

# Business Today



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## Moody's warns of added credit risks for Maltese banks

Charlot Zahra

In its Banking System Rating (BSR) outlook on Malta, international credit rating agency Moody's has rated the credit outlook for the Maltese banking system during the next 12 to 18 months as "negative".

Moody's said its negative outlook on the Maltese banking system reflected "a weakening domestic and global operating environment and expectations that it will have a more severe impact on the banks' financial fundamentals, mainly profitability, asset quality and capital levels, going forward."

"Overall, we expect a slowdown in Malta's economic growth mostly driven by weaker export demand, reduced tourism activity and gradually declining private consumption levels which is likely to impact borrowers' ability to meet repayment obligations," Moody's said in its report published on 20 March 2009.

The credit rating agency warned that the negative outlook captured "growing concerns over asset quality deterioration of the Maltese banks due to their high exposure to the property sector as there are

indications of a continuing drop in demand in the real estate market leading to a gradual reduction in property prices".

So far, Moody's explained, "the impact of the global financial crisis has been mostly felt on the sector's profitability levels mainly due to write-downs in some banks' securities portfolios resulting from fair valuation adjustments."

"In our view, a prolonged period of the international financial distress is likely to have a more severe impact on the Maltese banks' profitability levels as it is likely to lead to higher valuation losses from the mark-to-market accounting method," the international credit rating agency warned.

Moreover, the negative outlook also captured "our expectations that the Maltese banks will witness a further reduction in their profitability levels mostly due to a declining growth in business volumes and squeezed interest rate margins - a reflection of increased domestic competition to attract customer deposits."

That said, the banking system was "currently adequately capitalised with good liquidity levels as banks remain primarily deposit-funded with low reliance on wholesale

and inter-bank lending" Moody's said in its BSR on Malta.

Meanwhile, in line with other EU Member states, the government had extended Malta's deposit guarantee scheme in order to strengthen the confidence in the banking system.

"Going forward, we will monitor the conditions in the global and the domestic economy and assess whether there is a more severe impact on the banks' profitability and asset quality levels that exerts downward pressure on the rating," the international credit rating agency said in its report. "Management's ability to protect capitalisation going forward, will be a key rating driver."

### Key issues

Moody's said that the ongoing global economic crisis was likely to have "a more severe impact on the credit environment in Malta," particularly as the performance of the real estate and the tourism sectors was expected to deteriorate, while export demand was likely to be reduced further. "Moreover, a prolonged... **page 5**

**Banking System Outlook**

**Moody's Global Banking**

March 2009

**Malta**

The outlook for the Maltese banking system is negative, reflecting expectations of weakening operating conditions which are likely to dent the performance of Maltese banks. This is mostly a result of the ongoing global financial crisis which has affected a number of markets around the world. The outlook expresses Moody's expectations for the fundamental credit conditions in the Maltese banking system over the next 12 to 18 months.

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**Analyst Contacts:**

- Limassol 357.2558.6586
- Elena Panayiotou Analyst
- Nondas Nicolaides Vice President - Senior Analyst
- Mardig Haladjian General Manager

**Average Ratings**

Rating	Outlook
Long Term Bank Deposits, Foreign Currency	Baa1 Stable
Long Term Bank Deposits, Local Currency	Baa1 Stable
Bank Financial Strength	D+ Stable
Country Ceiling for Long Term Foreign and Local Currency Bank Deposits	Aaa Stable

**Bank of Valletta**

Rating	Outlook
Bank financial strength	D+ Stable
Long-term bank deposits, Local currency	Baa1 Stable
Short-term bank deposits, Local currency	P-2 Stable
Long-term bank deposits, Foreign currency	Baa1 Stable
Short-term bank deposits, Foreign currency	P-2 Stable

**Summary Opinion**

Moody's views the medium-term credit outlook for the Maltese banking system as negative, reflecting a weakening domestic and global operating environment and expectations that it will have a more severe impact on the banks' financial fundamentals, mainly profitability, asset quality and capital levels, going forward.

Moody's Investors Service

## ECB Governing Council meeting tomorrow Euro zone interest rates to drop to a new all-time low of 1 per cent

The European Central Bank (ECB) is expected to cut its base rate by another 50 per cent tomorrow, thus reaching a new record low in the history of the eurozone.

A month ago, as expected, the ECB's Governing Council lowered its key policy interest rate by 50 basis points to a new low of 1.5 per cent at the Governing Council's March meeting.

This will be the third interest rate cut since the beginning of the year, with a total decrease of 1.5 per cent in the bank's key policy rate within the space of four months.

Speaking during the post-meeting press conference on 5 March 2009,



Jean Claude Trichet

ECB President Jean-Claude Trichet left the door open for further cuts in view of the easing inflation rates for the eurozone.

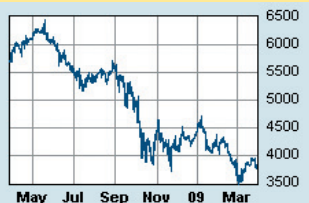
"Overall, inflation rates have decreased significantly and are now expected to remain well below 2 per cent over 2009 and 2010," Trichet said.

This outlook for inflation was due to the fall in commodity prices and diminishing domestic price and cost pressures, "reflecting the severe downturn in economic activity."

"Indeed, recent economic data releases and survey information add further evidence to our assessment that both global **page 3**

### World Business Highlights

#### FTSE 100



**Home Prices in 20 U.S. Cities Decline by Record 19%, Case-Shiller Reports** Home prices in 20 U.S. cities fell 19 percent in January from a year earlier, the fastest drop on record, as demand plummeted and foreclosures rose.

**Mack Warns Morgan Stanley Brokers of Difficult Year With Recovery Deferred** Just when the monthlong rally in bank shares is signaling a thaw in the credit freeze that gripped the world's financial capitals since August 2007, some of the securities industry's most experienced executives are predicting no end to Wall Street's troubles.

**U.S. Stocks Follow European Shares Higher; Alcoa, Anglo American Advance** European stocks rebounded from the biggest drop in four weeks as Marks & Spencer Group Plc posted sales that beat analysts' estimates and commodity producers climbed. U.S. futures advanced, while shares in Asia retreated.

**Barclays Said to Discuss Sale of iShares Unit to CVC for About \$4 Billion** Barclays Plc, the U.K.'s third largest bank, is in exclusive talks to sell its iShares unit to CVC Capital Partners Ltd. for about 3 billion pounds (\$4.3 billion), people familiar with the discussions said.

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