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EUROSISTEMA
CENTRAL BANK OF MALTA

## INTERIM FINANCIAL STABILITY REPORT 2015

This *Interim Report* covers the first six months of 2015 and evaluates developments which may impact the resilience of the domestic financial system since the publication of the *Financial Stability Report* 2014. It also analyses whether any new risks have emerged.[1] The *Interim Report* is prepared by the Financial Stability Department and is subsequently reviewed and endorsed by the Financial Stability Committee of the Central Bank of Malta.


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In the first half of 2015 no new risks were identified that could potentially affect the stability of the Maltese financial system, with existing risks abating somewhat on the back of a strong economic performance. The international scenario remains challenging in view of the muted euro area economic activity, despite a glimpse of some improvement during the period under review. The analysis presented in this *Interim Financial Stability Report* covers developments in banking, insurance and investment fund sectors. Following a periodic assessment by the Central Bank of Malta, core domestic banks now incorporate Mediterranean Bank plc, including its subsidiary Mediterranean Corporate Bank plc, both of which were previously classified as non-core domestic banks.[2] In the first six months of the year, core domestic banks reported improved profitability, accompanied by continued ample liquidity levels and capital positions above the regulatory minimum requirements. Non-performing loans (NPL) have declined, concurrently with strengthened coverage ratios. The profitability of non-core domestic banks and international banks showed an improvement over the same period of 2014, with the links of both groups to the domestic economy remaining very limited. Risks to financial stability from the non-bank financial sector, namely insurance companies and investment funds, remained low. Overall, the outlook for financial stability improved further and is deemed to remain positive in the medium term.

**The performance of the Maltese economy remains robust, accompanied by favourable labour market conditions, thus supporting financial stability in Malta. Internationally, economic conditions are once more challenging as the growth prospects of the euro area remain weak, although showing signs of improvement. Furthermore, global demand is affected by signs of slowdown in emerging countries.**

Euro area economic growth somewhat improved during the first half of 2015, growing by an annual 1.5%. Downside risks remain, arising from a persistently high unemployment rate of 11.3% and low inflation.[3] Looking ahead, growth is expected to continue along a subdued recovery path, despite challenges from weaker emerging market economies and the uncertainty arising from geopolitical instability. The UK and US economies are expected to continue to grow at a sustained pace with low unemployment.

[1] The cut-off date for data published in this *Interim Report* is 4 September 2015. GDP data was updated in line with NSO *News Release* 224/2015.
[2] "Categorisation of banks according to systemic relevance", *Financial Stability Report* 2014, pp. 40.
[3] Unemployment rate as measured in the Labour Force Survey.

A major development in the first half of 2015 concerned the protracted negotiations between Greece and its creditors. The agreement to provide financial assistance to Greece against the necessary structural reforms avoided a potential sovereign default. Following this event, fiscal consolidation efforts progressed across the euro area, although elevated debt levels, both in the public and private sectors, remain a source of vulnerability.

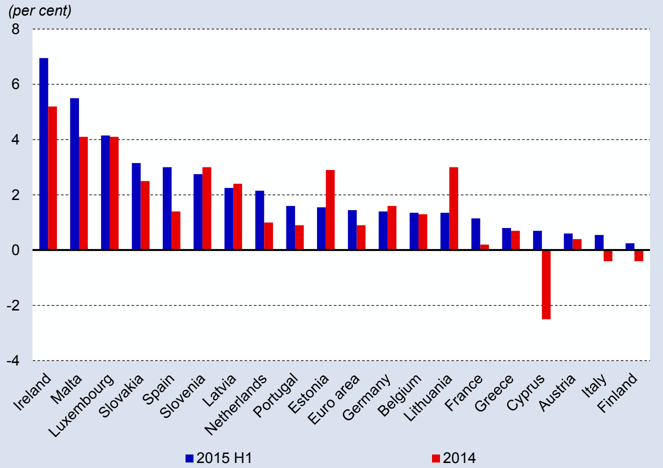
Persistent weak inflation in the euro area has led to historically low level of interest rates and the activation of the extended asset purchase programme by the European Central Bank (ECB), in a bid to pull inflation back towards its goal of close to 2%. The profitability of euro area banks and insurance companies has been affected by the low interest rate environment. Policy interest rates in the euro area are expected to remain low, reflecting continued weak demand conditions. The indications are that policy rates in the United Kingdom will also remain unchanged, whereas those in the United States have started to rise, although very gradually with implications on the euro/dollar exchange rate. A weaker euro would lead to improved price competitiveness in the euro area, higher imported inflation and raise the cost of issuing US dollar-denominated capital.

A number of policy frameworks are being developed, such as the minimum requirement for own funds and eligible liabilities (MREL) under the Bank Recovery and Resolution Directive. The objective of the Directive is to strengthen banks by building enough buffer funds to re-capitalise or meet obligations in the event of financial distress. New macro-prudential policy measures will also come into effect from January 2016, such as the counter-cyclical capital buffer and the other systemically important institutions buffer. In October 2015 the liquidity coverage ratio was introduced at a minimum level of 60%. This will be gradually phased in, and by 2018 the ratio will be set at 100%. Other regulatory requirements, such as the net stable funding ratio and the leverage ratio, under the CRD IV/CRR regime, are in the process of being finalised. It is anticipated that these requirements will be fully implemented by 2018/2019.

Economic growth in Malta accelerated to 5.5% in the first six months of the year, the second highest in the euro area (Chart 1).[4] Growth was boosted by domestic demand, particularly consumption and investment. The services sector remained the main driver of the economy, namely through the professional, scientific and technical activities sector, the wholesale and retail, transport and storage, and the accommodation and food service activity sector, as well as the public administration, education and health sector. The gross value added (GVA) of the construction sector improved, boosted by a thriving real estate market. The GVA of the manufacturing sector dropped in the first half of the year, largely influenced by a dip in the first three months over the comparable quarter of 2014. Looking ahead, available data (principally industrial production), point to further growth in manufacturing output.

Labour market conditions improved further, with unemployment falling to a record low of 5.6% by mid-year (Chart 2). Together with the current positive macroeconomic environment, this was reflected in higher employee compensation and operating surplus, which, in turn, improved the households' and the corporate sector's ability

**Chart 1**
**REAL GDP GROWTH**
*(per cent)*

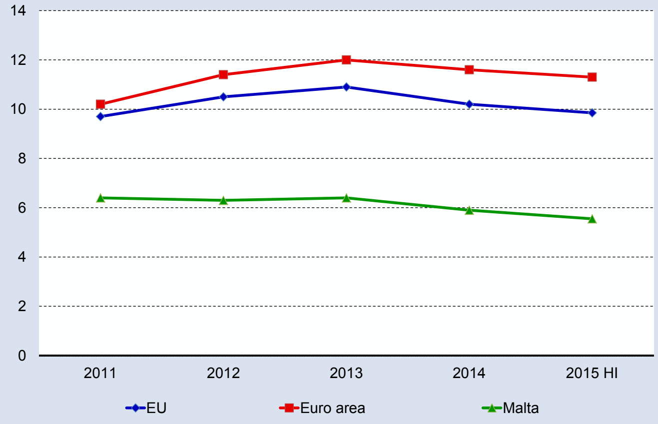



Source: Eurostat.

[4] In the first nine months of 2015 domestic real gross domestic product (GDP) growth was also 5.5%, based on NSO *Release* NR224/2015.

to meet debt obligations. Moreover, as productivity rose in the second quarter of the year, growth in unit labour costs slowed down, aiding the non-financial corporate sector's competitiveness, which may further support economic and employment growth.

Chart 2
**UNEMPLOYMENT RATE**
*(per cent)*




Source: Eurostat.

Strong economic growth and tight labour market conditions led to a rise in inflation rates, though still below the ECB's goal of close to, but less than 2%. In September 2015 the HICP stood at 1.6% (on an annual basis), driven by higher prices of food and services.[5]

Looking ahead, local macroeconomic conditions are expected to continue sustaining financial stability as economic growth is anticipated to remain robust, supported by continued fiscal consolidation. The debt-to-GDP ratio is estimated to decline further and the public sector deficit to GDP is projected to continue its downward trajectory in 2015 and in the subsequent two years.

## The core domestic banks' balance sheet expands further, funded by higher customer deposits.

During the first half of 2015, the core domestic banks' balance sheet expanded by 4.8%. This brought total assets to €20.9 billion, equivalent to 249.0% of GDP, compared with 246.3% six months earlier.[6]

In line with the core domestic banks' traditional business model, the loan portfolio continued to be the largest asset component, accounting for 47.6% of their balance sheet, marginally narrowing from 48.8% in 2014. During the first half of 2015, total loans rose by 2.3% to €10.0 billion, with the main driver being non-resident lending, which increased by 14.0%. Resident lending, which accounts for 89.3% of total lending, rose by 1.1%, supported by higher mortgage lending as consumer credit contracted. Lending to resident non-financial corporates (NFC) decreased by 4.3%, with drops reported across a number of industries, including the energy sector; the construction and real estate sectors; the transport and storage sector; and the accommodation and food service activities sector.[7] The contraction in NFC lending was, however, largely influenced by the decline in public sector loans, which outweighed the increase in lending to the private non-financial corporate sector. Furthermore, some large NFCs resorted to capital markets for funding. Indeed, lending to resident private sector NFCs rose by 1.5% in the first half of 2015, driven by higher lending to manufacturing and energy sectors, the latter propelled by the involvement of the private sector. The expansion in the total resident loans portfolio was also due to higher lending towards non-bank financial entities, up by almost 30%; however, such loans represent a small share in total resident lending, just below 6%.[8]

The ample liquidity of core domestic banks resulting from significant inflows of deposits is reflected in higher placements with the Central Bank of Malta. These increased to the extent that the drop reported in 2014 was almost reversed in the first half of 2015.

[5] Inflation rates quoted are based on the HICP. Inflation was 1.0% in September 2015 on a 12-month moving average basis.
[6] Core domestic banks include Mediterranean Bank plc and Mediterranean Corporate Bank Limited. All previous data were updated to reflect this reclassification. Kindly refer to *Financial Stability Report* 2014.
[7] The Central Bank of Malta's Bank Lending Surveys shows mixed developments with regard to credit demand in the first half of 2015. Some participant banks reported a drop in demand, while others reported an increase, particularly by small and medium-sized enterprises (SME). All participant banks, however reported unchanged credit standards.
[8] Non-bank financial entities also include holding companies and trusts, and other financial service activities.

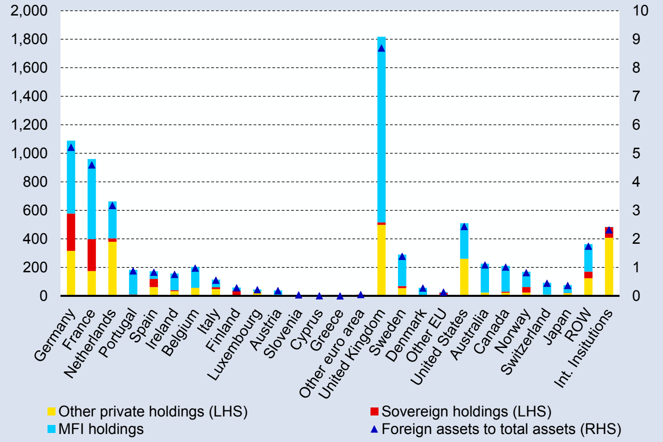
Interbank exposures also contributed to the expansion in total assets, accounting for 10.7% of total assets in June 2015. The latter rose by 10.7% in the first half of 2015, mainly reflecting higher deposits placed with related credit institutions abroad, while exposure with non-affiliated entities declined.

The banks' bond portfolio expanded by less than 0.5%, and accounted for 31.6% of total assets. Higher sovereign bond holdings, predominantly foreign, were offset by lower holdings of private foreign bonds. In June 2015 domestic government paper accounted for over 28% of total securities held and for 9.0% of total assets, unchanged when compared with December 2014. While equities made up for just 1.7% of total assets and were mainly related to equity issued domestically, holdings of equity rose by almost a third. These were predominantly issued by foreign financial institutions.

Core domestic banks' foreign asset holdings amounted to almost 40% of total assets, remaining stable compared with end-2014 levels. Over half of these assets consist of debt securities, whereas foreign loans (which mainly comprise syndicated loans) represented an additional two-fifths, with the remainder consisting of foreign equities. Meanwhile, 57.3% of total foreign assets relate to banking entities, followed by other private entities and, to a lesser extent, sovereigns. From a geographical perspective, the euro area accounts for 46.1% of total foreign assets (17.7% of total assets), whereas the United Kingdom is the largest single country exposure, representing 22.6% of foreign assets (8.7% of total assets) (see Chart 3). Holdings of weaker euro area countries generally remained contained at 7.9% of total foreign assets, or merely 3.0% of total assets.[9]

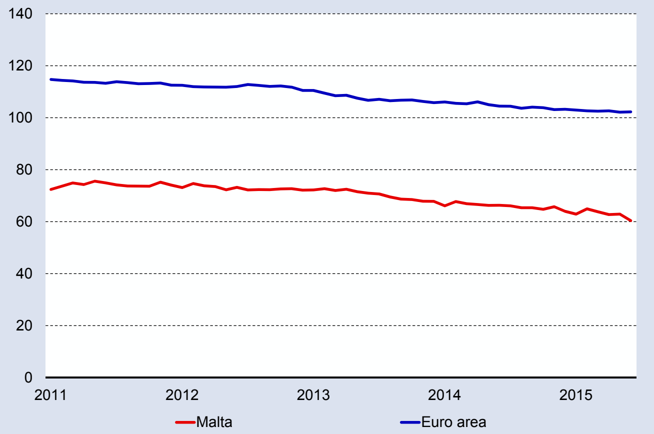
The high reliance on retail funding was once more an inherent characteristic of core domestic banks. At 78.9%, the share of customer deposits in total liabilities rose by 2.6 percentage points over December 2014. Total customer deposits grew by 8.4%, driven by higher resident customer deposits, which were up by 9.4%, while non-resident customer deposits rose by 3.7%.[10] Deposits from residents continued to account for the bulk of customer deposits, representing almost 84% of the total, with households being the main depositors. Given the persistently larger increase in deposits rather than loans, the loan-to-deposit ratio continued its downward trend to 60.4%, considerably lower than the average of the euro area hovering just above 100% (see Chart 4).

**Chart 3**
**FOREIGN ASSET HOLDINGS – CORE DOMESTIC BANKS (JUNE 2015)**
*(EUR millions; per cent)*



Source: Central Bank of Malta.

**Chart 4**
**CUSTOMER LOAN-TO-DEPOSIT RATIO – CORE DOMESTIC BANKS**
*(per cent)*



Source: Central Bank of Malta.

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[9] Weaker euro area countries include Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain.

[10] The increase in customer deposits was mainly driven by higher deposits from households and, to a lesser extent, private NFCs.

The relatively flat yield curve and the anticipation of better investment opportunities resulted in a higher preference for short-term deposits, with the share of current and saving accounts rising from 62.5% of total deposits in 2014 to 66.3% by mid-2015. Despite the liquid nature of such funds, customer deposits have been historically stable.

Reliance on other funding sources remain marginal, with sales/repurchase agreements accounting for 4.3% of total liabilities, followed by debt securities at 1.7%; loans from non-banks at 1.5%; interbank funding at 1.0%; and Eurosystem funding at 0.8%. Given the excess liquidity, less than a third of the eligible collateral was utilised for Eurosystem funding, indicating that core domestic banks have significant spare capacity to tap further relatively cheap sources of funding.

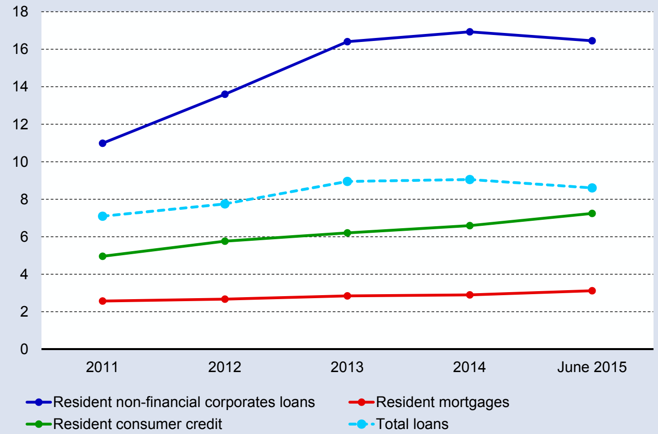
### The rise in the NPL ratio is reversed. Concurrently, banks continue to strengthen their coverage ratios, reflecting improved asset quality.

During the first half of 2015, core domestic banks reported a lower stock of NPLs, dropping by 2.7% (€23.9 million), reversing the upward trend seen after the start of the global financial crisis. The decline in NPLs was driven by the resident corporate sector, which had been the main driver of the increase in NPLs. The resident corporate sector's NPLs declined by 7.0% (€49.6 million). This drop was however partly offset by higher household NPLs (both mortgage and consumer credit), which were up by 10.9% (€16.1 million), as well as higher NPLs pertaining to the financial and insurance activities sector (excluding credit institutions), up by €6.5 million. Non-resident NPLs also increased, up by 11.6% (€3.1 million) accounting for 3.5% of total NPLs.

Following the tapering off of the NPL ratio in 2014, the latter shifted downwards in the first half of 2015, to 8.6%, reflecting both an increase in total loans and a drop in NPLs (see Chart 5). The NPL ratio of the resident corporate sector declined by half a percentage point to 16.5%, whereas the ratio of resident households stood at 3.7% in June 2015, up from 3.5% six month earlier. The latter was driven by both mortgages and consumer credit, which edged up by 0.2 percentage point and 0.7 percentage point, respectively, to 3.1% and 7.2%. The latter was also negatively influenced by lower consumer lending. Meanwhile, despite higher non-resident NPLs, the related NPL ratio dropped marginally by 0.1 percentage point to 2.8% in June 2015 as a result of a faster increase in non-resident loans.

The two main sectors which contributed to the improvement in the resident corporate NPL ratio were the accommodation and food service activities, and the construction and real estate sectors. These two sectors reported a drop of 4.1 and 2.2 percentage points in their respective NPL ratio (see Chart 6). The latter is an important development given that, in previous years, the construction and real estate sector was one of the main contributors to the rise in the overall NPL ratio. Amongst the main sectors which reported higher NPL ratios were manufacturing, the wholesale and retail sector and financial and insurance activities (mainly holding companies), whose ratios went up by 1.8, 0.8 and 1.1 percentage points, respectively.

Chart 5
**NPL RATIOS – CORE DOMESTIC BANKS**
*(per cent)*



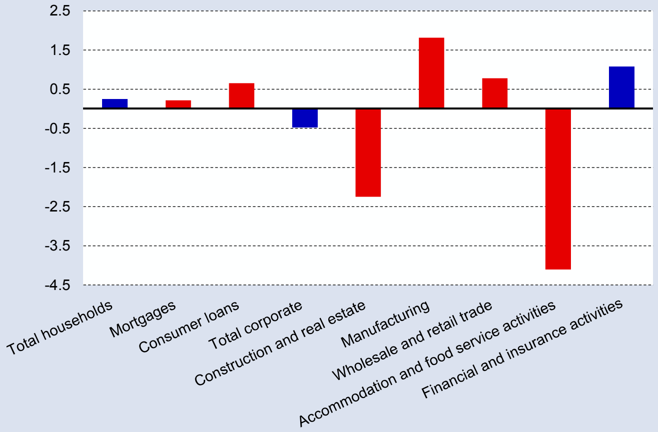
Source: Central Bank of Malta.

Resident household loans remained the major segment in total loans, rising marginally by 0.6 percentage point to 44.1%, with mortgages accounting for 37.7% of total lending (see Chart 7). However, in terms of NPLs, resident household loans increased their share by 2.3 percentage points to 19.0%, mostly related to mortgages. Loan exposure of the construction and real estate sector eased further by 0.8 percentage point to 12.3% of total loans; however, this sector retains the largest share of NPLs, accounting for 41.3% of total NPLs in June 2015 (2014: 45.0%).

Core domestic banks continued to exercise adequate provisioning practices, with specific and general provisions increasing by 4.1% and 11.9%, respectively. Accordingly, the coverage of NPLs improved, with the specific coverage ratio (i.e. specific provisions and interest in suspense to NPLs) rising by 1 percentage point to 35.2% (see Chart 8). The total coverage ratio (i.e. total provisions and interest in suspense to NPLs) increased by 2.5 percentage points, to 45.9%. The coverage ratio is supplemented by an additional 1.9 percentage points related to the "Reserve for General Banking Risks" as per Banking Rule 09/2013.

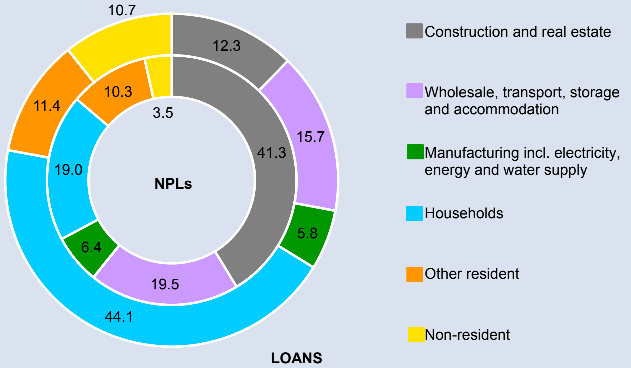
Collateral is another important credit risk mitigating factor for core domestic banks, covering 64.5% of NPLs. Hence, should this be considered, the full coverage of NPLs would reach 112.3%. The presence of collateral is, indeed, one of the factors which make banks reluctant to write off NPLs. In fact, considering that most NPLs are legacy loans, which have been non-performing for over a year, the value of write-offs is rather limited, amounting to just 1.2% of NPLs as at June 2015. A survey conducted by the Bank among the larger core domestic banks showed that banks

**Chart 6**
**CHANGE IN THE RESIDENT NPL RATIO (JUNE 2015 COMPARED WITH DECEMBER 2014) – CORE DOMESTIC BANKS**
*(percentage points)*



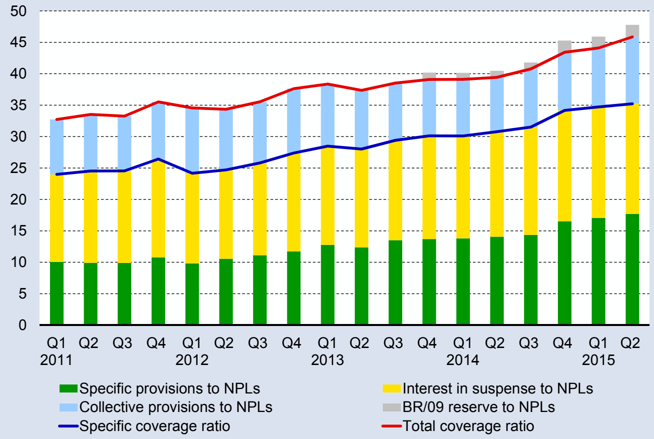

Source: Central Bank of Malta.

**Chart 7**
**SECTORAL ALLOCATION OF RESIDENT LOANS AND NPLs – CORE DOMESTIC BANKS (JUNE 2015)**
*(per cent)*




Note: The inner circle represents the sectoral allocation of NPLs while the outer circle shows the sectoral allocation of loans.
Source: Central Bank of Malta.

**Chart 8**
**COMPONENTS OF THE COVERAGE RATIO – CORE DOMESTIC BANKS**
*(per cent)*




Source: Central Bank of Malta.

generally seek to decrease their NPLs through out-of-court settlements prior to initiating legal proceedings. Furthermore, core domestic banks engage in prudent lending practices, as indicated by the relatively conservative loan-to-value ratios, which are estimated at 76.9% for residential loans and 62.0% for commercial property-backed loans.

### Capital positions remain sound, while core domestic banks continue to operate with ample liquidity levels.

The core domestic banks' capital position remained strong during the first half of the year, exceeding respective minimum requirements.[11] As at June 2015, the total capital ratio stood at 13.9%, 0.6 percentage point lower when compared with end-2014 level (see Chart 9). This marginal decline reflected higher risk-weighted assets, although the contraction in total own funds (on account of a drop in Tier 2 capital), also contributed somewhat. Both the Common Equity Tier 1 (CET 1) and Tier 1 (T1) capital ratios remained relatively stable at 11.5%. Meanwhile, the leverage ratio decreased marginally since end-2014 to 7.0%.[12]

In June 2015 the liquidity ratio of core domestic banks stood at 52.1%, an increase of 1.7 percentage points since end-2014, well above the 30% minimum regulatory requirement.[13] This reflected faster growth in liquid assets than in short-term liabilities. The increase in the former mainly stemmed from larger placements with the Central Bank of Malta, as well as balances held with credit institutions. As at June 2015, these assets accounted for 12.1% and 29.8% of total liquid assets, respectively. Marketable debt securities, however, remained the main component of liquid assets, accounting for 55.0% of liquid assets.

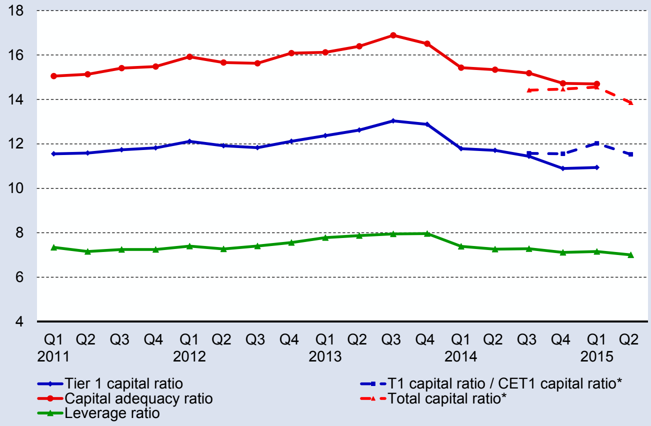
The Central Bank of Malta conducts stress-testing exercises to assess financial system resilience to extreme, yet plausible events. The univariate stress tests, carried out on core domestic banks' solvency and liquidity positions, reaffirmed banks' adequate overall loss absorption capacity, which continued to improve when compared with December 2014 data. The June 2015 results, however, are not directly comparable with results presented in the 2014 *Financial Stability Report*, since Mediterranean Bank plc, including its local subsidiary, has been classified as a core domestic bank in 2015.

The univariate stress tests simulated include:

(i) an increase in NPLs of varying magnitudes owing to adverse macroeconomic conditions;
(ii) a drop in property prices;
(iii) credit quality deterioration in the securities portfolio;
(iv) persistent deposit withdrawals.

The stress-testing exercises remained broadly unchanged and similar assumptions have been applied.

**Chart 9**
**CAPITAL AND LEVERAGE RATIOS – CORE DOMESTIC BANKS**
*(per cent)*




*Figures are based on the CRR/CRD IV.
Source: Central Bank of Malta.

[11] The minimum reserve requirement for the total capital ratio, Tier 1 capital ratio, and Common Equity Tier 1 capital ratio stand at 8%, 6% and 4.5% respectively. These ratios are based on the CRR / CRD IV requirements and are therefore not comparable with ratios presented in previous *Financial Stability Reports*, in which data were based on the requirements of Banking Rule 06/2007.

[12] The leverage ratio is defined as the ratio of capital and reserves to total assets. Based on CRR/CRD IV estimates, as at June 2015 the leverage ratio for both transitional and fully phased-in definition of Tier 1 stood at 5.5%, marginally up from 5.4% in December 2014. The minimum requirement of this ratio during the phase-in period is 3.0%.

[13] The liquidity ratio is defined as liquid assets over short-term liabilities.

Core domestic banks' solvency position has, overall, improved, resulting in a more adequate buffer to withstand adverse market conditions, as corroborated from the results of tests (i), (ii) and (iii) referred to above. In terms of liquidity, a significant increase in demand deposits was recorded, which was more than offset by a rise in liquid assets as indicated in test (iv). The core domestic banks' securities portfolio size remained relatively unchanged in nominal terms. The banks' solvency ratio remained comfortably above the regulatory threshold following the application of shocks to the held-to-maturity (HTM) and non-HTM portfolios.

### The profitability of core domestic banks improves owing to higher non-interest income and net-interest income. Concurrently, non-interest expense increases, partly resulting from higher regulatory costs.

In the first half of 2015, net profit before tax increased by 28.8% to €133.0 million when compared with the same period in 2014 (see Table 1). This improvement reflected higher net interest and non-interest income, despite higher non-interest expenses.

Net interest income remained the main income source for core domestic banks and improved as a result of a drop in interest expense, partly on the back of declining interest rates paid on deposits and on a higher share of shorter-term deposits that carry a lower interest cost, combined with higher interest income from increased loan intermediation activity. Meanwhile, net interest income from other sources, mainly debt securities, declined. Core domestic banks reported higher non-interest income on account of various income sources, including non-trading profits, and, to a lower extent, trading profits, dividend income and "other" non-interest income. The increase in non-interest expenses mostly resulted from higher operating expenses, mainly owing to higher regulatory costs and net impairment charges. Despite higher non-interest expenses, the cost-to-income ratio declined to 47.3% in June 2015, from 49.6% as at end-2014, indicating improved efficiency.[14]

The banks' improved performance was reflected in higher return-to-equity (ROE) and return-to- asset (ROA) ratios, which stood at 12.0% and 0.8% in June 2015, up from 9.8% and 0.7% as at end-2014, respectively.[15]

**Table 1**
**MAIN COMPONENTS OF THE PROFIT AND LOSS ACCOUNT– CORE DOMESTIC BANKS**
*EUR millions*

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

(1) Trading profits (fair valuation movements and gains/losses on traded securities).

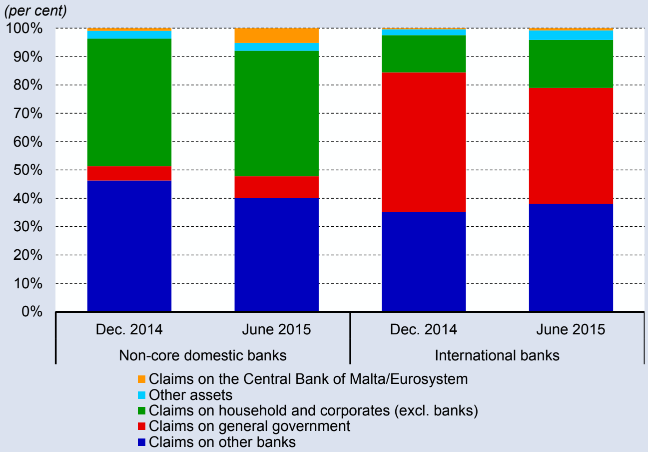
[14] The cost-to-income ratio is defined as operating expenses (net of amortisation but including amortisation of intangible assets other than goodwill) to gross income (net interest income and non-interest income).
[15] The ROE and ROA for 2014 are the profits after tax based on a four-quarter moving sum while the ratios for the first half of 2015 profits after tax are annualised.

These ratios continue to exceed the euro area average ROE and ROA for small institutions, which stood at 4.6% and 0.3%, respectively, as at end-2014.[16]

## Financial conditions of non-core and international banks remain healthy, with potential systemic implications arising from these two groups of banks remaining contained.

In the first half of 2015, total assets of non-core domestic banks increased by 1.6% to €2.3 billion, equivalent to around 26.8% of GDP (2014: 27.3%). The expansion in total assets was motivated by higher claims on the Central Bank of Malta, which accounted for 5.2% of total assets in June 2015 (see Chart 10).[17] Customer loans, which amount to about a third of total assets, contracted by around 1%, reflecting in part lower loans to residents, which plummeted by almost 45% following the repayment of a facility. As a result, the share of resident lending by non-core domestic banks to total resident lending went down to a mere 0.7% in June 2015. The share of government bonds in total assets, which are mostly composed of domestic sovereign paper, increased from 5.0% to 7.7%. As a result, Malta Government paper held by non-core domestic banks as a share of total outstanding Maltese Government paper held by banks rose from 4.8% as at end-2014 to 7.4% by mid-2015. Claims on other banks contracted by around 12% on account of lower intragroup deposits, as well as debt securities, although remaining the second largest asset component in total assets, equivalent to 40.0%, as indicated in Chart 10.

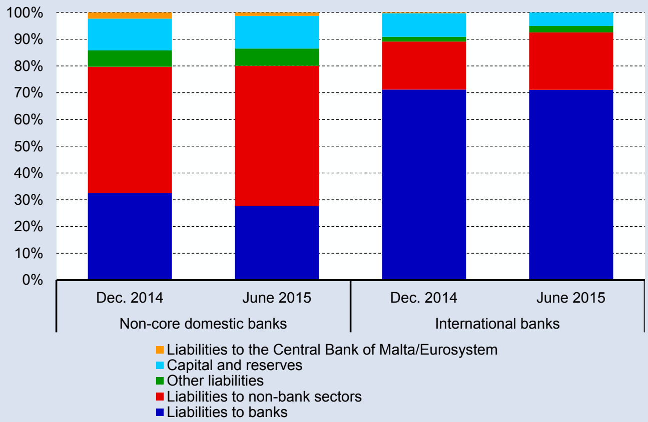
**Chart 10**
**ASSET STRUCTURE – NON-CORE DOMESTIC AND INTERNATIONAL BANKS**
*(per cent)*




Source: Central Bank of Malta.

In terms of asset quality, the NPL ratio improved by 1.1 percentage points, falling to 6.3% by mid-2015. This improvement reflected a significant drop in NPLs, partly reversing the increase in NPLs reported towards the end of 2014. The drop related to business lines and operations conducted abroad, which were directed to the financial and insurance activities sector, and the wholesale and retail trade.

**Chart 11**
**LIABILITIES STRUCTURE – NON-CORE DOMESTIC AND INTERNATIONAL BANKS**
*(per cent)*




Source: Central Bank of Malta.

On the liabilities side, non-core domestic banks finance around half of their balance sheet from customer deposits (see Chart 11). Such funds mainly originate from other financial intermediaries, private NFCs and households, and are deposited primarily by non-residents. Indeed, resident customer deposits represent just 28.0% of their customer deposit base, and account for merely 2.2% of total resident customer deposits of the

[16] Source: ECB Statistical Data Warehouse.
[17] During July 2015 one bank substantially reduced its claims on the Central Bank of Malta.

whole banking system. Liabilities to banks, predominately originating from unrelated credit institutions, make up around a quarter of total liabilities, whereas Eurosystem funding plays only a limited role, accounting for only 1.3% of their liabilities. Capital and reserves, which increased slightly during the period under review, account for another 12.2% of the non-core domestic banks' balance sheet.

The capital position of this group of banks is robust and improved further over 2014. Indeed, the total capital ratio rose from 17.4% as at end-2014 to 18.6% in June 2015, on account of higher total own funds and lower risk-weighted assets. Similarly, the leverage ratio improved from 11.9% to 12.2% as at end-June 2015, as capital increased at a faster pace than total assets. As observed in past years, the non-core domestic banks' liquidity position remained ample, despite a drop in the liquidity ratio from 77.9% to 75.0%, which, however, stood more than double the minimum required by the local regulation (Banking Rule 05/2007).

Following the losses reported in the second half of 2014, which were driven by substantial impairment losses by one bank, the performance of non-core domestic banks rebounded. Although at low levels, non-core domestic banks posted positive profits in the first half of 2015. The ROA after tax stood at 0.04%, up from -1.3% in 2014, while the ROE after tax also improved to 0.3% from -6.4% in the previous year. Excluding the bank which reported considerable losses in the second half of 2014, the ROA would stand at 1.5%, up from 1.1% reported in 2014. In turn, the ROE would stand at 10.7%, up from 4.1% as at end-2014.[18]

With regard to international banks, their total assets contracted by 12.8% to €26.5 billion in the first half of 2015, to reach 314.8% of GDP (2014: 374.3%). This contraction emanated from lower sovereign holdings by two branches of non-EU banks, as well as from the downsizing of two banks, which are consolidating their position at group level. As a result, the securities portfolio of international banks, which is predominantly composed of foreign (non-Maltese) sovereign debt, contracted by just over a quarter, and accounted for 39.9% of total assets. The value of claims on other banks contracted, largely driven by the consolidation process at group level of the two banks mentioned above. However, claims on banks rose to 38.1% of total assets, as these declined by a lower extent than total assets. Claims on other sectors, predominately in the form of non-resident loans to NFCs, increased by around 16.2% and represented almost 17% of international banks' total assets. These non-resident loans are mainly channelled to the transportation and storage, construction, and real estate activities. Despite doubling in levels, resident lending remained insignificant during the first half of 2015, such that the links of this group of banks to the domestic economy remained negligible. In terms of asset quality, the NPL ratio slightly deteriorated to 2.0% as a result of higher NPLs and of a slight drop in total loans.

This group of banks continued to fund their operations from other banks, mainly from unrelated credit institutions (see Chart 11). Indeed, such funding represented around two-thirds of these banks' balance sheet, whereas customer deposits (primarily from private non-financial corporates and financial institutions other than banks) accounted for just over 20% of the banks' total liabilities. The remaining liabilities are in the form of capital and reserves.

During the first six months of 2015, the total capital ratio of international banks decreased from 69.2% as at end-2014 to 42.1% in June 2015.This was mainly owing to a consolidation process of one bank, whose excess capital was transferred to its parent, while concurrently retaining the desired level of capital. At the same time, the contraction in total assets resulted in a corresponding fall in risk-weighted assets, which somewhat curtailed the drop in the total capital ratio. Likewise, the leverage ratio dropped from 60.7% to 51.7% during the period under review. The international banks' liquidity position remained significantly above the regulatory threshold of 30%. Indeed, the liquidity ratio narrowed to 79.7% in June 2015 from 84.7% in 2014, as liquid assets diminished at a faster pace than short-term liabilities. In terms of performance, in the first half of 2015 international banks reported higher profits compared with the same period a year earlier, largely influenced by the higher profits reported by two branches. The ROA decreased by 0.2 percentage point to 0.7% compared with end-2014, whereas the ROE increased slightly from 2.4% to 2.7%, owing to lower shareholders' funds.[19]

[18] The ROE and ROA for 2014 are the profits after tax based on a four-quarter moving sum, while the ratios for the first half of 2015 profits after tax are annualised.

[19] The ROE and ROA for 2014 are profits after tax based on a four-quarter moving sum, while the ratios for the first half of 2015 profits after tax are annualised. The ROE excludes branches.

**No new risks are posed by the performance and solvency of the insurance and investment fund sectors in the first half of 2015. As they continue to grow in size, continued vigilance is warranted given their inherent links to the domestic economy.**

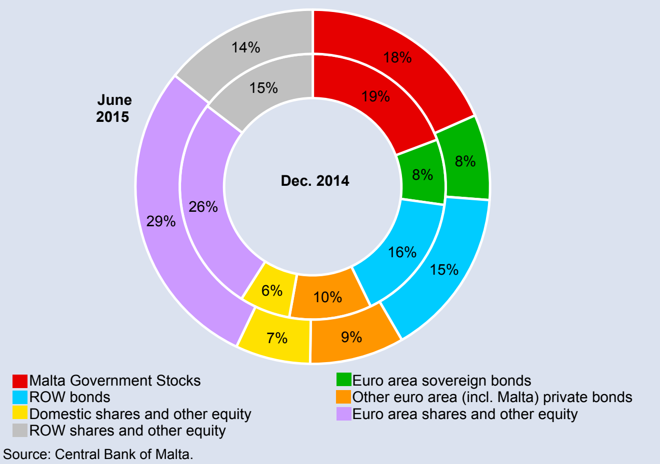
Insurance principals, protected cell companies (PCC) and affiliated insurance companies operating in Malta managed €13.2 billion in assets as at June 2015.[20] As in previous editions of the *Financial Stability Report*, the focus of the assessment is on those insurance entities which have significant links to the domestic economy and are thus mostly relevant from a financial stability perspective (hereinafter referred to as the domestic insurance sector).[21] These companies consist of three life insurance principals, five non-life insurance principals and one non-life PCC, with total assets of €4.0 billion in June 2015, expanding by 7.4% since end-2014. This increase was driven by the life sector, which expanded by 7.7% to €3.7 billion. The non-life sector (which also includes the PCC) also contributed, but to a lesser extent, growing by 3.6% to €341.0 million. As in past years, the insurance sector remained concentrated, with two insurers accounting for 89.2% of the sector's total assets and for almost 63% in terms of gross written premia. No changes have been reported in the ownership landscape of the insurance sector, with three of the nine domestic entities (two life and one non-life) being subsidiaries of two of the core domestic banks.

Insurance provision aids economic growth and is conducive to more efficient resource allocation. The nine domestic insurance providers are a significant part of the Maltese financial sector, with assets worth 47.6% of GDP (up from 45.9% in 2014) and an insurance density (gross premia per capita) of around €962 (includes life and non-life business).[22] Insurance penetration, measured as gross insurance premia to GDP, reached 5.0% as at the end of June 2015, up from 4.5% in 2014.

No significant changes have been reported in the balance sheet structure of the insurance sector during the first half of 2015, with almost three-fourths of their total assets composed of investment assets (bonds, equity and mutual fund shares and a very limited amount of financial derivatives), which are the main source of income for the industry. The rest is mainly held as deposits.

As at June 2015, life insurers invested just above half of their investment assets in bonds, of which 36.6% in Malta Government Stocks (MGS). Holdings of foreign bonds are mainly issued in high rated countries, making the bond portfolio rather safe in terms of credit risk. The other half of the investment portfolio largely consists of shares and other equity (including mutual fund shares), almost 60% of which originating from the euro area (mainly Luxembourg, Ireland and the UK). Most of the equity holdings issued in Malta relate to non-bank financial institutions and NFCs (see Chart 12).

**Chart 12**
**INVESTMENT ASSETS OF THE LIFE INSURANCE SECTOR**
*(per cent)*




Source: Central Bank of Malta.

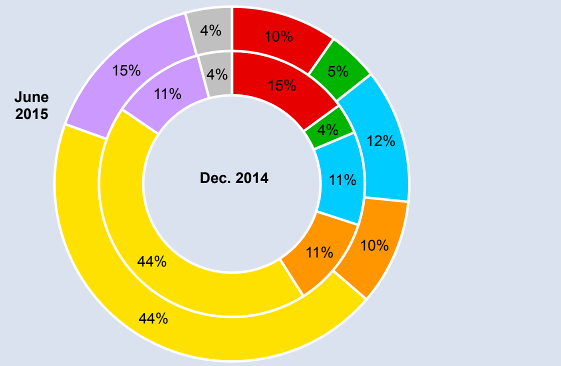
[20] These are the MFSA-licensed insurance entities, which report periodic data to the Central Bank of Malta. A protected cell company is a single legal entity comprising a core business activity and a number of activities, which are segregated from the main business, called "cells". The undertakings of one cell have no bearing on the other cells, with each cell identified by a unique name. The assets, liabilities and activities of each cell are also ring-fenced from other cells. An affiliated insurance company is an insurance company whose business is limited to risks emanating from shareholders or relating to entities.

[21] The selection of domestic insurance companies is based on four criteria: (i) whether they are subsidiaries of the core domestic banks (ii) the level of resident investment assets (iii) total gross premia written for long-term business and general business for risks situated in Malta and (iv) total gross claims paid for long-term business and general business for risks situated in Malta.

[22] GDP is annualised as a four-quarter moving sum.

Concurrently, the non-life sector invested 36.3% of its investment portfolio in bonds, of which almost two-fifths are issued domestically, mostly MGS. As in the case of the life sector, other securities held are mainly issued in highly rated countries. Shares and other equity (including mutual fund shares) account for 63.7% and are mostly composed of non-bank equities issued domestically, in Germany, Ireland and Luxembourg (see Chart 13).

**Chart 13**
**INVESTMENT ASSETS OF THE NON-LIFE INSURANCE SECTOR**
*(per cent)*

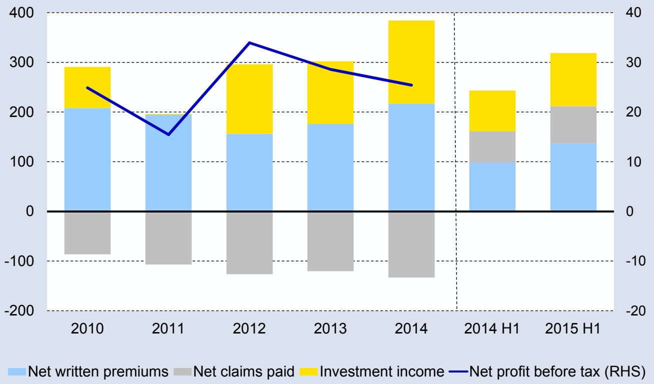



Source: Central Bank of Malta.

Funding liquidity risk is generally limited among insurance companies, as insurers receive periodic insurance premia, whereas obligations (liabilities) typically have a long expected duration. Moreover, market liquidity risk is partly mitigated by their high quality investment portfolio. In June 2015 the current ratio (defined as liquid assets to current liabilities) stood at 17.8% for the life sector and 3.9% for the non-life sector, both above their historical average.[23]

Net profit before tax for the first half of 2015 stood at €33.2 million (life: €22.0 million, non-life: €11.2 million), up by 36.0% compared with end-2014 (see Charts 14 and 15). The increase was mainly attributable to the life sector, in which profits increased by 54.1%. The ROE (after tax) for the insurance sector consequently increased by 3.5 percentage points when compared with 2014, to 11.6% (life: 11.4%, non-life: 11.9%), whereas the ROA (after tax) fell marginally by 0.3 basis point to 1.1% (life: 0.8%, non-life: 5.0%), given the faster expansion in assets than profits.[24] The ROE for a sample of 21 large insurers and reinsurers in the euro area ranged between 6% and 10%.[25]

**Chart 14**
**PROFIT COMPONENTS OF THE LIFE INSURANCE SECTOR**
*(EUR millions)*



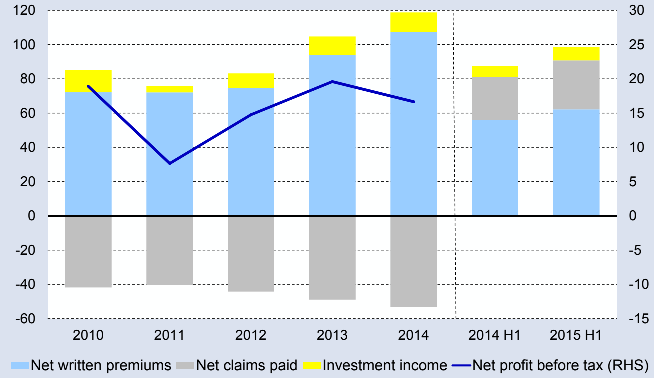

Note: This chart is not comprehensive of all P&L components but aims to depict the main income and expenditure variables. It excludes all reserves brought forward and carried forward and other income and expenditure.
Source: Central Bank of Malta.

Improved profits were supported by favourable underwriting business. Indeed, during the first half of 2015, net premia increased by 28.9% (life: 39.1%, non-life: 10.9%) when compared with the same period in 2014, while net claims rose by a lesser extent, up by 17.5% (life: 18.6%, non-life: 14.8%) compared with the first half of 2014. Higher investment income (total: 30.3%, life: 31.0%, non-life: 21.9%) also contributed positively, driven by unrealised capital gains, falling

[23] The historical average (December 2009 – December 2014) is 9.9% for the life sector and 3.5% for the non-life sector.
[24] The ROE and ROA for 2014 are computed using the profits after tax based on a four-quarter moving sum while the ratios for the first half of 2015 are based on annualised profits after tax.
[25] Source: *Financial Stability Report*, ECB, May 2015. Data refer to the first quarter of 2015.

yields and favourable exchange rate movements. In contrast, the rise in technical reserves (to cover future claims) influenced profits negatively. At 85.2%, the combined ratio for the non-life sector remained below the 100% threshold, signalling positive underwriting performance during the first half of 2015.

Chart 15
**PROFIT COMPONENTS OF THE NON-LIFE INSURANCE SECTOR**
*(EUR millions)*




Note: This chart is not comprehensive of all P&L components but aims to depict the main income and expenditure variables. It excludes all reserves brought forward and carried forward and other income and expenditure.
Source: Central Bank of Malta.

Although capital continued to grow during the first half of 2015, assets grew at a faster pace for both life and non-life insurance companies, causing the leverage (capital to assets) ratio to marginally decline to 9.8% for the total domestic insurance sector in June 2015 from 10.3% as at end-2014. The introduction of the Solvency II regime in January 2016 is expected to generally increase capital and reserve requirements, for which implementation, the domestic insurance sector seems to be adequately prepared. Solvency II will provide an opportunity for insurance undertakings to review their business models and to be better able to assess risks embedded in their business activities.

The risk retention ratio, defined as net premia on gross premia, for the domestic insurance sector stood at 90.1% in June 2015, up from 89.1% as at the end of 2014. For the life insurance sector, the risk retention ratio stood at 96.1% in June 2015, decreasing slightly by 0.1 percentage point over December 2014. On the other hand, the risk retention ratio for the non-life sector rose by 1.7 percentage points over the previous six months, standing at 79.1% in June 2015.

Insurers are interlinked with households through the provision of insurance products, with policies accounting for 14.0% of their net financial wealth in June 2015 (up from 13.6% when compared with end-2014).[26]

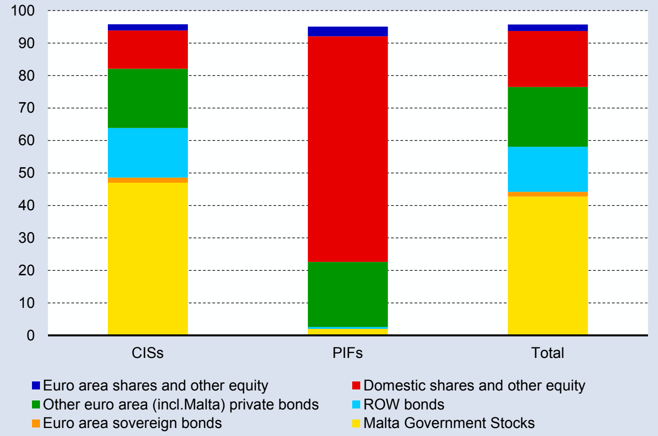
Over the past years, a growing number of non-bank institutions in the European Union started engaging in bank-like activities, potentially increasing risks to financial stability as such activities are not adequately regulated. At present, in Malta the granting of loans and other bank-like activities by the insurance sector is very limited, thereby having negligible implications on financial stability locally.

In June 2015 the investment funds sector was composed of 32 Collective Investment Schemes (CIS) and 226 Professional Investment Schemes (PIF) (including Alternative Investment Funds), with assets amounting to €9.6 billion. Of these, six CIS and five PIFs, with assets of €1.3 billion, are considered as relevant from a financial stability perspective, amounting to 15.8% of GDP. Since end-2014, the number of these CIS and PIFs remained unchanged. Nevertheless, their assets expanded by 10.3% over the same period, with the increase wholly emanating from CIS, which expanded by 11.9% in the first half of the year, to €1.2 billion, whereas assets held by PIFs contracted by 3.5% to €121.1 million, owing to a drop in equity holdings.

[26] Insurance policies include insurance policies, pension and standardised guarantees. These products also include those of the non-domestic insurance companies of which households may hold policies. Moreover, almost 90% of domestic insurers' liabilities consist of technical provisions, which are contractual obligations to policy holders. These future obligations constituted 15.4% of households' assets as at end-June 2015.

The majority of domestic CIS are bond funds, while the PIFs mainly invest in equity. Given these investment strategies, the investment portfolio of CIS is predominantly (about 82% of investment assets) based on bonds, mainly MGS (see Chart 16). In the first half of 2015, the bond portfolio of CIS expanded by 10.8%, largely on account of higher MGS and other foreign bonds, mainly from the United States, France and the United Kingdom. These were offset by lower holdings of sovereign debt issued in the euro area (mainly from Ireland and Spain), down by 11.0% during the period under review.

**Chart 16**
**ASSET ALLOCATION OF THE INVESTMENT FUNDS SECTOR**
*(per cent)*



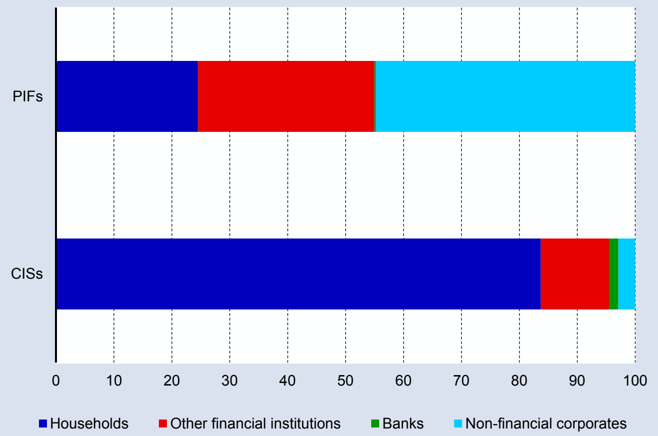

Source: Central Bank of Malta.

In spite of declining by 24.0% in June 2015, equity continued to make up the bulk (77.4% of investment assets) of the PIFs investment portfolio. Such holdings mainly relate to equity issued domestically by other investment funds and banks, and reflect some level of links across the investment funds sector, but also cross-sectoral links to banks. Furthermore, strong links between the domestic investment funds sector and core domestic banks remain, given that the latter manage almost all (86.2%) of the domestic investment funds' net asset value. Despite these connections, spill-over risks and contagion implications are deemed to be minimal, given the relatively small size of the investment funds sector, but also due to the rather prudent practices and investment strategies adopted by these funds.

As observed in past years, CIS obtain their funding predominantly from domestic households, while domestic NFCs are the main shareholders of PIFs, given the higher investment requirements (see Chart 17). However, while households account for the majority of CIS' liquidity, households' investment in CIS represented only 4.4% of their financial wealth in June 2015. Similarly, NFCs' investment in PIFs account for just 0.3% of their assets.

In the European Union, investment funds are becoming an alternative to credit creation, raising concerns from a supervisory point of view. This development, however, has not taken place in Malta as the investment funds sector does not engage in credit intermediation and no loans were reported by this sector in the first half of 2015.

**Chart 17**
**DOMESTIC HOLDINGS IN INVESTMENT FUNDS**
*(shares in per cent)*




Source: Central Bank of Malta.

## Risk assessment and outlook

In the first half of 2015, the risks which were deemed as most elevated in the *Financial Stability Review* 2014 have somewhat abated (see Table 2). Following the high uncertainty of the outcome of negotiations between the Greek Government and its creditors in the first half of 2015, an agreement on a third adjustment programme for Greece was reached in August 2015. This agreement avoided potential second-round contagion implications on the Maltese financial sector in the event of a Greek default. Nevertheless, the fiscal conditions of some euro area countries remained weak, with debt sustainability concerns still a key challenge for parts of the euro area. Additionally, these developments occurred on the back of subdued economic recovery in the euro area, coupled with very weak price inflation. Indeed, the ECB activated an expanded asset purchase programme, directed to purchase sovereign bonds, with the aim of fulfilling its price stability mandate and push inflation to below, but close to 2%.

Another development that took place in the first half of the year relates to the decline in NPLs, thus reversing the upward trend since the start of the crisis. This resulted from a recovery in sectors which have, over the past years, posed a higher level of credit risk compared with other industries. In particular, this concerned the construction and real estate sector, in which credit worthiness seems to have improved on the back of a recovery in the property market.[27] This is supported by property prices, which have recovered from their pre-crisis levels without having had an adverse impact on housing affordability. On balance, although credit growth continues to be rather sluggish, credit risk has somewhat eased on the back of strong economic performance, but also owing to sector-specific developments. Furthermore, the reduction of credit risk has been accompanied by an increasing coverage ratio and new regulatory requirements that also contributed to more prudent credit standards. Although profitability continued to improve, challenges persist on account of muted overall credit growth and record low interest rates. However, banks do not appear to be engaging in aggressive search for higher yield that would raise their risk profile, despite operating with ample liquidity. The latter is largely composed of customer deposits (mostly on demand) which finance around 80% of core domestic banks' total assets. This reliance on a traditional funding structure sets a lower bound on how low interest rates can go, with possible negative implications on margins.

Overall, risks to financial stability were lower in the first half of 2015, with the outlook remaining positive. Nevertheless, financial institutions need to remain cautious, particularly in view of the current level, although declining, of NPLs. In this light, the recommendations proposed in the *Financial Stability Report* 2014 remain valid, namely, for banks to continue improving their coverage of NPLs, enhance collateral valuation practices and maintain prudent dividend policies to further strengthen capital buffers. The recommendations are of importance in view of the forthcoming combined capital buffers proposed under the CRR/CRD IV framework, transposed in the Banking Rule 15/2015 and the Central Bank of Malta's Directive 11 – Macroprudential Policy, amended in 2014. Furthermore, banks are further encouraged to take the necessary measures in respect of fulfilling the MREL.

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[27] This recovery is confirmed by the Real Estate Market Survey conducted by the Central Bank of Malta among estate agents during the first half of 2015.

**Table 2**
**SUMMARY OF RISKS**

| Main vulnerabilities and risks for the financial system | Type of risk | Nature of risk | Change in risk level since FSR 2014 | Risk position as at June 2015 | | | Risk outlook for H2 2015 |
|---|---|---|---|---|---|---|---|
| | | | | Moderate | Medium | Elevated | |
| **Vulnerabilities within the financial system** | | | | | | | |
| The level of non-performing loans | Credit | Cyclical | ↓ | | | ● | ↔ |
| Concentration of bank lending owing to a narrow economic base | Credit | Structural | ↔ | ● | | | ↔ |
| Subdued credit developments | Profitability | Cyclical | ↔ | | ● | | ↔ |
| High proportion of short-term funding | Liquidity | Structural | ↔ | ● | | | ↔ |
| Interlinkages between banks and the insurance and the investment fund sectors | Contagion | Structural | ↔ | ● | | | ↔ |
| **Vulnerabilities outside the financial system** | | | | | | | |
| Domestic macroeconomic developments | Credit, Profitability | Cyclical | ↓ | ● | | | ↓ |
| Activity in specific sectors remains subdued, but signs of recovery are evident | Credit | Cyclical/ Structural | ↓ | | ● | | ↓ |
| Exposures of the financial sector to domestic sovereign securities | Profitability | Stuctural | ↔ | ● | | | ↔ |
| Subdued economic conditions in the euro area | Credit, Profitability | Cyclical | ↔ | | | ● | ↔ |
| Euro area sovereign debt crisis | Contagion, Profitability | Cyclical | ↓ | | ● | | ↔ |
| Higher risk-taking in view of the low interest rate environment | Profitability | Cyclical | ↔ | ● | | | ↔ |

# APPENDIX

## Appendix: Financial Soundness Indicators

| | Core Domestic Banks | | | | | Non-Core Domestic Banks | | | | | International Banks | | | | | Total Banks | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | June 2015 | 2011 | 2012 | 2013 | 2014 | June 2015 | 2011 | 2012 | 2013 | 2014 | June 2015 | 2011 | 2012 | 2013 | 2014 | June 2015 |
| **Core FSIs** | | | | | | | | | | | | | | | | | | | | |
| Regulatory capital to risk weighted assets (****) | 15.48 | 16.08 | 16.51 | 14.47 | 13.86 | 24.88 | 26.89 | 22.58 | 17.44 | 18.56 | 115.53 | 115.73 | 119.60 | 69.16 | 42.51 | 56.78 | 55.82 | 46.20 | 25.75 | 18.61 |
| Regulatory Tier 1 capital to risk-weighted assets (****) | 11.82 | 12.12 | 12.88 | 11.55 | 11.53 | 22.29 | 24.31 | 22.12 | 17.05 | 18.17 | 114.37 | 115.19 | 119.59 | 69.15 | 42.11 | 54.22 | 53.30 | 43.88 | 23.69 | 16.83 |
| Non-performing loans net of specific provisions & interest in suspense to total own funds (****) | 36.76 | 37.44 | 39.01 | 41.74 | 40.48 | 9.81 | 7.66 | 2.10 | 7.64 | 0.73 | 0.08 | 0.17 | 0.79 | 2.03 | 5.16 | 5.56 | 6.15 | 9.40 | 17.92 | 24.27 |
| Non-performing loans to total gross loans | 7.10 | 7.75 | 8.95 | 9.05 | 8.61 | 8.44 | 9.77 | 3.71 | 7.38 | 6.27 | 0.50 | 0.48 | 1.39 | 1.42 | 2.00 | 3.25 | 3.78 | 5.55 | 6.33 | 6.33 |
| Sectoral distribution of resident loans to total loans | | | | | | | | | | | | | | | | | | | | |
| Agriculture | 0.30 | 0.29 | 0.29 | 0.25 | 0.24 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.11 | 0.12 | 0.16 | 0.15 | 0.15 |
| Fishing | 0.11 | 0.11 | 0.13 | 0.09 | 0.09 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.04 | 0.05 | 0.07 | 0.06 | 0.06 |
| Mining and quarrying | 0.08 | 0.07 | 0.05 | 0.05 | 0.05 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.03 | 0.03 | 0.03 | 0.03 | 0.03 |
| Manufacturing | 3.17 | 3.34 | 3.20 | 2.90 | 3.09 | 0.44 | 0.66 | 0.58 | 0.55 | 0.61 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1.21 | 1.41 | 1.75 | 1.77 | 1.95 |
| Electricity, gas, Steam and Air Conditioning Supply | 5.45 | 2.34 | 2.22 | 3.23 | 2.16 | 0.00 | 0.00 | 3.27 | 5.14 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2.06 | 0.97 | 1.34 | 2.22 | 1.34 |
| Water Supply; Sewerage waste management and remediation activities | 0.73 | 0.73 | 0.72 | 0.63 | 0.59 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.27 | 0.30 | 0.38 | 0.38 | 0.37 |
| Construction | 11.57 | 10.44 | 9.78 | 8.24 | 6.71 | 10.79 | 11.07 | 0.06 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4.72 | 4.67 | 5.25 | 4.94 | 4.16 |
| Wholesale and retail trade; Repair of motor vehicles and motor cycles | 9.48 | 8.77 | 8.46 | 8.66 | 8.35 | 2.55 | 4.55 | 1.08 | 0.67 | 0.68 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3.67 | 3.79 | 4.59 | 5.23 | 5.22 |
| Transportation and storage | 4.47 | 4.11 | 3.85 | 3.52 | 3.15 | 1.91 | 1.85 | 1.29 | 0.80 | 0.70 | 0.05 | 0.00 | 0.00 | 0.11 | 0.24 | 1.78 | 1.77 | 2.12 | 2.19 | 2.07 |
| Accomodation and food service activities | 5.26 | 5.13 | 5.06 | 4.47 | 4.16 | 0.00 | 0.00 | 0.00 | 0.03 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1.99 | 2.14 | 2.72 | 2.68 | 2.58 |
| Information and communication | 1.30 | 1.24 | 1.26 | 0.96 | 0.92 | 0.15 | 0.25 | 0.18 | 0.11 | 0.05 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.50 | 0.52 | 0.68 | 0.58 | 0.57 |
| Financial and insurance activities | 2.05 | 4.66 | 4.32 | 4.14 | 5.26 | 0.60 | 0.39 | 0.78 | 0.74 | 0.68 | 0.00 | 0.00 | 0.01 | 0.02 | 0.03 | 0.80 | 1.96 | 2.36 | 2.53 | 3.31 |
| Real estate activities [includes inputed rents of owner-occupied dwellings] | 4.53 | 4.63 | 4.78 | 4.83 | 5.58 | 0.09 | 0.10 | 2.43 | 3.55 | 3.61 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1.71 | 1.93 | 2.67 | 3.09 | 3.66 |
| Professional, scientific and technical activities | 1.00 | 0.65 | 0.48 | 0.35 | 0.36 | 0.05 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.38 | 0.27 | 0.26 | 0.21 | 0.23 |
| Administrative and support service activities | 1.19 | 1.10 | 1.05 | 1.01 | 1.01 | 0.00 | 0.05 | 0.07 | 0.08 | 0.09 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.45 | 0.46 | 0.57 | 0.61 | 0.64 |
| Public administration and defence; Compulsory social security | 1.40 | 1.39 | 1.48 | 1.55 | 1.48 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.53 | 0.58 | 0.80 | 0.93 | 0.92 |
| Education | 0.39 | 0.40 | 0.38 | 0.36 | 0.41 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.15 | 0.17 | 0.21 | 0.21 | 0.26 |
| Human health and social work activities | 0.57 | 0.65 | 0.67 | 0.67 | 0.67 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.22 | 0.27 | 0.36 | 0.40 | 0.41 |
| Arts, entertainment and recreation | 0.49 | 0.68 | 0.70 | 0.62 | 0.58 | 0.91 | 0.87 | 0.58 | 0.39 | 0.36 | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 | 0.21 | 0.31 | 0.40 | 0.39 | 0.39 |
| Other Services activities | 0.35 | 0.36 | 0.39 | 0.33 | 0.33 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.13 | 0.15 | 0.21 | 0.20 | 0.21 |
| Households and individuals (excl. Sole Proprietors) | 41.05 | 41.35 | 43.27 | 43.54 | 44.10 | 0.06 | 0.08 | 0.12 | 0.11 | 0.15 | 0.00 | 0.00 | 0.01 | 0.01 | 0.01 | 15.52 | 17.23 | 23.25 | 26.12 | 27.37 |
| Mortgages | 33.08 | 33.82 | 35.84 | 36.82 | 37.70 | 0.01 | 0.01 | 0.02 | 0.01 | 0.01 | 0.00 | 0.00 | 0.01 | 0.01 | 0.01 | 12.51 | 14.09 | 19.25 | 22.08 | 23.39 |
| Activities of extraterritorial organisations and bodies | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Non-resident | 5.05 | 7.57 | 7.46 | 9.60 | 10.70 | 82.47 | 80.14 | 89.56 | 87.82 | 93.07 | 99.94 | 99.98 | 99.97 | 99.86 | 99.70 | 63.51 | 60.90 | 49.83 | 45.07 | 44.13 |
| *Return on assets** | 0.98 | 1.05 | 1.11 | 0.71 | 0.85 | -0.43 | 1.23 | 0.29 | -1.32 | 0.04 | 0.98 | 1.08 | 0.30 | 0.86 | 0.65 | 0.84 | 1.09 | 0.64 | 0.71 | 0.70 |
| *Return on equity ** | 15.08 | 15.46 | 15.27 | 9.83 | 11.99 | -2.22 | 6.91 | 1.60 | -6.42 | 0.32 | 3.96 | 4.55 | 2.28 | 2.38 | 2.73 | 4.37 | 5.86 | 3.74 | 3.62 | 5.86 |
| *Interest margin to gross income* | 72.23 | 61.84 | 63.58 | 64.84 | 62.16 | 63.04 | 28.98 | 42.04 | 46.31 | 47.09 | 87.90 | 123.53 | 173.55 | 201.87 | 184.15 | 79.11 | 83.14 | 101.18 | 115.13 | 107.48 |
| *Non-interest expenses to gross income* | 54.07 | 45.54 | 47.10 | 51.22 | 48.80 | 45.53 | 28.69 | 64.77 | 56.14 | 60.98 | 8.87 | 7.06 | 9.96 | 11.87 | 13.22 | 34.10 | 27.44 | 34.89 | 36.75 | 36.03 |
| *Non-interest income to gross income* | 27.54 | 33.20 | 36.42 | 35.16 | 37.84 | 30.04 | 71.02 | 57.96 | 53.69 | 52.91 | 11.00 | -24.43 | -73.55 | -101.87 | -84.15 | 20.89 | 16.86 | -1.18 | -15.13 | -7.48 |
| Liquid assets to total assets | 22.12 | 26.58 | 27.16 | 28.31 | 31.52 | 20.99 | 15.49 | 20.19 | 31.68 | 35.13 | 7.33 | 9.90 | 28.14 | 19.26 | 17.92 | 16.11 | 19.64 | 26.85 | 27.19 | 30.45 |
| Liquid assets to short-term liabilities | 45.41 | 51.54 | 51.65 | 50.42 | 52.10 | 88.00 | 57.90 | 72.09 | 77.92 | 74.95 | 108.18 | 145.98 | 204.20 | 84.73 | 79.68 | 49.59 | 55.61 | 59.58 | 53.89 | 54.51 |
| **Other FSIs** | | | | | | | | | | | | | | | | | | | | |
| Total Coverage ratio | 35.53 | 37.63 | 39.08 | 43.43 | 45.87 | 56.42 | 63.83 | 94.64 | 78.65 | 106.45 | 100.91 | 95.15 | 42.98 | 45.42 | 48.49 | 43.26 | 43.64 | 41.12 | 45.86 | 49.41 |
| Domestic Securities to Total Assets | 12.76 | 11.83 | 10.94 | 10.76 | 10.52 | 0.78 | 2.94 | 5.54 | 5.51 | 8.23 | 0.00 | 0.00 | 0.00 | 0.00 | 0.11 | 4.11 | 3.95 | 4.10 | 4.32 | 4.87 |
| Foreign Securities to Total Assets | 18.62 | 18.09 | 19.30 | 23.55 | 22.73 | 40.86 | 45.31 | 20.98 | 23.66 | 19.86 | 31.89 | 36.20 | 37.60 | 52.63 | 49.45 | 28.01 | 30.70 | 30.41 | 40.35 | 36.84 |
| Unsecured Loans to Total Lending | 16.85 | 16.79 | 20.57 | 22.17 | 21.28 | 76.23 | 71.98 | 74.76 | 65.23 | 69.38 | 51.36 | 55.62 | 57.28 | 48.44 | 44.94 | 39.54 | 40.64 | 39.03 | 34.25 | 32.27 |
| Assets to Total Capital and Reserves (**) | 13.79 | 13.22 | 12.56 | 14.05 | 14.28 | 2.83 | 3.22 | 3.41 | 8.41 | 8.19 | 1.56 | 1.45 | 1.33 | 1.65 | 1.93 | 3.13 | 3.14 | 3.65 | 6.32 | 8.32 |
| Large exposure to total own funds (****) | 118.05 | 102.04 | 139.38 | 103.40 | 119.25 | 203.86 | 186.57 | 199.90 | 339.94 | 245.10 | 10.22 | 10.78 | 17.08 | 45.31 | 83.95 | 32.22 | 31.40 | 47.99 | 88.86 | 120.74 |
| Gross asset position in financial derivatives to total own funds (****) | 4.48 | 2.68 | 2.12 | 2.50 | 3.48 | 0.45 | 0.33 | 0.44 | 2.33 | 0.81 | 0.42 | 0.54 | 0.01 | 0.88 | 0.13 | 0.99 | 0.86 | 0.50 | 1.62 | 2.06 |
| Gross liability position in financial derivatives to total own funds (****) | 9.95 | 9.47 | 4.52 | 8.15 | 6.63 | 1.67 | 0.80 | 0.45 | 2.83 | 2.09 | 0.12 | 0.07 | 0.12 | 0.55 | 0.53 | 1.55 | 1.53 | 1.12 | 3.68 | 4.07 |
| Personnel expenses to non-interest expenses | 52.44 | 53.92 | 50.61 | 50.82 | 49.23 | 36.24 | 39.64 | 42.05 | 44.98 | 45.82 | 21.24 | 25.19 | 33.32 | 27.46 | 28.93 | 46.50 | 48.45 | 48.14 | 47.41 | 46.07 |
| Customer loans to customer deposits | 74.05 | 72.13 | 67.80 | 63.98 | 60.37 | 102.18 | 86.94 | 96.24 | 75.69 | 66.46 | 149.27 | 140.21 | 79.50 | 93.01 | 82.78 | 100.22 | 93.81 | 72.29 | 71.78 | 66.12 |
| Net open position in equities to total own funds (****) | 14.29 | 13.60 | 13.48 | 14.28 | 15.23 | 137.76 | 139.74 | 169.43 | 44.97 | 55.27 | 0.89 | 0.28 | 0.02 | 0.26 | 0.74 | 7.64 | 7.62 | 10.59 | 8.90 | 14.60 |
| Loan to Value:(***) | | | | | | | | | | | | | | | | | | | | |
| Residential | 73.48 | 70.38 | 71.49 | 74.18 | 76.93 | | | | | | | | | | | | | | | |
| Commercial | 63.16 | 63.19 | 67.30 | 69.00 | 61.96 | | | | | | | | | | | | | | | |

(*) Based on profit after tax. H1 2015 figures are annualised.
(**) Expressed as a ratio.
(***) Based on a sample of Core Domestic Banks.
(****) Capital Data based on the COREP returns for 2014 and June 2015. Large Exposures is based on COREP returns for June 2015.