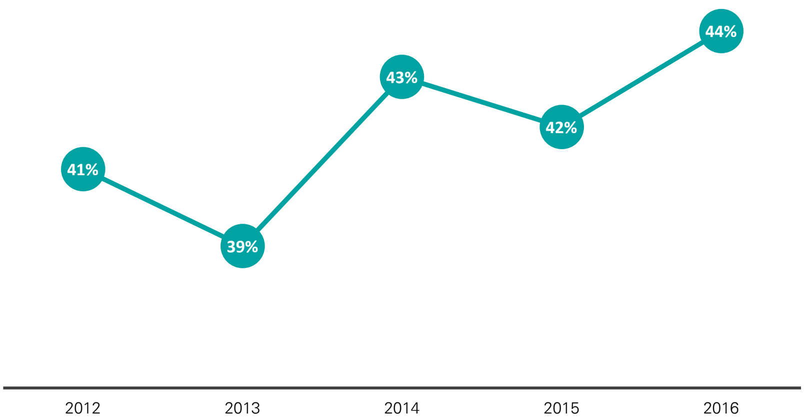
Total Assets and Liabilities

The Group's total asset base as at 30th September 2016 amounted to €10.72bn, signifying an increase of €0.82bn (or 8%) year-on-year. The main contributors to this expansion were Loans and Advances to Banks (mainly term placements with the Central Bank of Malta which increased by €0.44bn (or 27%) and Investments which increased by €0.36bn (or 11%). Loans and Advances to customers remained stable, at €4bn, when compared to the previous year. The Group's total liability base amounted to €9.99bn, representing an increase of €0.76bn (or 8%) year-on-year. The main contributor to this was an increase in deposits from customers and from banks, amounting to €0.67bn (or 8%) year on year. During the financial year ended 30th September 2016, the Bank also issued an amount of €0.11bn of Euro subordinate unsecured bonds which are listed on the Malta Stock Exchange. This bond issue resulted in an increase of 93% in the Group's subordinate liabilities.

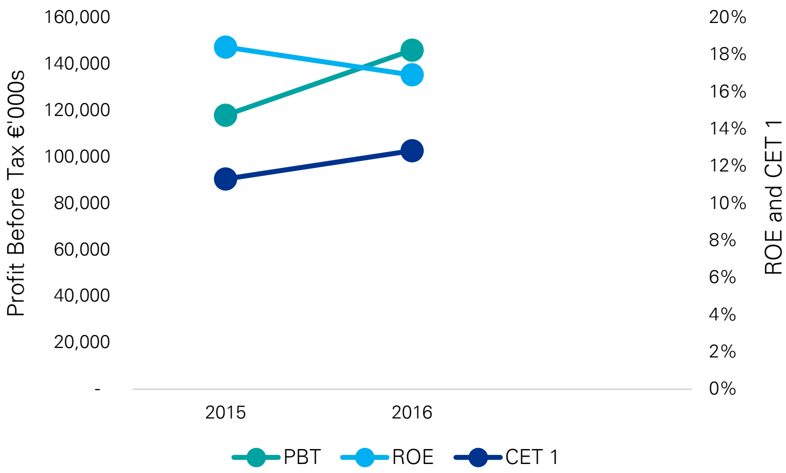
Total Assets



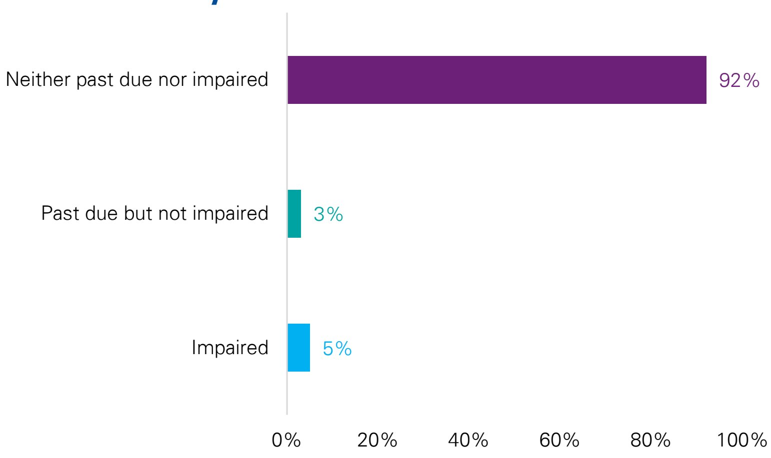
Cost-to-income ratio



Key Metrics



Credit Quality - Loans and advances to customers



Bank of Valletta plc

Additional Analysis on Interim Financial Statements

June 2017 Interim Financial Statements
(compared to June 2016 for P&L items and December 2016 for B/S items)

PBT

€68m
(Jun 16: €85m)

The lower PBT year-on-year is a result of a negative Fair Value through P/L movement of the Bank. Additionally, the Bank gained €22m on the disposal of the Bank's interest in Visa Europe.

Net Impairment releases/(losses)

€6m
(Jun 16: (€3m))

NII

€72m
(Jun 16: €76m)

Total Assets

€11.61bn
(Dec 16: €11.13bn)

Mainly as a result of an increase in Loans and Advances to Customers.

L&A to Customers

€4.24bn
(Dec 16: €4.14bn)

Amounts Owed to Customers

€10.03bn
(Dec 16: €9.46bn)

CET1 Ratio

13.3%
(Sep 16: 12.82%)

Bank of Valletta plc

Additional Analysis on Interim Financial Statements

September 2017 Interim Financial Statements
(compared to September 2016 for P&L items and for B/S items)

PBT
€143.92m
(Sep 16: €145.91m)

Net Impairment releases/(losses)
€7.51m
(Sep 16: (€23.14m))

NII
€146.94m
(Sep 16: €148.83m)

Total Assets
€11.6bn
(Sep 16: €10.72bn)

Mainly as a result of an increase in Loans and Advances to Banks and Customers.

L&A to Customers
€4.16bn
(Sep 16: €4bn)

Amounts Owed to Customers
€10.08bn
(Sep 16: €9.18bn)

L&A to Banks
€3.01bn
(Sep 16: €2.1bn)

Amounts Owed to Banks
€173.66m
(Sep 16: €250.16m)

CET1 Ratio
14.1%
(Sep 16: 12.8%)

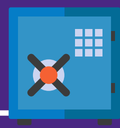
BNF Bank plc

Financial year ended 31st December 2016

BNF Bank plc ("the Bank"), formerly known as Banif Bank (Malta) plc, has been operating in Malta since 2008. For the first 9 years of operation the Bank operated as a subsidiary of Banco Internacional do Funchal, S.A. ("Banif S.A."), during which time it had established itself as one of the industry's core domestic banks. On 4th October 2016, Al Faisal for Investment (Malta) Limited, a subsidiary of Al Faisal for Investment Q.P.S.C., acquired 78.46% of the Bank from Oitane S.A. Since inception, the Bank has established a network of 12 branches spread across the Maltese islands offering a range of personal and corporate services. The Bank's banking model is mainly geared towards lending to the local community, with a specific focus on Small and Medium Sized Enterprises. In September 2016, the Bank signed a SME Initiative Guarantee transaction with the European Investment Funds. This will allow the Bank to provide around €6 million new loans to local SMEs until 2019.

Profit Before Tax

The financial year ended 31st December 2016 saw the Bank's PBT increase by €0.74m (or 50%) to €2.23m, when compared to the previous financial year. This increase was mainly due to 'Gains on Disposal of Available-For-Sale Financial Investments' with the main attributer being a one-off gain made by the Bank on the Visa Inc. transaction which was concluded during the first half of the year under review. However, such increase was partially offset by a decrease in Net Interest Income of €0.66m (or 6%) to €9.63m. The decrease in Net Interest Income mainly stemmed from a decrease in interest receivable and similar income from Loans and Advances to Banks and Customers of €1.64m (or 98%) to €0.03m and €1.81m (or 10%) to €16.21m, respectively. The decrease in income earned by the Bank from Loans and Advances to Banks can be explained by the fact that in 2015 the majority of income was made up of interest earned on balances and placements held with banks which at that time formed part of Banif Group.



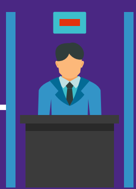
Capital Adequacy

During the year ended 31st December 2016, the Bank restructured the composition of its Own Funds. This led to a level of Own Funds of €24.79m in 2016 (2015: €22.83m). Up till 2015, Own Funds were composed of Common Equity Tier 1 and Tier 2 components. However, on 4 October 2016, the Bank issued floating rate Perpetual Additional Tier 1 Capital Notes which amounted to €5m, hence diversifying the types of instruments issued. Whilst the new instrument increased the level of Own Funds, this was partially offset by a decrease in the Bank's Tier 2 capital of €2.3m (or 73%). Such decrease can be mainly linked to the sale of the subordinated debt that resulted following the change in shareholding. Subsequently, the value of CET1 Capital stood at €18.7m, Additional Tier 1 Capital at €5m and Tier 2 Capital at €1.09m.

The aforementioned change in the Bank's composition of Own Funds led the Bank to close-off the financial year ending 31st December 2016 with a Capital Adequacy Ratio of 10.7% (2015: 9.3%) and a CET 1 Ratio of 8.1% (2015: 7.7%). Besides the net increases in Own Funds figures, the improvement in CAR can be partially attributed to a decrease in Risk Weighted Assets. The latter amounted to €230.96m (2015: €244.48m).

Leverage Ratio

The LR as at 31st December 2016 was 4.4% (2015: 3.2%).



Return on Assets

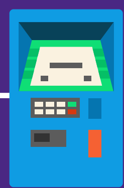
The ROA for the year ended 31st December 2016 was 0.4%.

Return on Equity

The ROE for the year ended 31st December 2016 was 6.8% (2015: 3.34%).

Net Impairment Losses

The Bank's NIL for the financial year ended 2016 relate solely to Loans and Advances to Customers. During the year under review, the Bank registered an increase of €0.49m (36%) over 2015 which resulted in an amount of €1.86m NIL, as at 31st December 2016.

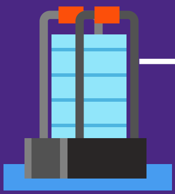


Liquidity

The Bank's Liquid Asset Requirement Ratio stood at 56.9% for the year ended 31st December 2016 (2015: 54.2%). This is significantly higher than the 30% minimum required by the MFSA.

LCR as at 31st December 2016 was 280.34% (2015:313%).

NSFR as at 31st December 2016 stood at 182.08% (2015: 171.7%).



Identified Risks

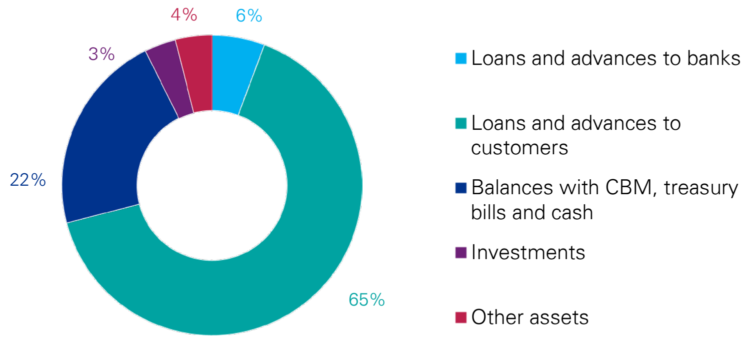
The ICAAP 2016 has identified the Bank's top three risks as being credit risk, interest rate risk and strategy & business risk. These risks took a considerable toll on the overall capital allocation of the Bank. In fact, in aggregate, these contributed to 74.8% (2015: 68.3%) of the overall capital allocation of the Bank. The Bank's credit risk is mainly attributable (74% of Bank's Balance Sheet) to Amounts Due from Banks, Loans and Advances to Customers and Investment in Debt Securities (2015: 80%). Overall, the credit risk exposure value remained relatively stable year-on-year with a slight increase of €4.6m (or 1%).

Total Assets and Liabilities

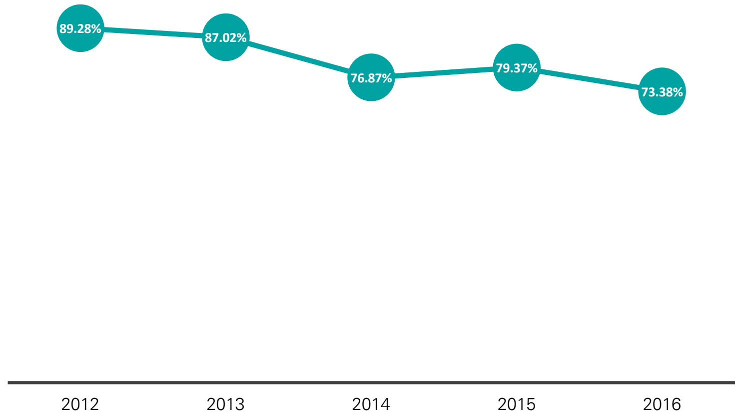
The Bank's Asset base, as at financial year ended 31st December 2016, amounted to €522.91m, representing a marginal increase of €6m (or 1%) year-on-year (2015: €516.91m). This minimal increase is mainly attributable to an increase in Balances with Central Bank of Malta and Cash of €31.88m (or 39%) to a level of €113.53m, and an increase in Financial Investments Classified as Available-For-Sale of €12.47m (or 236%) to a level of €17.76m. The latter increase related to an evident drive by the Bank to increase its investment in local government debt securities listed on the Malta Stock Exchange. Such drive resulted in a balance of €17.42m in 2016 when compared to a level of €2.83m in 2015. The mentioned increases were partially offset by a decrease in Loans and Advances to Banks of €20.49m (or 41%) to €29.70m, and a decrease in Loans and Advances to Customers of €18.66m (or 5%) to €341.60m.

The total liabilities of the Bank, as at financial year ended 31st December 2016, amounted to €492.12m, representing a marginal increase of €0.57m (or 0.1%) from the 2015 level of €491.55m. Digging deeper into the story behind changes in the total liabilities figures, show that, when compared to the financial year ended 31st December 2015, Amounts Owed to Customers also increased by €8.67m (or 2%). The latter constituted the biggest chunk of the Bank's liabilities for the year ended 31st December 2016. Amounts Owed to Banks fell by €3.51m (or 98%). The significant decrease of 98% originated mainly from a decrease in term loans and advance from banks.

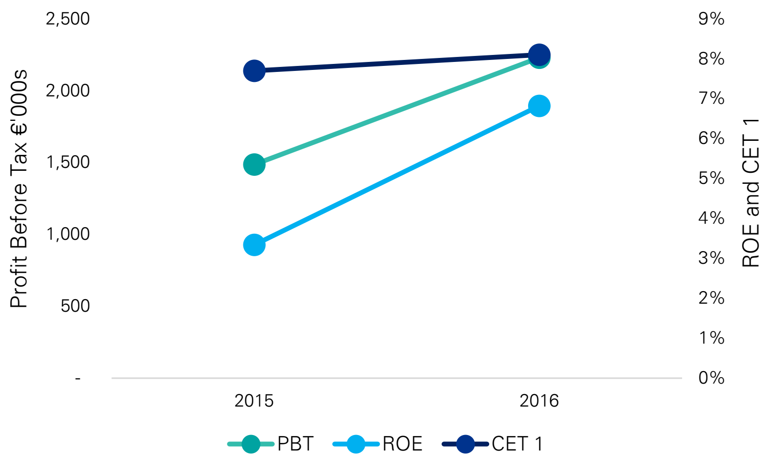
Total Assets



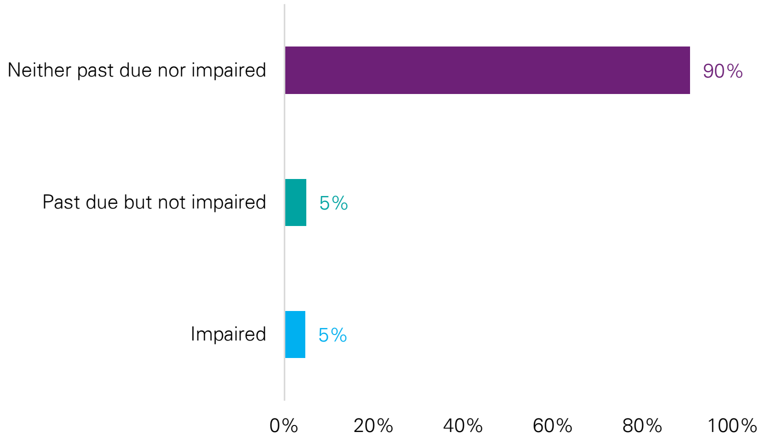
Cost-to-income ratio



Key Metrics



Credit Quality - Loans and advances to customers



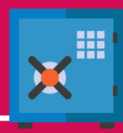
HSBC Bank Malta plc

Financial year ended 31^{st} December 2016

HSBC Bank Malta plc ("HSBC" or "the Group" or "the Bank") is one of the three largest licensed banks in Malta. It forms part of the HSBC Group, which is one of the largest banking and financial services organisations worldwide, providing Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking services to its customers. Locally, the Bank's services cater mainly for personal and commercial funding requirements within the domestic market. In addition, it provides domestic players with access to international opportunities. It is classified as a systemically important bank in Malta and is therefore directly supervised by the ECB under the SSM. The Bank's subsidiaries as at 31^{st} December comprised HSBC Life Assurance (Malta) Limited and HSBC Global Asset Management (Malta Limited). The former is authorised by the Regulator and offers a variety of protection and investment life assurance products, whereas the latter manages a range of funds which have exposure to both Maltese and international financial markets.

Profit Before Tax

The Group's PBT for the year ended 31^{st} December 2016 increased by €15.45m (or 33%) to €62.22m, when compared to the financial year ended 2015. The increase was mainly due to an increase in Net gains on the sale of financial investments which have been classified as available-for-sale of €10.15m. This amount entirely represents the gain on the disposal of the membership interest the Bank had in Visa Europe Limited. In addition to this, Net operating income before deducting loan impairment charges and provisions amounted to €181.54m, a year-on-year increase of €5.19m (or 3%). However, the latter increase was negatively affected by a provision which the Bank set aside in relation to a legacy operational and regulatory failure in its now-closed brokerage business. This failure had been self-identified and reported to the Regulator by the Bank itself. Additionally, Net fee income also decreased, when compared to year 2015, by €2.81m (or 11%) to a level of €23.75m. The main driver for this decrease was a decline in Fee income earned on trust and other fiduciary activities where the Group holds or invests in assets on behalf of its customers of €2.39m (or 25%) to €7.29m. Interest and similar income on loans and advances to customers also declined by €5.72m.



Capital Adequacy

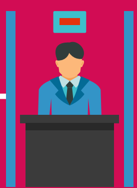
The Group's CET1 Ratio stood at 13.2% as at 31^{st} December 2016 (2015: 12.3%) while its total CAR remained at 14.2%. Total Own funds (€0.39bn) was made up of both CET1 Capital and Tier 2 Capital amounting to €0.36bn and €0.03bn respectively. This represents an increase in the Group's total Own Funds of €0.01bn. However, the Group's CAR was negatively affected by an increase in Risk Weighted Assets of €0.07bn when compared to year 2015. The local group was required to keep an Other Systematically Important Institution Buffer made up of CET1 capital of 0.375%. [1]

Net Impairment Losses

During the financial year ended 2016, the Bank registered NIL of €9.03m. This meant that the Bank decreased its NIL by €1.8m (or 17%) year-on-year which can be mainly attributable to improved collection of defaulted retail exposures.

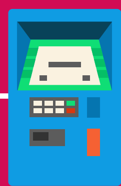
Leverage Ratio

The Group's LR as at 31^{st} December 2016 was 6%.



Return on Assets

The ROA (before tax deductions) for the year ended 31^{st} December 2016 was 0.9% (2015: 0.6%).



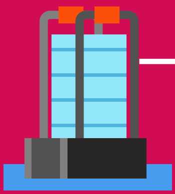
Liquidity

The bank sustained a robust liquidity position in 2016, when compared to 2015, with a stable 66% advances-to deposits ratio, an LCR of 479% (2015: 526%) and a NSFR of 136% (2015: 147%).

Return on Equity

The ROE (before tax deductions) for the year ended 31^{st} December 2016 was 13.1% (2015: 10.1%).

[1] https://www.mfsa.com.mt/pages/readfile.aspx?f=/files/Announcements/Circulars/Banking/2016/Statement%20of%20Decision%20-%202016%20-%20OSII.pdf



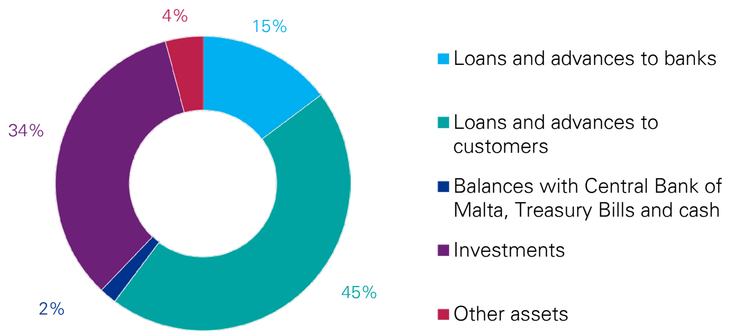
Identified Risks

The ICAAP included Credit Risk, Operational Risk, and Market Risk as the Group's primary risks. However, the Group's ICAAP also encompasses other material residual risks not fully captured under Pillar I, including credit concentration, liquidity, reputational and strategic risks and interest rate risk in the banking book.

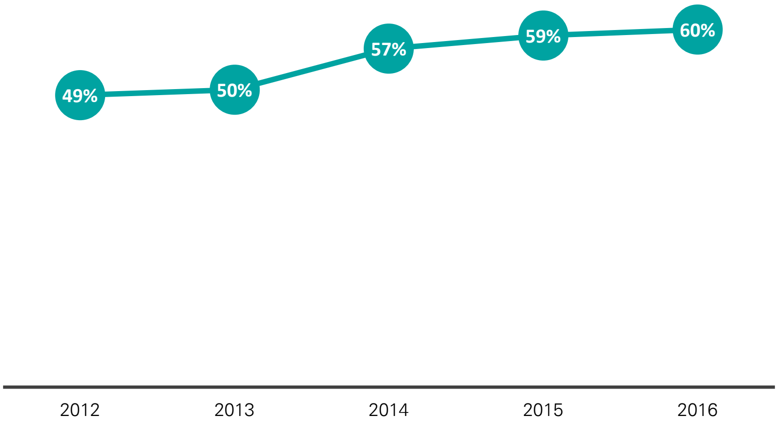
Total Assets and Liabilities

As at Financial year ended 31st December 2016, the Group's Asset base totalled €7.31bn. This represented an increase of €64.84m (or 1%) year-on-year. The main contributor to this increase was an increase in Loans and Advances to Banks of €0.24bn (or 28%) to €1.08bn. This was mainly due to a significant increase in term loans and advances of €0.4bn (or 316%) to €0.52bn. Furthermore, there was a marginal increase in Loans and Advances to Customers of €35.72m (or 1%) to €3.32bn. This was due to a slight increase in Term loans and advances of €75.8m (or 2%) to €3.11bn which was partially offset by a decrease of €35.43m (or 12%) in Loans and Advances to Customers classified as Repayable on call and at short notice. As at 31st December 2016, the Group's Liability base totalled €6.83bn, representing an increase of €52m (or 1%) year-on-year. The main contributor to this increase was a marginal increase in customer deposits of €50.58m (or 1%) to €5bn. These formed a large part (73%) of the Group's Total Liabilities.

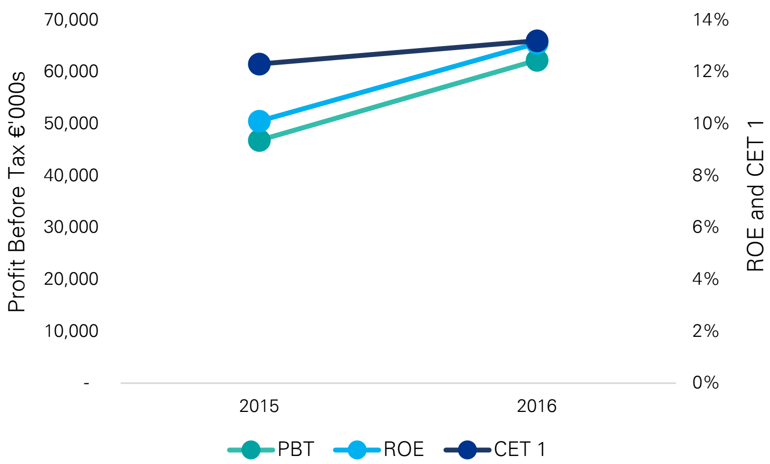
Total Assets



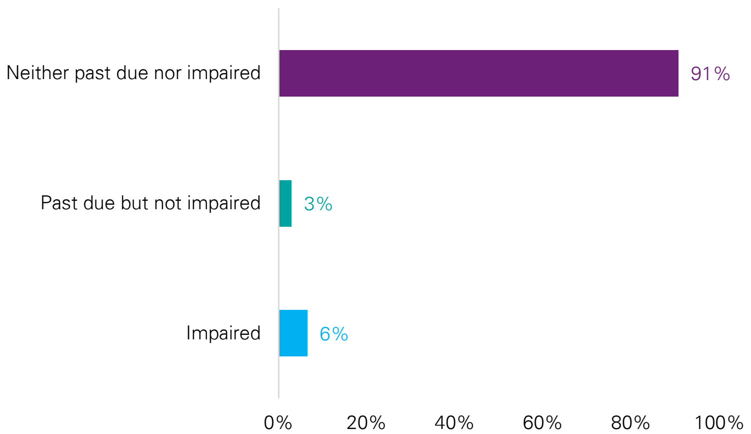
Cost-to-income ratio



Key Metrics



Credit Quality - Loans and advances to customers



HSBC Bank Malta plc

Additional Analysis on Interim Financial Statements

June 2017 Interim Financial Statements
(compared to June 2016 for P&L items and December 2016 for B/S items)

PBT

€25.93m
(Jun 16: €41.31m)

The higher PBT year-on-year is mainly due to the gain on disposal of the Group's membership in Visa Europe which was reported during the first six months of 2016. However, both Net Interest Income and Net Fee and Commission Income were on the decline in the first half of 2017.

NIL

(€4.35m)
(Jun 16: (€3.92m))

NII

€60.30m
(Jun 16: €63.88m)

Total Assets

€7.07bn
(Dec 16: €7.31bn)

L&A to Customers

€3.22bn
(Dec 16: €3.32bn)

Amounts Owed to Customers

€4.87bn
(Dec 16: €5bn)

L&A to Banks

€0.96bn
(Dec 16: €1.08bn)

Amounts Owed to Banks

€29.45m
(Dec 16: €10.77m)

CET1 Ratio

13.9%
(Dec 16: 13.2%)

This increase in CET1 Ratio was driven principally by lower risk-weighted assets.

KPMG

Delivering Strategic Value through Internal Audit

In a complex and fast evolving business environment, internal audit can play a key role in helping organisations achieve their strategic objectives. An Internal Audit function provides value to shareholders by challenging the way a business operates and providing assurance on risk and internal control systems, but more importantly, by acting as a strategic partner.

The Internal Audit function has become increasingly important, as enterprises are driven to pay closer attention to improve processes and controls whilst complying with a multitude of regulations. The above demonstrates how Executives are viewing the strategic value of the Internal Audit function. Our Internal Audit team embraces key attributes to ensure that we act as a leading local internal audit service provider and continue to provide strategic value to our clientele.

Becoming a Trusted Business Advisor: We are more than a compliance checker – we act as trusted advisors to support senior management in achieving organisational objectives.

Staying ahead of digital threats: We rope in our IT advisory team in order to ensure the risks and opportunities that our clients face are properly assessed and strengthened.

Going beyond traditional process-level audits: We acknowledge organisational culture, behaviour and overall conduct as a significant factor impacting an organisation's success.

Assessing our effectiveness: We track and assess our own performance and seek feedback from our clients to ensure we continue to achieve our objectives.

To learn more about how we can support your strategic goals and maximise the value provided by an Internal Audit function send an email to alexazzopardi@kpmg.com.mt or raisamizzi@kpmg.com.mt.

Lombard Bank Malta plc

Financial year ended 31st December 2016

Lombard Bank Malta plc ("Lombard" or "the Bank") was initially established in Malta in 1955 and was subsequently nationalised in 1975. In 1991, the Government sold its equity in the Bank, following which the Bank was listed on the Malta Stock Exchange in 1994. The major shareholder of the Bank is Cyprus Popular Bank Public Co Ltd, owning 49.01% of the Bank, which shareholding is currently in the process of being disposed of in line with the April 2017 Lombard Company Announcement. The Bank has an equity holding of 100% in Redbox Ltd, which in turn holds 70.7% of Maltese postal operator, MaltaPost plc. Lombard has further diversified the range of products offered in the area of transaction banking and eventually plans to further expand its dedicated asset and portfolio management advisory services.

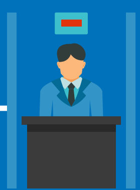
Profit Before Tax

The Bank's PBT for the year ended 31st December 2016 amounted to €6.65m (2015: €5.97m), resulting in an increase of €0.67m (or 11%) over the previous year. This increase was partly due to higher Net Fee and Commission Income of €0.53m (or 24%) to €2.71m. Such increase was brought about by an increase in income from fees received from retail banking customers of €0.24m (or 122%) to €2.24m. A partial offset was registered through an increase of 0.4% in 'Fee and Commission Expense' payable by the Bank on inter-bank transactions.

Other positive increases stemmed from Net Interest Income which increased by €1.08m (or 8%) to €14.03m. This was mainly due to a decrease in Interest Expenses on Amounts Owed to Customers of €0.91m (or 12%) to €6.7m. Conversely, the year-on-year increase in the Bank's 'Operating Income' was partially offset by an increase in 'Net Impairment Losses' and legal charges, of €0.94m (or 31%) and €0.48m (or 74%) respectively.

Leverage Ratio

The Bank's Leverage ratio as at 31st December 2016 stood at 9.6%.

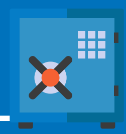


Return on Assets

The ROA for the year ended 31st December 2016 was 0.6%, based on profit before tax (2015: 0.6%).

Return on Equity

The ROE for the year ended 31st December 2016 was 5.2% (2015: 5.1%).

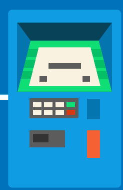


Capital Adequacy

The Bank's CAR and Common Equity Tier 1 ratios as at 31st December 2016, stood at 16.8% and 16.2% respectively, registering an absolute decrease of 0.6% in CAR and 0.2% in CET1 Ratio when compared to the previous year. The decrease in the Bank's CAR is a result of an increase of €41.16m (or 9%) in the total Risk Weighted Assets which amounted to €0.51bn as at 31st December 2016 (2015: €0.47bn). Such increase was eased by an increase of €4.12m (or 5%) in total Own Funds (€86.25m). The Bank's Own Funds were made up of CET1 capital of €83.09m and Tier 2 Capital of €3.16m.

Net Impairment Losses

During the financial year ended 31st December 2016, the Bank registered NIL of €4.03m, representing an increase of €0.94m (or 31%) year-on-year. This increase came about due to a higher amount of write-downs in the region of €0.87m (or 28%) to a level of €3.95m.

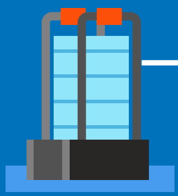


Liquidity

The Bank's Liquid Asset Requirement Ratio stood at 68.1% for the year ended 31st December 2016 (2015: 76.3%).

The Bank's LCR as at 31st December 2016 was 476.6% (2015: 593.8%).

The Bank's NSFR as at 31st December 2016 was 166.4% (2015: 144.1%).



Identified Risks

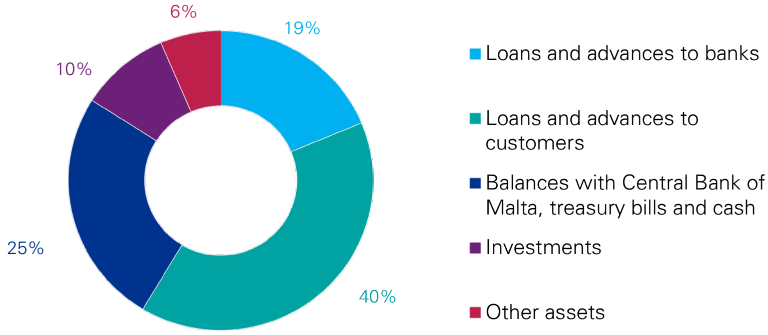
The Bank's main risk categories are Credit Risk, Market Risk, Liquidity risk and Operational Risk. Credit Risk is considered to be the Bank's largest risk due to its significant lending and securities portfolio. The Bank's credit risk arises mainly from lending to customers within the Property and Construction industry, which represented €0.17bn, or 47% (2015: 54%) of the Bank's total gross advances to customers.

Total Assets and Liabilities

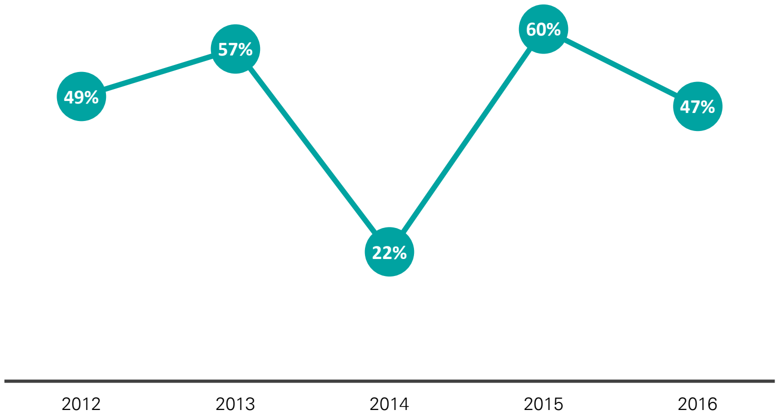
The Bank's total Asset base for the year ended 31st December 2016 totalled €843.69m, representing an increase of €81.03m (or 11%) when compared to 2015, whereby the asset base totalled €0.76bn. This increase was mainly driven by a higher amount held as 'Balances with Central Bank of Malta, Treasury Bills and Cash', of €0.1bn (or 88%) to €0.22bn. An increase in the amount of issued treasury bills by the local government led the Bank to increase its asset portfolio in this area. Furthermore, Loans and Advances to Customers increased by €37.88m (or 12%) to €344.46m. This was mainly due to an increase in Term Loans and Advances, of which the majority is made up of exposure to corporates. This increase was however partly offset by a decrease in 'Loans and Advances to Banks' of €69.58m (or 31%).

The Bank's total Liability base for the year ended 31st December 2016 stood at €0.75bn, representing an increase of €0.08bn (or 11%) year-on-year. This was mainly driven by an increase of €72.76m (or 19%) in 'Amounts Owed to Customers' which are repayable on demand. Furthermore, 'Amounts Owed to Banks' increased by €7.98m to €9.04m.

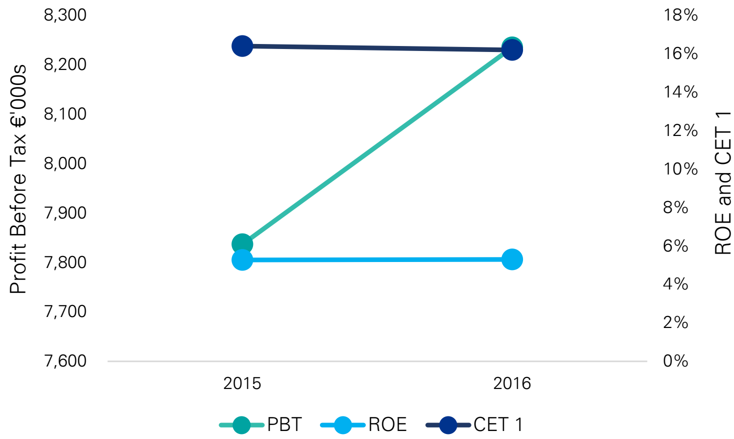
Total Assets



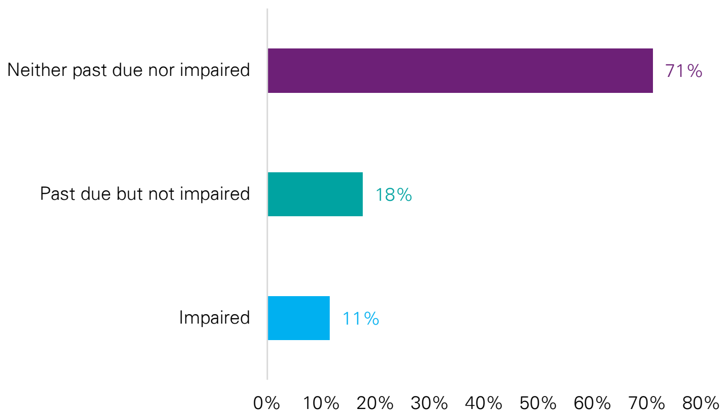
Cost-to-income ratio



Key Metrics



Credit Quality - Loans and advances to customers



MeDirect Bank (Malta) plc

Financial year ended 31st March 2017

MeDirect Bank (Malta) plc ("Medirect" or "the Bank"), was established in Malta in June 2004, becoming a fully licensed credit institution in 2005. It also holds an Investment Services Licence to provide a selection of investment services activities as well as custody activities. The Bank, formerly known as Mediterranean Bank plc, recently rebranded as MeDirect to embrace its digital banking philosophy[1]. The Bank's main service offerings include the provision of a multitude of savings products, wealth management and investment services.

In September 2014, the Bank acquired another local credit institution, Volksbank Malta Limited ("Volksbank") which had been subsequently rebranded to Mediterranean Corporate Bank Ltd ("MedCorp"). Through this acquisition, the Bank had extended its product portfolio by targeting Corporates. In June 2015, MeDirect Bank SA, located in Belgium, was converted from a Branch into a fully-fledged subsidiary of the Bank and on 22nd June 2017, MedCorp merged into Mediterranean Bank plc, presently known as MeDirect.

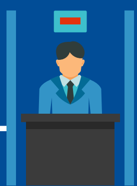
The below narrative refers to MeDirect Group Limited (the "Group" or "MeDirect Holding"), which includes MeDirect Holding and its principal subsidiaries, namely MeDirect Bank (Malta) plc, including the Bank's two wholly owned subsidiaries, MedCorp, which has been merged with MeDirect, and MeDirect Bank SA. It also includes Charts Investment Management Service Limited, another subsidiary, and Medifin Estates, a property leasing partnership, including Grand Harbour I B.V, a controlled special purpose entity, established in the Netherlands. As from January 2016, the Group started to be considered as a Systemically Important Institution and has since been directly supervised by a Joint Supervisory Team under the Single Supervisory Mechanism. In terms of its asset base, the Group is the third largest banking group operating from Malta.

Profit Before Tax

The Group's PBT for the year ended 31st March 2017 was €18.52m, representing an increase of €5.15m (or 38%) year-on-year. The increase can be attributed towards a higher inflow of Net Interest Income, more specifically an increase in Interest Income of €12.62m (or 16%) to €89.86m, and a decrease in Interest expenses of €4.11m (or 11%) to €32.3m. Digging deeper, one can notice that this was predominantly due to the increase in Loans and Advances to Customers, whereas the decrease in Interest expense was mainly due to a decrease in Interest Expense from Amounts Owed to Customers and Financial Institutions. Furthermore, there was an upturn in realised gains on Disposal of Loans and Advances from a loss of €0.25m to a gain of €3.59m. However, this was offset by a significant decrease in the item 'realised gains on Disposal of Investments', namely a decrease in Available-for-sale Investments, of €14.91m (or 95%).

Leverage Ratio

The LR as at 31st March 2017 was of 7.3% (2016: 7.95%).



Return on Assets

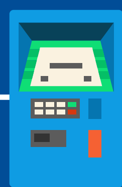
The ROA for the year ended 31st March 2017 was of 0.7%.

Capital Adequacy

The Group's Total Own Funds as at 31st March 2017 amounted to €253.49m, and this comprised both CET1 Capital (€216.52m) and Tier 2 Capital (€36.97m). The Group's Risk Weighted Assets as at the same date amounted to €1.86bn reflecting a Group CAR of 13.65% in 2017 (2016: 15.6%). This total capital ratio surpasses the minimum total capital requirement that the Bank was required to keep for the year 2017 which amounts to 12.5%. This requirement is composed of the 8% standard capital requirements stemming in line with the CRR, a 3% Pillar II requirement, a capital conservation buffer of 1.25% and an O-SII buffer of 0.25%[2].

Net Impairment Losses

The Bank's NIL relate to Loans and advances to customers. As at 31st March 2017 this variable increased by €1.86m (or 50%) over 2016 resulting in an amount of €5.61m.



Liquidity

LCR as at 31st March 2017 was of 576.7% (2016: 270.4%).

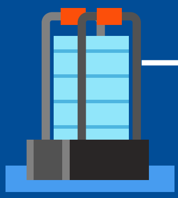
NSFR as at 31st March 2017 stood at 114.4% (2015: 120%).

Return on Equity

The ROE for the year ended 31st March 2017 was 8.7%.

[1] https://www.medirect.com.mt/updates/news/article/2017/11/23/a-truly-digital-bank

[2] https://www.mfsa.com.mt/pages/readfile.aspx?f=/files/Announcements/Circulars/Banking/2016/Statement%20of%20Decision%20-%202016%20-%20OSII.pdf



Identified Risks

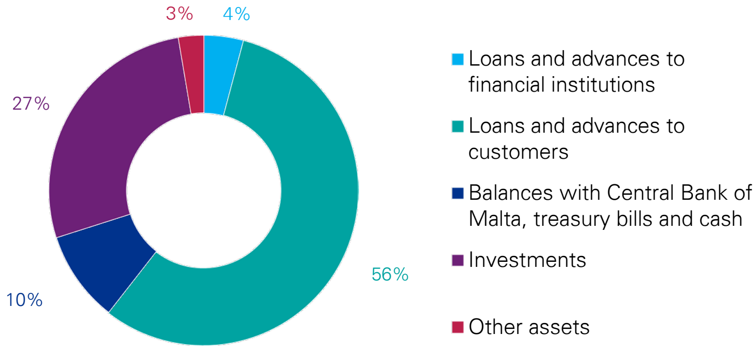
Given that the Group's asset base is made up of loans and treasury debt securities, the main risks of the Group are counterparty credit risk, market risk (mainly foreign exchange risk and interest rate risk) and operational risk.

Total Assets and Liabilities

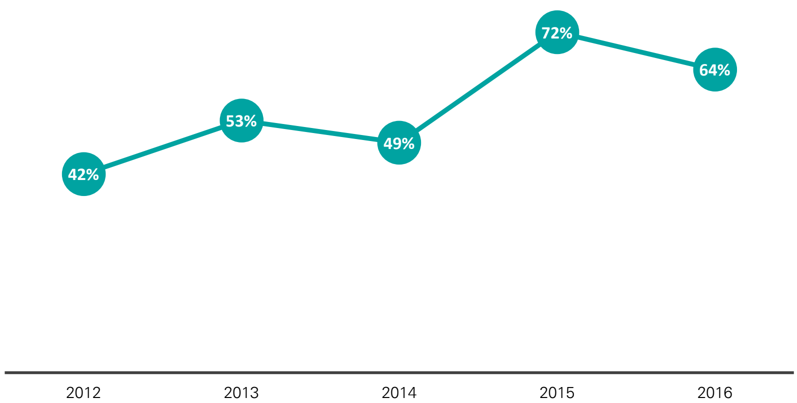
The Group's total asset base as at 31st March 2017 amounted to €2.57bn, representing an increase of €0.3bn (or 13%) year-on-year. This increase can be attributed towards a rise in Loans and Advances to Customers, of €0.21bn (or 17%) to €1.45bn, as well as an increase in Balances with Central Banks, Treasury Bills and Cash of €0.21bn (or 637%) to €0.25bn. The latter increase was mainly due to an increase in the reserve deposits relating to the Minimum Reserve Requirements, an increase in the overnight deposits with the Central Bank of Malta and also an increase in the balance pledged in favour of the Depositor Compensation Scheme. These increases were partially offset by a decrease in investments of €0.13bn (or 15%) to €0.7bn. The Group's total liability base as at 31st March 2017 amounted to €2.35bn, representing an increase of €0.28bn (or 13%) year-on-year. This increase was mainly due to a higher level of Amounts Owed to Customers of €0.45bn (or 31%) which in turn form a substantial part of the Group's liability base (81%). The major part of the Amounts Owed to Customers can be traced to a 50% (or €0.16bn) increase in deposits which are classified as 'Repayable on call and at short notice'. However, this increase was partially off-set by a decrease in Derivative Financial Instruments and Amounts Owed to Financial Institutions of 68% and 34% respectively.

MeDirect Group has seen substantial growth in its Belgian subsidiary, through its online funding platform, which has provided ample liquidity for the Group, with its attractive range of savings products combined with highly innovative digital investments and wealth management offerings.

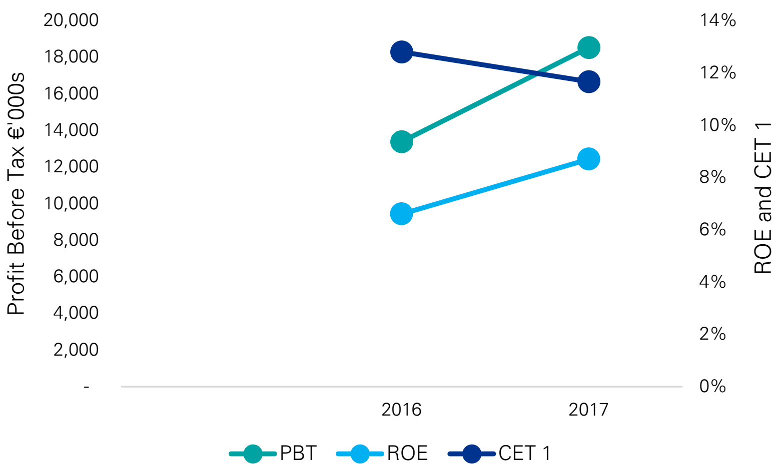
Total Assets



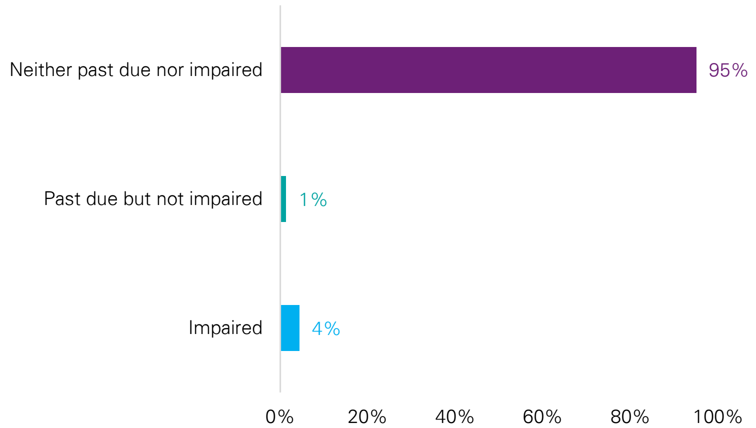
Cost-to-income ratio



Key Metrics



Credit Quality - Loans and advances to customers



MeDirect Bank (Malta) plc

Additional Analysis on Interim Financial Statements

September 2017 Interim Financial Statements
(compared to September 2016 for P&L items and March 2017 for B/S items)

PBT
€9.11m
(Sep 16: €9.76m)

The lower PBT year-on-year is driven from higher operating expenses

NIL
(€1.02m)
(Sep 16: (€2.80m)

NII
€31.17m
(Sep 16: €28.45m)

Total Assets
€2.54bn
(Mar 17: €2.57bn)

L&A to Customers
€1.56bn
(Mar 17: €1.45bn)

Amounts Owed to Customers
€1.92bn
(Mar 17: €1.90bn)

L&A to Financial Institutions
€111.1m
(Mar 17: €106.95m)

Amounts Owed to Financial Instutions
€266.01m
(Mar 17: €359.18m)

CAR
13.5%
(Mar 17: 13.7%)

Get Data Privacy Right

"In a global environment defined by constant disruption, business leaders need data and analytics they can trust to make informed decisions on service and product offerings."

Eric Muscat
Partner
IT Advisory Services

Adrian Mizzi
Director
IT Advisory Services

Consumers are increasingly aware that organisations are collecting, using, analysing, retaining and disclosing their data. So, when does 'helpfully close' cross the line to become 'creepy and intrusive'?

Businesses need to take stock of their current approach to privacy to create value for the organisation, its customers and its employees. Mark Thompson, Global Privacy Advisory Lead for KPMG says *"Companies must act with discretion and put in place more transparency when it comes to data collection – or risk losing the trust of existing and potential customers, and with them, revenues."*

Customer trust is not the only issue at stake. The EU's General Data Protection Regulation which comes into effect in May 2018, will have a massive impact. Although Malta should be prepared for the GDPR, in view of the existing Data Protection Act (Chapter 440) that has been effective since 2002, the GDPR regime is significantly tougher, carrying fines of up to 4% of global turnover or around Eur20m for businesses that do not comply, whichever is higher.

Many see GDPR as a compliance issue generating cost and restricting the use of data. However, KPMG privacy practitioners are advising clients to recognise this as an opportunity to seize a competitive advantage and gain consumer trust.

Financial services firms collect and process sensitive personal identifiable information and rely heavily on perceptions of trust. That trust is not always a result of altruism. The banking industry is starting to explore opportunities to leverage personal information.

The IoT and the booming FinTech sector in banking and insurance are the major market disruptors. Such disruptions play to the growing desire of consumers to conduct their business with very little direct human contact, and take advantage of the evidence that these emerging robo-relationships and the analytics behind them are becoming more trusted than the human equivalent. This shift is triggering valuable new opportunities for the industry to build stronger relationships with its customers and drive operational efficiencies.

But reality is likely to be more complex for financial services. The sector is facing some particularly challenging questions of trust created by data and analytics, beyond the well-recognised data security and privacy issues. A call for action is required from the financial services organisations to reconsider the way they view and manage trust.

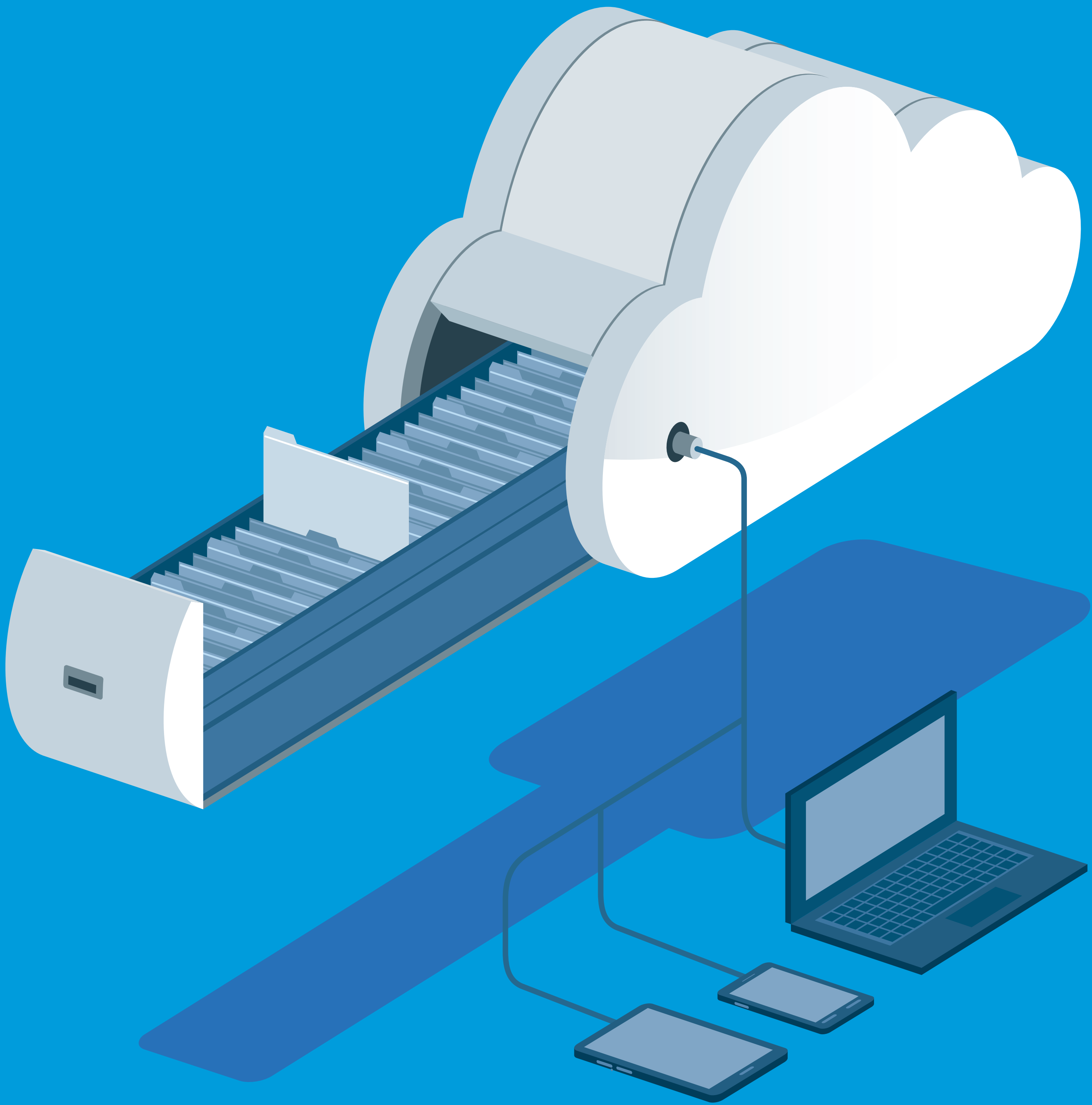
In a global environment defined by constant disruption, business leaders need data and analytics they can trust to make informed decisions on service and product offerings. However, customers are developing a keener sense of the value of personal data, heightened also by GDPR protection towards the data subject. This requires the banking professional to demonstrate unwavering commitment to precision and quality in everything they do.

https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2016/11/crossing-the-line.pdf
https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/07/kpmg-gprd-guide.pdf
http://ec.europa.eu/justice/data-protection/reform/files/regulation_oj_en.pdf

The demand to ensure that organisations do not blur the line between 'cool services that efficiently anticipate your needs' and 'creepy and intrusive' is critical. It is advisable to make it easier for consumers to control how their data is collected and be transparent in how it is used.

At KPMG we have developed extensive knowledge in data privacy by advising and assisting clients with the identification of Data Protection gaps and the implementation of a Data Privacy roadmap, together with the development of a sustainable approach towards risk, controls and governance.

Understanding how privacy can work for you is essential. It is about gaining and maintaining your customers' trust and not just about regulatory compliance.



Non-Core Domestic Banks


ONE CENT
IN GOD WE TRUST
2014
LIBERTY
UNITED STATES
2015
2008
1965

FCM Bank Limited

Financial year ended 31st December 2016

FCM Bank Limited ("the Bank") is a non-core domestic bank, specialising in the provision of savings and fixed term products to its customers. It was founded by a fund managed by Fortelus Capital Management LLP, which is based in London. As outlined in documentation presented to the local Registry of Companies dated 30th November 2017, the Bank has recently been acquired in full by Czech outfit SAB Finance A.S.

Loss Before Tax

The Bank registered a LBT of €1.2m for the year ended 31st December 2016, which is a slight improvement over the performance of 2015 (2015: loss of €1.46m). The main driver for this decrease in LBT was an increase in the gains generated on financial assets which are not measured at fair value through profit or loss amounting to €0.33m (2015: nil). The Bank also realised foreign exchange gains of €0.01m. This was partially offset by a decrease in Net Interest and Dividend Income of €0.46m (or 99%) to €0.04m. This was mostly due to a decrease in Interest Income, specifically income related to held-to-maturity investments and loans and receivables, of €0.47m (or 23%) to €1.61m. Moreover, the Bank also suffered an increase in Interest expense of €0.12m (or 7%) to €1.74m.

Total Assets and Liabilities

As at 31st December 2016, the Bank's total asset base amounted to €65.75m. This resulted in an increase of €8.95m (or 16%) (2015: €56.8m), which can be mainly attributed to an increase of €29m of investments classified as Available-for-Sale. The latter portfolio amounted to €34.72m, contributing to 53% of the Bank's Asset base, as at 31st December 2016.

Similarly, the Bank's total liability base amounted to €57.57m, representing a year-on-year increase of €7.94m (or 16%) (2015: €49.63m). This was mainly driven by an increase in Amounts Owed to Customers of €7.94m (or 16%) to €56.85m, which were mainly term deposits.

Capital Adequacy

The Bank's CAR for the financial year ended 31st December 2016 stood at 15.99% (2015: 15.27%). This slight increase in CAR can be traced to an increase in Own Funds of € 0.75m. Total Own Funds €7.11m as at 31st December 2016 resulted in €7.11m (2015: €6.34m). However, during the year under review the Bank's RWA also increased by €2.9m, resulting in a total RWA amount of €44.44m (2015:41.55m).

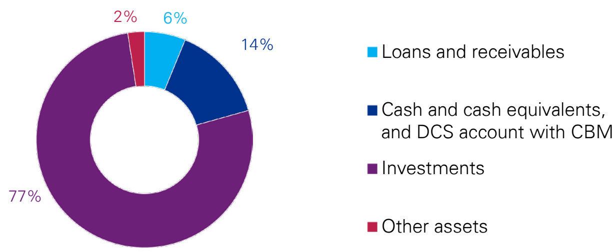
Return on Equity

The ROE for the year ended 31st December 2016 was -14.65% (2015: -19.4%).

Return on Assets

The ROA for the year ended 31st December 2016 was -1.82%.

Total Assets



Financial Analysis

LBT of **€1.2m** for financial year ended 31st December 2016.

The Bank's Asset base increased by **€8.95m** year-on-year.

The Bank registered a CAR of **15.99%** as at 31st December 2016 (2015: 15.27%).

KPMG Suite of Services: Automatic Exchange of Information (AEOI)

KPMG has a suite of AEOI services that address all stages of AEOI compliance. So no matter at what stage of the reporting process you are in, we can help to make global information reporting manageable.

KPMG AEOI Reporting Tool – designed to cut the cost of tax reporting

- Global tax reporting solution for FATCA and CRS;
- Designed to accelerate and simplify clients' path to compliance;
- Provides a reporting solution to convert data from core systems into the correct reporting regime;
- Enables Financial Institutions to report in multiple jurisdictions; and
- Acts as a validation tool to identify gaps in customer data which could otherwise delay or prevent the submission of reports.

KPMG AEOI Health Check: position check on your compliance status

- Once AEOI procedures are incorporated into 'business as usual', KPMG can review the procedures to ensure that they are sufficient to meet all AEOI obligations;
- One-off testing for any work completed (FATCA and CRS) or implemented (internal procedures and processes, documents and reporting systems and reports);
- The extent of the health check can be tailored to your needs in respect of the level of detail; and
- May also include recommendations on how you can change current processes to meet best practices.

Assurance

- QI/FATCA/CRS External Audit
- Governance Framework & Controls including key controls matrix
- "Mystery Shopper"
- Audit Checklists
- Relationship Manager Certification Tracking
- Design & Execute Compliance Testing Plan
- Ad hoc queries

KPMG AEOI Compliance

- Technical advice throughout the life cycle of your AEOI project, including AEOI policies and procedures, entity and product; classification, on-boarding procedures, self-certification preparation, pre-existing account support;
- Training and ad-hoc technical advice; and
- AEOI help desk service: supports clients while they are developing or implementing AEOI solutions by providing on-going access to our subject matter experts through a central point of contact.

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FIMBank plc

Financial year ended 31st December 2016

FIMBank p.l.c ("the Group" or "FIMBank") was set-up in 1994 via the incorporation of First International Merchant Bank Ltd. It was subsequently renamed FIMBank p.l.c in 2005. The majority shareholder of FIMBank p.l.c. is United Gulf Bank B.S.C. with 61.20%. Another major shareholder, albeit with a lower percentage, is Burgan Bank SAK with a 19.72% shareholding, with the remaining equity owned by the general public through the Bank's listing on the Malta Stock Exchange. In addition to the provision of international trade finance, FIMBank also acts as an intermediary to other financial institutions for international settlements, forfaiting, factoring and loan syndications. In the course of 2016, FIMBank gained full control of The Egyptian Company for Factoring S.A.E. from Commercial International Bank (CIB) through the acquisition of the remaining shares that weren't already in its possession. The decision to acquire CIB is in line with the FIMBank's continuous strategy to restructure the business units across its factoring network. The Bank's other subsidiaries comprise London Forfaiting Company Limited, FIM Business Solutions Limited, FIM Property Investment Limited, FIM Holdings (Chile) S.p.A., and FIMFactors B.V.

Profit Before Tax

The Group registered a PBT of $4.75m (€4.29m) for the year ended 31st December 2016, which is a welcomed improvement over the loss of $12.05m (€10.89) registered in 2015. This was partially driven by a reduction in Net Impairment Losses on financial assets which showed a remarkable year-on-year decrease of $8.03m (€7.25m) (or 78%) to $2.3m (€2.08m). This decline was mainly due to a reversal of a significant amount of impairment allowances held against Loans and Advances to Banks and Customers.

The Group also saw a substantial increase in Net Trading Results of $13.16m (€11.88m) (or 1306%) to $14.17m (or €12.8m). This was mainly driven by a significant increase in foreign exchange rate fluctuations of $10.37m (€9.37m) or (186%) to $15.95m (€14.41m). In their Annual Report, the Directors of the Group noted that the resulting increase in trading activities was impacted by various factors including a profit realisation on trading of investment securities of $3.4m (€3.07m) compared to a loss of $0.3m (€0.27m) in 2015. A profit of $0.8m (€0.72m) on currency differences recognised upon de-consolidation of the Russian subsidiary FactorRus LLC also materialised in 2016.

Conversely, the Group reported a decrease in Net Interest Income of $7.63m (€6.9m) (or 26%) to $21.96m (€19.84m). This decrease was mainly due to a significant decrease in Interest income, of $7.5m (€6.78m) (or 14%), and a slight increase in Interest Expense stemming from an increase in Interest Expense on subordinated debt and amounts owed to customers. The reduction in interest income came about as a result of a decrease in interest income generated on loans and advances to customers and banks. The decrease in NII was partially offset by an increase in dividend income from the Group's investment in a trade-finance fund.

Total Assets and Liabilities

As at 31st December 2016, the Group's Total Asset base increased by $0.3bn (€0.28bn) (or 21%) to $1.74bn (€1.65bn). This increase was mainly driven by increases in Loans and Advances to Banks of $0.23bn (€0.22bn) (or 104%) to $0.45bn (€0.43bn), Loans and Advances to Customers of $37.66m (€35.73m) (or 10%) to $0.43bn (€0.4bn), and Investments Available-for-Sale of $53.03m (€50.31m) (or 19%) to $0.33bn (€0.31bn). The increase in Loans and Advances to Banks was mainly due to an increase in the loans classified as 'Repayable on call and at short notice' which increased by $77.70m (€73.71m) (or 82%). Loans and Advances to Customers increased by $37.66m (€35.73m) (or 10%) to $0.43bn (€0.41bn). This was mainly due to increases in 'Term loans and advances' of $0.14bn (€0.13bn) (or 47%). A reduction in specific impairments of $0.44m (€0.42m) (or 16%) was also registered. The increase in Investments Available-for-Sale was largely attributable to increases in foreign listed debt instruments and shares in sub-funds of a local unlisted collective investment scheme.

As at 31st December 2016, the Group's Total Liability base amounted to $1.57bn (€1.49bn) which means an increase of $0.3bn (€0.28bn) (or 23%) year-on-year. The increase in the Group's Liability base can be mainly attributed to an increase in Amounts Owed to Customers of $0.53bn (€0.5bn) (or 125%) to an aggregate level of $0.95bn (€0.9bn). Such growth was mainly driven by an increase in Term deposits versus deposits repayable on demand.

Capital Adequacy

The Group registered a CAR of 13.3% (2015: 16.2%) and a CET1 ratio of 9.7% (2015: 11.6%) as at 31st December 2016. The decrease in CAR was mainly attributed to an increase in Total Risk Weighted Assets of $146.87m (€139.33m) (or 11%) to $1.39bn (€1.32bn).

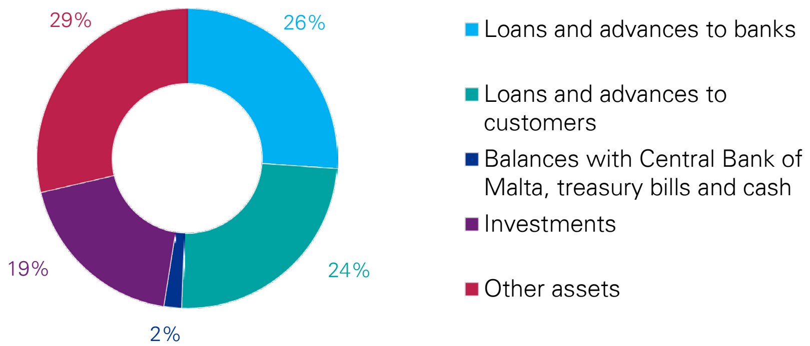
Return on Equity

Following three years of negative ROEs, the Group registered a positive ROE of 3.02% for the year ended 31st December 2016 (2015: -4.08%).

Return on Assets

The ROA for the year ended 31st December 2016 was of 0.03% which meant that in the course of 2016 the bank managed to overturn the negative ROA figure, of -1.02%, registered in 2015.

Total Assets



Financial Analysis

PBT of **$4.75m (€4.29m)** for financial year ended 31st December 2016.

The Bank's Asset base increased by **$0.3bn (€0.28bn)** year-on-year.

The Bank registered a CAR of **13.3%** as at 31st December 2016 (2015: 16.2%).

The above figures were converted to Euro using the applicable ECB EUR/USD financial year end exchange rates (for Balance Sheet items) and average currency exchange rate (for Income Statement items).

IIG Bank (Malta) Ltd

Financial year ended 31st December 2016

IIG Bank (Malta) Ltd ("IIG" or "the Bank") was established in Malta in 2010. The Bank is an affiliate of International Investment Group LLC ("the Group") which is based in New York. The primary activity of the Group is the provision of global commodity export services with particular focus on emerging markets. The Bank's activities include the provision of international trade finance and corporate banking services. IIG has an associate company, IIG Trade Finance, which was set-up in 1994 with the aim of sourcing and managing investment funds to finance small and medium sized exporters & traders.

Profit Before Tax

The Bank's PBT for the year ended 31st December 2016 decreased significantly by $2.18m (€1.97m) (or 33%) to $4.37m (€3.95m). This decrease in PBT was mainly driven by an increase in Net impairment charges of $3.78m (€3.42m) (or 1155%) to a level of $4.11m (€3.71m), and a drastic change in income from trading activities. Furthermore, during the year under review the Bank reported a net trading loss of $0.34m (€0.31m) as opposed to a gain of $0.64m (€0.58m) the previous year. This loss was partially offset by an increase in Net Interest Income of $0.43m (€0.39m) (or 8.5%) to a level of $5.52m (€4.99m), and an increase in Net Fee and Commission Income of $0.26m (€0.23m) (or 46%) to $0.81m (€0.74m).

Total Assets and Liabilities

The Bank's Total Asset base for the year ended 31st December 2016 decreased by $38.68m (€36.69m) (or 20%) to $154.11m (€146.2m). This decrease was mainly due to decreases in Loans and Advances to Banks of $37.5m (€35.58m) (or 64.5%) to $20.68m (€19.62m) which decrease can be traced to a significant reduction in repayable on Call and Short notice loans of $40.07m (€38.01m) or 80% to a level of $9.72m (€9.22m).

Similarly, the Bank's Total Liabilities for the year ended 31st December 2016 decreased by $40.98m (€38.88m) (or 24%) to $128.36m (€121.77m). This was mainly attributable to a decrease in Amounts Owed to Banks of $16.11m (€15.28m) (or 83%) to $3.35m (€3.18m) and Amounts Owed to Customers of $23m (€21.82m) (or 16%) to $120.67m (€114.48m). Amounts Owed to Banks are made up of 'term loans and advances', which relate to the Bank's participation in the European Central Bank's open market operations, and 'term deposits' - both decreased significantly during 2016. Term Loans and advances decreased by $11.01m (€10.44m) (or 78%) to $3.16m (€3m) and Term Deposits decreased by $5.11m (€4.84m) (or 96%) to $0.19m (€0.18m).

Capital Adequacy

The Bank's CAR for the year ended 31st December 2016 stood at 15.8% (2015: 15.1%). The Bank registered an increase in Risk Weighted Assets of $6.87m (€6.52m) (or 5%) to $157.62m (€149.53m).

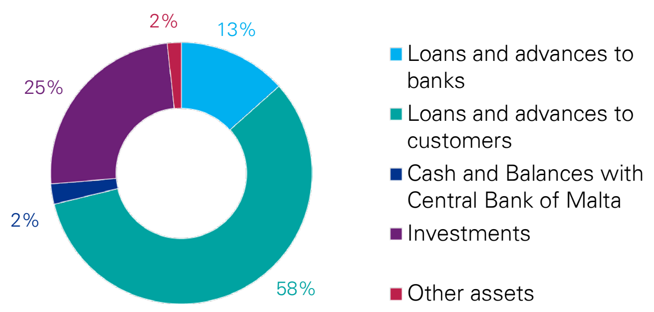
Return on Equity

The ROE for the year ended 31st December 2016 was 11% (2015: 18%).

Return on Assets

The ROA for the year ended 31st December 2016 was 1.62% (2015: 2.21%).

Total Assets



Financial Analysis

PBT of **$4.37m (€3.95m)** for financial year ended 31st December 2016.

The Bank's Asset base decreased by **$38.68m (€36.69m)** year-on-year.

The Bank registered a CAR of **15.8%** as at 31st December 2016 (2015: 15.1%).

The above figures were converted to Euro using the applicable ECB EUR/USD financial year end exchange rates (for Balance Sheet items) and average currency exchange rate (for Income Statement items).

Izola Bank plc

Financial year ended 31st December 2016

Izola Bank plc ("Izola" or "the Bank") was set up in 1994, with the primary aim of servicing the trading and financial interests of the Belgian Van Marcke Group. The latter is one of Europe's largest suppliers of wholesale plumbing, heating and sanitary ware and maintains a majority shareholding in the Bank. Nowadays Izola's business of banking has expanded its service offering to include the provision of internet banking to customers in Belgium, France and Malta. In fact, the Bank offers easy-to-use online financial services and products for both personal and corporate clients. The Bank also furthered its development in niche lending services, both locally and abroad, with the intention to expand further in the future.

Profit Before Tax

The Bank's PBT for the year ended 31st December 2016 increased by €0.13m (or 4%) to €3.72m. This increase was mainly driven by a decrease in Impairment allowances of €0.56m (or 116%) to €0.08m due to a decrease in Specific Allowances of Factored Receivables. This increase could have been stronger had it not been for a decrease in Net interest income and Net fee and commission income of €0.41m (or 17%) to €1.98m and €0.34m (or 12%) to €2.4m respectively. The decrease in Net interest income can be attributed to a decrease in Interest receivable and similar income on debt securities. This decrease was marginally offset by an increase in interest receivable and similar income on loans and advances. The decrease in Net fee and commission income was mainly driven by decreases in Account maintenance and other bank charges and Commissions from factoring services. PBT for 2016 was also affected by a 28% decrease (€0.01m) in Net Trading Gains. The decrease in Net Fee and Commission Income was mainly driven by an increase in SWIFT and bank charges of 52% and a decrease in commissions from factoring services of €0.27m (or 12%) to €2.01m.

Total Assets and Liabilities

The Bank's Total Asset base as at 31st December 2016 totalled €197.42m, representing a year-on-year increase of €26.02m (or 15%). This expansion can be mainly attributed to an increase in balances with the Central Bank of Malta of €9.36m (or 946%) to €10.35m, as well as an increase in Available-for-sale Investments, which increased by €14.39m (or 27%) to €66.93m. Total Liabilities also increased by €25.23m (or 18%) to €168.95m. This growth was mainly driven by an increase in Amounts Owed to Customers of €25.08m (or 23%) to a level of €132.34m. This increase can be traced to an increase in both 'Term' deposits and 'Repayable on demand' deposits.

Capital Adequacy

The Bank's Total CAR as at 31st December 2016 stood at a strong 33% (2015: 40%). The slight reduction in the Bank's CAR was partially due to an increase in Risk Weighted Assets.

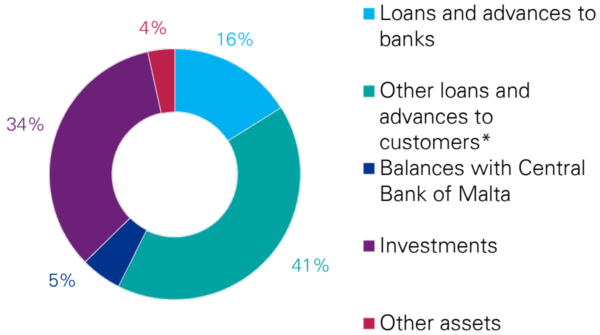
Return on Equity

The ROE for the year ended 31st December 2016 was 7.96% (2015: 8.62%).

Return on Assets

The ROA for the year ended 31st December 2016 was 1.88% (2015: 2.09%).

Total Assets



Financial Analysis

PBT of **€3.72m** for financial year ended 31st December 2016.

The Bank's Asset base increased by **€26.02m** year-on-year.

The Bank registered a CAR of **33%** as at 31st December 2016 (2015: 40%).

MFC Merchant Bank Limited

Financial year ended 31st December 2016

MFC Merchant Bank Limited ("MFC Merchant Bank" or "the Bank") formally commenced operations in February 2016, when MFC Industrial Limited acquired licenced Credit Institution Bawag Malta Bank Ltd. MFC Industrial Limited is a 100% subsidiary of MFC Bancorp Ltd, which is an integrated Merchant Banking Company that provides solutions to industrial companies worldwide.

Profit Before Tax

The Bank registered a PBT of €1.43m, resulting in a year-on-year increase of €0.91m (or 177%), mainly due to an increase in Net fee and commission income to €0.84m, and an increase in Gains on disposal of Available-for-Sale Financial Assets of €0.36m. Moreover, during the financial year ended 2016, the Bank recovered an amount of €0.65m of impairment charges. The increase in Net Fee and Commission Income was mainly driven by the introduction of Merchant banking fees (€0.76m) and Fee income on factoring services (€0.08m) during the year under review. The increase was partially offset by a decrease in Net Interest Income of €2.1m (or 65%) to €1.11m, which was the result of a decrease in Interest Income from Loans and Advances to Customers and a decrease in coupon interest on financial assets classified as Available-for-Sale.

Total Assets and Liabilities

As at 31st December 2016, the Bank's Total Asset base decreased by €34.47m (or 40%) to €52.63m. The reduction in the Asset base can be attributed to a decrease in Loans and Advances to Banks of €76.32m (or 98%) to €1.5m. Loans and Advances to Customers however increased to €41.13m leading to a partial offsetting of such a relatively high decline in lending to banks. The financial year ended 31st December 2016 also saw the Bank increase its Accrued Income and Other Assets by €1.15m to €1.31m.

As at 31st December 2016, the Bank's Total Liability base increased by €0.25m to €0.47m. A decrease in Other payables and accrued expenses of €0.15m to €0.06m led to a slower growth in Accrued interest and fee expenses which stood at a level of €0.39m. As at year end, the Bank was being mainly financed through equity injected by the new shareholder.

Capital Adequacy

The Bank registered a strong Total Capital Ratio of 88.68% as at 31st December 2016 (2015: 169.64%). The Bank's Total Own Funds and Risk Weighted Assets as at 31st December 2016 amounted to €50.6m and €57.06m respectively. The Bank's Own Funds comprise solely of CET1 capital instruments.

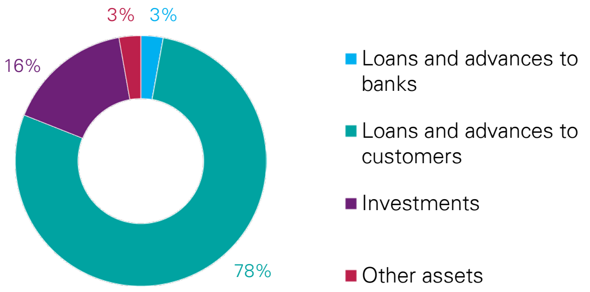
Return on Equity

The ROE for the year ended 31st December 2016 was of 2.20% (2015: 0.59%).

Return on Assets

The ROA for the year ended 31st December 2016 resulted at 2%.

Total Assets



Financial Analysis

PBT of **€1.43m** for financial year ended 31st December 2016.

The Bank's Asset base decreased by **€34.47m** year-on-year.

The Bank registered a CAR of **88.68%** as at 31st December 2016 (2015: 169.64%).

Sparkasse Bank Malta plc

Financial year ended 31st December 2016

Sparkasse Bank Malta plc ("Sparkasse" or "the Bank") was set up in Malta in October 2000 and subsequently commenced operations in January 2001. The Ultimate Parent Company is Anteilsverwaltungssparkasse Schwaz which owns 90% of the Bank. Sparkasse focuses mainly on the provision of private banking, investment services as well as custody and depository services. The Bank is also in possession of an Investment Services licence allowing it to provide custody services to its clients.

Profit Before Tax

The Bank's PBT for the year ended 31st December 2016 fell by €1.62m (or 28%) to €4.12m. The decrease was largely due to a drop in Net interest income (NII) of €0.79m (or 41%) to a level of €1.12m. The decrease was partially offset by an increase in profit on foreign exchange activities of €0.33m (or 23%) to €1.77m. The main attributor to this decrease in NII is the substantial increase of €0.37m (or 872%) in interest payable and similar charges mainly on balances held with the Central Bank of Malta.

Total Assets and Liabilities

As at 31st December 2016, the Bank's Asset base totalled €484.81m. This represented a decrease of €119.41m (or 20%), which decrease can be mainly attributed to a decrease in Loans and Advances to Banks of €253.94m (or 60%) to €170.31m. The decrease was partially offset by an increase in Loans and Advances to Customers of €5.13m (or 165%) to €8.24m. Financial assets also increased by €42.79m (or 40%) to €149.14m. Cash and Balances held with Central Bank of Malta have also increased by €86.97m (or 130%) to €154.06m.

In line with the decrease in total Assets, the Bank's Liability base as at 31st December 2016 also decreased by €119.39m (or 21%) and totalled €461.9m. The decline was driven by a decrease in Amounts Owed to Banks of €1.35m (or €35%) to €2.55m and a decrease in Amounts owed to Customers of €117.97m (or 21%) to €454.24m.

Capital Adequacy

The Bank registered a strong CAR of 22.58% as at 31st December 2016 (2015: 17.51%). Within the same period, the Bank also registered a Total Own Funds of €21.43m (2015: €22.16m) which is solely made up of CET1 capital.

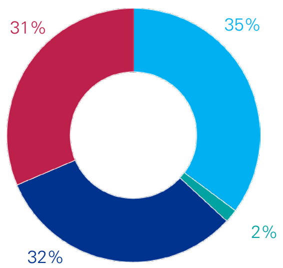
Return on Equity

The ROE for the year ended 31st December 2016 was of 11.7% (2015: 16.2%).

Return on Assets

The ROA for the year ended 31st December 2016 was 0.55% (2015: 0.61%).

Total Assets



- Loans and advances to banks
- Loans and advances to customers
- Cash and Balances held with Central Bank of Malta
- Investments

Financial Analysis

PBT of **€4.12m** for financial year ended 31st December 2016.

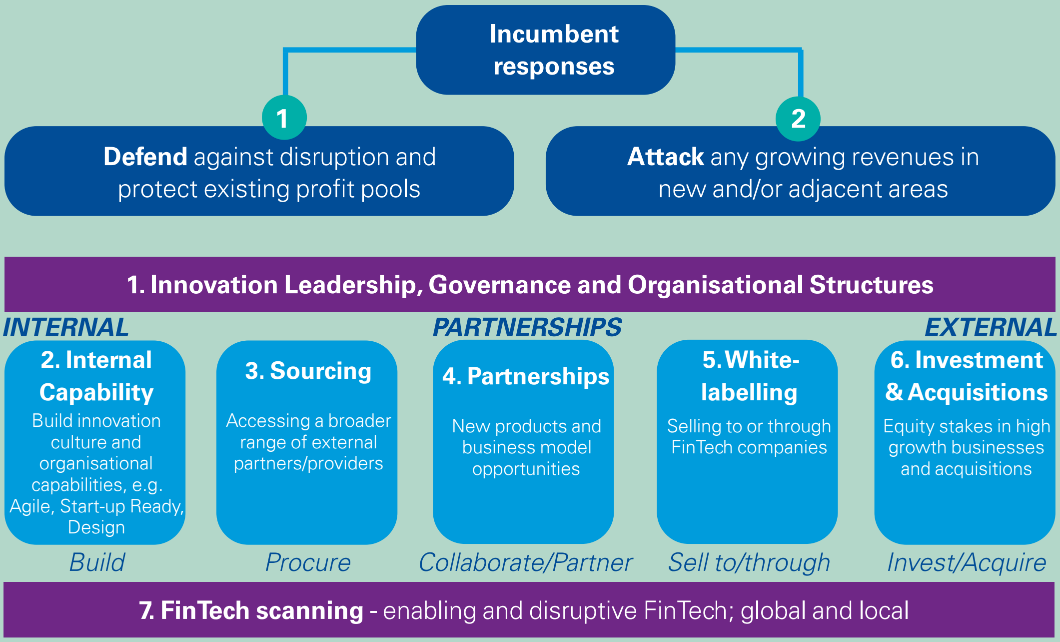
The Bank's Asset base decreased by **€119.41m** year-on-year.

The Bank registered a CAR of **22.58%** as at 31st December 2016 (2015: 17.51%).

Food for thought: IFRS implications for FIs in the FinTech world

"FinTech platforms recognised as an intangible asset will be subject to amortisation."

FinTech is a broad sector with a long history and has been evolving since the 1950s, and by now it has captured the attention of several industries. Amongst these, one finds Credit and Financial Institutions, which responded to the FinTech evolution in a multitude of ways, including the following:



Source: KPMG Publication: FinTech: Accelerating Transformation in Financial Services (pg. 20)

Each of the above may have various implications on a bank's financial reporting in terms of IFRS.

Implications on Acquisition / Development of FinTech business

Primarily, acquisitions of FinTech businesses give rise to certain accounting implications. In particular, the acquirer accounting for the acquisition of a business must value all assets and liabilities being taken over or assumed in the acquisition, and account for any excess of the consideration to acquire the business over the net fair value of the asset and liability pool as goodwill. More often than not, these items are recognised only in the consolidated financial statements.

On the other hand, banks that venture into building their very own FinTech platforms will recognise intangible assets in both solo and consolidated financial statements.

Goodwill and intangible assets so recognised are generally deducted from own funds. The effect of this is therefore double-edged, as FIs have to sustain:

(i) Outflows incurred in acquiring such assets; and

(ii) Intangible assets deducted from the bank's Own Funds.

Jonathan Dingli
Director
Accounting Advisory Services

Furthermore, expenditures incurred in white-labelling third parties' platforms can be recognised as CapEx or OpEx, depending on whether the platform provider is providing a licence, which would be recognised as an intangible asset (CapEx) by the FI, or simply a right-of-use which is tantamount to an operating expense.

Moreover, partnering with other business partners or collaborators on FinTech products or FinTech businesses will require FIs to put in place information systems and processes to capture data required for accounting and disclosure of a bank's joint arrangements.

Deferred Tax Implications

FinTech platforms recognised as an intangible asset will be subject to amortisation. Any differences between the carrying amount and the tax base of such assets are likely to give rise to deferred tax assets or liabilities. It is unlikely that the two will be equal as the carrying amount of the asset is amortised in line with the FI's amortisation policies, while the tax base is allowed for tax deductibility in accordance with the tax rules. Deferred tax also has implications on the calculation of regulatory ratios. Deferred tax assets that rely on future profitability are in fact deducted from Own Funds.

Implications on Expected Credit Losses

The disconnected relationship between the bank and the customer, which is the foundation of traditional banking, will make it harder for a bank to monitor credit risk and estimate expected credit losses in the FinTech space. From our experience, the Probability of Default on certain FinTech products such as 'pay-day' loans can go up to 40%, with a Loss Given Default of a 100%.Depending on the amounts involved, and the legal protection that a FI can avail of, cure rates are often low and non-performing loans high.

Implications on Revenue

Income arising from certain products can depart from the traditional, predominantly interest-based, income streams. IFRS deal with the accounting for revenue from financial service fees and the guidance thereon clarifies that the recognition of such revenue depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. IFRS distinguishes between the following types of financial service fees:

a) Fees that are an integral part of the effective interest rate of a financial instrument which are accounted for as finance income over the term of the instrument;

b) Fees that are earned as services are provided (e.g. fees charged for servicing a loan) which are recognised as the related services are provided (i.e. normally on a time-proportionate basis); and

c) Fees that are earned on the execution of a significant act, such as fees charged by the entity for arranging a loan, which are recognised at the point at which the entity has performed the related significant act and becomes entitled to the associated fee.

Hence, while financial service fees referred to in (a) and (b) above are recognised over time, fees referred to in (c) are recognised at a point in time.

Further to the above, FIs will have to consider further accounting implications arising from IFRS 15 Revenue from Contracts with Customers and the 'five-step' model, upon the adoption of IFRS 15.

Going forward…

Two new standards, namely IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are coming into force for periods beginning on or after 1 January 2018. Both standards will have implications, albeit to varying extents, for FIs venturing in the FinTech space. KPMG in Malta has a dedicated team of IFRS professionals to help FIs transition seamlessly to these new standards.

International Banks

Agribank plc

Financial year ended 30th June 2017

AgriBank plc ("the Bank") was established in Malta in 2012 and is primarily engaged in asset financing and lending activities to the agricultural sector in the United Kingdom, mainly in the form of financial leases, hire purchase agreements and secured loans. The Bank operates mainly through an online platform, and is funded through deposits, wholesale funding, bonds and equity.

Loss Before Tax
(£0.1m) (€0.12m)
(2016: £0.18m [€0.21m])

The primary reason behind this reported loss was an increase in Net impairment losses, which arose due to an increase in bad debts.

Total Assets
£24.3m (€29.4m)
(2016: £27.03m (€32.7m))

This was mainly due to a decrease in Balances held with CBM and Cash and cash equivalents. Conversely, the Bank also invested in Held-to-Maturity investments, specifically MGSs, and increased loans to customers.

Total Liabilities
£18.84m (€22.79m)
(2016: £21.59m (€26.12m))

This decrease was mainly due to a repayment of a Term loan. Such impact on liabilities was moderated by an increase in customer deposits.

Capital Adequacy Ratio
23.17%
(2016: 24.71%)

The slight drop in CAR can be attributed to an increase in Risk Weighted Assets.

Tier 1 Capital Ratio
22.54%
(2016: 24.71%)

The above figures were converted to Euro using the applicable ECB EUR/GBP financial year end exchange rates (for Balance Sheet items) and average currency exchange rate (for Income Statement items).

Commbank Europe Limited

Financial year ended 30th June 2017

CommBank Europe Limited ("the Bank") was established in Malta in 2005 and forms part of Australian banking giant, the Commonwealth Bank Group. The Bank's primary focus is the provision of infrastructure and utilities solutions, corporate lending and asset finance solutions to clients around Europe.

Profit Before Tax
AUD 19.7m (€13.62m)
(2016: AUD 25.42m (€17.58m))

This was predominantly driven by a decrease in Net Interest Income, arising from a decrease in interest generated from loans and advances to banks and customers.

Total Assets
AUD 0.92bn (€0.62bn)
(2016: AUD 1bn (€0.67bn))

This was mainly due to a decrease in Loans and Advances to Banks, which was set off by an increase in Loans and Advances to Customers.

Total Liabilities
AUD 0.42bn (€0.28bn)
(2016: AUD 0.49bn (€ 0.33bn))

This decrease was mainly driven by a decrease in Amounts Owed to Banks which are the Bank's main liabilities for the year ended 30th June 2017.

Capital Adequacy Ratio
50.88%
(2016: 45.42%)

The Bank's CAR is solely made up of CET1 Capital. One of the reasons behind the increase in CAR can be attributed towards a decrease in Risk Weighted Assets.

The above figures were converted to Euro using the applicable ECB EUR/AUD financial year end exchange rates (for Balance Sheet items) and average currency exchange rate (for Income Statement items).

Credorax Bank Limited

Financial year ended 31st December 2016

Credorax Bank Limited ("the Bank"), previously a Financial Institution, commenced operations as a Credit Institution, under the Banking Act 1994, in 2015. The Bank's principal activity is engaging in the provision of integrated acquiring and payment processing services to merchants within the EU and two other EEC States.

Profit Before Tax
€19.16m
(2015: €1.1m)

This turnaround was mostly attributable to the Gain on Disposal of Membership Interest in Visa Europe.

Total Assets
€100.38m
(2015: €85.87m)

This was mainly due to increases in Funds Receivable from Card Schemes, Loans and Advances to Banks, and increases in Balances with the CBM.

Total Liabilities
€72.51m
(2015: €60m)

This was mainly due to increases in Amounts Owed to Customers and Settlement Processing Obligations.

Capital Adequacy Ratio
27.7%
(2015: 33.7%)

This decrease was mainly due to an increase in the Bank's Total Risk Weighted Assets.

Risk Weighted Assets
€90.61m
(2015: €58.39m)

The most dominant factor in such increase in RWAs was attributable to an increase in the Bank's Foreign Exchange Risk.

ECCM Bank plc

Financial year ended 30th September 2016

ECCM Bank plc ("the Bank"), was registered in Malta in 2014, focusing mainly on transacting with large international customers. The Bank's shareholders are Banasino Investments Limited and Hillwood Insurance Company Limited, both of which form part of the Kronospan organisation, an Austrian manufacturer of wood-based panels, special and decorative paper as well as other associated value added products.

Profit Before Tax
€6.67m
(2015: €1.28m)

This was mainly driven by an increase in Interest income generated from loans and advances to customers.

Total Assets
€354.65m
(2015: €171.53m)

This expansion was fuelled by an increase in Loans and Advances to Banks and Customers. However, there was also an increase in Investment Securities.

Total Liabilities
€147.6m
(2015: €67.73m)

This increase was attributable to the subordinated loan agreement of €50m that the Bank entered into with a related party in September 2016. Furthermore, customer deposits also increased during the year.

Capital Adequacy Ratio
90.48%
(2015: 73.2%)

This was mainly due to an issue of undated non-cumulative AT1 notes (€100m) and the aforementioned subordinated loan (€50m) which effectively increased the Bank's own funds.

Risk Weighted Assets
€284m
(2015: €141.72m)

This comprises mainly of Credit risk (€279.6m), as well as marginal amounts of Operational risk and Foreign Exchange risk.

How might Blockchain technology revolutionise tax?

"Blockchain emerges at a time when many are questioning whether the current tax system, designed for brick-and-mortar trading, is still fit for purpose in this virtual and digital era."

Juanita Brockdorff
Partner
Tax Services

Lisa Zarb Mizzi
Associate Director
Tax Services

As a digital permanent record, will Blockchain signal the end of traditional filing of tax returns in the future? One can only predict, but it is definitive that the possibilities Blockchain can offer for businesses and our industry are endless.

Blockchain technology is developing fast; if and when it moves to the business mainstream, proponents anticipate that it will transform business, financial services and many other areas of our lives. Tax is one area which Blockchain may impact significantly.

Simplification of tax compliance and increased transparency

The characteristics of Blockchain technology: real-time, immutable, decentralised, trusted and transparent transactions, are the very characteristics which have become increasingly important in our global tax system. The international drive for tax transparency and anti-tax avoidance measures has created uncertainty in international transactions, and increased companies' compliance burdens. Blockchain has the potential to simplify and automate tax compliance and transparency; once companies have blockchains in place recording all expenses and every transaction on their books, tax authorities may obtain access to this data to calculate and enforce payment of taxes in real time and reduce the opportunity for fraud and avoidance.

It could also be a compliance revolution for transactional taxes such as VAT, withholding tax, stamp duties and insurance premium taxes. Blockchain, applied to VAT and other taxes like payroll, makes the role of a business, acting as an intermediary agent collecting taxes on government's behalf redundant, by automatically withholding and paying taxes in real-time using smart contracts. This could significantly lower the cost of tax compliance for corporations and governments alike.

The technology could also help with transfer pricing, by providing technical solutions for the application of transfer pricing rules with smart contracts where frequent transactions occur among a network of parties.

Applying traditional tax principles to an ever increasing digital world

Blockchain emerges at a time when many are questioning whether the current tax system, designed for brick-and-mortar trading, is still fit for purpose in this virtual and digital era. It has become evident that technology and business models are evolving at breath-taking pace with policymakers lagging far behind. Whilst the OECD, through Base Erosion and Profit Shifting action plan on the digital economy is still grappling with the taxation of online businesses such as Airbnb and Uber, it may soon be faced with the new challenges which Blockchain will bring with it.

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http://www.steptoe.com/practices-395.html
https://www.taxjournal.com/articles/blockchain-and-tax-administration-29032017

Nevada has become the first state to ban local governments from taxing Blockchain use. Arguably, the rationale for this is that the use of Blockchain in transactions is just a medium for conducting business rather than introducing a separate transaction altogether.

Nonetheless, the characterization of Blockchain transactions is unclear. Should transactions be regarded as a transfer of goods, the performance of services, or something else? Bitcoin transactions provide the best known implementation of blockchain technology. How is bitcoin taxed? Depending on the jurisdiction, a bitcoin transaction can be treated as either a commodity, as currency, or as a reward token with different tax repercussions: if classified as security, a different set of tax rules will apply different to those applicable if it is considered a reward scheme. The decentralized and international nature of Blockchain could give rise to differing characterizations of the same transactions by multiple tax authorities.

Blockchain also introduces a new twist on two historical tax issues – where did the transaction take place for tax purposes, and who is the taxpayer?

Blockchain transactions are verified and recorded simultaneously across thousands of decentralized, international computers. Transacting using smart contracts on the Blockchain, makes it difficult to determine where the transaction is concluded, and allows for anonymous transacting. An added layer of complexity arises if transactions are settled in digital currency such as bitcoin – what is the taxable value of such transaction?

And there are many more questions; whilst in the infancy of Blockchain development we don't know all of the questions this technology will bring about, now is the time to start defining the questions in order to influence the policy that will lead to answers.

As Blockchain is embraced by an ever increasing number of financial services providers and when it is brought into scope by the regulatory environment, it could change all aspects of doing business, including managing tax cost. On being challenged by disruptive technologies, your response as a credit institution – if you are to thrive – is to incorporate them in your business model to your benefit. Shying away is not an option for survival.

Ferratum Bank plc

Financial year ended 31st December 2016

Ferratum Bank plc (the ''Bank'') was set up in Malta in September 2012 with the intention of providing additional funding sources and business opportunities to its parent company, Ferratum Group. The Bank's primary activities include providing unsecured consumer loans and other consumer and business-related financial products. This is done through a mobile platform, as well as over the internet.

Profit Before Tax
€3.27m
(2015: €7.39m)

This significant drop was mainly driven by an increase in Net Impairment Losses, and an increase in Net Fee and Commission Expenses.

Total Assets
€168.84m
(2015: €49.97m)

This was driven by an increase in Loans and advances to banks and customers, as well an increase in Balances with Central Bank of Malta.

Total Liabilities
€143.28m
(2015: €35.07m)

This was mainly driven by an increase in Amounts owed to customers and an increase in Debt securities in issue.

Capital Adequacy Ratio
16.13%
(2015: 16.77%)

The Bank registered an increase of €10.45m in its Total Own Funds mainly due to capital contributions of €12m, from its immediate parent company. This increase in Own Funds was impacted by an increase in RWAs.

Leverage Ratio
14.61%[1]

Liquidity Coverage Ratio
262%[1]

Net Stable Funding Ratio
176%[1]

[1] *The LR, LCR and NSFR for the year ended 31st December 2015 were not publically available.*

NBG Bank Malta Limited

Financial year ended 31st December 2016

NBG Bank Malta Limited ("the Bank") was licensed in 2005. The Bank is a subsidiary of the National Bank of Greece S.A. The Bank targets high net worth individuals and large corporate clients through the provision of wide-ranging banking services, including the provision of loans and deposit-taking facilities.

Profit Before Tax
€8.11m
(2015: €14.08m)

This decrease was mainly due to a significant increase in the Bank's Net Impairment losses.

Total Assets
€584.65m
(2015: €623.24m)

This decrease was mainly due to the disposal of Available for Sale financial assets and a decrease in the Bank's Loans and Advances to Customers and Banks.

Total Liabilities
€355.46m
(2015: €387.89)

This is representative of a significant decrease in Deposits from Customers.

Capital Adequacy Ratio
47.89%
(2015: 49.64%)

Own funds comprises solely CET1 capital.

Liquidity Coverage Ratio
86%[1]

[1] *LCR for the year ended 31st December 2015 was not publically available.*

Novum Bank Limited

Financial year ended 31st December 2016

Novum Bank Limited (the "Bank") was established in Malta in June 2009 and is a subsidiary of Novum Holdings Limited. The Bank focuses on the provision of credit products to individuals and corporates in specific niche market segments.

Profit (Loss) Before Tax
(€1.07m)
(2015: €0.49m)

This was mainly due to an increase in Net Impairment Losses.

Total Assets
€58.64m
(2015: €85.87m)

The increase was primarily driven by a significant increase in Amounts Due from Banks.

Total Liabilities
€44.05m
(2015: €11.56m)

The increase was mainly due to a substantial increase in customer deposits.

Capital Adequacy Ratio
26%
(2015: 60%)

The main reason behind this decrease was a major increase in Risk Weighted Assets.

Risk Weighted Assets
€38.67m
(2015: €20.59m)

The main reason behind this increase was a major increase in Amounts due from banks which therefore resulted in higher Risk Weighted Assets.

Pilatus Bank plc

Financial year ended 31st December 2016

Pilatus Bank plc (the "Bank") was licensed by MFSA during the first quarter of 2014. The Bank was converted into a public limited company during March 2016. The Bank's business profile targets the provision of private and commercial banking services to global high net worth individuals.

Profit Before Tax
€3.84m
(2015: €3.14m)

This increase is attributed towards an increase in Net Interest Income driven by an increase in Interest income on Loans and advances to customers.

Total Assets
€308.81m
(2015: €326.21m)

This is mainly attributed towards a decrease in Loans and Advances to Banks and Financial Institutions.

Total Liabilities
€296.48m
(2015: €314.27m)

This is attributed towards a decrease in Amounts Owed to Banks and Other Financial Institutions.

Capital Adequacy Ratio
36.73%
(2015: 30.45%)

Own funds amounted €11.59m and was made up of Tier 1 Capital. The CAR increased due to a decrease in Risk weighted assets.

Leverage Ratio
3.76%[1]

Liquidity Coverage Ratio
629%[1]

[1] The LR and LCR for the year ended 31st December 2015 were not publically available.

Satabank plc

Financial year ended 31st December 2016

Satabank plc ("the Bank") was established in Malta towards the end of 2014, and is primarily involved in providing retail banking products to individuals, as well as commercial banking solutions to corporates, including merchant acquiring facilities and payment services. The bank has recently joined the list of financial institutions participating in RT1, the first pan-European instant payment infrastructure.

Profit (Loss) Before Tax
€5.63m
(2015: (€0.12m))

This was mainly due to an increase in Operating Income due to a significant investment in securities.

Total Assets
€324.38m
(2015: €54.5m)

The main driver behind this increase was an increase in Balances with Central Bank of Malta, Cash, Treasury Bills, and Investment Securities.

Total Liabilities
€311.37m
(2015: €44.62m)

This was due to a substantial increase in liabilities towards e-money holders.

Capital Adequacy Ratio
18%
(2015:50%)

This decrease was due to a significant increase in the Bank's RWA year-on-year.

Leverage Ratio
3.71%
(2015: 17%)

Liquidity Coverage Ratio
268%
(2015: 127%)

Yapi Kredi Bank Malta Ltd

Financial year ended 31st December 2016

Yapi Kredi Bank Malta Ltd ("the Bank") was established in Malta in March 2014 as subsidiary of Turkish banking giant Yapi ve Kredi Bankasi A.S. The Bank engages in the provision of retail banking, corporate and commercial banking services, as well as private banking products and services.

Profit (Loss) Before Tax
€0.61m
(2015: (€0.67m))

The positive upturn in results can be attributable to an increase in Net Interest income driven primarily by interest generated on Loans and Advances to Customers.

Total Assets
€149.03m
(2015: €89.59m)

This expansion was mainly driven by an increase in Loans and Advances to Customers.

Total Liabilities
€89.08m
(2015: €30.32m)

This increase was mainly driven by an increase in Deposits from Banks.

Capital Adequacy Ratio
40%
(2015: 67%)

This year-on-year decrease was mainly due to a significant increase in the Bank's Credit RWAs.

Leverage Ratio
207%
(2015: 152%)

Liquidity Coverage Ratio
40%
(2015: 87.32%)

Your Strategic Talent Management Business Partners

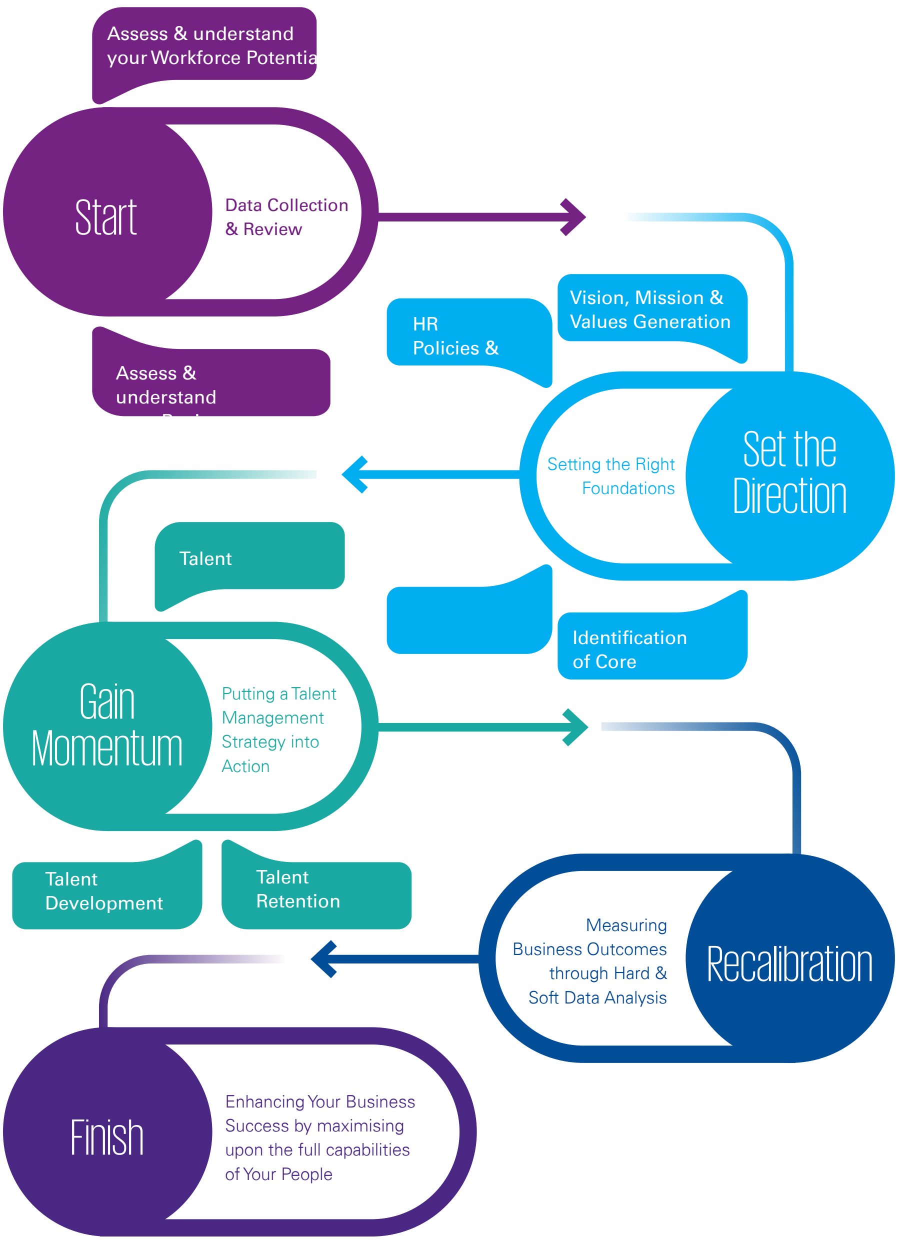
Assisting you in developing and implementing a customised people strategy aimed at recruiting, developing, and retaining the required talent for organisational success.

Our strategic interventions adopt a phased building blocks approach. We are mindful to not cause sudden and unsustainable changes to the organisation, and are keen to promote incremental development aimed at enhanced and lasting business performance. Our interventions support our esteemed clients in maximising their return on investment in their people.

Our tailor-made solutions are delivered by experienced, insightful talent management professionals, supported by a powerful range of industry and business knowledge, and underpinned by a rigorous scientific and evidence-based approach.

As your Talent Business Partners we will help you to:

- Ensure that your organisation has the right person doing the right job.
- Empower and impassion employees.
- Implement solid career plans and a clear performance management system to encourage loyalty from employees.
- Close the organisational skills gap by identifying gaps and taking clear action.
- Increase the possibility of retaining top talent.
- Make fewer hiring mistakes.
- Understand your employees better.
- Ensure employees feel valued, motivated, and engaged.
- Increase employee confidence in the organisation.



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FinTech - a holistic talent management strategy is mission critical

"It is essential to think about talent with a long term & strategic mind-set."

Malcolm Pace Debono
Director
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Manager
People and Change
Advisory Services

Petra Sant
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Advisory Services

There has been a lot of discussion about Malta becoming a FinTech Hub and hence the need to create an "enabling environment" with the essential regulations and legal guidelines that will support and encourage this industry to flourish. However, there has been little discussion as to whether organisations are able to find and retain the diverse and robust talent pipeline required to support this growth.

The "FinTech" drive is centred on creating technological innovations within the financial sector. This new industry is characterised by high levels of global competition, innovation and constant change, and requires new regulations and legal guidelines that support the growth of the industry. However, for organisations to thrive and remain ahead in this highly volatile and competitive environment, it is essential that they have access to an agile, highly technical and specialised pool of talent.

FinTech organisations must attract talent that not only possesses the required multiple technology, cross-industry knowledge, and technical skills (such as programming, internet security, accounting), but also skills such as creativity, entrepreneurship, problem-solving, critical and strategic thinking, multi-tasking, and leadership traits required to deal with globalisation and constant change.

Labour market and industry dynamics do however pose further matter for concern. The competition for talent between ICT organisations, banks, financial institutions, and FinTech enterprises will ensure a constant dynamic where demand far exceeds supply.

This means that if Malta truly hopes to enhance growth in the FinTech Industry, it cannot only focus on laws and regulations, but it must also ensure that organisations are supported in attracting the best talent, retaining it, and ensuring this talent is engaged and willing to invest their human capital into the organisation.

Consequently, for FinTech organisations seeking to grow and become market leaders, it is essential for them to think about talent with a long term, strategic, and innovative mind-set. To put it simply, talent must be managed strategically.

Strategic Talent Management involves anticipating the need and type of human capital required by an organisation, and then setting a plan to meet it. This must be grounded in the creation and implementation of effective policies, procedures, and initiatives to ensure talent exists to support an organisation's business objectives. Talent acquisition can no longer just focus on recruitment; organisations now need to invest in talent attraction, making themselves "the employer of choice" for their talent target group. This is still not enough. In order for an organisation to secure and get the most out of its top talent, it must move talent retention to its first priority and recruitment to its second.

Recruitment has always been an expense, but, as talent shortages intensify, it is now becoming a disabling financial burden to some organisations; in particular, for FinTech organisations seeking talent for high-demand, leadership and highly specialised positions. This type of talent puts less focus on traditional life-long employment and job security, is motivated to keep skills relevant and sharp, and be provided consistently with challenging projects on which to work. The high demand for individuals within this talent pool has pushed organisations to increase their salaries, making them a challenging group to attract, retain and manage.

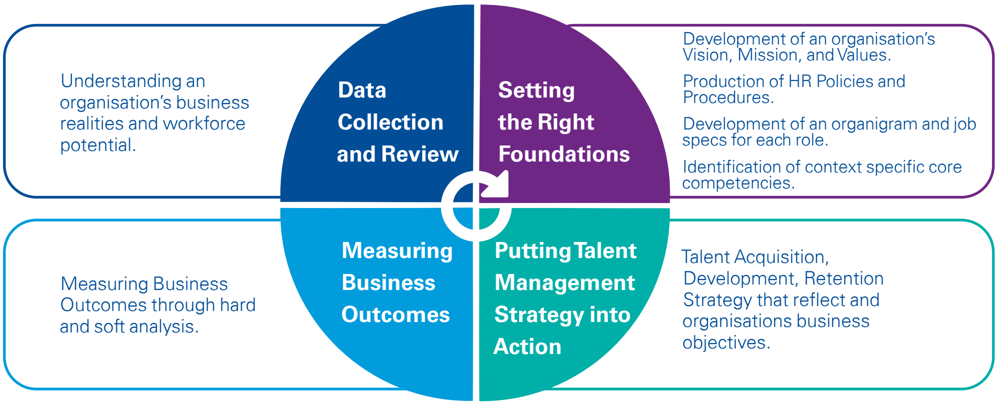
One retention strategy that organisations must adopt is to "re-recruit" such top performers and leaders before a competitor gives them a better offer. Re-recruitment includes having regular discussions with top performers and leaders to remind them of their value, future opportunities within the firm, and to solicit their feedback. This must also be supported by a solid talent engagement and development strategy.

Leaders within organisations must understand the fact that investing in developing their people may be much less costly than replacing them. The Infosys 2008 annual report stated: "Our core corporate assets walk out every evening. It is our duty to make sure that these assets return the next morning, mentally and physically enthusiastic and energetic". Whilst written almost ten years ago, this statement has never been more relevant, especially more so for a still developing sector such as FinTech. Furthermore, research shows that the key to success of any organisation is through developing a relationship with employees and ensuring they are activated and engaged, hence more willing to invest in and remain with an organisation.

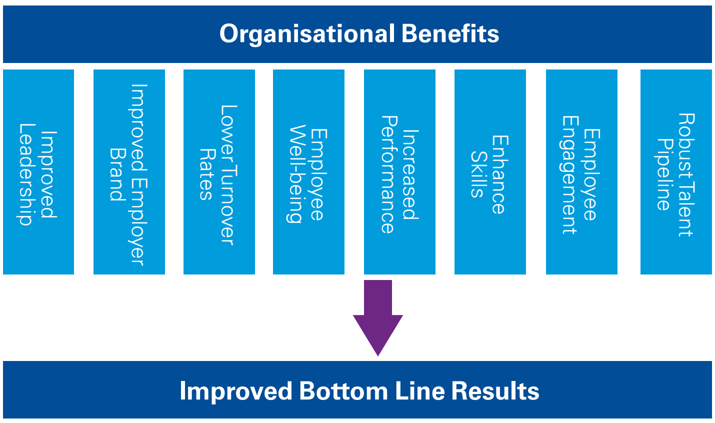
Strategic Talent Management can be complex. FinTech leaders must be supported in creating customised, contextual, and strategic talent management programmes that are aligned with the organisation's business strategy, and focused upon maximising organisational performance through its talent.

The key terms here are; *context*, *customised*, and *strategic*. There is no one size fits all talent management strategy for organisations. Time is needed to understand the realities, context, business objectives, and HR data of an organisation. Only once an organisation has gone through a strategic process of defining and measuring its realities, can it design and implement actions that will truly enhance business performance through its people.

KPMG People and Change have extensive experience in assisting clients in developing talent management strategies, wherein we would drive the development of a tailored talent management strategy for an organisation in the FinTech Industry into the four main phases highlighted below:



Only once an organisation adopts this strategic approach to its management of talent can it truly reap the benefits highlighted below:



Although FinTech organisations should pursue strategic talent management, it is also critical that in parallel, the regulator, training and education institutes and employment agencies in Malta work together and strategically to ensure that talent pipelines are not only created, but also maintained.

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About KPMG

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 154 countries and territories and have 197,263 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

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