

MALTA

Statement by Mr David Pullicino
Temporary Alternate Governor of the
European Bank for Reconstruction and Development
for Malta
at the 2008 Annual Meeting

It is a privilege to address the Seventeenth Annual Meeting of the European Bank for Reconstruction and Development here in the historic city of Kiev. I thank the Ukrainian Government and the Authorities of the city of Kiev for the excellent organisation and their generous hospitality.

I would also like to take this opportunity to pay tribute to Mr Jean Lemierre who as President of the Bank over the last eight years has inspired it with strong leadership and a sense of mission. He has enabled the Bank to embark on a transformation that will make it more responsive to the evolving needs of the countries of operation. At the same time I congratulate the Bank's new President Mr Thomas Mirow and wish him all success in his challenging task in taking the Bank forward on its mission

We note with satisfaction that the past year has been another successful one in terms of both operational and financial results. A remarkable development in this regard is the fact that the consolidation of last year's results have been attained without a significant increase in expenses.

The Bank continues to play an active and effective role in the countries of operations and this is amply brought out by the increase in the proportion of new projects with an excellent or good transition impact. We also note with satisfaction that the Bank is increasing its focus on small projects and in the private sector is being involved in new areas of development. This is testimony that the Bank is directing its efforts where they are more likely to be additional.

New business volume is at an all-time peak of EUR5.9 million, and in cumulative terms the Banking portfolio is now approaching the EUR40 billion mark, as net outstanding

commitments increased to EUR19.4 billion from an already high level of EUR17.7 billion in 2006.

The geographic composition of the portfolio is shifting in line with expectations, with an increase in the share of new business volume going to the early and intermediate transition countries and Russia, relative to that of the advanced transition countries.

With regard to the implementation of the Third Capital Resources Review we note that this is proceeding ahead of plan and we are sure that the expertise of the Bank's staff will contribute towards the timely implementation of the institutional and operational reforms underlying this strategy.

Notwithstanding the generally positive operational results, and the still healthy level of reserves, the Bank's net profit has dropped from EUR2.4 billion in 2006 to EUR1.9 billion in 2007. While this drop in profits largely reflects the negative impact of the ongoing financial turmoil on the profitability of the Bank's financial investments and the value of assets acquired in the course of its banking operations, there remains considerable uncertainty about the duration and severity of the turmoil. In this regard, and given also that most of the Bank's business will be conducted within a riskier environment, the Bank's customary prudence remains necessary.

We therefore support the proposal to allocate most of the Bank's net income for 2007 to the newly established strategic reserve that will help maintain an appropriate headroom for a sustainable level of activity in the medium to longer term, while at the same time, stepping up shareholders' contributions for the delivery of technical and non-technical assistance to ODA and other countries.

The role of the Bank gains even more significance in the light of the prevailing uncertainty in financial markets. In this regard, the Bank can be a reference point for other organisations, especially in countries whose financial systems are still at an early stage of development and where there is a need to raise the level of corporate governance. The Bank's various equity holdings in the private sector of a number of countries of operations are an opportunity for it to transmit sound banking and business practices and good governance through its representation on the decision-making bodies of the enterprises it participates in. In this

context, we welcome the sizeable increase in the Bank's equity investments registered in 2007 and its continued efforts to bolster corporate governance standards in the countries of operations.

It is becoming increasingly recognised that while commercial enterprises should strive to achieve success in their business ventures they should also implement measures that are environmentally sustainable and socially responsible. We are pleased to see that the Bank has taken further steps to introduce more robust policy safeguards that take into account safety, health, social and labour considerations of the communities affected by its operations. We also welcome the remarkable increase in projects funded under the Sustainable Energy Initiative and in particular, the Bank's increased attention to renewable sources of energy.

The protection of the environment remains a priority and is an important factor in Malta's economic development and competitiveness. Malta is actively working with the private sector to improve energy efficiency and increase the proportion of energy needs that are met from renewable sources.

Malta will continue to support the Bank's efforts to promote structural reforms in the countries of operations. We firmly believe that an ambitious structural reform agenda is a necessary complement to the broader efforts by governments in countries of operations to deliver macroeconomic stability. A structural reform programme should be pursued irrespective of a country's timetable for EU accession.

I close by congratulating the management and staff of the Bank for the skill and commitment with which the Bank is being administered and I wish the institution continuing success in delivering its mission.