ANNUAL REPORT 2012

MFSA

Malta Financial Services Authority

MFSA

MALTA FINANCIAL SERVICES AUTHORITY

CONTENTS

CHAIRMAN'S STATEMENT

The Malta Financial Services Authority (MFSA) is pleased to present its report on its activities and operations in 2012. It was a year of further consolidation in Malta's standing as a successful, stable, skilled and reliable financial services economy. New direct intermediation jobs were created and a number of sub-sectors saw very marked growth. The great majority of businesses involved in finance continued to thrive and none of any significance in terms of jobs, activity or turnover ceased to exist. The overwhelming majority of businesses operated to the very high standards expected in Malta. Those that fell short were handled with full impartiality and fair penalties imposed as appropriate to each case.

The troubles of the global economy saw the number of new companies registered with The Registry of Companies down on 2011, which was a record year. However, 2,869 new companies were registered in 2012; a figure exceeded only three times in the past twelve years.

I have little doubt that Malta's political, economic and regulatory stability has taken on greater importance to the continuing growth of the finance industry than prior to the financial crises of 2008. Evidence for the blue chip nature of Malta's offering can be found in the European Central Bank announcement of January 2013 that showed that in 2012 Malta recorded the largest increase in monetary financial institutions [MFIs] of any EU nation; up 3%. This growth was against an overall decline of 6% in the number of MFIs in the EU.

The World Economic Forum's [WEF] global competitive index once again confirmed Malta's position as a premier division finance economy. It rated Malta's banking sector as the 12th "soundest" in the world and put the country at No 15 for financial market development. The EU awarded Malta first place for the implementing of Internal Market Directives into law. Such recognition from the WEF and the EU serve the very important purpose of providing independent and authoritative third party endorsement of Malta's standing in global finance and confirm to foreign investors, political and media observers Malta's wholly progressive compliance in legal and regulatory affairs and its nimbleness and attractiveness in a highly competitive and demanding marketplace.

Throughout 2012, the MFSA continued to play a core role in disseminating information to consumers, media and the industry, support industry education and training programmes, conduct seminars and meetings on legal, technical and regulatory developments, contribute to the framing of national and EU-wide technical policy development and exchange views and experiences with other national and international regulatory and supervisory bodies. To give just one example of these activities, the MFSA invited the European Insurance and Occupational Pensions Authority to take part in a joint seminar in Malta, which was open to supervisors from other EU jurisdictions and directors of insurance companies licensed by the MFSA. The pensions sector is still young in Malta and this type of seminar provides invaluable guidance to Maltese providers building businesses.

As was to be expected once the new EU-wide regulatory structure came into being in 2011, the full effect of the new regime was felt by the MFSA in 2012, with substantial amounts of time and human resource being deployed.

The new MFSA organisational structure, introduced at the start of 2012, has improved our ability to manage the additional load implications of the pan-EU supervisory regime. However, the main objective of the reorganisation was to underpin the Authority's ability to better identify risk across disciplines and across licensed sectors and entities. First year progress has been good and has provided a higher quality of service to the public and fee payers. The changes have significantly strengthened the Authority's senior executive team.

On the non-EU stage an important development was the signing of a Memoranda of Understanding with the Qatar Financial Centre Regulatory Authority [QFCRA]. Qatar has emerged in the past fifteen years as a global investor in blue chip assets and an ever more important regional political power in the Middle East and North Africa. The country also has one of the world's most advanced economic development strategies. It aims to keep Qatar an affluent and even more highly advanced economy in a post fossil fuel world. We look forward to a long relationship with the QFCRA.

The Authority is fully engaged with the Government of Malta, other public institutions and international organisations and regulatory bodies in continuing to improve mechanisms to help safeguard financial sector stability in the country. That work includes strengthening consumer protection measures.

The MFSA has been an international leader in the field of consumer financial education. As a result, Malta can match some of the world's largest economies in the quality and depth of activities that give the consumer the tools to make better informed decisions about financial products. Now, and in line with the commitment we have given to the International Monetary Fund, [IMF] we are developing a "blueprint" for further consumer protection actions. Consumer protection differs from consumer advice in that protection seeks to give the consumer a system that puts greater onus on the seller of financial products to be clear and accurate and enhances the consumer's ability to seek redress in the event of dispute. In line with the IMF's recommendations, it is likely that the MFSA will emerge with a more robust set of legal powers in consumer protection.

Work began on the "blueprint" in 2012. We aim to have completed consultations with all interested parties by the end of 2013 and have obtained trusted advice on best practise around Europe and on what will most suit Malta's needs. We will listen to all voices and take advice from all expert quarters. We have embarked on a necessarily complex road that has implications for future consumer and investor confidence, finance industry costs and Malta's competitiveness and reputation. We aim to complete the work as fast as the complexities allow and to have a preferred option ready for publication in 2014.

At the national economic safeguarding level, the MFSA worked throughout 2012 in tandem with The Central Bank of Malta to prepare for the announcement in early 2013 of the creation of a Joint Financial Stability Board. The central objective of the Board is to improve the ability of both organisations to better understand the factors that constitute systemic risk and thus take actions to reduce or eliminate risk where it is found.

2012 was an extremely difficult and uncertain year for the global economy. Growth was modest or absent in many parts of the world as governments slashed public spending to cut deficits and printed money to try and encourage private sector investment and consumer spending. Banks in many economies remained cautious about lending to business and numerous large companies, of the type that often drive global growth through their expansion and investment strategies, continued to build cash reserves or return money to shareholders. In more normal times such behaviour can be a sign of success, though the strongest motivation for recent practice appears to be insufficient confidence to take even the most modest risks. Confidence was further eroded by conflicts and political unrest in various parts of the world.

Amid much gloom there were a number of encouraging and welcome events. Malta itself was proportionately less damaged by the troubles of the global economy than many of its neighbours in and beyond the Eurozone. Perhaps most importantly, the huge increases in the number of young unemployed that has plagued countries across the EU and sapped the hope and ambition of millions of young people has been so far avoided in Malta. From the beginning of 2012, the US economy began to grow and the inevitable political and economic uncertainty that characterises every US presidential year ended with the emphatic re-election of President Obama. In Europe, the EU's political leaders pulled together to bring structure and direction to the crisis of the Euro that was threatening a further great shock to the global economic system, though the Eurozone's troubles are far from over.

While the global economy at the end of 2012 continued to be as fragile as it was at the end of 2011, further shocks to the world economic system cannot be ruled out. As the year closed, some small signs of limited recovery in Europe were apparent, though it will need two or three quarters of sustained growth, particularly in Germany, the UK and Japan and an uplift in US and Chinese output to be fully confident of global recovery.

The consequences for Malta of the global crash in 2008 can now be seen much more clearly than in the years immediately following the downturn. We have adapted well to the new EU regulatory structures and maintained our ability to attract foreign investment in financial services. The industry in Malta has become increasingly international in its markets and products. Our reputation for probity and stability remains in good repair. However, we do face some a number of serious challenges.

The Eurozone crisis combined with the global financial crisis and the subsequent political fissures that have opened up in the EU have created two political Europes and almost certainly two distinct economic blocks will exist inside the EU; those with policies driven by Euro membership and those with interests driven by the demands of their own national currencies. While the Internal Market should continue to function as before, the differing needs of each bloc may well see circumstances arise that begin to distort the level playing field that is the current Single Market.

The UK, which is still the world's biggest financial services economy, greatly fears that the Eurozone will act to boost its competiveness in finance at the expense of London. It too has also re-formulated its regulatory machinery and the focus will be very much on keeping the UK at the top of global finance. To complicate matters further, the USA's new regulatory policies and procedures pose their own behavioural challenges to firms in the global market. The BRIC nations are a growing voice in global financial regulation and southern Africa looks to be steadily emerging as a region of long-term financial importance. We are entering a much more complicated world.

Navigating Malta's way through the next five or more years will require a great deal of cooperation between the MFSA, the government, the Central Bank, the industry and all other parties that want to ensure that we can continue to benefit from an expanding finance sector. We also have to build on our reputation for dependability, skill and expertise in a stable environment. We need to demonstrate to the world that Malta adds value, that what its finance industry does here not only benefits Malta but also benefits the wider world by building capital and assets that help to fuel growth, jobs and recovery in many places.

Away from our shores, finance and its reputation have been badly bruised in recent years and the tax arrangements revealed about some very big multi-national businesses have damaged earnings and corporate reputation. Politicians are responding to public pressure with new legislation and tougher tax codes. The finance industry is perceived to be at the centre of this global reputational storm. The industry is important to Malta's economic future and its global standing. We have to reappraise our positioning and look to put more work into protecting and enhancing our reputation. We should also ensure that our many business, media and public sector friends around the world are kept well informed about Malta and its finance sector.

Malta's finance industry has built a solid mass of skills, knowledge and products. We have a proven regulatory system and a trusted legal system. These are all essential pillars of our national success, but above all is the political consensus between the political parties. In a very uncertain world this is the element that businesses and investors most value.

I want to thank the Governors for all that they did during 2012 to serve the MFSA and the nation. I take great pleasure in continuing to work with them. They all have real independence of thought, sharp intellectual capabilities and a real desire to do the right thing in all circumstances.

The staff at the MFSA performed diligently and professionally throughout the year and stayed resourceful and focussed at all times. I am as always grateful for their enthusiasm, knowledge, dedication and expertise.

JV Bannister

J V Bannister

THE AUTHORITY

BOARD OF GOVERNORS

FRONT ROW LEFT TO RIGHT:
Dr. David Fabri,
Prof. Joe V. Bannister,
Prof. Josef Bonnici

BACK ROW LEFT TO RIGHT:
Mr. Frank Xerri de Caro,
Dr. Louise Ellul Cachia Caruana,
Dr Anton Felice,
Dr. Cynthia Scerri Debono,
Mr. Albert A. Attard

CHAIRMAN
Prof. Joe V. Bannister, B.Sc, M.Sc, D.Phil (Oxon)

MEMBERS
Mr. Albert A. Attard
Prof. Josef Bonnici, B.A.(Hons.), M.A., Ph.D.
Dr. Louise Ellul Cachia Caruana, LL.D, M.A (Fin. Serv.)
Dr. Anton Felice LL.D
Dr. Cynthia Scerri Debono, LL.D
Mr. Frank Xerri de Caro, ACIB

SECRETARY
Dr. David Fabri LL.D

The Board of Governors is also the Listing Authority for the purpose of the Financial Markets Act.

SUPERVISORY COUNCIL

CHAIRMAN
Dr. Andre Camilleri LL.D, Dip. Econ. & Ind. Law
Director General

MEMBERS
Dr. Marisa Attard LL.D, ACII
Director – Insurance and Pensions Supervision Unit

Mr. Mike Duignan
Director – Securities and Markets Supervision Unit

Mr. Karol Gabarretta B.A (Hons.) Econ., M.A (Fin. Serv.)
Director – Banking Supervision Unit

Ms. Marianne Scicluna B.A (Hons.) Bnkg. & Finance, M.Sc (Fin. Reg. & Compliance Mngt.)
Director – Authorisation Unit

Dr. Michael Xuereb LL.D, M.A (Fin. Serv.)
Director – Regulatory Development Unit

SECRETARY
Dr. Sarah Pulis B.A. Legal & Humanistic Studies, Dip. Not. Pub., LLM (EU Law) (Leicester), LL.D

BOARD OF MANAGEMENT AND RESOURCES

CHAIRMAN
Mr. Joseph Demanuele FCCA, FIA, CPA
Chief Operations Officer

MEMBERS
Mr. Robert Aquilina DPA, MBA
Head – Communications Unit

Mr. Godfrey Farrugia (up to October 2012)
Deputy Director – Information and Communication Technologies Unit

Ms. Anne Marie Tabone B.A Hons, Accty. FIA, CPA (from November 2012)
Director – Finance & Risk Management Unit

Mr. Paul Vella B.A (Hons.) Bs. Mgt.
Director – Human Resources Development Unit (up to September 2012)

Mr. George Spiteri Dip. Social Studies (Industrial Relations), MSc. in Training and HR Mgt. (University of Leicester)
Head – Human Resources Development Unit (from September 2012)

Mr. Charles Zammit DBA, FCMI, FAIA.
Director – Administration Unit

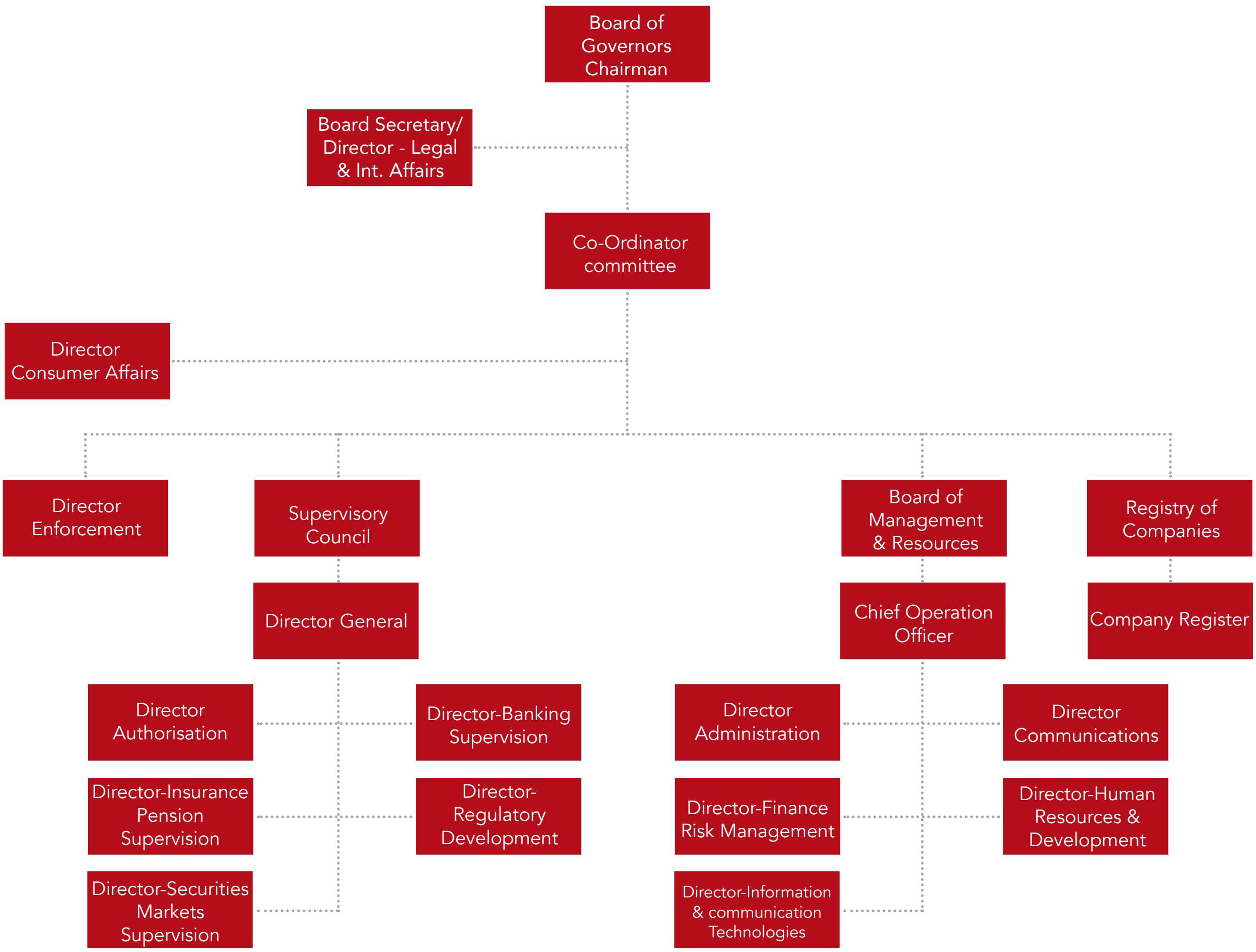
SECRETARY
Mr. Colin Mcelhatton B.Sc (Hons), IS & Management (London)

ORGANISATION

The Malta Financial Services Authority (MFSA) was established by law in 2002. The Authority is the single regulator for the financial services sector which includes credit and financial institutions, securities and investment services companies, recognised investment exchanges, insurance companies, insurance intermediaries, pension schemes and trustees. The MFSA also incorporates the Registry of Companies and is responsible for the admissibility to listing on recognised investment exchanges.

The MFSA is an autonomous body constituted by the Malta Financial Services Authority Act (Cap. 330), and reports annually to Parliament. The main organs (Chart 1) are the Board of Governors, which is appointed by the Prime Minister, the Supervisory Council and the Board of Management and Resources. The three organs are co-ordinated through a Co-ordination Committee.

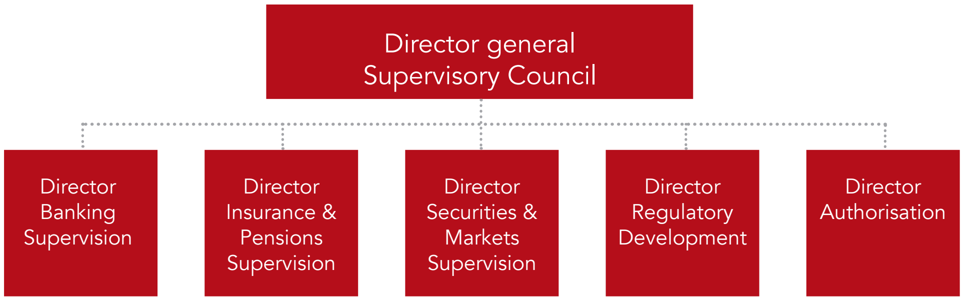
CHART 1: MFSA ORGANISATION CHART



The Legal and International Affairs Office is one of the statutory organs of the Authority and some of its primary functions are set out in the Act. These include the provision of legal advice and assistance to all the organs of the Authority. In addition to serving as secretary to the Board of Governors and the Co-ordination Committee and providing assistance to the various Units within the Authority, the Unit is also responsible for co-ordinating all legal international affairs.

CHART 2: COMPOSITION OF THE CO-ORDINATION COMMITTEE

CHART 3: THE SUPERVISORY COUNCIL



BANKING SUPERVISION UNIT:
responsible for the supervision of credit and financial institutions.

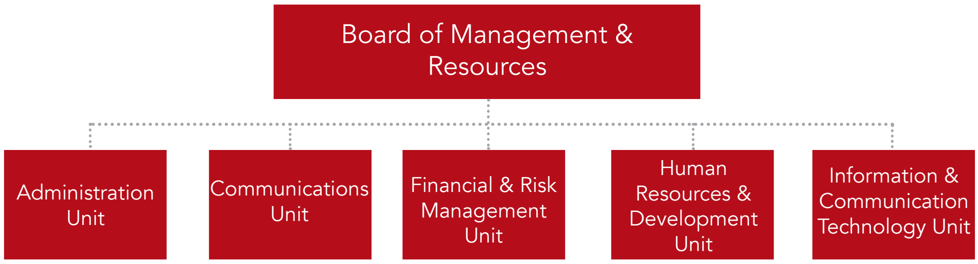
INSURANCE AND PENSIONS SUPERVISION UNIT:
responsible for the supervision of insurance companies, insurance intermediaries, insurance management companies and pension schemes.

SECURITIES AND MARKETS SUPERVISION UNIT:
responsible for the supervision of investment services companies, collective investment schemes, fund management and related fund services operations, admissibility to listing on recognised investment exchanges, trustees and oversight of financial markets.

REGULATORY DEVELOPMENT UNIT:
responsible for the implementation of cross-sectoral policies and regulatory developments.

AUTHORISATION UNIT:
responsible for licensing of all financial services entities.

CHART 4: COMPOSITION OF THE BOARD OF MANAGEMENT & RESOURCES



ADMINISTRATION UNIT:

The Unit has now been separated from the Finance & Administration Unit so that more focus and attention will be given to the administrative function of the Authority. This Unit has responsibility for the day-to-day administrative functions including upkeep and maintenance of the premises, transport and logistics, security within the premises and other related matters.

COMMUNICATIONS UNIT:

The Unit's remit encompasses the functions for both information and public relations together with the provision of logistical support for events. It is also responsible for the preparation of corporate publications and for the development and maintenance of the Authority's internet and intranet site.

FINANCE & RISK MANAGEMENT UNIT:

The unit oversees and manages the finances of the Authority and is a support unit for all the regulatory and operational units. It prepares financial budgets and produces monthly management information. It sets, monitors and improves the operation of the MFSA's financial control framework ensuring compliance with policies and controls. The team is responsible for the collection of fees, payments to suppliers, computation of payroll together with timely submission of financial statistics and information required by the Ministry of Finance, Board of Governors as well as other Government bodies. Co-ordinates with the Statutory Auditors, the annual audit of the Authority's Financial Statements drawn up in compliance with International Financial Reporting Standards. As part of the recent restructuring of this Unit, the functions also include the responsibility for the development of a risk management framework for the operational functions of the organisation.

HUMAN RESOURCES AND DEVELOPMENT UNIT:

The Unit is responsible for employee welfare and personnel development through training and other initiatives. The Unit is also responsible for identifying training needs in the financial services sector and for developing, creating and implementing training programmes in conjunction with the relevant professional training bodies and academic institutions.

INFORMATION AND COMMUNICATION TECHNOLOGIES UNIT:

The Unit provides operational support to the other units and is responsible for managing the Authority's resources efficiently and supporting the overall business strategy. This is achieved with the provision of reliable ICT services; systems and technology, enabling the MFSA to maximise the value of its information and knowledge whereby working with a mixture of in-house and outsourced technology suppliers. Recently, the unit has also been assigned with a new remit to provide information security analysis to the Regulatory Units.

THE ENFORCEMENT UNIT

The Enforcement Unit is responsible for reviewing the actions and where necessary conducting investigations of licence holders who have or are suspected of having committed serious compliance failures, serious misconduct, market abuse, breach of listing rules or any other serious breaches of the law.

REGISTRY OF COMPANIES

The MFSA also houses the Registry of Companies. All registered information and documentation including company accounts and annual returns are publicly available. The Registrar of Companies is appointed in terms of the Companies Act and is entrusted with ensuring compliance with the provisions of the Act.

LISTING COMMITTEE

The Listing Committee is appointed by the Board of Governors in terms of Article 14 of the Financial Markets Act (Cap. 345). In accordance with the Listing Rules, the Listing Committee is responsible for scrutinising applications prior to admission to listing and ensuring compliance with Listing Rules. The Listing Committee is chaired by Mr David Pullicino and has as members Mr Albert Attard, Mr Saviour Briffa, Dr Andre Camilleri and Mr Paul Spiteri.

CONSUMER AFFAIRS

The Consumer Complaints Unit investigates complaints from private consumers arising out of any financial services transaction. The Consumer Complaints Manager is directly responsible to the Board but, where appropriate, cases may be referred to the Supervisory Council. The Unit is also responsible for consumer awareness and education.

THE EDUCATION CONSULTATIVE COUNCIL (ECC)

The terms of reference of the ECC include co-ordination and information sharing on matters related to training and career development for current and prospective employees within the financial services sector including all employees of the Authority. The ECC provides input to the Authority on matters related to training and career development within the sector and co-ordinates initiatives aimed towards filling of skills gaps that may be identified within the sector from time to time.

The ECC is chaired by Professor Charles J. Farrugia. It includes representation from the Human Resources Development Unit of the Authority, which also provides secretarial support, the Malta College of Arts Science and Technology (MCAST), the Guidance and Counselling Unit within the Department of Education, the Malta International Training Centre (MITC), the Institute of Financial Services Practitioners (IFSP), the Institute of Legal Studies (ILS), the Institute of Financial Services – Malta (IFS), and the Malta Institute of Accountants.

CORPORATE SOCIAL RESPONSIBILITY

The Authority also continued providing financial support to the Fondazzjoni Patrimonju Malti. The Children's Foundation established by the Authority in 2008 continued providing support to underprivileged children. The Board of the Foundation is composed of Mrs Sonia Camilleri as Chairperson, Mr Marcel Pisani, Ms Josephine Baldacchino, Mr George Spiteri, and Mr Robert Aquilina. Ms Nathalie Farrugia acts as Secretary to the Board.

MARKET OVERVIEW

Global economic recovery continued to prove elusive and was characterised by multi-speed recoveries with advanced economies suffering from setbacks as emerging economies experiencing modest economic upturns. A similar scenario persisted within European Union impeding progress towards economic stability within the bloc.

European Central Bank (ECB) policies sought to decouple sovereign and banking risk and restore market confidence within the Euro Area. The ECB continued calling for deficit reduction plans to be stepped up and unveiled a new bond-buying plan known as Outright Monetary Transactions aimed at easing the Eurozone's debt crisis. This announcement together with the ECB's pledge to do "whatever it takes" to preserve the Euro eased default concerns in peripheral Euro economies leading to a reduction in liquidity pressures within the European financial system.

Against this background Malta continued to maintain a high degree of financial stability and avoided many of the difficulties experienced by some other Euro countries. The Maltese economy did though face significant challenges during the year with some sectors lagging behind in terms of growth. Initially the Maltese economy suffered from weakened economic activity for two consecutive quarters with Malta officially entering into recession in first quarter of 2012. The economy started recovering in the following quarters, registering positive economic growth and outpacing that of other Euro Area member states by the end of the year.

Notwithstanding these disturbances in the Eurozone, Malta's financial services sector remained buoyant, contributing significantly towards the overall recovery. New licences were issued in all areas with electronic money and payment services, investment services and pension fund activity registering above average rates of growth. Growth was also registered in non-life insurance business and trustee services.

In the World Economic Forum's Global Competitive Index 2012-2013 Malta retained 15th position, out of 144 countries, in terms of financial market development, also ranking 12th in terms of bank soundness.

BANKING

GENERAL OVERVIEW

The Maltese banking sector remained resilient due to its strong capital base and bank liquidity. In light of the changing economic and financial environment, the banking sector will however continue to face challenges particularly with respect to tougher regulation and higher capital requirements.

BANKING SECTOR IN MALTA

The banking sector in Malta consists of 27 credit institutions and a branch of an EU bank which operates in Malta through the freedom of establishment. Three institutions are majority Maltese owned while 24 institutions are foreign owned. Of the 24 foreign owned institutions, eleven are subsidiaries of EU institutions, one is a subsidiary of a non-EU institution, and another two are branches of non-EU institutions.

Credit Institutions are classified as *'core domestic banks'*, *'non-core domestic banks'*, or *'other banks'*.[1] The sub-classification *'core domestic banks'* denotes institutions which have strong links with the domestic economy. These banks have a widespread branch network, provide a full spectrum of banking services and are core providers of credit and deposit services in Malta.[2] The *"non-core domestic banks"* are institutions which have a more restricted role in the domestic economy, since the volume of operations and the banking services they offer to residents are rather limited.[3] The third sub-classification *"Other banks"* denotes institutions which are essentially of an international nature.[4]

For the purposes of the following sections, unless otherwise stated, the term "aggregate banking sector" comprises all credit institutions licensed by the MFSA irrespective of this classification, and also includes the only foreign branch which operates in Malta through the freedom of establishment.

The figures available with respect to the volume and segmentation of business for 2012 reproduced below were collated from various statistical returns in hand at the time of presentation of this report and may be subject to certain updates once the audited data is received.

[1] Methodology on the classification of banks can be found in the following document:
http://www.centralbankmalta.org/updates/Downloads/pdfs/FSR_2011.pdf

[2] The 'core domestic banks' are made up of APS Bank Ltd, Banif Bank (Malta) plc, Bank of Valletta plc, HSBC Bank Malta plc, and Lombard Bank Malta plc.

[3] The 'non-core domestic banks' consists of BAWAG Malta Bank Ltd, Credit Europe Bank N.V. (Branch Malta), FIMBank plc, IIG Bank (Malta) Ltd, Izola Bank plc, Mediterranean Bank plc, Sparkasse Bank Malta plc, and Volksbank Malta Limited.

[4] 'Other banks' comprises Akbank T.A.S., CommBank Europe Limited, Deutsche Bank (Malta) Limited, Erste Bank (Malta) Limited, FCM Bank Limited, Fortis Bank Malta Ltd, Investkredit International Bank plc, NBG Bank Malta Limited, Nemea Bank Ltd, Raiffeisen Malta Bank plc, Saadgroup Bank Europe Limited, Turkiye Garanti Bankasi AS, and VoiceCash Bank Limited.

CAPITAL REQUIREMENTS RATIO

The capital requirements ratio of the aggregate banking sector[5], expressed as the percentage of the aggregate banks' total own funds to their total risk-weighted assets, fell from 57.48 per cent in 2011 to 53.66 per cent in 2012. The risk weighted assets increased at a faster pace than the total own funds, which have pushed down the ratio by 3.8 percentage points from the previous year.

The capital requirements ratio of the core domestic banks increased by 0.78 percentage points, from 13.51 per cent in 2011 to 14.29 per cent in 2012. The ratio has increased by 0.49 percentage points over the period 2010 – 2011. In contrast, the ratio of other banks declined significantly by 15.7 percentage points. This was mainly due to a decline of almost 0.8 per cent in the total own funds and an increase of around 14 per cent in the total risk-weighted assets over the period 2011 – 2012. The capital requirements ratio of the non-core domestic banks has increased slightly (by 0.14 percentage points) over the period 2011 - 2012.

Table 1 presents the capital requirements ratio of the three categories of banks for the period 2010 – 2012.

Table 1: Capital requirements ratio and ratio of original own funds to risk-weighted assets (2010 – 2012).

		2010	2011	2012
Capital requirements ratio (%)	Core Domestic Banks	13.02	13.51	14.29
	Non-Core Domestic Banks	29.52	28.94	29.08
	Other Banks	104.7	119.22	103.52
	Aggregate Banking Sector	54.69	57.48	53.66
Original own funds to risk-weighted assets (%)	Core Domestic Banks	9.26	9.53	10.27
	Non-Core Domestic Banks	27.87	27.46	25.97
	Other Banks	103.14	118.02	103.03
	Aggregate Banking Sector	52.13	54.92	51.25

Source: Malta Financial Services Authority

In the aggregate banking sector, the original own funds expressed as a percentage of risk-weighted assets also declined from the previous year, from 54.92 per cent in 2011 to 51.25 per cent in 2012. While the ratio of the core domestic banks has gone up by 0.74 percentage points over the same period, it fell for the non-core domestic banks and other banks by almost 1.5 and 15 percentage points respectively.

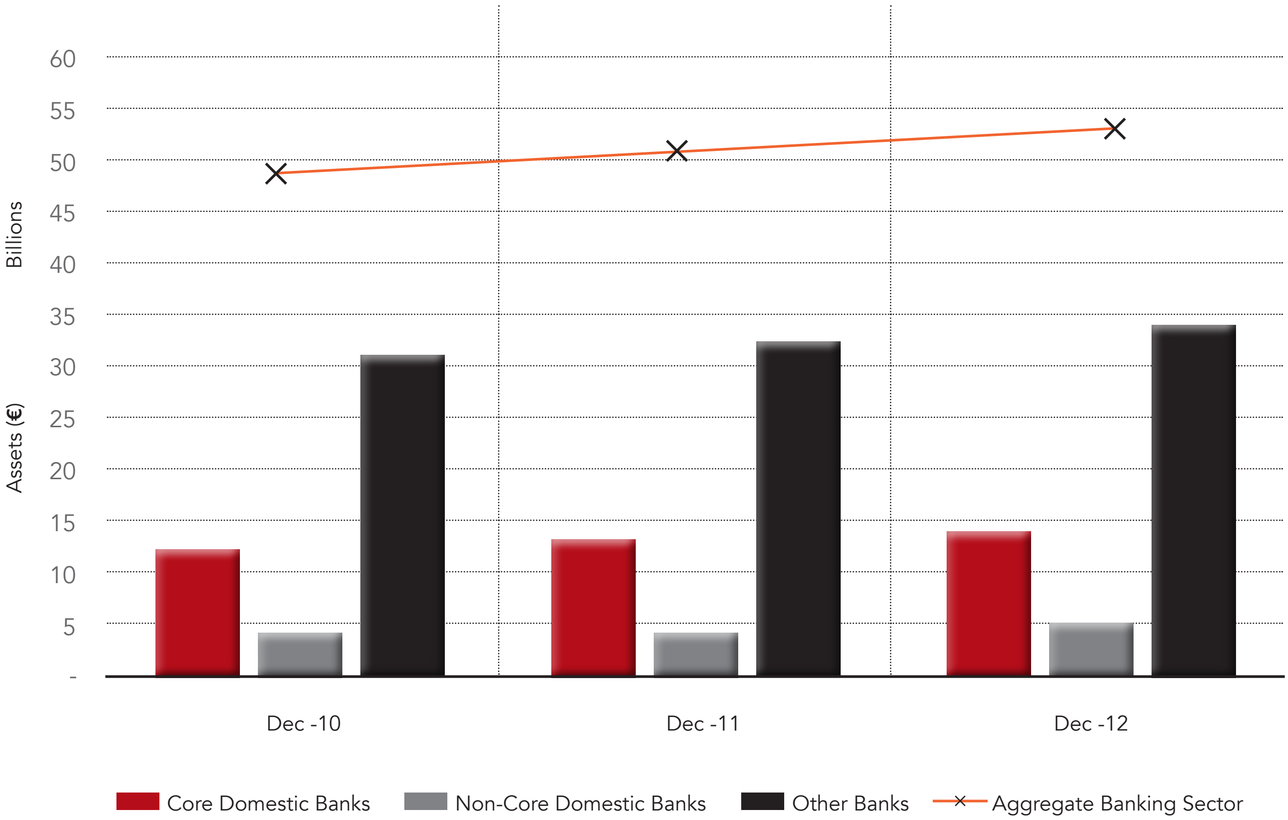
[5] Foreign branches which operate in Malta are not required to calculate the capital requirements and consequently are not included in this analysis.

BANK ASSETS

Assets of the aggregate banking sector in Malta expanded by 4.3 per cent (or €2.2 billion) over the period 2011 – 2012, from €50.7 billion in 2011 to €52.9 billion in 2012. The assets of the core domestic banks reached €14.4 billion in 2012, an increase of almost €0.5 billion, or three per cent, from the previous year. Over the same period, assets of the non-core banks and other banks went up by six per cent and 4.4 per cent respectively.

Chart 5 depicts the assets of the aggregate banking sector and the three categories of banks for the period 2010 – 2012.

CHART 5: BANK ASSETS (2010 - 2012)



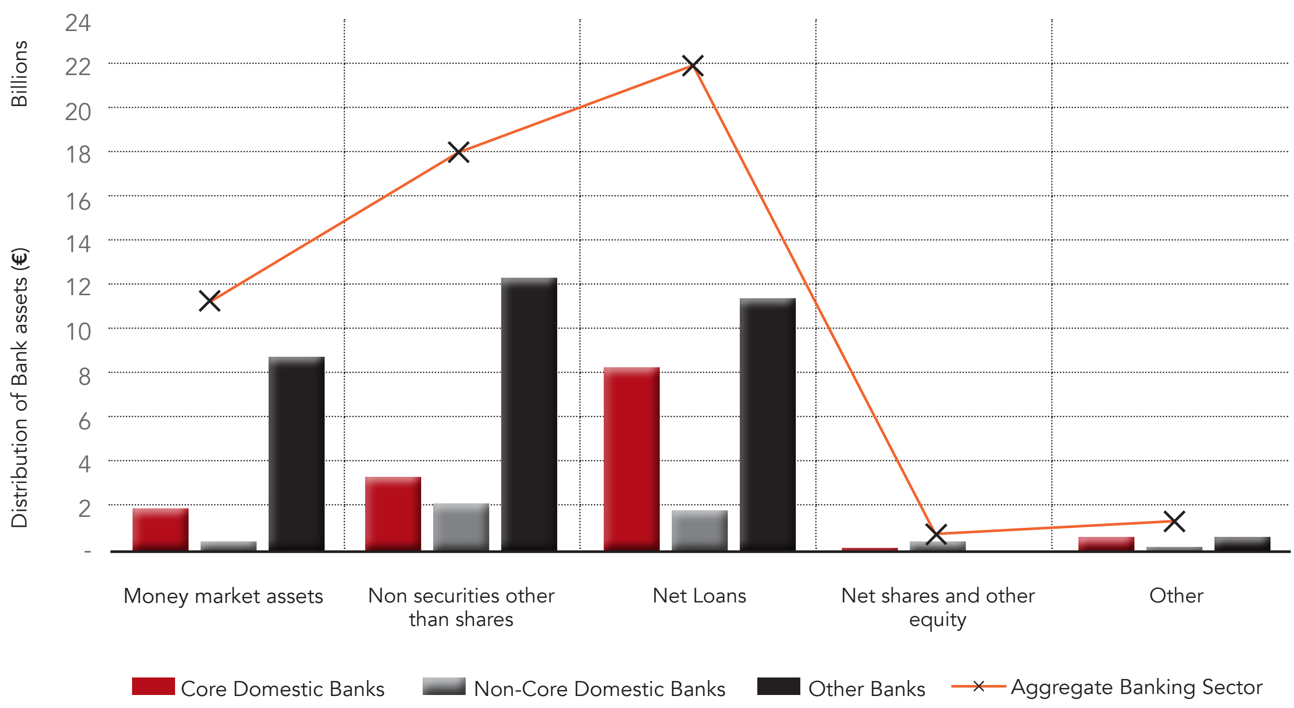
Source: Malta Financial Services Authority

DISTRIBUTION OF BANK ASSETS

'Net loans' contributed 41 per cent of the total assets of the aggregate banking sector in 2012, followed by 'net securities other than shares' and 'money market assets' at 34 per cent and 22 per cent respectively in 2012. 'Net loans' was also the largest contributors to total assets for core domestic banks with a share of 57 per cent. 'Net securities other than shares' and 'money market assets' followed at 23 per cent and 14 per cent respectively.

Chart 6 illustrates the distribution of assets of the aggregate banking sector against the three categories of banks in Malta.

CHART 6: DISTRIBUTION OF ASSETS (2012)



Source: Malta Financial Services Authority

LOANS AND ADVANCES BY SECTOR

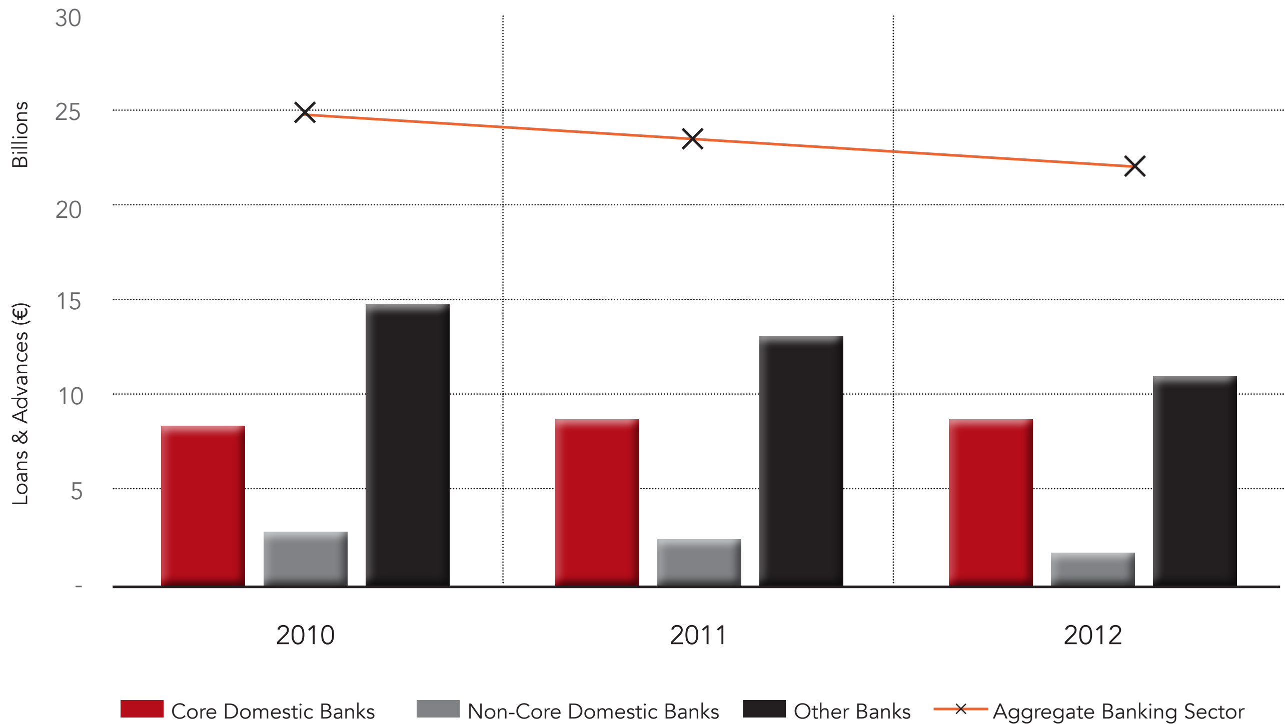
Loans and advances in the aggregate banking sector continued to decline in 2012, from €23.2 billion in 2011 to €21.4 billion in 2012. This represents a fall of 7.5 per cent or over €1.7 billion. Loans and advances started to decline in 2009 after they had reached almost €31 billion in 2008, the highest level ever touched.

While the core domestic banks reported a slight increase of almost two per cent at the end of 2012, non-core banks and other banks registered a decline of nearly 29 per cent and 10 per cent respectively over the same period. Chart 7 illustrates a three year period analysis of loans and advances of the three categories of banks against the aggregate banking sector.

A sectoral analysis of lending by the core domestic banks in 2012 indicates that lending to 'households and individuals' totalled €3.9 billion or almost 46 per cent of the total lending by the core domestic banks. About 11 per cent were advanced to the 'construction' sector while about nine per cent of lending went to 'Wholesale and retail trade, repair of motor vehicles and the motor cycles' sectors.

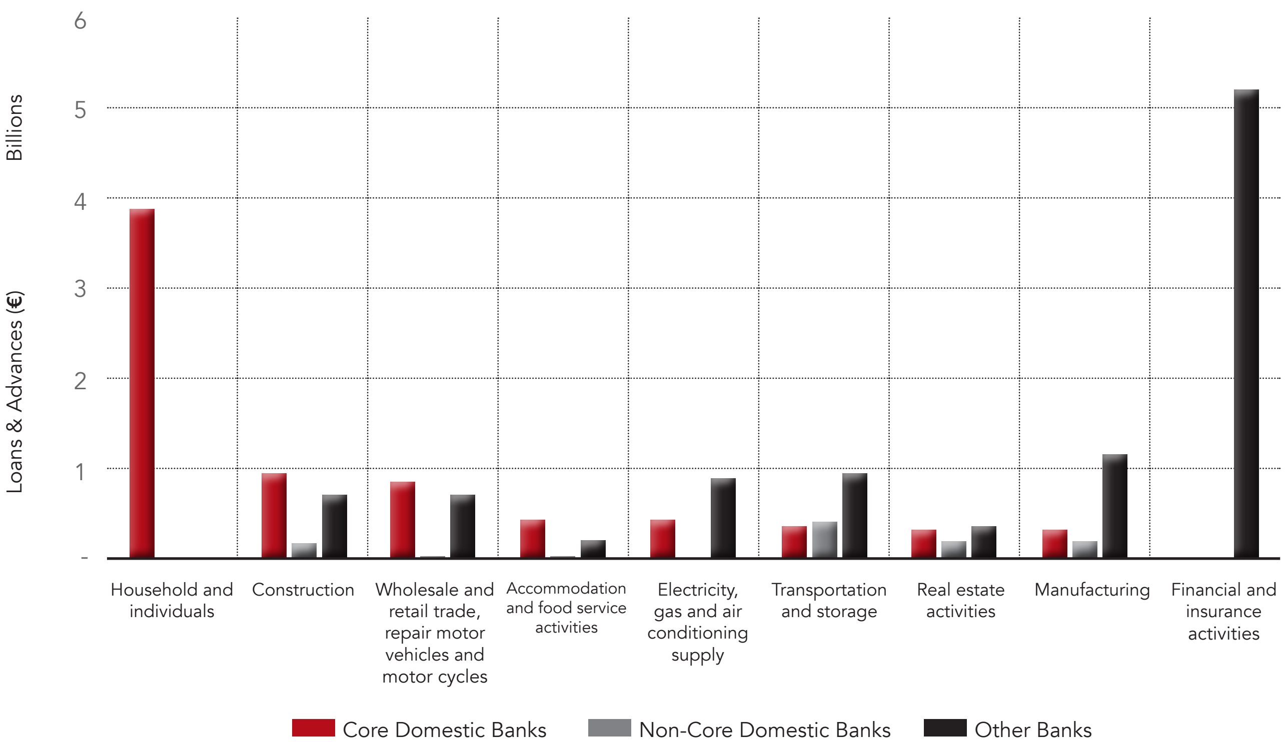
The 'financial and insurance' sector attracted the largest share (46 per cent) of lending in the "other banks" category in 2012. For the same category this was followed by the 'manufacturing' sector and 'transportation and storage' sector at 10.7 per cent and 7.8 per cent respectively. See Chart 8.

CHART 7: LOANS AND ADVANCES (2010 - 2012)



Source: Malta Financial Services Authority

CHART 8: LOANS AND ADVANCES - TOP NINE SECTORS (2012)

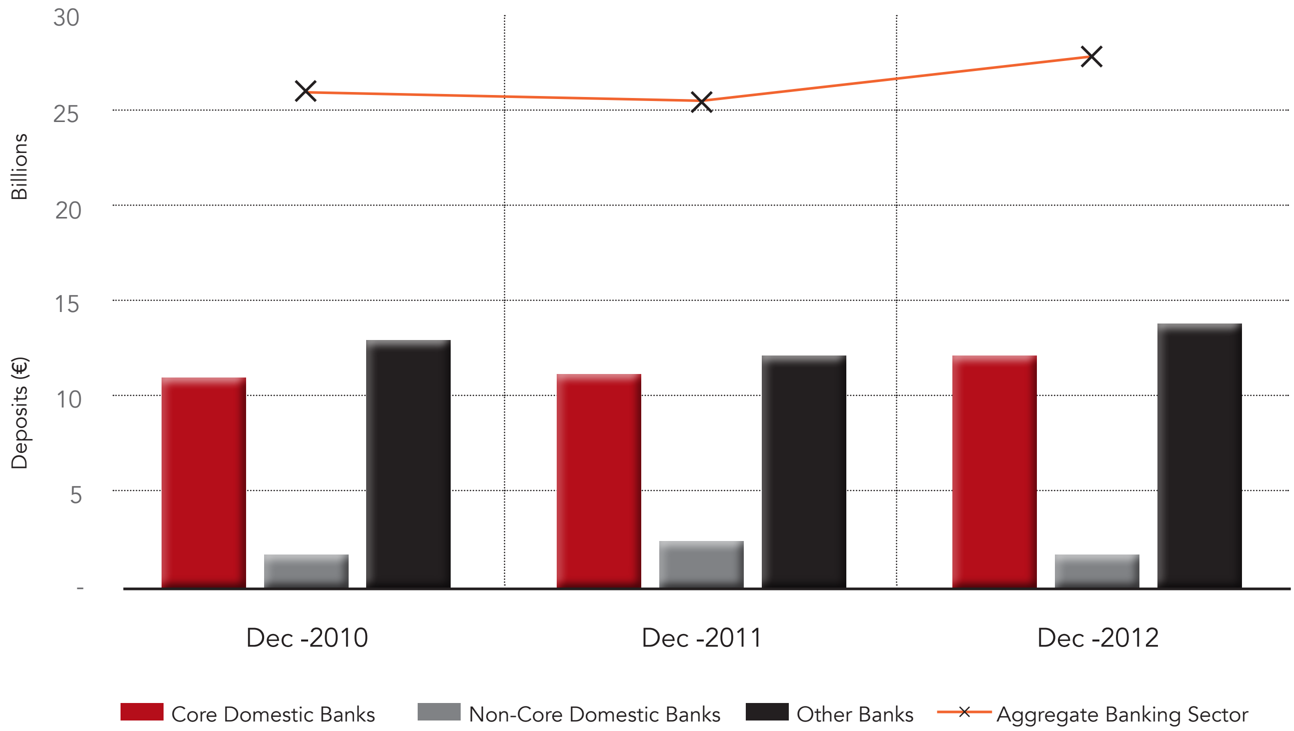


Source: Malta Financial Services Authority

BANK DEPOSITS

Bank deposits in the aggregate banking sector totalled €27.4 billion or almost 52 per cent of the total assets in 2012. Deposits increased by over seven per cent (or almost two billion euro) in 2012 from the previous year after they had fallen by almost two per cent the previous year.

CHART 9: BANK DEPOSITS (2010 - 2012)



Source: Malta Financial Services Authority

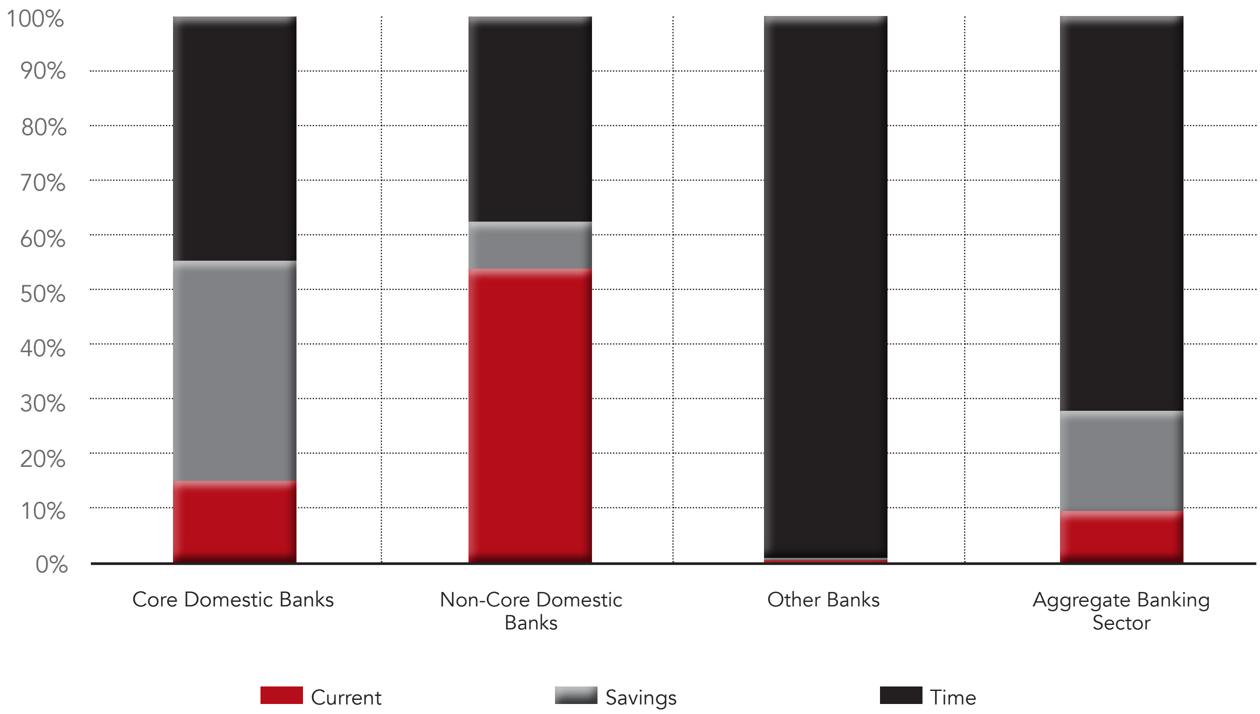
Deposits of the core domestic banks continued to grow in 2012 as these banks continue to use customer deposits to fund their assets. Deposits of the core domestic banks jumped from €11.5 billion in 2011 to €12.1 billion in 2012, an increase of over five per cent or €0.6 billion. Non-core banks saw the volume of deposits decline by 21 per cent or €0.4 billion in 2012 from the previous year while other banks recorded a growth of almost 14 per cent or €1.6 billion.

DISTRIBUTION OF BANK DEPOSITS

Time deposits were the most common type of deposits in the aggregate banking sector with a share of 72 per cent of the total deposits in 2012. Savings accounts and current accounts had a share of 19 per cent and nine per cent respectively.

Time deposits contributed also the largest share of deposits (45 per cent) of the core domestic banks, followed by savings accounts and current accounts at 41 per cent and 14 per cent respectively in 2012. Chart 10 presents the distributions of bank deposits of the aggregate banking sector and the three categories of banks in Malta.

CHART 10: DISTRIBUTION OF BANK DEPOSITS (2012)



Source: Malta Financial Services Authority

LENDING AND BORROWING

An analysis was carried out on the level of lending and borrowing by all credit institutions in Malta for year 2012.

About 30 per cent of the total placements and loans were advanced to Malta residents in 2012, an increase of one per cent over the previous year.

In 2012, 27 per cent of the borrowings and deposits in the aggregate banking sector came from Malta residents, the same share as the previous year.

BRANCH NETWORKS AND ELECTRONIC DELIVERY CHANNELS

There were 135 bank offices and over 200 ATMs spread throughout Malta in 2012. Over 13,000 Point of Sale (POS) terminals were distributed across the country while there were almost 800,000 payment cards reflecting the significant growth in non-cash payment instruments.

Table 2: Bank offices, ATMs, POS terminals, and payment cards in Malta (2010 – 2012).

	2010	2011	2012
Bank Offices	136	137	135
ATMs	185	195	216
POS terminals	11,984	12,516	13,010
Payment cards	689,679	737,143	797,896

Source: ECB, Malta Financial Services Authority

SECURITIES AND INVESTMENT SERVICES

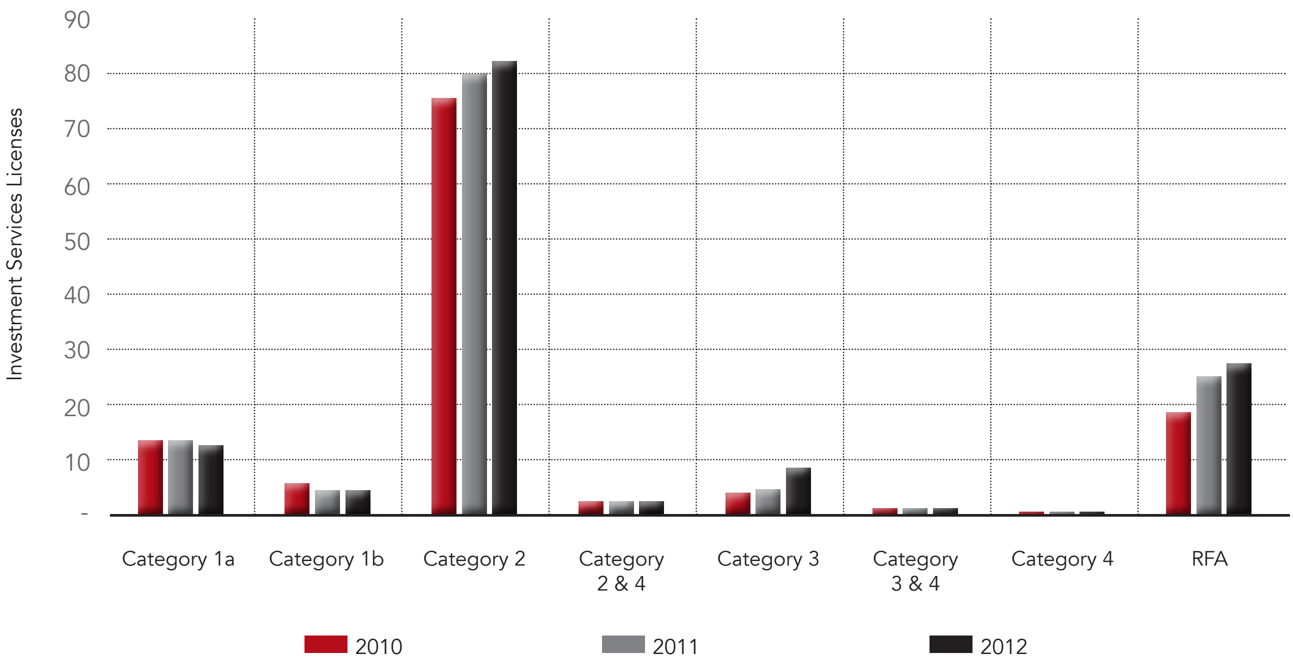
GENERAL OVERVIEW

The investment services sector continues to be one of the fastest growing financial sectors in Malta. The fund industry is maturing rapidly and attracting fund management activities that are becoming increasingly sophisticated. During this year Malta has seen an increase in the establishment of umbrella funds with different sub-funds set up for different clients. 2012 also saw the launch of a new vehicle that enables fund platform operators to offer a broad range of administrative services to fund clusters through the introduction of the Recognised Incorporated Cell Company (RICC). An RICC offers the ideal launch pad for fund platform providers offering specialised administrative services to a number of funds. With all the necessary infrastructure in place, the investment services sector is envisaged to continue expanding, serving not only the domestic market but also the international market

INVESTMENT SERVICES LICENCES

The fund services industry continued to expand in 2012 with the establishment of more service providers, particularly fund managers at Category 2 level. Ten new investment services companies were licensed by the Authority in 2012; eight companies at Category 2 and two at Category 3 level. As at end 2012, there were 113 investment service licences, a net increase of four licences over the previous year.

CHART 11: INVESTMENT SERVICES LICENCES (2010 - 2012)



Source: Malta Financial Services Authority

Moreover, two new recognised fund administrators were authorised by the Authority in 2012, bringing the total number of recognised fund administrators at 26 at the end of the year.

COLLECTIVE INVESTMENT SCHEME LICENCES

The Authority licensed 128 new Collective Investment Schemes (including sub-funds) in 2012, representing an increase of almost 19 per cent over 2010 but a decline of about 28 per cent from 2011. Of the new funds' licences issued in 2012, 117 were Professional Investor Funds (PIFs), nine UCITS funds, and two Retail Non-UCITS funds.

During the year, the Authority accepted the surrender of 81 Professional Investor Funds, 14 UCITS funds and one Non-UCITS fund.

Table 3: New Collective Investment Schemes (including sub-funds) (2010 – 2012).

	New in 2010	New in 2011	New in 2012	Total new licences (2004 - 2012)
PIFS	102	163	117	740
UCITIS	5	14	9	82
Retail Non - UCITIS	-	2	2	26
Private	1	-	0	3
Total	108	179	128	851

Source: Malta Financial Services Authority

Moreover, there were 144 non-Malta domiciled funds (including sub-funds) which were administered by Malta-based fund administration companies in 2012.

Figures available concerning the net asset value of a number of funds for year 2012 were still provisional at the time of presentation of this report and accordingly may be subject to revision.

NET ASSET VALUE OF LOCALLY BASED COLLECTIVE INVESTMENT SCHEMES

The aggregate net asset value of funds domiciled in Malta (PIFs, UCITS, and Retail Non-UCITS) increased by almost 17 per cent in 2012 over 2011; from €8.3 billion registered at the end of 2011 to almost €9.7 billion at the end of 2012. A number of new funds (including sub-funds) started delivering a net asset value during 2012 which mostly was the drive to the significant growth in the net asset value at the end of 2012.

CHART 12: NET ASSET VALUE OF MALTA DOMICILED FUNDS (2010 - 2012)

Source: Malta Financial Services Authority

The net asset value of Professional Investor Funds reached €6.5 billion in December 2012, representing an increase of nearly 12 per cent from the previous year. UCITS funds reported a surge of almost 40 per cent over the same period, reporting a net asset value of €2.3 billion at the end of 2012. The net asset value of Retail Non-UCITS funds increased from €0.8 billion in 2011 to €0.9 billion in 2012.

Bond funds were the best performers in 2012, gaining an increase of 88 per cent in the net asset value from 2011. Equity funds and hedge funds followed at almost 73 per cent and 62 per cent gains in the net asset value respectively over the same period. In contrast, money market funds registered net outflows in 2012 and reported a slight decline of 0.3 per cent in the net asset value at the end of 2012.

MANAGEMENT OF COLLECTIVE INVESTMENT SCHEMES

About 39 per cent of the Malta domiciled funds (including sub-funds) were managed by Malta-based fund managers in 2012, a marginal increase of almost one per cent over the previous year. About 45 per cent of the funds were managed from outside Malta, a decline of six per cent over the same period. 16 per cent of the funds (including sub-funds) were self-managed.

Table 4: Management of locally based investment funds (2011 – 2012)

	% number of funds (including sub-funds) as at end 2011	% number of funds (including sub-funds) as at end 2012
Self-managed	10.7	16.0
Managed in Malta	38.4	39.2
Managed from outside Malta	50.9	44.9

Source: Malta Financial Services Authority

ADMINISTRATION OF COLLECTIVE INVESTMENT SCHEMES

The percentage number of funds (including sub-funds) domiciled and administered in Malta was about 72 per cent at the end of 2012, an increase of almost one per cent from the previous year. Funds administered from outside Malta declined slightly by over one per cent, to stand at 28 per cent at the end of 2012. The share of self-administered funds (including sub-funds) remained unchanged from the previous year at 0.2 per cent.

Table 5: Administration of locally based investment funds (2011 – 2012)

	% number of funds (including sub-funds) as at end 2011	% number of funds (including sub-funds) as at end 2012
Self-administered	0.2	0.2
Administered in Malta	70.3	71.5
Administered from outside Malta	29.5	28.4

Source: Malta Financial Services Authority

NAV OF NON-MALTA DOMICILED FUNDS ADMINISTERED IN MALTA

The net asset value of non-Malta domiciled funds (including sub-funds) administered in Malta surged by over 21 per cent over the period 2011 – 2012, from €1.4 billion at the end of 2011 to €1.7 billion at the end of 2012.

Table 6: Net asset value of non-Malta domiciled funds (including sub-funds) administered in Malta (2010 - 2012)

	NAV of non-Malta domiciled funds administered in Malta
	Billion Euro
December 2010	0.9
December 2011	1.4
December 2012	1.7

Source: Malta Financial Services Authority

INSURANCE AND PENSIONS

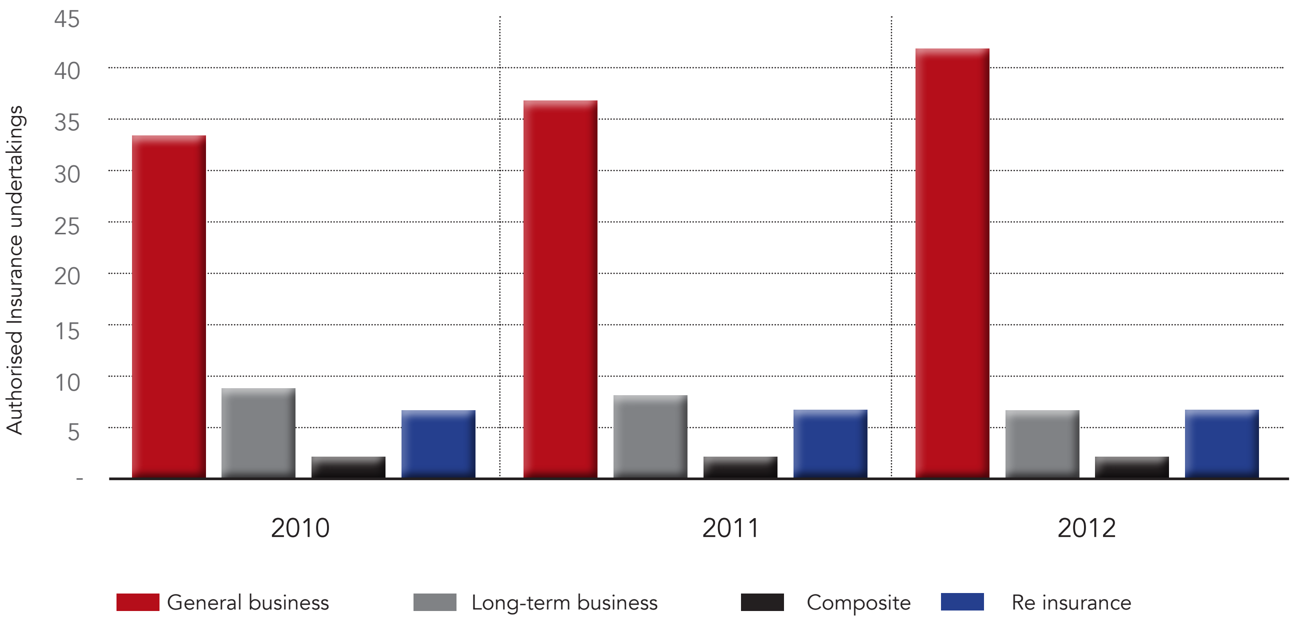
GENERAL OVERVIEW

Malta's insurance sector continued to grow as Malta's reputation for innovative financial services and products increased substantially over recent years. Growth has also been recorded in the retirement pensions sector with the registration of 5 new schemes during 2012.

THE INSURANCE SECTOR

The Maltese Insurance sector consists of 58 insurance undertakings authorised to carry out general or long-term business across all the EU Member States and other international markets. The Authority authorised five new insurance undertakings in 2012, all to carry out general business. In 2012, there were 42 insurance undertakings authorised to carry out general business, seven long-term insurance undertakings, two composite and another seven reinsurance undertakings. Of the 58 authorised insurance undertakings, there are 11 affiliated insurance undertakings and eight protected cell companies.

CHART 13: INSURANCE UNDERTAKINGS AUTHORISED IN MALTA (2010 - 2012)



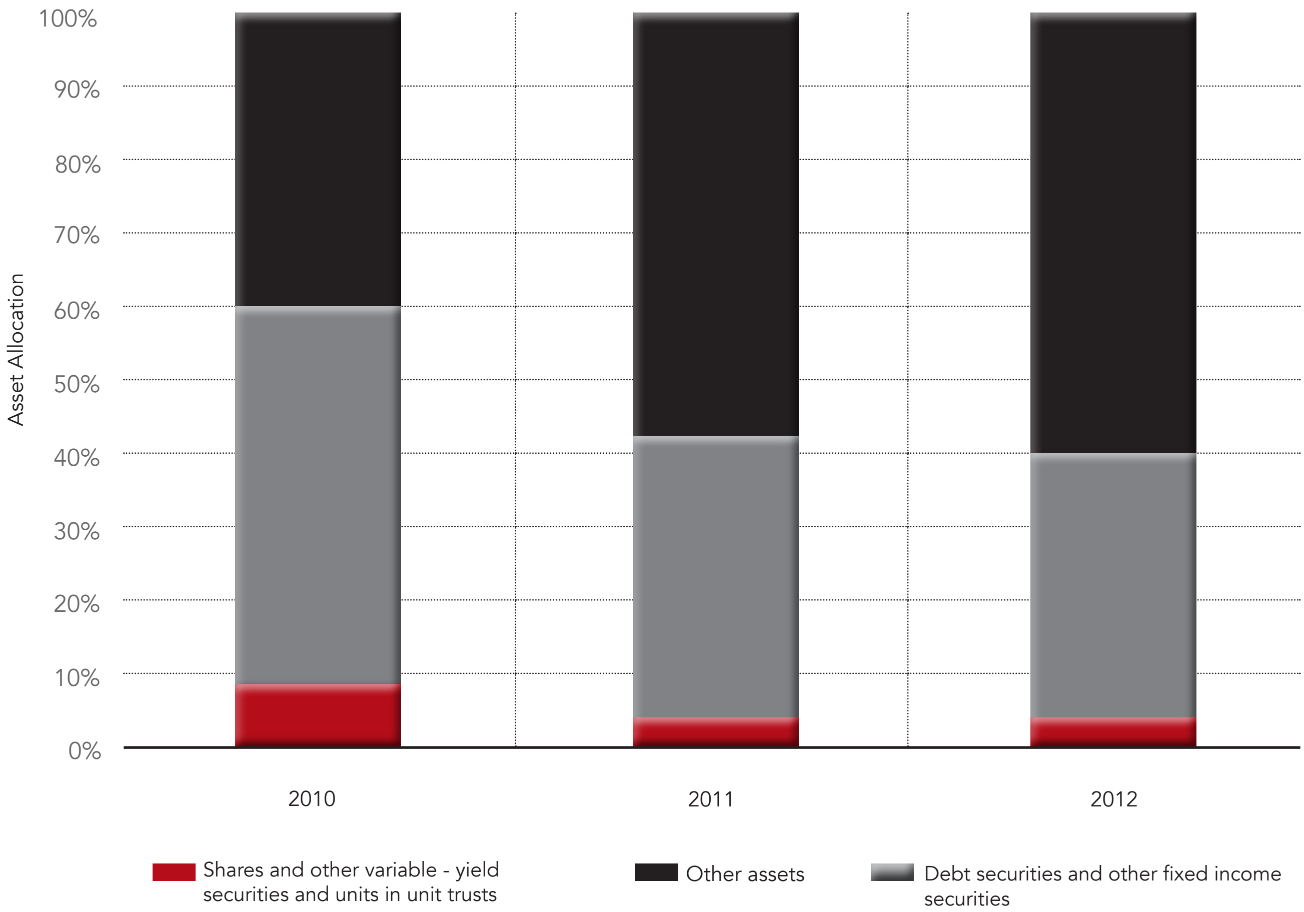
Source: Malta Financial Services Authority

The figures available with respect to the volume and segmentation of business for 2012 were still unaudited at the time of presentation of this report and therefore may be subject to revision.

ASSET ALLOCATION

The total investment assets[6] of all insurance undertakings expanded by almost seven per cent over the period 2011 - 2012, from nearly €8.8 billion in 2011 to €9.4 billion in 2012. The composition of investment assets remained approximately the same as the previous year in 2012. *'Shares and other variable-yield securities and units in unit trusts'* contributed five per cent of the total investment assets while *'debt securities and other fixed income securities'* and *'other assets'*[7] had a share of 35 per cent and 60 per cent respectively.

CHART 14: ASSET ALLOCATION OF INSURANCE UNDERTAKINGS (2010 - 2012)



Source: Malta Financial Services Authority

[6] Investment assets exclude investments for the benefit of life-assurance policyholders who bear the investment risk.

[7] Other assets' category consists mainly of investments in affiliated enterprises and participating interests, deposits with credit institutions and other financial investments and deposits with ceding enterprises.

CAPITAL ADEQUACY

The solvency ratio, calculated as the ratio of available capital to required regulatory capital, of all the insurance undertakings went up by 145 percentage points in 2012 from 2011. The ratio fell for the general insurance undertakings during the same period, from 363 per cent in 2011 to 358 per cent in 2012. In contrast, there was a significant increase for pure reinsurance undertakings, from 494 per cent in 2011 up to 632 per cent in 2012. The solvency ratio also went up for the long-term insurance undertakings, from 183 per cent to 191 per cent.

Table 7 represents the solvency ratios for long-term insurance, reinsurance, general insurance undertakings and the aggregate figures for all insurance undertakings for the period 2010 – 2012.

Table 7: Solvency ratios (2010 – 2012)

Solvency ratio	2010	2011	2012
Long-term Business	183%	183%	191%
Pure Reinsurers	876%	494%	632%
General Business	398%	363%	358%
All Insurance undertakings	470%	288%	433%

TOTAL GROSS PREMIUMS WRITTEN

The total gross premiums written in the insurance sector (long-term and general business) increased by almost five per cent (or €100 million) over the period 2011 - 2012, from €2.21 billion in 2011 up to €2.31 billion in 2012.

Table 8: Total gross premiums written (2010 – 2012)

	2010	2011	2012
	Billion €	Billion €	Billion €
Total gross premiums written	1.51	2.21	2.31

Source: Malta Financial Services Authority

THE GENERAL BUSINESS SECTOR

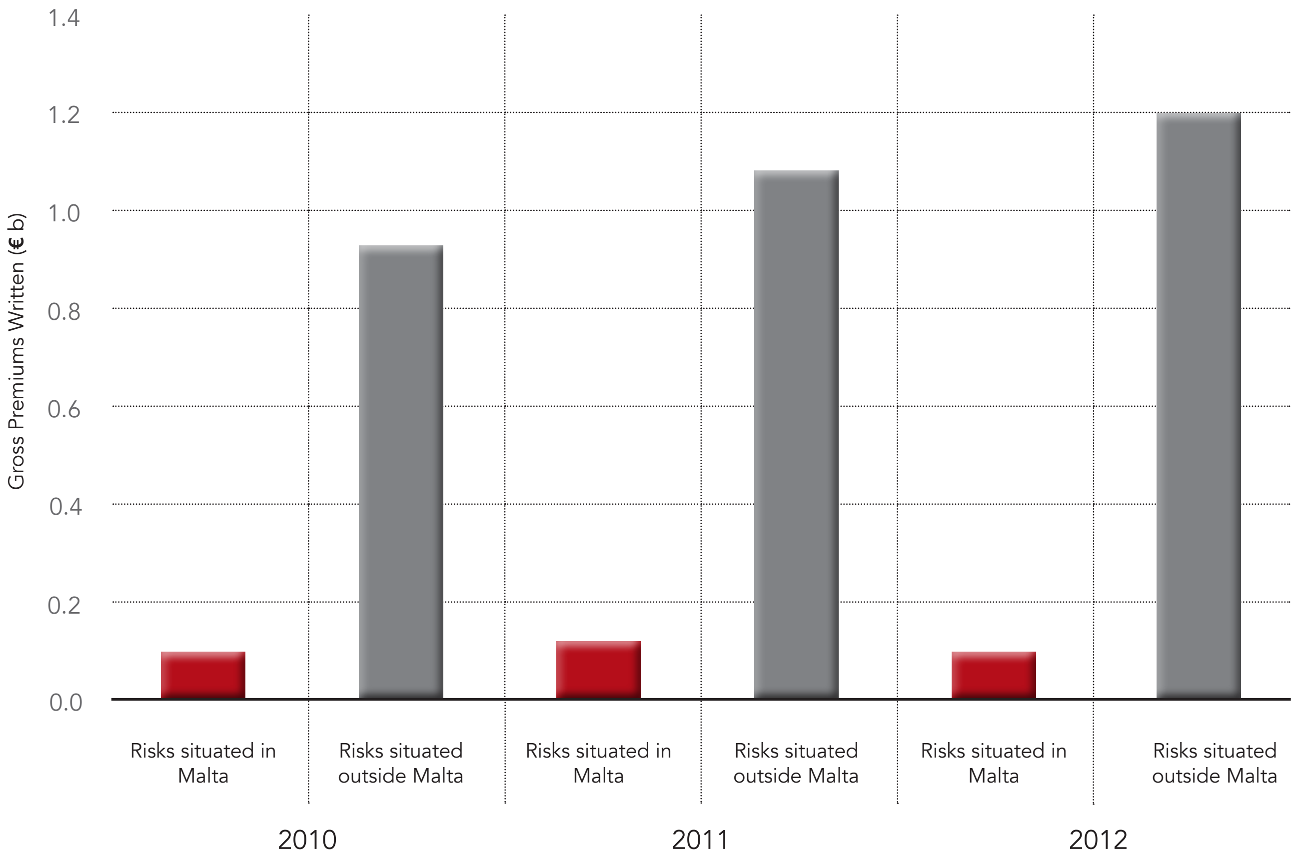
GROSS PREMIUMS WRITTEN

The gross premiums written by companies domiciled in Malta writing general business reached €1.31 billion in 2012, an increase of around 10 per cent, or €122 million, from 2011.

The gross premiums written in relation to risks situated in Malta contracted by nearly 2.5 per cent, from €105.2 million in 2011 to €102.6 million in 2012. In contrast, the gross premiums written in relation to risks situated outside Malta went up from €1.1 billion in 2011 to €1.2 billion in 2012, a rise of over nine per cent.

Chart 15 illustrates the gross premiums written by companies domiciled in Malta writing general business in relation to risks situated in and outside Malta for the period 2010 – 2012.

CHART 15: GROSS PREMIUMS WRITTEN BY COMPANIES WITH HEAD OFFICE IN MALTA - GENERAL BUSINESS (2010 - 2012)



Source: Malta Financial Services Authority

GROSS CLAIMS PAID

Gross claims paid totalled almost €593 million in 2012 (€465 million in 2011), an increase of over 27 per cent on the previous year. While gross claims paid in relation to risks situated in Malta remained almost unchanged in 2012 from the previous year, gross claims paid in relation to risks situated outside Malta have increased by nearly 31 per cent.

Table 9: Gross claims paid by companies with Head Office in Malta – General Business (2010-2012)

	2010		2011		2012	
	Risks situated in Malta	Risks situated outside Malta	Risks situated in Malta	Risks situated outside Malta	Risks situated in Malta	Risks situated outside Malta
	Million €	Million €	Million €	Million €	Million €	Million €
Gross claims paid	46.3	325.4	47.0	417.8	46.9	545.9

Source: Malta Financial Services Authority

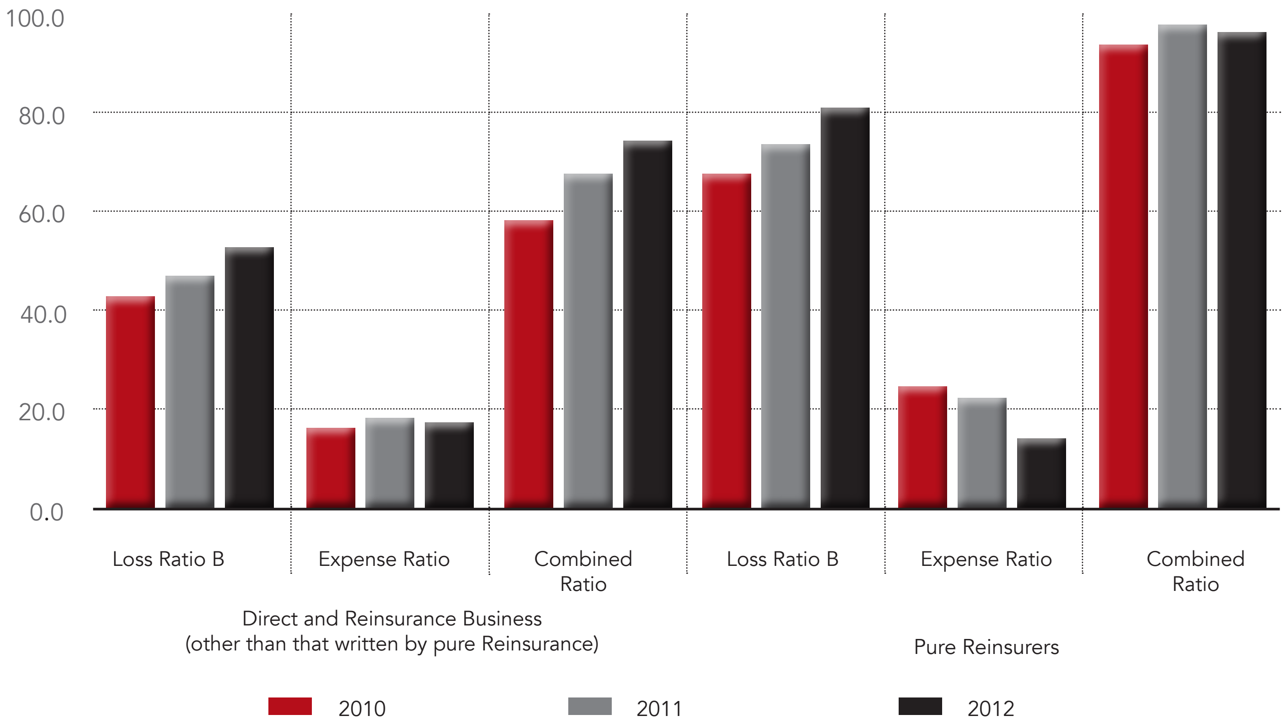
KEY FINANCIAL INDICATORS

For the general business sector (direct and reinsurance business other than that written by pure reinsurance), the net loss ratio[8] continued to expand in 2012, from 47.6 per cent in 2011 to 54.9 per cent in 2012. This was due to a larger percentage increase in the net claims incurred when compared to the percentage increase of net premiums earned. The expense ratio, calculated as the ratio of net operating expenses to net premiums earned, declined to 16.1 per cent in 2012. The decline is attributed to a larger percentage increase in net premiums earned than the percentage increase in net operating expenses.

For the pure reinsurance business, the net loss ratio increased almost by seven percentage points in 2012 when compared to the previous year, from 73.6 per cent in 2011 to 80.5 per cent in 2012. The expense ratio declined further in 2012, from 23.7 per cent in 2011 to 16 per cent in 2012.The combined ratio, calculated as the sum of net claims incurred and the net operating expenses over the net earned premiums, continued to increase for the direct and reinsurance business while it declined for the pure reinsurance business in 2012.

[8] The net loss ratio is expressed as the ratio of net claims incurred to net premiums earned.

CHART 16 : LOSS RATIOS FOR GENERAL BUSINESS UNDERTAKINGS WRITING DIRECT AND REINSURANCE BUSINESS (OTHER THAN THAT WRITTEN BY PURE REINSURANCE) AND PURE REINSURANCE UNDERTAKINGS ONLY (2010 - 2012)



Source: Malta Financial Services Authority

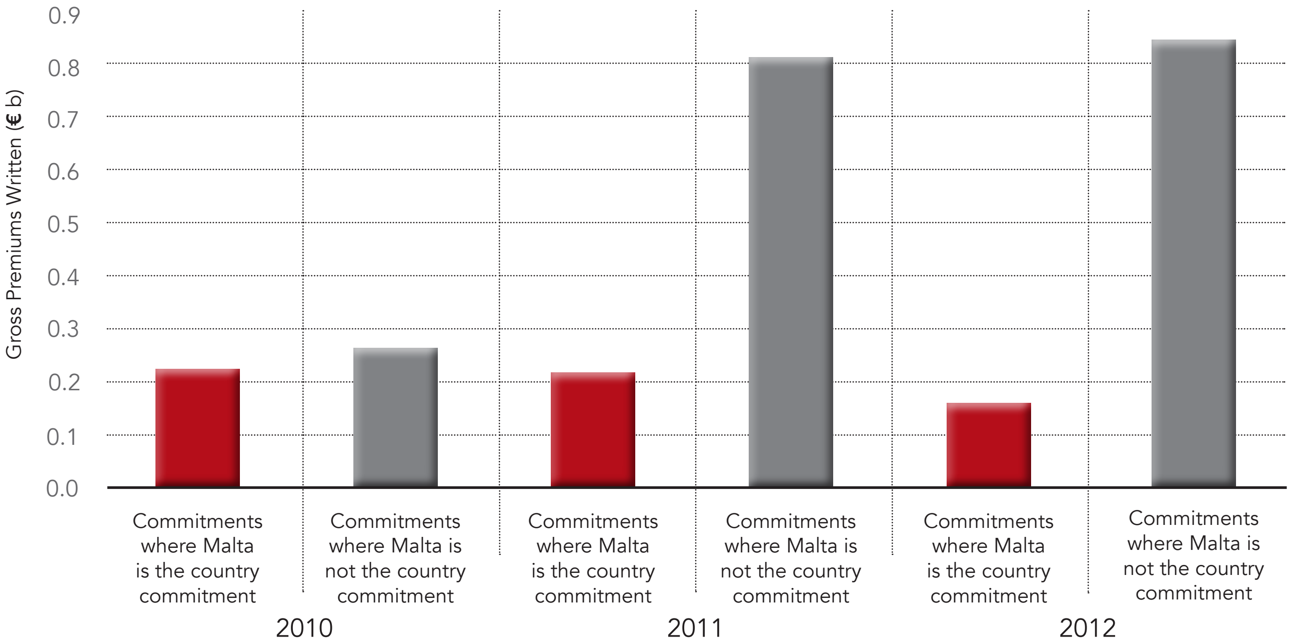
THE LONG-TERM INSURANCE SECTOR

GROSS PREMIUMS WRITTEN

The gross premiums written by long-term insurance undertakings domiciled in Malta contracted by almost two per cent over the period 2011 – 2012, from nearly €1.02 billion in 2011 to one billion euro in 2012. Gross premiums written where Malta is the country of commitment continued to fall in 2012, reaching €163 million, €47 million less from the previous year. The gross premiums written with respect to commitments outside Malta increased by over three per cent in 2012, from €812 million in 2011 to €840 million in 2012.

Chart 17 presents the gross premiums written of companies domiciled in Malta writing long-term business in relation to risks situated in and outside Malta for the period 2010 – 2012.

CHART 17: GROSS PREMIUMS WRITTEN BY COMPANIES WITH HEAD OFFICE IN MALTA - LONG TERM INSURANCE BUSINESS (2010 - 2012)



Source: Malta Financial Services Authority

GROSS CLAIMS PAID

The gross claims paid in the long-term business grew by 41 per cent over the period 2011 - 2012, from €636 million in 2011 to €899 million in 2012. Gross claims paid increased both in relation to commitments situated in Malta (13 per cent) and commitments situated outside Malta (48 per cent).

Table 10: Gross claims paid by companies with Head Office in Malta – Life Insurance Business (2010-2012)

	2010		2011		2012	
	Commitments where Malta is the country of commitment	Commitments where Malta is not the country of commitment	Commitments where Malta is the country of commitment	Commitments where Malta is not the country of commitment	Commitments where Malta is the country of commitment	Commitments where Malta is not the country of commitment
	Million €	Million €	Million €	Million €	Million €	Million €
Gross claims paid	109.1	95.7	117.6	517.9	133.0	765.6

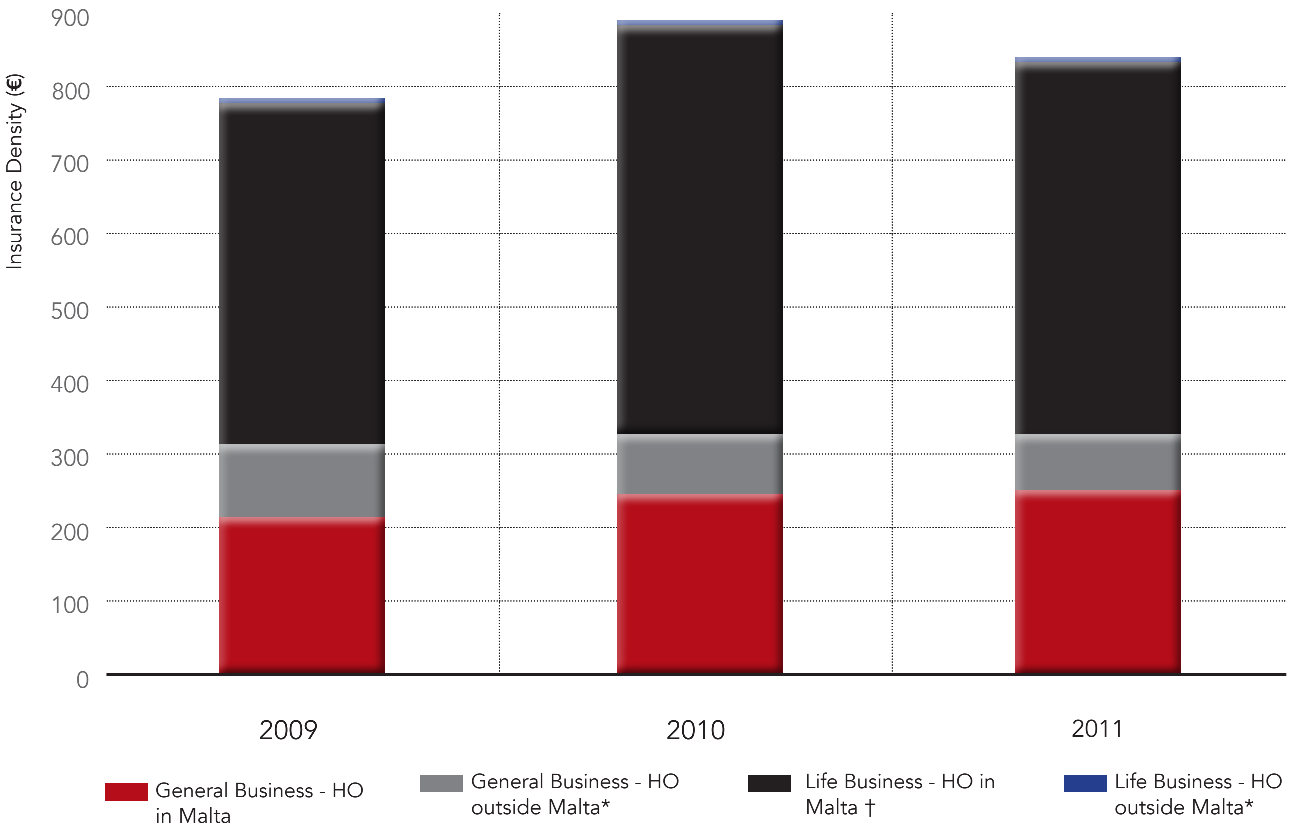
Source: Malta Financial Services Authority

INSURANCE DENSITY

The insurance density, defined as the gross premiums written with respect to risks and commitments situated in Malta on a per capita basis, fell by 3.5 per cent over the period 2010 – 2011, from €873 in 2010 to €842 in 2011.

The insurance density increased in the general business while declined in the life business in 2010 over the previous year. A per capita average of €330 was spent on general business insurance in 2011, an increase of almost two per cent over the previous year. A per capita average of €512 was spent in the life business in 2011, a decline of over six per cent from the previous year.

CHART 18: INSURANCE DENSITY WITH RESPECT TO RISKS AND COMMITMENTS SITUATED IN MALTA (2009 - 2011)



Source: Malta Financial Services Authority

** refers to non-EU/EAA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment.*

† Life business includes investment contracts without discretionary participation features.

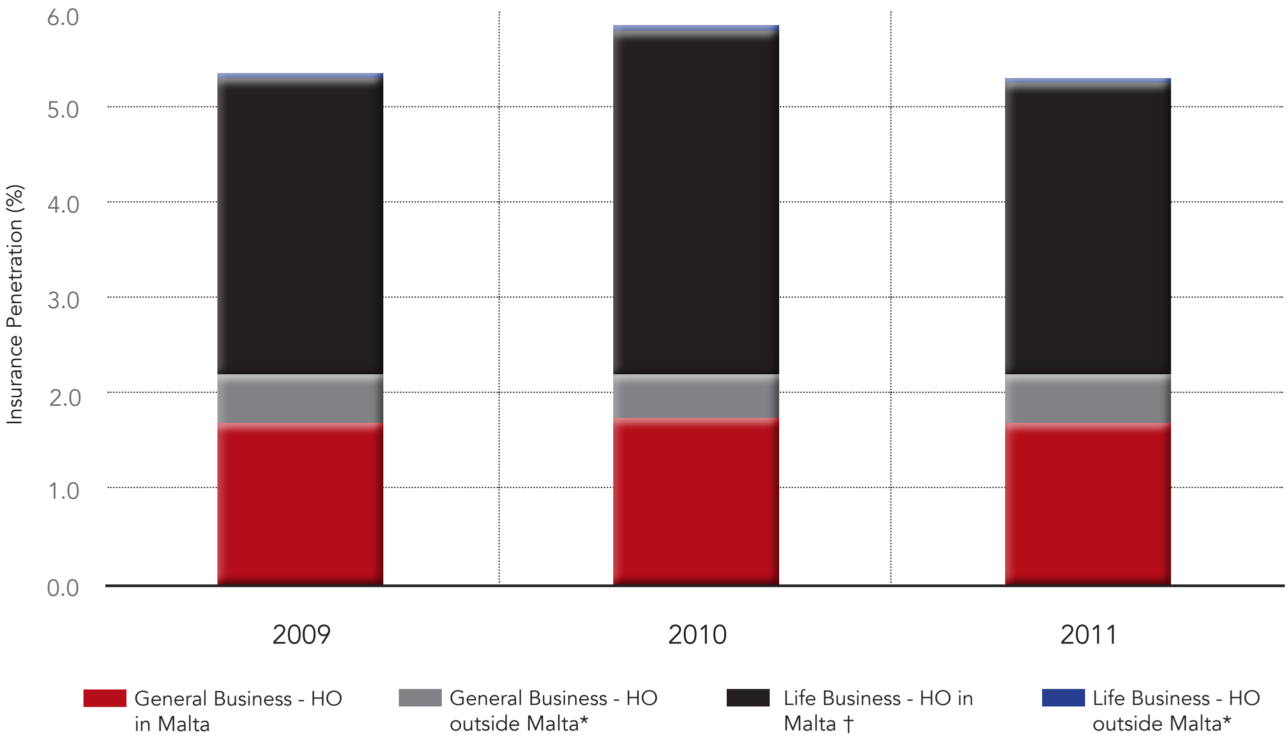
INSURANCE PENETRATION

The insurance penetration rate, expressed as the premiums volume with respect to risks and commitments situated in Malta as a share of the GDP[9] declined by 0.4 percentage points in 2011 when compared to the previous year.

The rate remained stable at almost 2.1 per cent in the general business while a decline of 0.4 percentage points was recorded from the long term business (from 3.63 per cent in 2010 to 3.25 per cent in 2011).

[9] *GDP is computed at market price. GDP was taken from NSO New Release Q3/2012 dated 7th December 2012.*

CHART 19: INSURANCE PENETRATION RATE WITH RESPECT TO RISKS AND COMMITMENTS SITUATED IN MALTA (2009-2011)



Source: Malta Financial Services Authority

** refers to non-EU/EAA insurers authorised under the Act and EU/EEA insurers carrying out business in Malta under the right of establishment.*

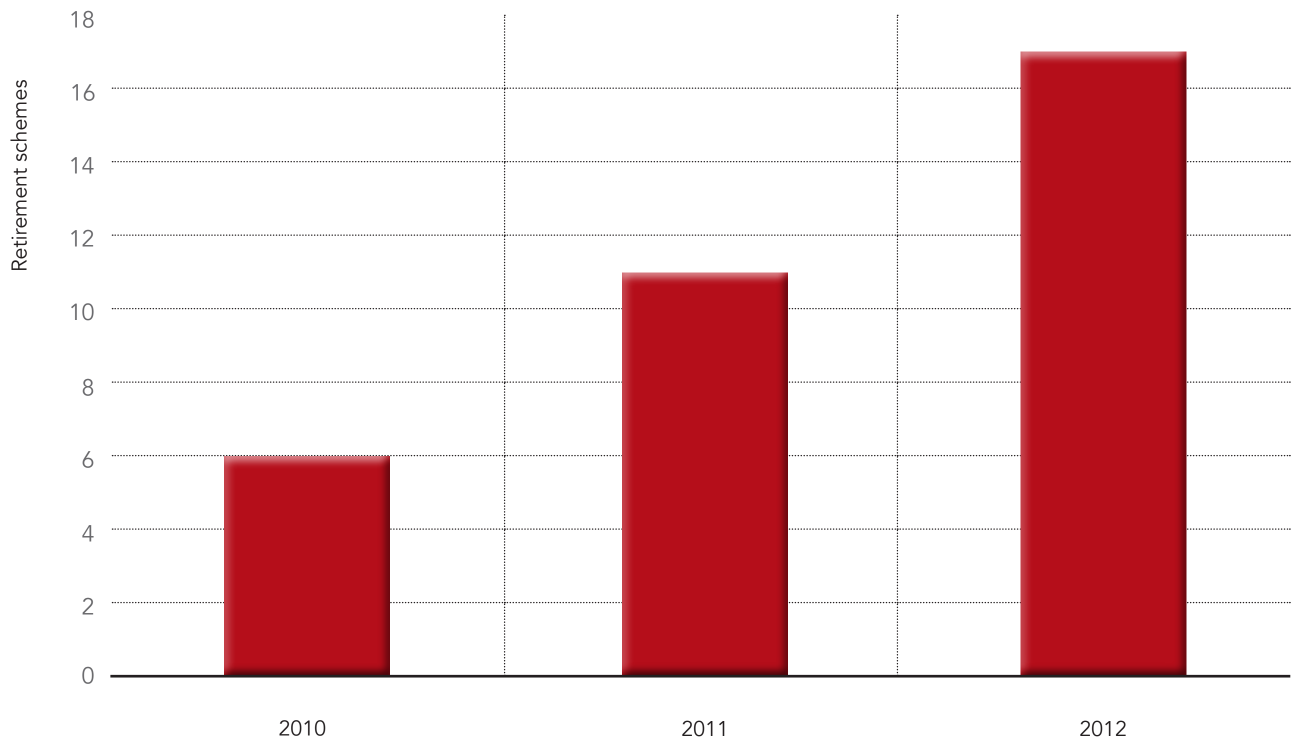
† Life business includes investment contracts without discretionary participation features.

RETIREMENT PENSION SCHEMES

The Authority authorised five new retirement schemes in 2012 under the Special Funds Act, bringing the number of registered retirement schemes to 17 by the end of 2012. This represents a growth of four net authorisations from the previous year. Chart 20 refers.

Provisional figures indicate that the assets under management of the retirement pension schemes totalled almost €533 million in 2012.

CHART 20: RETIREMENT SCHEME LICENCES (2010 - 2012)



Source: Malta Financial Services Authority

SUPERVISION AND COMPLIANCE

In terms of Article 10 of the Malta Financial Services Authority Act, the Supervisory Council is responsible for the processing, approval and issuing of licences and other authorisations, and for the monitoring and supervision of persons and other entities licensed or authorised by the Authority. During 2012, the Council met 27 times to approve new authorisations, enrolments and registrations to conduct financial services business.

The requirements which an applicant applying for a licence must satisfy are contained in laws and regulations specific to the various sectors of financial services. However, when considering whether to grant or refuse a licence, the Authority will also consider factors such as:

i. the promotion of the general interests and legitimate expectations of consumers of financial services;
ii. the promotion of fair competition and choice and;
iii. Malta's international commitments including its commitments as a Member of the European Union.

The Supervisory Council seeks to maintain a balance between the requirements specific to each sector, reflecting international standards and European Union Directives, and the need to ensure more consistent and harmonised supervision across sectors.

As a signatory to the Multilateral Memoranda of Understanding on co-operation and information exchange of the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO), the MFSA's approach to supervision is modelled on IAIS and IOSCO Core Principles. With respect to banking, the Authority also seeks to maintain a supervisory approach which follows Basel Core Principles for Effective Banking Supervision.

SUPERVISORY ACTION

In 2012 the Authority had over 120 employees directly engaged in the licensing, regulation and supervision of licensed entities. Supervision is carried out through both off-site and on-site compliance activities.

OFF-SITE SUPERVISION

Off-site compliance staff monitored adherence by licence holders to prudential requirements through the review of periodical returns, audited financial statements and other documentation. Off-site processes also included the review and approval of ongoing developments in the business of licenced companies, such as changes in qualifying shareholding, directors and senior management; changes in the memorandum and articles of association; transfers of portfolio in the case of non-life business; mergers, and reductions and increases in share capital.

High-level off-site analyses of internal capital adequacy processes (ICAAPs) was also carried out on a number of credit institutions. . On-site visits to a number of investment service licence holders were also followed up by detailed off-site analyses of their Risk Management Internal Capital Adequacy Assessment Process (RMICAAP).

As part of its off-site supervisory functions the MFSA also monitored media advertising placed by authorised persons, newspaper articles and media coverage dealing with companies which have their financial instruments traded on the Malta Stock Exchange.

ON-SITE SUPERVISION

On-site inspections at the premises of licence holders continued to be carried out on a regular basis. Through their reviews, the supervisors seek to ensure that licence holders' operational activities are in line with the relative licence conditions and applicable legislation. On-site inspections also serve to ensure that the corrective measures were being taken by licensees in relation to weaknesses or shortcomings identified as a result of previous on-site visits or through external auditors' annual statutory reviews. The MFSA continues to adopt a risk-based approach in the supervision of licensed entities, in line with EU Directives.

A total of 42 on-site inspections were carried out by the Supervisory Units during the year. 17 inspections were carried out at insurance licence holders. These included five broad scoped and one focused compliance visits to insurance companies; four visits to insurance companies related to the assessment of internal models; and six broad scope and one focused compliance visits to insurance intermediaries.

In the securities and markets segment, four inspections were carried out to investment intermediaries, one focused to a Professional Investor Fund and seven broad scope visits to Trustees and Fiduciaries.

Seven credit institutions and one financial institution were also inspected by banking supervisors during the year. These visits included full credit risk analyses at two institutions; four top-down inspections of credit institutions which included a Supervisory Review and Evaluation Process (SREP) analysis of the relative banks' Internal Capital Adequacy Assessment Processes (ICAAPs) and one top-down review of operations at a recently licensed financial institution.

A number of investigations into possible breaches of licence conditions were initiated or continued during the year. These included investigations into alleged breaches of investment restrictions by a number of licensed Professional Investor Funds and investment service providers, as well as investigations into sales practices and possible breaches of conduct of business requirements. Some of these investigations were still underway as at the end of 2012.

INFRINGEMENTS AND PENALTIES

A number of penalties were imposed during the year. These concerned a number of breaches of licence conditions as well as other infringements under the Insurance Intermediaries Act, the Trusts and Trustees Act, the Investment Services Act and the Financial Markets Act.

The following is a list of administrative penalties imposed by the MFSA during 2012:
On the 9 February 2012, the Malta Financial Services Authority has imposed an administrative penalty of €232.94c on Mr Franco Muscat (Enrolment. number 451876M), a former tied insurance intermediary, for failure to satisfy certain provisions of Insurance Intermediaries Rule 7 of 2007.

On the 11th April 2012, the MFSA imposed an administrative penalty of €50,582.34c on Mediterranean Insurance Brokers (Malta) Ltd for failure to satisfy a requirement of, or obligation determined by an Insurance Intermediaries Rule made for the purpose of the Insurance Intermediaries Act (Cap.487) and for not keeping in a separate account monies held in a fiduciary capacity in accordance with the requirements of the insurance Intermediaries legislation.

On the 28th May 2012, the MFSA imposed an administrative penalty of €10,000 on International Diving Assurance Ltd for carrying on business of insurance in or from a country outside Malta without authorisation.
On the 9th July 2012, the MFSA imposed an administrative penalty of €850 on International Insurance Brokers Ltd for failure to comply with the conditions of enrolment.

On the 16 July 2012, the MFSA imposed an administrative penalty of €580 on Mr Adrian Pace for acting as a tied insurance intermediary and carrying out tied insurance intermediary activities without registration in any Tied Insurance Intermediaries Company Register of a company and the enrolment in the Tied Insurance Intermediaries List.

On the 16 July 2012, the MFSA imposed an administrative penalty of €2,910 on SMS Insurance Agency Ltd for failure to enrol in the Tied Insurance Intermediaries List a person registered by the company as a tied insurance intermediary in the Tied Insurance Intermediaries Company Register of the company.

On 5 October, 2012 the MFSA took a number of administrative measures against MFSP Financial Management Ltd with respect to infringements related to investment services provided in relation to the ARM Assured Income Plan and/or ARM Capital Growth Bond. These included the imposition of an administrative penalty of €12,112 and a three-year restriction from selling complex products both on an advisory and non-advisory basis in terms of the provisions of Article 8(1)(a) of the Investment Services Act. The Authority's investigation established that there were instances (in the provision of non-advisory services) wherein a proper appropriateness test was not performed. In the provision of advisory services, the Authority concluded that in certain instances, advisory clients were provided with unsuitable advice. With regards to record keeping, the investigation showed that the investment service provider also failed to maintain sufficient records to be able to demonstrate compliance with the regulations and with the conditions of its investment services licence at all times, such that in one instance the investment service provider failed to obtain the required information at the time when the transaction took place.

On 31 October 2012 the investment service provider concerned submitted an appeal before the Financial Services Tribunal against the MFSA's decision to impose this administrative penalty, restrict the Investment Services Provider's licence from selling complex products both on an advisory and non-advisory basis and to carry out a file review for those clients who had invested in ARM Assured Income Plan and/or ARM Capital Growth Bond.

On the 28th November, 2012, the MFSA resolved, on regulatory grounds, to cancel the Investment Services Licence of Guardian Securities Limited in terms of its powers under Article 7(2)(b) of the Investment Services Act, with immediate effect.

The Supervisory Council was assisted by the Legal Unit on various regulatory issues and investigations and in the drafting of documentation in connection with these matters. Details on the administrative penalties and other sanctions issued by the MFSA may be found on the Authority's website (http://www.mfsa.com.mt/pages/AdministrativeMeasuresPenalties.aspx).

BANK OF VALLETTA / LA VALETTE MULTI-MANAGER PROPERTY FUND

With effect from 1 June, 2012 the MFSA imposed a second administrative penalty of €203,150 on Bank of Valletta, under the provisions of article 16A of the Investment Services Act. The Authority's investigation, into Bank of Valletta's sales practices in relation to the selling of units in the La Valette Multi-Manager Property Fund to investors, determined that in various instances the bank had failed to act in the best interest of investors, as required in terms of the applicable regulatory framework. The following is a summary of the Authority's findings and conclusions:

DISCLOSURE TO CLIENTS

There were various instances where investors interviewed by the Authority stated that Bank of Valletta's officials had not provided them with adequate information or explanations about the La Valette Multi-Manager

Property Fund and the implications of signing the experienced investor declaration form were not sufficiently well explained. Nearly all investors interviewed by the Authority as part of the investigation stated that they were not offered a copy of the prospectus of the La Valette Multi-Manager Property Fund.

SUITABILITY

The La Valette Multi-Manager Property Fund is an unsuitable product for unsophisticated retail investors or investors having a cautious risk profile. The Authority's findings show that there were instances where the La Valette Multi-Manager Property Fund was sold to investors with a cautious risk profile. Several advisory clients had material over-exposure to the La Valette Multi-Manager Property Fund compared with Bank of Valletta's internal guidance, but there was no record made of the rationale for this exposure.

The Authority carried out an investigation to verify amongst other things the nature of the advisory investors. Bank of Valletta appears to have regarded many of these investors as experienced investors solely based on their self-declaration.

In several cases, there was no evidence that Bank of Valletta made any effort to verify the validity of the self-declaration made by these investors. On this basis, the Authority has concluded that on a number of occasions Bank of Valletta's advisors did not take reasonable steps to ensure that these advisory clients were indeed experienced investors before advising them to invest in the La Valette Multi-Manager Property Fund.

CLIENT FACT-FINDS

The Authority has also found instances in which advisory investors' client fact-finds were not updated or did not contain information which corroborated the experienced investor declaration. In some instances, advisory investors' client fact-finds could not be found in Bank of Valletta's records. Moreover, Bank of Valletta also failed in some cases to take reasonable steps to obtain sufficient financial and other information from each investor relevant to the services to be provided.

STAFF TRAINING

Bank of Valletta did not provide the Authority with adequate documentation and explanations which demonstrate that its officials had been provided with proper training and guidance regarding the nature, characteristics and risks relating to the La Valette Multi-Manager Property Fund, taking into account its unique features and risks and the fact that this could only be sold to experienced investors. During the period when the La Valette Multi-Manager Property Fund was launched and the majority of the sales effected, Bank of Valletta did not have adequate written procedures in place on the manner in which the selling of financial products such as the fund had to take place.

RECORD KEEPING

Bank of Valletta was required to maintain sufficient records to be able to demonstrate compliance with the regulations and with the conditions of its investment services licence at all times. There were instances where Bank of Valletta failed to keep appropriate records in relation to transactions in the La Valette Multi-Manager Property Fund carried out on behalf of clients.

FILE REVIEW

In view of the findings set out above, the Authority issued a Directive to the Bank to cooperate with a review of investor client files by an independent professional services firm engaged for the purpose by the Authority at the expense of the Bank. The objective of the review was to determine the validity of the experienced investor declaration held by the Bank. The Bank was required to compensate investors who were sold shares in the La Valette Multi-Manager Property Fund on an advisory basis when they did not qualify as experienced investors under the applicable criteria. The file review was completed on 21 December 2012.

Nearly 600 investors received over €3 million in compensation following this investigation and file review.

WARNINGS

The MFSA issued a number of warnings to the public during the year. The warnings advised against dealing with various companies that are not authorised to provide financial services in Malta. In its capacity to protect consumers of financial services, the MFSA urges consumers of financial services not to enter into any financial services transactions unless they have ascertained that the entity with which the transaction is being made holds a licence granted by the MFSA or is otherwise authorised to provide such services by another foreign reputable financial services regulator.

The following warnings on companies not authorised by the MFSA to provide any type of financial service in Malta were issued during the year: CIB Malta PLC as depicted on website *http://cibmalta.eu*; Larsson Group as depicted on website *www.larssongroup.com*; OCB Malta as depicted on website www.ocbmalta.eu; Brown-MLT Finance Group as depicted on website *http://brown-mlt.net*;Mypaydayloan as depicted on website *http://www.mypaydayloan.com/europe/United_Kingdom_payday_loan/one_stop_malta_payday_loan_company.htm*; and TradeFast or TradeFast Inc or TradeFast Holdings Inc as depicted on website as *http://www.tradefastholdings.com*. Furthermore, the MFSA alerted the public by means of a public notice MFSA Ref: 64-2012 that Guardian Securities Limited's licence depicted on website as *www.guardiansecurities.net* was revoked on regulatory grounds.

A list of entities licenced by the MFSA and others licenced by the European Supervisory to provide financial services in Malta is available from the MFSA at: *http://www.mfsa.com.mt/pages/licenceholders.aspx*

PREVENTION OF FINANCIAL MARKETS ABUSE

The MFSA has responsibility for enforcing the Prevention of Financial Markets Abuse (PFMA) regime and safeguarding the integrity and reputation of the financial markets.
The Authority has continuously monitored on-and-off exchange trading in financial instruments admitted to trading on the Malta Stock Exchange with the aim of identifying suspicious trading. During 2012, the Authority completed two investigations and five reviews, and initiated three new reviews. At the end of the year the Authority had four pending PFMA reviews.

At the end of 2012 there were three appeals pending before the Financial Services Tribunal in relation to insider dealing cases. The appeals were filed by individuals who were fined by the Authority in 2009 for trading in listed securities when in possession of unpublished price-sensitive information.

LITIGATION BEFORE THE FINANCIAL SERVICES TRIBUNAL AND THE CIVIL COURTS

The Legal Unit is responsible for representing the MFSA, often in conjunction with other Units, in a number of cases currently pending before the Financial Services Tribunal and the Courts of Malta. The Financial Services Tribunal is an appeal mechanism created by the Malta Financial Services Authority Act which allows a right of appeal to licence-holders and other persons who may feel aggrieved by a particular decision of the MFSA.

The year under review saw a number of appeals pending before the Financial Services Tribunal being withdrawn by the appellants. At the end of 2012 there were a total of nine appeals from decisions of the MFSA pending before the Financial Services Tribunal. A further four cases are currently pending before the First Hall of the Civil Court, whilst two cases are pending before the Court of Appeal (Inferior Jurisdiction). The MFSA also intervened in a case being heard by the Data Protection Tribunal following an appeal filed by an insurance intermediary against the Data Protection Commissioner.

A list of appeals from decisions of the MFSA currently pending before the Financial Services Tribunal may be found on the Tribunal's website: www.mfst.gov.mt

LISTING COMMITTEE

The Listing Committee met fourteen times during the year under review. A number of other ad hoc meetings were held to discuss specific topics with third parties including representatives of the various Issuers, representatives of the Malta Stock Exchange and stockbrokers. The market is monitored regularly to ensure that Issuers comply with their continuing obligations under the Listing Rules. Recommendations are made to the Listing Authority proposing further action wherever this is required.

FINANCIAL STABILITY

CENTRAL BANK - MFSA DOMESTIC STANDING GROUP

The Domestic Standing Group (DSG) met two times during the year. The DSG is made up of senior representatives of the Malta Financial Services Authority, the Central Bank and the Ministry of Finance the Economy and Investment. The main topics which were discussed related to the proposed Bank Recovery and Resolution Directive and the Single Supervisory Framework.

Senior representative of the MFSA and CBM attended regular meetings on these topics in European Union fora, and in turn provided the latest updates to the members of this group. The responsibilities of the Domestic Standing Group will be absorbed into the terms of reference of the newly constituted Joint Financial Stability Board with effect from January 2013.

SETTING UP OF A JOINT FINANCIAL STABILITY BOARD (JFSB)

A Joint Financial Stability Board (JFSB) has been set up between the Central Bank of Malta and the Malta Financial Services Authority in line with a Recommendation adopted by the ESRB in December 2011 (ESRB/2011/3) regarding the macro-prudential mandate of national authorities. The objective of the Board is to establish mechanisms of cooperation between the Bank and the Authority so as to formulate macro-prudential policy and to contribute to the safeguarding of the stability of the financial system in Malta. The Board is tasked with recommending policy measures aimed at strengthening the resilience of the financial system and preventing the build-up of systemic risk, thereby ensuring a sustainable contribution of the financial sector to economic growth. The JFSB's terms of reference were incorporated in a Memorandum of Understanding signed between the Bank and the Authority at the beginning of 2013.

CRISIS MANAGEMENT

The Joint Task Force on Bank Resolution (JTFBR) is made up of technical experts representing the Malta Financial Services Authority, the Central Bank, the Ministry of Finance the Economy and Investment and the Attorney General's Office. Its remit is to discuss crisis management issues and to recommend how to implement the Bank Recovery and Resolution Directive in Malta. During the first part of the year, the topics discussed related to international guidelines on the matter. During the second part of the year the main topic on the agenda was the current proposed Bank Recovery and Resolution Directive which is being discussed between the EU Member States, the Council of Europe and the European Commission. The JTFBR met a number of times during the year in both an informal and formal manner in order to provide the required responses to the Trialogue process which will result in a compromise/joint text. Members of this group also participated directly within this process through attendance at the Council meetings.

CENTRAL BANK – MFSA STANDING COMMITTEE

In 2003, the Central Bank and the Malta Financial Services Authority Parties set up a Standing Committee to meet, exchange views, evaluate and consult on matters and developments of mutual interest, and to consider the most appropriate measures and action that either or both of the Parties should put into effect. The Standing Committee regulates its own procedures and met four times during the year.

PREVENTION OF MONEY LAUNDERING

Review of compliance by licence holders on matters relating to prevention of money laundering and financing of terrorism is the responsibility of the Financial Intelligence and Analysis Unit (FIAU). The MFSA carries out substantial on-site compliance work on behalf of the FIAU. The MFSA also participated in a number of joint inspections carried out together with the FIAU. Compliance reviews cover the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) measures and procedures that licence holders should have in place and their obligations under the applicable legislation, primarily the Prevention of Money Laundering and Funding of Terrorism Regulations and the Implementing Procedures. Compliance reports on AML/CFT on-site inspections carried out by the MFSA are submitted to the FIAU for any action that may be necessary.

During 2012, the MFSA continued to submit feedback to the FIAU in relation to consultations on various issues, including amendments to the 'Implementing Procedures' implementing the provisions of the Prevention of Money Laundering and Funding of Terrorism Regulations.

The MFSA's Money Laundering Reporting Officer continued to represent the MFSA on the Joint Committee for the Prevention of Money Laundering and Funding of Terrorism, which held a number of meetings during the year. The main function of the Committee is to create a forum between the authorities and the industry to exchange views and discuss AML/CFT issues and developments, including the review of effectiveness of aspects of the AML/CFT system. The Joint Committee includes representatives of the Financial Intelligence and Analysis Unit, the Malta Financial Services Authority, the Central Bank of Malta, the Attorney General, the Malta Police, Customs, the Lotteries and Gaming Authority, the Malta Stock Exchange, the Chamber of Advocates, Chamber of Legal Procurators, the Malta Insurance Association, the College of Notaries, the Malta Bankers' Association, the Association of Licensed Financial Institutions, the Malta Institute of Accountants, the Malta Funds Industry Association, the Institute of Financial Services Practitioners, the College of Stockbrokers, the Federation of Real Estate Agents and the Malta Institute of Taxation.

Malta continued to participate actively in the work of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). MONEYVAL had carried out the 4th round AML/CFT mutual evaluation of Malta through an on-site visit in June 2011. The assessment report was adopted by MONEYVAL during its 38th plenary session in March 2012. The report summarises the major anti-money laundering and counter-terrorist financing measures that were in place in Malta at the time of the 4th on-site visit and immediately thereafter. It describes and analyses these measures and offers recommendations on how to strengthen certain aspects of the system.

INTERNATIONAL SANCTIONS

The MFSA is a member of the Sanctions Monitoring Board established by the Sanctions (Monitoring Board) Regulations of 2006 issued in terms of the National Interest (Enabling Powers) Act (Cap 365). The primary function of the Board is to monitor the adherence to regulations made under the National Interest (Enabling Powers) Act, while also ensuring compliance with Malta's commitments under international law.

During 2012, the MFSA published six international sanctions concerning restrictive measures against Iran. These include a ban on financial transactions between EU financial institutions and all banks domiciled in Iran and their branches/subsidiaries outside Iran; restrictive measures against individuals and entities supporting nuclear proliferation; and restrictive measures directed against certain persons, entities and bodies in violation of human rights. The MFSA also published a notice concerning restrictive measures directed against persons acting in violation of the arms embargo with regards to the Democratic Republic of the Congo; and another notice concerning restrictive measures directed against certain individuals, groups, undertakings and entities in view of the situation in Afghanistan. Furthermore, two international sanctions were issued concerning restrictive measures in view of the situation in Syria; two imposing specific restrictive measures directed against certain natural or legal persons, entities or bodies, in view of the situation in Somalia; one relating to a list of sanctioned individuals and entities in Democratic People's Republic of Korea; another concerning restrictive measures in respect of Belarus; and finally one sanction imposing certain specific restrictive measures directed against certain persons and entities associated with the Al Qaida network.

A list of all persons and entities against whom sanctions are currently in force in adherence to the UN Security Council Resolutions and EU Regulations is published under the 'International Sanctions' section on the Authority's website (http://www.mfsa.com.mt/pages/viewcontent.aspx?id=105).

THE EU FRAMEWORK FOR SUPERVISION OF THE FINANCIAL SYSTEM

The new European System of Financial Supervision (ESFS) which is aimed at eliminating deficiencies that were exposed during the financial crisis started operating as from January 1, 2011. The ESFS is composed of four main organs established by Regulations adopted by the European Parliament and Council in November 2010. These are the European Systemic Risk Board (ESRB), responsible for macro-prudential oversight of the financial system, and three new supervisory authorities responsible for micro-prudential supervision, namely:

- European Banking Authority (EBA);
- European Insurance and Occupational Pensions Authority (EIOPA); and
- European Securities and Markets Authority (ESMA).

Together with other EU National Supervisory Authorities, the MFSA is a full member of the EBA, EIOPA and ESMA and a non-voting Member of the ESRB and was actively involved in all four fora throughout their second year of operation.

ESRB RELATED ACTIVITY

Following the issue of two public ESRB Recommendations addressed to national and other authorities in 2011, namely Recommendation ESRB/2011/1 on Lending in Foreign Currencies and Recommendation ESRB/2011/2 on US dollar denominated funding of credit institutions, the MFSA undertook two preliminary data collection exercises in order to determine the extent to which local institutions could be exposed to the types of risks identified in the two recommendations. The outcome of these exercises indicated that there were no serious or immediate concerns arising in this regard. In December 2012, the MFSA also published two sets of Rules under the Malta Financial Services Authority Act stipulating a number of ongoing obligations in terms of which relevant licence holders would be required to implement a number of risk identification and mitigation measures in this respect with effect from 1st January 2013.

Among other initiatives undertaken by the ESRB during 2012, was the bottom-up survey to complement the surveillance work on risks and vulnerabilities carried out by the European Central Bank. This survey was carried out on a quarterly basis on the basis of inputs from National Central Banks and Supervisory Authorities. In the course of 2012, work was undertaken to complement this material by two more inputs: (i) the risk dashboard, and (ii) an analysis of national banking systems. During the year, through dedicated expert groups, the ESRB worked on a number of specific risks resulting from: loan forbearance, bank funding, the CDS market, the regulatory treatment of sovereign exposures and money market funds. As part of the development of a macro-prudential policy framework a taxonomy of macro-prudential instruments based on asset of operational, intermediate objectives of macro-prudential policy as well as selection criteria and a set of instruments have been developed. This will result in an ESRB recommendation in 2013.

During 2013, the ESRB work program will be developed against the backdrop of fundamental changes in the European System of Financial Supervision with the forthcoming establishment of the banking union. The proposed work program for 2013 will focus on risks and vulnerabilities, macro-prudential policy framework, macro-prudential analysis and other issues such as stress-testing.
European Banking Supervision

The European Banking Authority (EBA) is responsible for the oversight of the European banking system with a view of safeguarding the stability of the financial system, the transparency of markets and financial products and the protection of depositors and investors. During the year, the EBA issued the final report on its EU-wide recapitalisation exercise and published data on all individual banks involved in this exercise. Overall the exercise led to an increase in banks' capital positions of more than EUR200bn. Considering the still challenging market environment, the EBA's Board of Supervisors underlined the need for banks to maintain their capital levels in view of the implementation of the new regulatory framework. In this respect the EBA will adopt a new Recommendation on capital conservation once the final CRD IV/CRR text is agreed.

On September 26, the EBA issued draft technical standards on capital requirements for Central Counterparties (CCPs) under the EMIR Regulation. These were sent to the European Commission for adoption. During the year, the EBA issued consultations on various Draft Regulatory Technical Standards (RTS) on a number of issues, including: the specification for the calculation of specific and general credit risk adjustments; credit valuation adjustment risk on the determination of a proxy spread and the specification of a limited number of smaller portfolios; capital requirements for central counterparties (CCPs) – drafted according to EMIR; the concept of Gain on Sale associated with future margin income in a securitisation context and on Own Funds. These RTSs will form part of the Single Rulebook aimed at enhancing regulatory harmonisation in Europe. A consultation was also issued on Implementing Technical Standards (ITS) on supervisory reporting requirements for liquidity coverage and stable funding; leverage ratio and disclosure for own funds. These ITS, which will also form part of the Single Rulebook, specify the main features of prudential reporting to be applied by financial institutions in Europe. The EBA also issued two sets of Guidelines on Stressed Value-At-Risk (Stressed VaR) and on the Incremental Default and Migration Risk Charge (IRC) modelling approaches employed by credit institutions using the Internal Model Approach (IMA).

The main priorities for the EBA in 2013 are to play a central role in the development of the single rulebook, with the aim of contributing to achievement of a level playing field for financial institutions as well as to raise the quality of financial regulation and the overall functioning of the Single Market. The EBA's work in this area relates in particular to the CRDIV/CRR legislative framework, including liquidity and remuneration, as well as to the crisis recovery and resolution legislative framework.

During 2012 senior staff from the MFSA participated in meetings of six formal supervisory colleges involving cross-border banking groups with operations in Malta. These colleges relate to the supervision of the Raiffeisen Group, the Erste Group, the HSBC Group, Deutsche Bank Group, BNP Paribas Group (in respect of Fortis) and the NBG Group. Members of the Banking Supervision Unit were also involved with other competent authorities in a number of focused meetings on banking prudential and regulatory matters.

EUROPEAN SECURITIES AND MARKETS SUPERVISION

The European Securities and Markets Authority (ESMA) was set up with the aim of ensuring the integrity, transparency, efficiency and orderly functioning of securities markets and, at the same time, enhancing financial consumer protection. ESMA fosters supervisory convergence amongst securities regulators and is also focussed on creating a Single Rule book for the regulation of securities firms. Together with that of other European Supervisory Authorities (ESAs), its work also contributes to financial stability through its interaction with the European Systemic Risk Board (ESRB).

For ESMA, 2012 was characterised by the finalisation and implementation of new directives and regulations in the financial markets primarily European legislation dealing with short-selling, market infrastructures, and alternative investment fund management. Following the registration of the first Credit Rating Agencies (CRAs) by ESMA in 2011, ESMA's work in this respect in 2012 was focused on their supervision.

During 2012, ESMA also published a number of consultation papers. These included papers on guidelines for establishing consistent, efficient and effective assessments of interoperability arrangements; recommendations on the scope of the CRA Regulation; draft regulatory technical standards on types of AIFMs; guidelines on key concepts of the AIFMD; on the treatment of repurchase and reverse repurchase agreements; technical standards for the regulation on OTC Derivatives, CCPs and Trade Repositories; ESMA's technical advice on possible delegated acts concerning the Prospectus Directive as amended by the Directive 2010/73/EU; guidelines for the regulatory framework for ETFs and other UCITS issues and technical standards on short selling and certain aspects of credit default swaps.

EUROPEAN INSURANCE AND PENSIONS SUPERVISION

The core responsibilities of the European Insurance and Occupational Pensions Authority (EIOPA) relate to supporting the stability of the financial system, transparency of markets and financial products as well as the protection of policyholders, pension scheme members and beneficiaries. EIOPA is also commissioned to monitor and identify trends, potential risks and vulnerabilities stemming from the micro-prudential level, across borders and across sectors. By the end of 2013, EIOPA will be ready to collect the new data from national supervisors based on Solvency II reporting requirements.

During 2012, EIOPA published a number of consultation papers. These included papers in relation to the Draft Implementing Technical Standards (ITS) for Occupational Pensions on reporting procedures, formats and templates that will be used by Competent Authorities when submitting relevant information to EIOPA. EIOPA issued revised Technical Specifications for the Solvency II valuation and Solvency Capital Requirements calculations. The long-term guarantees assessment will run from end of January 2013 until end of March 2013. During the year, EIOPA published the final report containing the outcome of the public consultation in relation to a proposal for Guidelines on Own Risk and Solvency Assessment (ORSA) and the final report containing the outcome of two public consultations on the proposal for reporting and disclosure requirements on insurance and reinsurance undertakings and insurance groups.

During the year the MFSA participated in four meetings of formal Colleges of Supervisors set up to supervise three insurance groups in terms of Directive 98/78/EC on the supplementary supervision of insurance groups. During these meetings information is shared between the relevant European supervisors with the view of obtaining a better understanding of cross-border insurance groups in terms formal and operational structure, business strategy, skills and propriety of management, main internal systems, internal controls and auditing processes, financial resources including solvency and liquidity, overall risk profile and risk management. The supervisory colleges in which the MFSA is involved include those related to the BUPA Group, the MAPFRE SA Group and the Munich Re Group.

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

The Joint Committee of the three European Supervisory Authorities (EBA, ESMA and EIOPA) published a Protocol for Supervisory Cooperation for anti-money laundering (AML) supervision of payment institutions. A report was also issued on the application of AML and Counter-Terrorist Financing for e-money issuers, agents and distributors in Europe. Following the European Commission's legislative proposals for a Regulation on over-the-counter (OTC) derivatives, central counterparties (CCPs) and trade repositories (the Regulation) of 15 September 2010, a joint discussion paper by the ESAs was also issued during 2012 on draft regulatory technical standards on risk mitigation techniques for OTC derivatives not cleared by a CCP under the Regulation on OTC derivatives, CCPs and Trade Repositories.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

During the period under review, the Authority conducted 12 consultations and issued 5 feedback statements.

In particular one of the first Consultation Papers circulated with the financial services industry dealt with the Bill to amend various Financial Services Laws and proposed a variety of amendments to the financial services legislation with the aim of transposing the provisions of the Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) also referred to as the OMNIBUS Directive. The Bill entitled "An Act to amend various financial services laws" is expected to be receive parliamentary assent during the second quarter of 2013.

CAPITAL REQUIREMENTS DIRECTIVE IV - CRD IV

On 20 July 2011, the European Commission announced the launching of a proposal to strengthen the European Banking Sector, whilst ensuring that banks continue to finance growth and economic activity. The Commission's proposal for CRD IV, which consists of a Directive and a Regulation, has the following goals namely:

1. Requiring banks to retain more capital to be able to weather future shocks and crisis;
2. Set up a new governance framework for supervisors to enable close supervision and monitoring of banks;
3. Provide a Single Rule Book for Banking Regulation.

The objective of the CRD IV legislative package is that of strengthening the prudential regulation of financial institutions whilst also implementing the revised capital adequacy standards agreed by the Basel Committee on Banking Supervision.

The proposed Directive, which will regulate the deposit taking activities, will be applicable to both credit institutions and investment firms and will empower competent authorities with new supervisory tools for the purposes of enhancing their prudential supervision.

The proposed Regulation will regulate how activities of credit institutions and investment firms are carried out.

The CRD IV package will replace the former Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast).

On a local level, the Authority is monitoring closely the discussions concerning CRD IV at EU level and intends keeping the industry abreast of any developments in this regard. Furthermore, in view of the transposition deadline of the CRD IV legislative package which is likely to be 2013, the Authority has embarked on an exercise to identify any amendments which may be necessary to the Banking Act, the applicable Banking Rules and the Investment Services Rules for Investment Services Providers in view of the transposition of CRD IV.

During the period under review, the Authority also carried out the necessary foundation work relating to the Common Reporting (COREP) templates issued by the European Banking Authority [EBA] since the implementation of these templates will have a direct impact on credit institutions and investment services licence holders particularly Category 2 and 3 Licence Holders.

SOLVENCY II

The final text of Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast) was adopted by the Council on 10 November 2009. This Directive will apply to all life and non-life insurance undertakings and reinsurance undertakings throughout all EU Member States. The transposition deadline was moved to 30 June 2013 through Directive 2012/23/EC of the European Parliament and of the Council of 12 September 2012 amending Directive 2009/138/EC, as regards the date for its transposition; the date of its application and the date of repeal of certain Directives. The aim of Solvency II is that of introducing a comprehensive regulatory framework for the insurance sector for the benefit of the industry and the end consumers.

On 7 May 2012, EIOPA published an Opinion addressed to Supervisory Authorities, on external models /data used for the calculation of the Solvency II Capital Requirements [EIOPA–12/136]. The Opinion provided that national supervisory authorities could request any additional information from insurance companies using external models/data in order to assess whether these companies comply with Solvency II requirements for capital.

Subsequently on 13 June 2012, EIOPA also issued a note entitled "Equivalent Transitionals Measure" [EIOPA–EQUIV–12–016], aiming at providing some additional information, as to the concept of the Solvency II Equivalence Transitional Measures as proposed under the current draft Omnibus II Directive[10], as well as to the work currently being undertaken by EIOPA in respect to the Commission's request for technical input dated February 2012.

Towards the end of 2012, EIOPA issued an Opinion on interim measures regarding Solvency II addressed to the national competent authorities represented on EIOPA's Board of Supervisors. The Opinion seeks to address the concerns raised by the members sitting on the Board of Supervisors with respect to the current status of the OMNIBUS II negotiations, which could further delay the application of Solvency II. This Opinion stresses on the need to have a consistent and convergent approach with respect to the preparation of Solvency II and further lists EIOPA's expectations for national competent authorities to foster supervisory convergence.

Apart from working on the transposition process of Solvency II in the Insurance Business Act, the Regulations and the Insurance Business Rules issued thereunder, the Authority also kept the industry abreast of any developments which were going on at EU level. In particular, during the period under review, the Authority issued a Guidance Paper on the System of Governance under Solvency II. This Guidance Paper, which is dated 18 January 2012, was a follow-up to the paper which the Authority had issued during 2010 concerning the same issue. It provides further details on a number of issues and continues to assist insurance and reinsurance undertakings in their preparation for the implementation of Solvency II.

This Guidance Paper was further supplemented by a Note for Information on Outsourcing of operational functions by authorised Insurance and Reinsurance Undertakings issued by the Authority on 24 August 2012. The Note for Information provided an outline of the foreseen requirements in relation to the written agreements supporting such outsourcing arrangements. Furthermore, it was also intended to assist undertakings to align any such delegation agreements with the requirements prescribed in the Directive as part of the preparations for the implementation of Solvency II.

[10] Proposal for a Directive of the European Parliament and of the Council amending Directives 2003/71/EC and 2009/138/EC in respect of the powers of the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority

On 22 February 2012, the Authority issued a "Questionnaire on the level of preparedness by undertakings on Supervisory Reporting and Disclosure Requirements". The aim behind this questionnaire was for insurance undertakings to assess their level of preparedness, and the extent to which their systems, processes and procedures already provide for the Pillar 3 Supervisory Reporting and Public Disclosure requirements, both to the public and their supervisor under the Solvency II framework. The deadline for replies was 30 April 2012 and all Licence Holders submitted feedback.

During the month of August, the Authority also issued a Guidance paper on Risk Management with the aim of providing a detailed perspective of the Risk Management System requirements, and to continue to support insurance and reinsurance undertakings in their preparations for the Solvency II implementation.

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE (AIFMD)

Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (hereinafter referred to as 'AIFMD') aims at creating a comprehensive and effective regulatory and supervisory framework for alternative investment fund managers in the European Union. By 22 July, 2013 Member States are required to adopt and publish the laws, regulations and administrative provisions necessary to comply with the provisions of the Directive.

On 23 February 2012, ESMA issued a Discussion Paper on Key Concepts of the Alternative Investment Fund Managers Directive and the types of AIFs [ESMA/2012/7]. The purpose of this consultation was that of ensuring the alignment of supervisory practices among European national competent authorities in the interpretation of certain key concepts of the AIFMD. The consultation ran till 23 March 2012. Subsequently, on 19 December 2012, ESMA followed up this consultation exercise by issuing two separate consultation papers on:

(I) Draft Regulatory Technical Standards on types of AIFMs [ESMA/2012/844] aimed at determining the types of AIFMs covered by the Directive and thereby allowing appropriate differential requirements according to the nature of the entity concerned; and

(II) Guidelines on Key Concepts of the AIFMD [ESMA/2012/845] covering topics which ESMA considers crucial for a common understanding of the entities falling within the remit of the Directive and the consistent application of the provision of the Directive in all Member States.

On 28 June 2012, ESMA also issued Draft Guidelines on sound remuneration policies under the Alternative Investment Fund Managers Directive [ESMA/2012/406] based on the rules prescribed in Annex II of the Directive, which AIFMs have to apply when establishing and applying a remuneration policy for certain categories of staff. The consultation period ran till 27 September 2012 and ESMA is expected to publish a final report during the first quarter of 2013.

On 19 December 2012, the European Commission adopted one of three Level II Delegated Regulations. The Commission Delegated Regulation of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision stipulates rules concerning the:

(I) conditions and procedures for the determination and authorisation of AIFMs, including the capital requirements applicable to AIFMs;

(II) operating conditions for AIFMs, including rules on remuneration, conflicts of interest, risk management, liquidity management, investment in securitisation positions, organisational requirements, rules on valuation;

(III) conditions for delegation;

(IV) rules on depositaries, including the depositary's tasks and liability;

(V) reporting requirements and leverage calculation; and

(VI) rules for cooperation arrangements.

The Delegated Regulation is subject to a three-month scrutiny period by the European Parliament and the Council and is expected to come into force during the first quarter of 2013.

On the local scene, the Authority has worked on the transposition process relating to the AIFMD. In particular on 3 September 2012, the Authority launched a first consultation exercise outlining proposed amendments to the Investment Services Act and requested feedback on four proposed new regulations namely:

(I) Investment Services Act (Alternative Investment Fund Manager Passport) Regulations applicable to Maltese Alternative Investment Fund Managers providing services in an EU Member State or EEA State, other than Malta, through the establishment of a branch or under the freedom to provide services, and to European Alternative Investment Fund Managers providing services in Malta through the establishment of a branch or under the freedom to provide services;

(II) Investment Services Act (Marketing of Alternative Investment Funds) Regulations providing the requirements applicable to the cross-border marketing of Alternative Investment Funds in Malta or in any other Member State or EEA State;

(III) Investment Services Act (Alternative Investment Fund Manager Third Country) Regulations providing the requirements applicable inter alia for the choice of the Member State of Reference.

(IV) Investment Services Act (Alternative Investment Fund Managers) Regulations aiming at further enhancing the powers of the Authority in the application of the Directive.

The consultation period ran till 5 October 2012 and the Authority is expected to issue a feedback statement during the first quarter of 2013.

The Authority launched a second consultation exercise on 30 November 2012 on the Investment Services Rules for Investment Services Providers. This consultation document provided an overview of the proposed amendment to the Investment Services Rules for Investment Services Providers. The consultation period runs till 11 January 2013.

During 2013, the Authority is planning to hold a number of information sessions to brief the industry and assist in the implementation process of the AIFMD. Furthermore, it is also expected to issue other consultation documents for comments by the industry.

SHORT SELLING REGULATION

Regulation (EU) No. 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps (hereinafter referred to as the 'Short Selling Regulation') was published in the Official Journal of the European Union on 24 March 2012, and came into force in all the Member States of the European Union on 1 November 2012.

The Short Selling Regulation is supplemented by another four Regulations adopted by the European Commission namely:

(I) Commission Delegated Regulation (EU) No 918/2012 of 5 July 2012 supplementing Regulation (EU) No 236/2012 of the European Parliament and of the Council on short selling and certain aspects of credit default swaps with regard to definitions, the calculation of net short positions, covered sovereign credit default swaps, notification thresholds, liquidity thresholds for suspending restrictions, significant falls in financial instruments and adverse events;

(II) Commission Delegated Regulation (EU) No 919/2012 of 5 July 2012 supplementing Regulation (EU) No 236/2012 of the European Parliament and of the Council on short selling and certain aspects of credit default swaps with regard to regulatory technical standards for the method of calculation of the fall in value for liquid shares and other financial instruments;

(III) Commission Delegated Regulation (EU) No 826/2012 of 29 June 2012 of the European Parliament and of the Council supplementing Regulation (EU) No 236/2012 of the European Parliament and of the Council with regard to regulatory technical standards on notification and disclosure requirements with regard to net short positions, the details of the information to be provided to ESMA in relation to net short positions and the method for calculating turnover to determine exempted shares;

(IV) Commission Implementing Regulation (EU) No 827/2012 of 29 June 2012 laying down implementing technical standards with regard to the means for public disclosure of net position in shares, the format of the information to be provided to ESMA in relation to net short positions, the types of agreements, arrangements and measures to adequately ensure that shares or sovereign debt instruments are available for settlement and the dates and period for the determination of the principal venue for a share according to Regulation (EU) No 236/2012 of the European Parliament and of the Council on short selling and certain aspects of credit default swaps.

The Short Selling Regulation sets three broad categories of requirements, namely:

(I) transparency requirements applicable to short selling in shares and sovereign debt, and transactions in sovereign credit default swaps;

(II) requirements which set restrictions on uncovered short sales; and

(III) requirements on intervention in financial markets by financial supervisors in exceptional market circumstances.

From a local perspective, the Short Selling Regulation has been implemented through the Financial Markets Act (Short Selling) Regulations, 2012 [L.N. 344 of 2012] which were published in the Government Gazette on 12 October 2012. The Financial Markets Act (Short Selling) Regulations appoint the MFSA as the competent authority for the purposes of Regulation (EU) No. 236/2012, with the power to monitor compliance with relevant requirements in Malta.

The Financial Markets Act (Short Selling) Regulations, 2012 were further supplemented by Guidance Notes which aimed at providing assistance on the transparency requirement and the restrictions applicable with regards to the short selling in shares and sovereign debt and transactions in sovereign credit default swaps.

EUROPEAN MARKETS INFRASTRUCTURE REGULATION - EMIR

Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (hereinafter referred to as 'EMIR') was published in the Official Journal of the European Union on 27 July 2012 and came into force in all the Member States of the European Union on 16 August 2012. EMIR regulates the:

(I) clearing obligation for certain classes of OTC Derivatives;
(II) risk mitigation techniques for non-centrally cleared OTC Derivatives;
(III) reporting obligations to trade repositories;
(IV) activity of Central Counter Parties and Trade Repositories.

On 19 December 2012, the European Commission adopted nine regulatory and implementing technical standards to further supplement EMIR. The regulatory technical standards are expected to be published immediately after receipt of a 'no-objection' from the European Parliament and Council within the stipulated period. On the other hand, the implementing technical standards are not subject to the above scrutiny, and will therefore be published immediately after their adoption.

During the period under review, and in particular on 29 November 2012, the Authority issued a circular outlining the contents of the draft Financial Markets Act (OTC Derivatives, Central Counterparties and Trade Repositories) Regulations. These Regulations aim at creating a registration framework for OTC Derivatives, central counterparties and trade repositories and in part implement the relevant provisions of EMIR. The Financial Markets Act (OTC Derivatives, Central Counterparties and Trade Repositories) Regulations are expected to come into force during the first quarter of 2013.

The Authority has further supplemented the aforementioned Regulations with ad hoc Guidance Notes on Central Counterparties Regulation. These Guidance Notes focus on organisational, conduct of business and prudential requirements for Central Counter Parties and certain aspects of the reporting obligations to trade repositories. The Authority is also expected to issue additional Guidance Notes to tackle all the aspects of EMIR during the first quarter of 2013.

FINANCIAL CONGLOMERATES DIRECTIVE

Directive 2011/89/EU of the European Parliament and of the Council of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate (FICOD) was published in the Official Journal of the European Union on 8 December 2011. The transposition deadline for Member States is 10 June 2013 with the exception of some provisions of the Directive which must be transposed into national legislation by 22 July 2013.

During February 2012, the European Commission issued a Call for Evidence for Fundamental Review inviting any stakeholder interested in the supervision of large complex financial groups in Europe to contribute to this review in the first half of 2012. This call for evidence ran till 19 April 2012.

Subsequently, on 14 May 2012, the EBA, EIOPA and ESMA issued a joint consultation document on the proposed response to the European Commission's call for advice on the fundamental review of the Financial Conglomerates Directive (JC/CP/2012/01). The Consultation ran till 13 August 2012. This Consultation Paper tackled specific aspects namely:

(a) the scope of application especially the inclusion of non-regulated entities;
(b) internal governance requirements and sanctions;
(c) supervisory empowerment of Directive 2002/87 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

The Advice shall contribute to the Commission's fundamental review of the FICOD as referred to above, following the short technical review resulting in Directive 2011/89/EU.

On the local front, the Authority set up an Internal Working Group composed of representatives from all the Regulatory and Supervisory Units. This Working Group is currently working on the transposition of the provisions of the Directive and on the Financial Conglomerates Regulations which are expected to repeal the existent Financial Conglomerates Regulations, 2004. The Authority intends issuing the draft regulations for consultation during the first quarter of 2013.

IORP DIRECTIVE

Directive 2003/41/EC of the European Parliament and of the Council on the activities and supervision of institutions for Occupational Retirement Provision (IORP) came into force on 3 June 2003 and was due for implementation by all Member States on 23 September 2005. The Directive lays down rules for the taking-up and pursuit of activities carried out by institutions for occupational retirement provision. It aims to ensure a high level of protection for future pensioners who are members or beneficiaries of pension funds, while guaranteeing efficient investment.

Following the issue of a second consultation [EIOPA-CP-11/006] which ran till 2 January 2012, EIOPA published its final advice on the review of the IORP Directive. In its call for Advice, the Commission had expressed the intention to introduce a harmonized, risk-based prudential regime for IORPs. In a nutshell, EIOPA's advice proposed:

1. a "holistic balance sheet" as a means of developing a Europe wide supervisory regime for IORPs;
2. enhanced qualitative requirements for governance and risk management of IORPs;
3. strengthened and consistent information requirements for defined contribution schemes.

Subsequently on 15 June 2012, EIOPA issued a Consultation Paper on Draft Technical Specifications (QIS) of EIOPA's Advice on the Review of the IORP Directive [EIOPA – CP – 12 – 003]. This Consultation, which ran till 31 July 2012, put forward for public discussion the draft technical specifications for the QIS of EIOPA's Advice to the Commission on the review of the IORP Directive. It also marks the first step towards the development of the QIS. Subsequently, on 2 October 2012, EIOPA issued Draft Technical Specifications QIS of EIOPA's Advice on the Review of the IORP Directive [EIOPA-BOS-12/085]. The purpose of the technical specifications is to provide guidance and indications to IORPs completing the QIS exercise and other participants with regards to valuing the holistic balance sheet and the calculation of the solvency capital requirement using a standard formula.

Meanwhile, on 1 March 2012, the European Commission hosted a public hearing for the revision of Directive 2003/41/EC. This public hearing brought together experts representing the occupational pensions industry, employers, scheme members and policy makers. The aim of this public hearing was that of bringing together all stakeholders to exchange views about EIOPA's technical advice (referred to above) and to suggest any changes to the Directive which could result in increased efficiency and improved supervision of occupational retirement schemes in the European Union.

The Authority is closely monitoring all the developments concerning the revised IORP Directive and will be informing the industry of any consultation documents issued both at European and at national level.

CREDIT AND FINANCIAL INSTITUTIONS

Following the transposition of CRD III and of the OMNIBUS Directive in the Banking Rules, on 1 January 2012, the following revised Banking Rules came into force:

1. BR/02/2010 - Large Exposures of Credit Institutions authorised under the Banking Act 1994;
2. BR/03/2012 - Own Funds of Credit Institutions authorised under the Banking Act 1994;
3. BR/04/2012 - Capital Requirements of Credit Institutions Authorised under the Banking Act 1994;
4. BR/08/2012 - Capital Adequacy of Credit Institutions Authorised Under the Banking Act 1994;
5. BR/10/2010 - Supervision on a Consolidated Basis of Credit Institutions Authorised Under the Banking Act 1994;
6. BR/12/2012 - The Supervisory Review Process Of Credit Institutions Authorised Under The Banking Act 1994.

Furthermore, BR/04/2010 was successively revised to include the EBA Guidelines on Advanced Measurement Approach (AMA) – Extensions and Guidelines. The revised BR/04/2012 came into force on 6th March 2012.

Banking Rule BR/12/2012 was further revised in March and April 2102 to incorporate:

(a) the Revised Guidelines on Remuneration Policies and Practices issued by EBA on 10 December 2010; and
(b) the Guidelines on Internal Governance issued by EBA on 27 September 2011.

Annex VII to Banking Rule BR/08 - Capital Adequacy of Credit Institutions Authorised Under the Banking Act 1994 was amended to include references to the following documents issued by the EBA:

(I) EBA's Guidelines on Stressed Value at Risk (Stressed VaR) (EBA/GL/2012/2)
(II) EBA's Guidelines on the Incremental Default and Migration Risk Charge (IRC) (EBA/GL/2012/3).

On 13 February 2012, the Authority issued a Policy Paper concerning applicants for authorisation as credit institutions and insurance companies, wherein the Authority notified potential applicants of a review in certain criteria regarding the licensing of credit institutions and insurance companies. This Policy Paper was followed by another dated 16 May 2012, applicable to all potential credit institutions which intend applying to carry out the business of banking in terms of the Banking Act as well as any activities listed in the Schedule to the Act. This Policy Paper was also supplemented by an amendment to BR/01/2012 - Application Procedures and Requirements for Authorisation of Licences for Banking Activities under the Banking Act 1994.

The Depositor Compensation Scheme Regulations were also amended with the aim of deploying part of the Reserve Requirements, released by the ECB to enhance the funding of the Depositor Compensation Scheme to 1% of eligible deposits to be reached over a period of three years. The Depositor Compensation Scheme (Amendment) Regulations, 2012 [L.N. 159 of 2012] came into force on 22 May 2012. The implementation process with regards to supplementary contributions was further extended by one year through the Depositor Compensation Scheme (Amendment) (No. 2) Regulations, 2012 [L.N. 340 of 2012].

The Banking Act (Capital Adequacy) Regulations were amended to implement Article 10(4) and (5) of the OMNIBUS Directive. Article 10 amends Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions. The Banking Act (Capital Adequacy) (Amendment) Regulations, 2012 [L.N. 278 of 2012] were published in the Government Gazette on 28 August 2012.

Lastly, towards the end of the year, the Authority launched two consultation exercises concerning a proposed Rule on Foreign Currency Lending and a proposed Rule on US Dollar Funding. Both Rules were issued in terms of the Malta Financial Services Authority Act [Cap. 330 – Laws of Malta].

The MFSA Rule on Foreign Currency Lending, which was issued for consultation on 29 October 2012, is modelled on the Recommendation of the European Systemic Risk Board on lending in foreign currencies (ESRB/2011/1) published as Notice No. 2011/C 342/01 of the Official Journal of the European Union, which was approved by the General Board of the European Systemic Risk Board (ESRB) on 21 September 2011, in accordance with Regulation (EU) No. 1092/2010. The consultation period ran till 14 November 2012 and the feedback statement was issued on 12 December 2012.

The MFSA Rule on US Dollar Funding was issued for consultation on 5 November 2012 and it is modelled on the Recommendation of the European Systemic Risk Board (ESRB) on US Dollar funding (ESRB/2011/2) which seeks to:

(i) monitor US Dollar funding and liquidity; and
(ii) provide for contingency funding plans.

The consultation period ran till 16 November 2012 and the feedback statement was issued on 21 December 2012. Both MFSA Rules are expected to come into force on 1 January 2013.

INSURANCE AND PENSIONS

Apart from the transposition exercise concerning Solvency II, during the period under review the Authority has also worked on the subsidiary legislation to be issued in terms of the Retirement Pensions Act and on the Pension Rules which will be issued in terms of the Act. The Retirement Pensions Act [Act XVI of 2011] was published in the Government Gazette of 5 August 2011. The Special Funds (Regulation) Act will be repealed once the Act comes into force.

Following the Policy Paper which was issued by the Authority on 13 February 2012 concerning applicants for authorisation as credit institutions and insurance companies, the Authority proceeded with revising Insurance Rule 6 - Schemes of Operations Relating to Business of Insurance to include reference to this Policy. Furthermore, this Rule together with Insurance Intermediaries Rule 12 of 2007 - Scheme of Operations Relating to Enrolment in the Agents List, Managers List or Brokers List and the Application for Enrolment was updated to reflect the amendments to the Prevention of Money Laundering and Funding of Terrorism Regulations. Both revised rules came into force on 14 June 2012.

On 3 April 2012, the Authority issued a Note for Information concerning the proposed changes to the Insurance Business (Assets & Liabilities) Regulations, 2007, and Insurance Rule 1 of 2007 - Own Funds of Companies Carrying on Business of Insurance. The amendments mainly concern the revised amounts to the minimum guarantee fund in respect of direct life and non-life insurance undertakings and reinsurance undertakings. The Insurance Business (Assets and Liabilities) (Amendment) Regulations, 2012 [L.N. 343 of 2012] were published in the Government Gazette on 12 October 2012 and together with the revised Insurance Rule 1 of 2007 came into force on 31 December 2012.

Lastly, a new Insurance Rule 30 of 2012 – Complaints Handling by Authorised Companies, is scheduled to come into force on 1 January 2013. Insurance Rule 30 incorporates EIOPA's Guidelines on complaints handling by Insurance Companies [EIOPA – BOS – 12/069 dated 14 June 2012] and EIOPA's Report on Best Practices by Insurance Companies in handling complaints [EIOPA – BOS – 12/070 dated 14 June 2012]. This new Rule has also necessitated a further amendment to article 6 of Insurance Rule 27 of 2009 - Insurers' Internal Controls, to provide that the requirements of Insurance Rule 27 are without prejudice to the requirements of the proposed new Insurance Rule on complaints handling.

TRUSTS AND TRUSTEES

During the period under review, the Trusts Working Group set up by the Authority continued discussing proposals for improving Malta's laws and practices relating to trusts and enhancing the legal framework related to the establishment and use of trusts.

On 14 December 2012, the Authority launched a consultation exercise on the proposed amendments to the Trusts and Trustees Act and other related legislation. Apart from the proposed amendments to the Trusts and Trustees Act, the Consultation Document outlines the contents of two proposed Regulations issued in terms of the Act namely:

(I) Trusts and Trustees Act (Registration of Notaries to act as Qualified Persons) aimed at creating a framework which caters for the registration of notaries wishing to act as a qualified person in terms of Article 43 of the Act; and

(II) Trusts and Trustees Act (Notarial Trust Deeds, Registration, Conservation and Access) Regulations aimed at providing a clear procedure to be adopted by Notaries to ensure the protection of the private nature of the trust deed on the one hand and the public element which is innate in the public deed on the other hand.

The consultation period is expected to run till mid-February 2013. The Authority is also planning to hold an information session during the first quarter of 2013 with the aim of further briefing the industry on the proposed changes outlined in the aforementioned consultation document as well as on the changes and innovations to the sector which the Authority is planning to carry out during 2013.

LISTING RULES

During the period under review, the Authority issued two feedback statements relating to two consultation documents which had been circulated with the industry during 2011. These feedback statements which are dated 31 January 2012 and 8 March 2012 respectively, related to:

- The MFSA Consultation dated 27 July 2011 on proposed amendments to Listing Rule 4.55 and the introduction of other Listing Rules regarding advertisements; and
- The MFSA Consultation dated 12 December 2011 on the proposed amendments to Listing Authority Policies concerning the sinking fund.

The feedback statement concerning the last aforementioned consultation document was further followed by an additional consultation document on proposed amendments to the Listing Policies relating to the creation of a sinking fund for bond issues offered to the retail investor. The Authority specified that the Listing Policy dated 8 March 2012 remained in force. The Authority is expected to issue a feedback statement during the first quarter of 2013.

During the month of February, the Irish Stock Exchange announced a joint venture with the Malta Stock Exchange to launch the European Securities Wholesale Market (EWSM). The EWSM aims at offering issuers access to an EU regulated market. In this regard, the MFSA as Listing Authority was involved in the approval of the Listing Rules in February 2012, relating to the admissibility to Listing on the EWSM of asset backed securities, debt securities and derivative securities. These Listing Rules were further revised in March 2012 and July 2012, the latter revision entailing the transposition of Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010 amending Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

Lastly on 1 November 2012, the Authority launched a consultation exercise concerning a proposal for the creation of an Alternative Companies List. The Consultation Document stems as a result of the preceding consultation exercise which the Authority had launched in November 2011 expressing the need to revise the current rules by issuing separate rules applicable to the Second Tier market which would qualify as a Multilateral Trading Facility in terms of the Investment Services Act. The Consultation Document on the Alternative Companies List provides an overview of the proposed conditions for admissibility to listing on the alternative market together with the applicability of other Chapters of the Listing Rules thereto. The consultation period ran till 30 November 2012. On 12 December 2012, the Authority issued a circular whereby the industry was notified of the coming into force of the revised Listing Rules incorporating the Alternative Company Listing Requirements.

SECURITIES AND MARKETS SUPERVISION

During the period under review, the Authority issued the much awaited Companies Act (Recognised Incorporated Cell Companies) Regulations, 2012 [L.N. 119 of 2012] (hereinafter referred to as 'RICC Regulations') together with the relevant Investment Services Rules for Recognised Incorporated Cell Companies. The coming into force of these Regulations also necessitated a revision to the Investment Services Rules for Professional Investor Funds and the Investment Services Rules for Retail Collective Investment Schemes since provision had to be made for those PIFs or CISs established as Incorporated Cells under a Recognised Incorporated Cell Company. The RICC Regulations continue to build on the "cellular" concept developed under Maltese legislation in recent years while taking into account international developments in the structuring of investment funds in Malta. The Authority also proceeded with issuing a Circular explaining the salient features of this new regulation together with a list of FAQs concerning the application of the RICC Regulations. This list of FAQs is being updated regularly with the last update being notified to the industry on 12 November 2012.

The Authority was also involved in the transposition of the provisions of the OMNIBUS Directive. The Companies Act (The Prospectus) (Amendment) Regulations, 2012 [L.N. 118 of 2012], the Investment Services Act (Capital Adequacy) (Amendment) Regulations, 2012 [L.N. 133 of 2012], the Companies Act (Amendment of Second Schedule) Regulations, 2012 [L.N. 171 of 2012], the European Passport Rights for Investment Firms (Amendment) Regulations, 2012 [L.N. 174 of 2012] and the European Rights for Regulated Markets (Amendment) Regulations, 2012 [L.N. 175 of 2012] were enacted to transpose the provisions of the OMNIBUS Directive.

The Investment Services Act (Financial Capital Adequacy Consolidation) Regulations were amended to transpose certain requirements emanating from Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies also referred to as CRDIII. These amendments relate to the measures available to the competent authorities in the case where investment firms do not meet the requirements of the Capital Requirements Directive. The revised regulations came into force on 25 May 2012.

The Designated Financial Instruments Regulations, 2012 [L.N. 380 of 2012] came into force on 6 November 2012. These Regulations repeal the Designated Financial Instruments Regulations, 2009 and identify which categories or classes of financial instrument should be considered as 'designated financial instruments' for the purposes of the Financial Markets Act.

On 11 May 2012, the Authority also issued a Circular addressed to the Investment Services Industry regarding the transposition of the Third Capital Requirements Directive. This Circular, which is available for download from the Authority's website, provides the investment services industry with:

(i) a brief outline of the amendments effected to transpose the requirements of CRD III which had remained outstanding;

(ii) the manner in which the Authority has transposed the outstanding CRD III amendments in the Rules; and

(iii) an indication of the applicability of the Guidelines issued by the European Banking Authority (EBA) on this subject.

During the month of June, the Authority issued a Guidance Note on draft Delegated Regulation amending Regulation (EC) No. 809/2004 published on 2 April 2012 and which came into force on 1st July 2012. The Guidance Note was aimed to all securities listed on the European Wholesale Securities Market and provided an indication of the salient features introduced by the Delegated Regulation which would be pertinent to the wholesale market.

During the same period, the Authority also announced an extensive revision to the Application Form for the licensing of Investment Services Licence Holders [Schedule A to Part A]. The intention behind the revision to Schedule A of the Investment Services Rules for Investment Services Providers is that of making the submission of application documents for Investment Services Licence as comprehensive as possible.

Following the publication by ESMA of the Guidelines on Systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities [ESMA/2012/122], on 17 April 2012, the Authority issued a circular to Investment Services Licence Holders inviting them to consider whether they fell within the scope of these Guidelines and if affirmative, they were requested to notify the Authority of the manner in which these systems and controls were implemented in compliance with the aforementioned Guidelines. The Authority also informed licensees that it had undertaken a review of the Malta Stock Exchange's automated trading environment systems and control currently in place in relation to the applicable sections of the Guidelines to trading platforms. The Licence Holders effected by these Guidelines submitted due feedback which the Authority has started evaluating.

The Investment Services Rules for Investment Services Providers were updated during the year to reflect the ESMA Guidelines on certain aspects of the MiFID Suitability Requirements and the ESMA Guidelines on certain aspects of the MiFID Compliance Function.

Furthermore, both the Investment Services Rules for Investment Services Providers and the Investment Services Rules for Retail Collective Investment Schemes were revised to ensure a more accurate transposition of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS IV).

During the period under review, the consultation on the proposed regulatory regime for Company Service Providers also marked an important development. This regime was proposed by the Authority in order to fully comply with the requirements of Article 36 of Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, also referred to as the Third Money Laundering Directive. The proposed regime would require company services providers to obtain a registration with the MFSA. The Authority is also proposing to issue Company Services Providers Rules which would contain, in further detail, the requirements which a person applying for registration in terms of the proposed Regulations would need to satisfy as well as the ongoing requirements which registered persons would need to abide by. The proposed Regulations and the Rules are expected to come into force during 2013.

The industry was alerted on a number of consultation exercises which were launched by ESMA. In particular the Authority issued a circular on the consultation on proposed Guidelines on remuneration policies and practices under the Markets in Financial Instruments Directive (MiFID) [ESMA/2012/570]. These Guidelines aim at strengthening investor protection by seeking to improve the implementation of the MiFID rules on conflicts of interest, and thereby preventing mis-selling of investment products. The proposed ESMA Guidelines apply to investment firms as well as credit institutions, UCITS management companies and external Alternative Investment Fund Managers when providing investment services, and competent authorities. The consultation period ran till 7 December 2012 and the final Guidelines are expected to be issued during the first quarter of 2013.

Similarly, towards the end of the year, ESMA launched a Consultation Paper on Guidelines and Recommendations on the scope of the Credit Rating Agencies Regulation [ESMA/2012/841]. The draft Guidelines aim to provide clarification on certain aspects of the scope of the Credit Rating Agencies (CRA) Regulation to registered CRAs, other market participants operating on the perimeter of this sector and to national securities markets regulators. The consultation period runs till 20 February 2013.

LICENSING

CREDIT AND FINANCIAL INSTITUTIONS

As at end of 2012, 27 credit institutions were authorised by the Malta Financial Services Authority to carry out banking activities in terms of the Banking Act (Cap. 371), two more authorisations than the previous year. In 2012, the Authority issued credit institution licences to Ferratum Bank (Malta) Limited and to AgriBank plc. VoiceCash Bank Ltd had its licence extended to carry out the issuing of electronic money.

Table 11: Credit and Financial institutions (2010 - 2012)

	Total licences at end 2010	Total licences at end 2011	Total licences at end 2012
Credit institutions	25	25	27
Financial institutions	13	15	23
Of which:			
Payment Institutions	-	8	15
Electronic Money Institutions	-	1	4

Source: Malta Financial Services Authority

Eight companies were granted a financial institution licence in 2012. HSBC Merchant Services Limited, International Transaction Payment Solutions (Malta) Limited, SecureTrading Financial Services Limited, RJ Rapid Ltd, and EFT Global Limited were licensed to provide payment services while Papaya Limited to undertake the activity of issuing of electronic money. Insignia Cards Limited was licensed to provide payment services and to issue electronic money. Fraport Malta Business Services Ltd was licensed to carry out lending activities.

Syspay Limited and Credorax (Malta) Limited had their licences extended to provide payment services and to issue electronic money respectively.

INSURANCE BUSINESS

There were 58 insurance undertakings authorised by the Malta Financial Services Authority at the end of 2012. This represents an increase of four net authorisations over the previous year.

Five new insurance undertakings were authorised by the Authority during 2012. Werla Insurance Company limited, Genghis Insurance Company Limited, and Axeria Assistance Ltd were authorised to carry on business of insurance and reinsurance in relation to five, four and seven classes of the general business respectively. FNF Title Insurance Company Ltd and Allcare Insurance Ltd were authorised to carry on business of insurance in relation to two and 14 classes of the general business respectively.

Table 12: Authorised insurance undertakings (2010 – 2012)

	Total licences at end 2010	Total licences at end 2011	Total licences at end 2012
Non-Life	33	37	42
Life	8	8	7
Composite	2	2	2
Reinsurance	7	7	7
Total	50	54	58
of which			
Affiliated	10	10	11
Protected Cell Companies	4 (13 cells)	8 (15 cells)	8 (18 cells)
Insurers of domestic origin	8	8	8
Insurers of foreign origin ^	2	1	1

Source: Malta Financial Services Authority

^ Foreign insurers refer to insurance undertakings with head office outside the EU/EEA Member States and which hold an authorisation under the Insurance Business Act (Cap. 403).

During the year under review, the Authority approved three new cells, namely cell A17 of White Rock Insurance (Europe) PCC Limited, AIF Cell of Abbey International Insurance PCC Limited and Totemic Cell 2 of Atlas Insurance PCC Limited, to write business in terms of the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, 2004. There were 18 approved cells within eight protected cell companies as at end of year 2012.

ArgoGlobal SE had the licence extended to carry on business of reinsurance in two classes of the general business while Platinum Insurance Ltd had the licence extended to conduct business of insurance in two classes of the general business. HighDome PCC Ltd had the licence extended to carry on business of insurance and reinsurance in two classes of the general business. Axeria Life International PCC Limited had the licence revised to carry on business of insurance in two classes of the general business only.

In March 2012, Grafton (Europe) Insurance Company Limited voluntary ceased to carry on business of insurance in terms of the Insurance Business Act (Cap 403).

INSURANCE INTERMEDIARIES – COMPANIES

In 2012, the number of licensed insurance managers, insurance agents and insurance brokers remained unchanged from the previous year at 15, 20 and 29 licences respectively.

Table 13: Authorised insurance intermediaries – Companies (2010 – 2012)

	Total licences at end 2010	Total licences at end 2011	Total licences at end 2012
Enrolled Insurance Managers	13	15	15
Enrolled Insurance Agents of:			
Local Insurers	10	9	9
Foreign Insurers	9	11	11
Enrolled Insurance Brokers	28	29	29

Source: Malta Financial Services Authority

REGISTERED INDIVIDUALS

As from 1st April 2007, the Authority started registering individual applicants who have been accepted for registration under the Agents Register and the Managers Register. This is in accordance with Article 11 of the Insurance Intermediaries Act, 2006 which provides that no person shall act as insurance agent or insurance manager unless one or more of the company's directors are registered in the Agents Register and the Managers Register and the insurance intermediaries activities are carried out under the management of a registered person.

Two new individuals were added to the Managers Register, five to the Agents Register and nine to the Brokers Register in 2012. As at end of 2012, there were 26 individuals registered in the Managers Register, 28 individuals registered in the Agents Register and 78 individuals in the Brokers Register. There were 506 registered tied insurance intermediaries, seven less than the previous year.

Table 14: Authorised insurance intermediaries – Individuals (2010 – 2012)

	Total licences at end 2010	Total licences at end 2011	Total licences at end 2012
Registered Insurance Managers	22	26	26
Registered Insurance Agents	27	28	28
Registered Insurance Brokers	66	71	78
Tied Insurance Intermediaries	507	513	506

Source: Malta Financial Services Authority

PENSIONS

The Authority authorised five new Retirement Scheme certificates of registration in 2012, namely to The STM Malta (US Qualified) Retirement Plan, The STM Protected Retirement Plan, The Bourse Retirement Scheme (Malta), Castille Retirement Plan, and The Centaurus Retirement Benefit Scheme. There were 17 authorised Retirement Scheme certificates in 2012, four more certificates than the previous year. In April, the Authority accepted the termination of registration of The Dominion Malta Retirement Plan.

There were two new registered retirement scheme administrators in 2012, to stand at nine at the end of 2012. New certificates were issued to Bentley Trust (Malta) Limited and Sovereign Pension Services Limited

Table 15: Retirement Schemes, Administrators, and Asset Managers (2010 – 2012)

	Total licences at end 2010	Total licences at end 2011	Total licences at end 2012
Retirement Schemes	6	13	17
Retirement Scheme Administrators	5	7	9
Asset Managers	3	3	3

Source: Malta Financial Services Authority

SECURITIES BUSINESS

REGULATED MARKETS

The Malta Financial Services Authority issued an authorisation to European Wholesale Securities Market (EWSM) to act as a Regulated Market in terms of article 4 of the Financial Markets Act. The new Regulated Market is a joint venture between the Irish Stock Exchange and the Malta Stock Exchange and is supervised by the Malta Financial Services Authority. The Irish Stock Exchange has 80 per cent share of the new market and the Malta Stock Exchange holds the remaining 20 per cent shareholding of the company.

The European Wholesale Securities Market is suitable for arrangers and issuers of whole-sale fixed-income products. The Irish Stock Exchange acts as the market promoter and provides the primary market infrastructure, listing, and other corporate services while the Malta Stock Exchange acts as the market operator and the provider of secondary market services.

INVESTMENT SERVICES

Ten new companies were licensed by the Authority in 2012 to provide investment services activities, increasing the number of licensed investment services providers to 113 at the end of 2012

Table 16: Investment services licences (2011 – 2012)

	2011			2012		
	New licenses	Surrendered licences	Total licences at end 2011	New licences	Surrendered licences	Total licences at end 2012
Category 1a	1	-	13	-	1	12
Category 1b	-	1	4	-	-	4
Category 2	15	8	80	8	5	82[11]
Category 2 & 4	-	-	3	-	-	3
Category 3	-	-	6	2	-	9[12]
Category 3 & 4	-	-	2	-	-	2
Category 4	-	-	1	-	-	1
Total	16	9	109	10	6	113

Source: Malta Financial Services Authority

In 2012, the Authority licensed eight new Category 2 investment services licences, namely to Z Investment Partners Malta Ltd, Alpstar Capital (Malta) Limited, Vitesse Advisors Ltd, Vatas Asset Management Limited, C8 Investments Ltd, Terra Partners Asset Management Limited, Gamma Capital Markets Limited, and Andurand Capital Management Ltd. The Authority also issued two new Category 3 licences to Swissquote Europe Ltd and NSFX Ltd.

One company, namely Crystal Finance Investments Limited had the licence upgraded from Category 2 to Category 3. Twelve other companies had their licences extended to provide additional investment services activities.

During the year, the Authority accepted the surrender of five Category 2 licences, namely to Tell Investments CP, Tell Capital Ltd, GDP Asset Management (Malta) Ltd, Swiss Settlements Fund Management Ltd, and Lembex Global Investments Ltd. Moreover, the Authority cancelled the investment services licence granted to Guardian Securities Limited in terms of the Investment Services Act.

[11] *One licence was upgraded from Category 2 to Category 3.*

[12] *One licence was upgraded from Category 2 to Category 3.*

RECOGNISED FUND ADMINISTRATORS

Two new companies were granted recognition certificates in 2012 to act as recognised fund administrators in terms of the Investment Services Act, namely to Blue Planet Investment Management Limited and Dixcart Fund Administrators (Malta) Limited. The number of recognised fund administrators at end of 2012 stood at 26, two more certificates than the previous year

Table 17: Investment services licences – Recognised Fund Administrators (2011 – 2012)

	2011			2012		
	New licenses	Surrendered licences	Total licences at end 2011	New licences	Surrendered licences	Total licences at end 2012
Recognised Fund Administrators	6	-	24	2	-	26

Source: Malta Financial Services Authority

COLLECTIVE INVESTMENT SCHEMES (CISS)

The Authority licensed 128 new Collective Investment Scheme licences (including sub-funds) in 2012, about 18 per cent more than 2010 but 28 per cent less than 2011. Of the new funds issued in 2012, 117 were Professional Investor Funds (PIFs), nine UCITS funds and two Non-UCITS funds.

Table 18 provides the new issued licences and the surrendered licences for the period 2010-2012.

Table 18: New and surrendered Collective Investment Schemes (including sub-funds) (2010 – 2012)

	2010		2011		2012	
	New licenses	Surrendered licences	New licenses	Surrendered licences	New licenses	Surrendered licences
PIFs	102	81	163	26	117	79
UCITS	5	-	14	5	9	14
Non-UCITS	-	6	2	1	2	1
Private	1	2	-	-	-	-
Total	108	89	179	32	128	94

Source: Malta Financial Services Authority

RECOGNISED INCORPORATED CELLS COMPANIES

In 2012, the Authority started issuing the first certificates under the Companies Act (Cap 386) for the setting up of recognised incorporated cell companies.

A Recognition Certificate was issued to AKJ Simplon RICC Limited in terms of Article 9A of the Investment Services Act to provide incorporated cells with administrative services.

Table 19: Recognised Incorporated Cell Companies (2012)

	2012		
	New licences	Surrendered licences	Total licences at end 2012
Recognised Incorporated Cell Companies	1 (2 cells)	-	1 (2 cells)

Source: Malta Financial Services Authority

Two Collective Investment Scheme licences were issued to Adequation Fund IC SICAV plc and Absolute AKJ Fund IC SICAV plc, as incorporated cells of AKJ Simplon RICC Limited, in terms of Article 6 of the Investment Services Act 1994, to carry out the activities of Professional Investor Funds targeting Qualifying Investors.

TRUST SERVICES

There were 131 authorisations in terms of the Trusts and Trustees Act at the end of 2012, eight more authorisations than the previous year. In 2012, eight new companies were authorised by the Authority in terms of the Trusts and Trustees Act (Cap.331).

Premier Fiduciary and Trusts Limited, Capricorn Trustees Limited, SwissIndependent (Malta) Ltd, FBS Trust Limited, and Artio Trustees Limited were authorised to act as a trustee and to provide other fiduciary services including acting as an administrator of private foundations. Plethora Management Services Limited and Aegis Corporate Services Limited were authorised to provide fiduciary services which do not include acting as trustees. Abacus Corporate Services Limited was authorised to receive property under trusts, to act as a trustee and to provide other fiduciary services including acting as an administrator of private foundations.

CSB Trustees and Fiduciaries Limited, DNT Fiduciary Limited, Vistra (Malta) Limited, Grant Thornton Fiduciaire Limited, Summa Fiduciary Services Limited, Claris Trustees & Fiduciaries Limited, Tri–Mer Services Limited, Equinox International Limited, Abacus Holdings Limited, and Credence Holdings Limited had the authorisation extended to act as an administrator of Private Foundations in terms of Article 43(12)(b) of the Trusts and Trustees Act. Integrated-Capabilities Limited had the authorisation revised to act as a trustee and to provide other fiduciary services including acting as an administrator of private foundations.

Table 20: Authorised Trustees, Nominees and Trusts (2010 – 2012)

	Total authorisations at end 2010	Total authorisations at end 2011	Total authorisations at end 2012
Authorisations in terms of the Trusts and Trustees Act (Trustees/ Fiduciary Service Providers/ Administrators of Private Foundations)	117	123	131
Nominees	23	22	20
Trusts registered in terms of the Trust Act, 1988	117	115	115

Source: Malta Financial Services Authority

The coming into force of the Trusts & Trustees Act in 2005 brought the issuing of licences for trusts and nominee services to an end. Companies and individuals who held a licence to provide nominee services had until 2006 to apply for a licence to act as Trustees under the new Act. In this regard, during 2012, nominees continued to be phased out with only 20 still registered. At the end of the year, 115 trusts were still registered in terms of the Trust Act (1988).

LISTING AUTHORITY

Following the appropriate evaluations undertaken by the Listing Committee, the Listing Authority approved the admissibility to listing two equity issues, 11 corporate bond issues, and three Malta Government Securities issues in 2012. There were no de-listings in 2012.

THE REGISTRY OF COMPANIES

TOTAL REGISTRATIONS AND ACTIVE REGISTRATIONS

Since the inception of the Registry of Companies, 59,098 companies, 1,395 partnerships - "En Nom Collectif" and 96 partnerships - "En Commandite" were registered. As at end 2012, the (net) number of active companies and commercial partnerships on the Register was as follows: 39,858 companies, 907 partnerships - "En Nom Collectif" and 71 partnerships - "En Commandite".

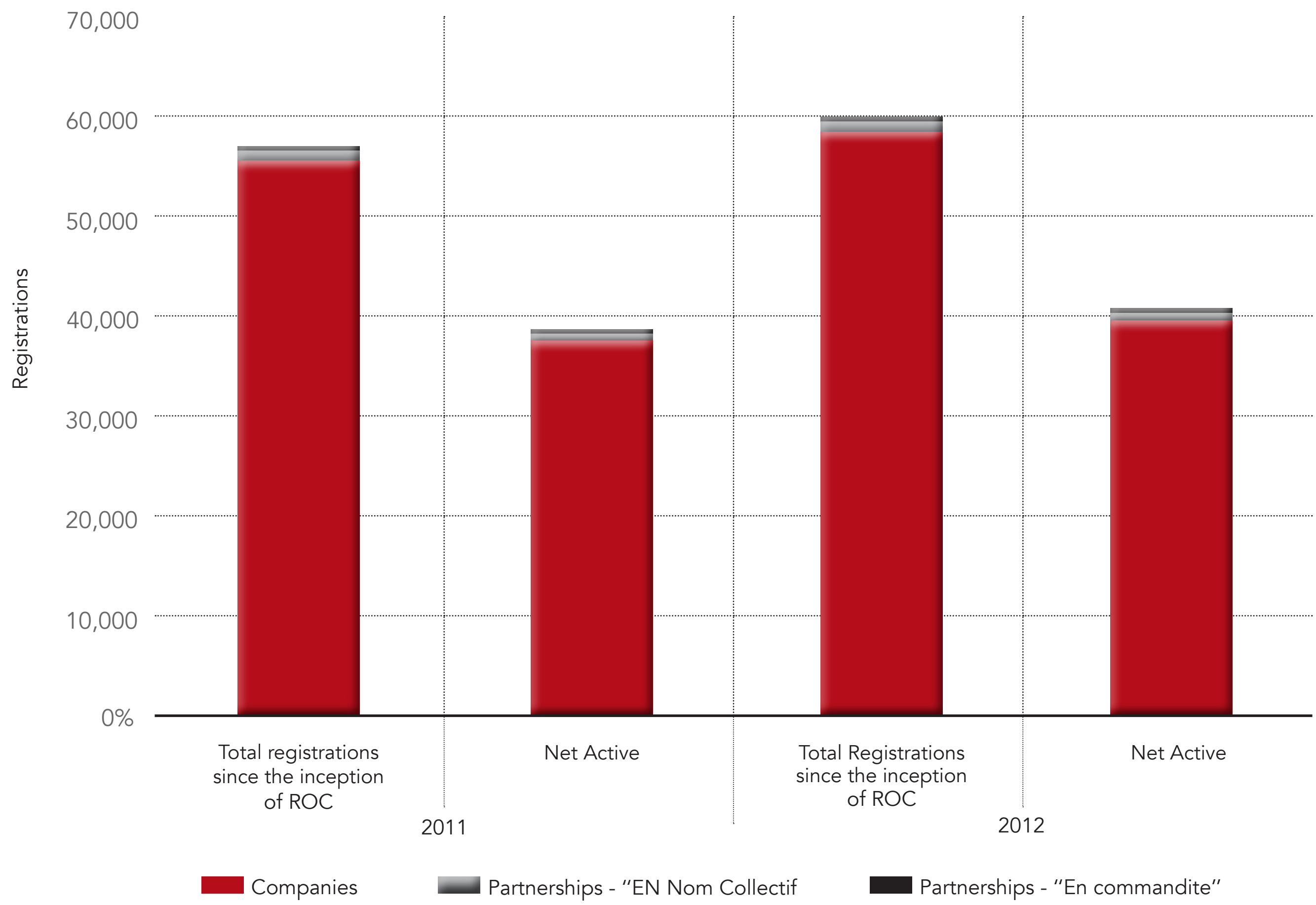


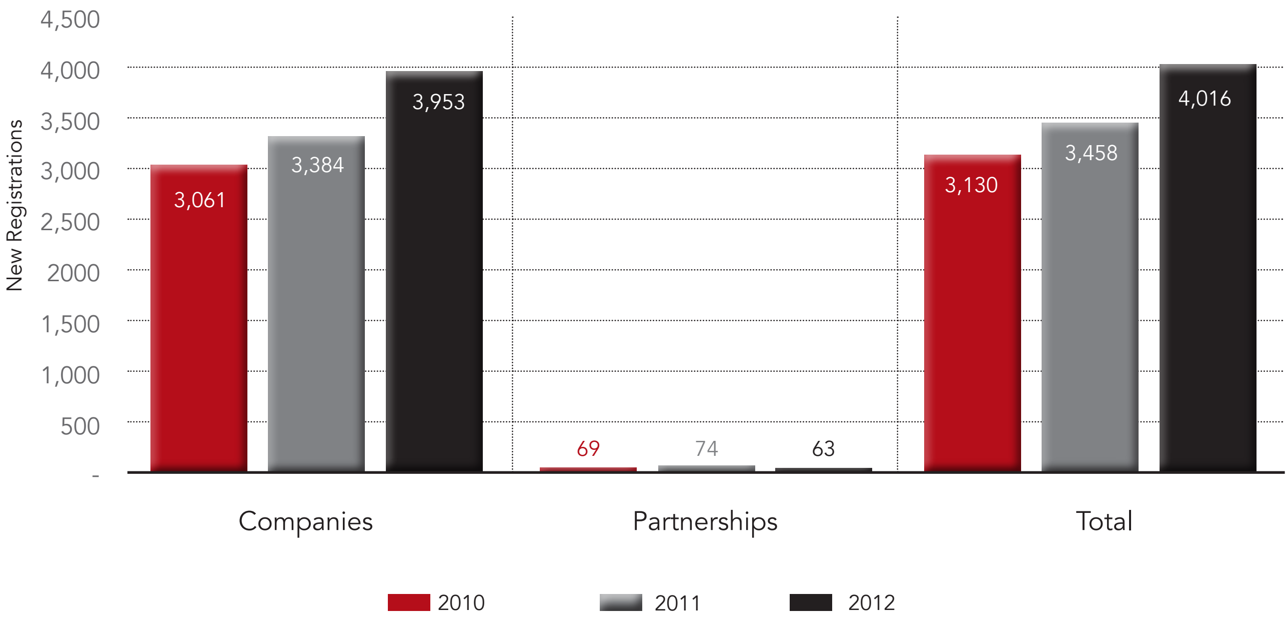
CHART 21: TOTAL REGISTRATIONS AGAINST NET ACTIVE REGISTRATIONS (2011 - 2012)

Source: Malta Financial Services Authority

NEW REGISTRATIONS

There were 4,016 new registrations in 2012, 16 per cent more than the previous year. The number of new companies registered in the Companies Registry was 3,953 while 63 new commercial partnerships were registered.

CHART 22: NEW REGISTRATIONS (2010 - 2012)



Source: Malta Financial Services Authority

MERGERS AND LIQUIDATIONS

In 2012 there were 135 mergers of companies and 1049 companies were placed into liquidation during the year.

Table 21: Mergers and liquidation of companies (2010 – 2012)

End of year	Mergers	Total companies placed into liquidation
2010	138	991
2011	144	919
2012	135	1,049

Source: Malta Financial Services Authority

REDOMICILIATION OF COMPANIES

There were 68 companies which transferred their domicile to Malta in terms of the Continuation of Companies Regulations under the Companies Act, almost 20 per cent more than the previous year.

Table 22: Total inward redomiciled companies (2010 – 2012)

End of year	Total companies placed into liquidation
2010	64
2011	57
2012	68

Source: Malta Financial Services Authority

Chart 23 depicts a breakdown of the redomiciled companies registered in 2012 by country of origin from EU or non-EU countries. About 73 per cent of the companies transferred their domiciles to Malta from Non-EU countries while the remaining 27 per cent from EU countries.

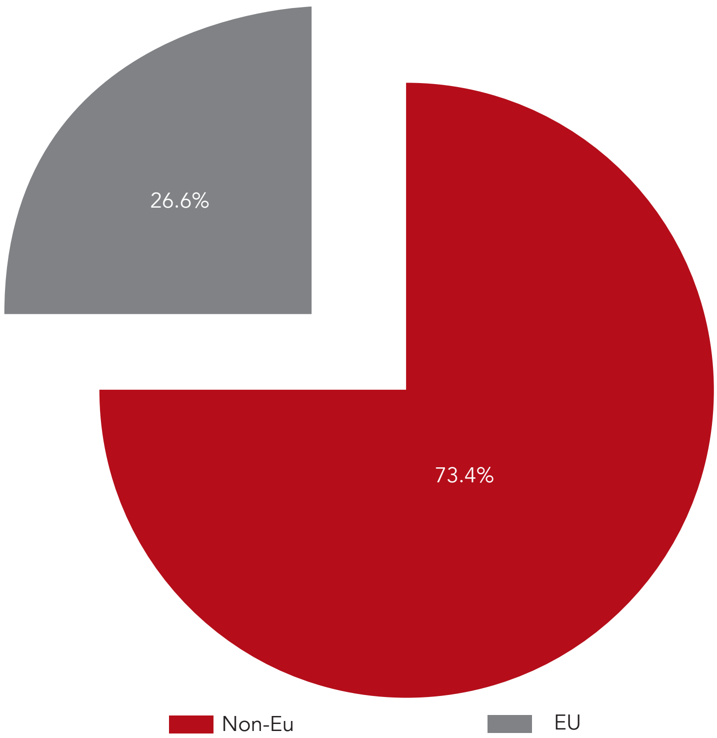


CHART 23: REDOMICILED COMPANIES BY COUNTRY OF ORIGIN FROM EU AND NON-EU COUNTRIES (2012)

Source: Malta Financial Services Authority

Table 23 represents a breakdown of the redomiciled companies registered in 2012 by type of operation.

Table 23: Breakdown of redomiciled companies in 2012 by type of operation

Category	Number of redomiciled companies
General Trading	6
Holding	13
Insurance	1
IT Activities	2
Marketing/Promotion/Constultancy	4
Other	4
Private Investment	12
Property Activities	21
Real Estate	3
Securities	1
Shipping	1
Total	68

Source: Malta Financial Services Authority

NOTIFICATIONS FOR INWARD CROSS-BORDER SERVICES

The Authority received the following new notifications from entities, through their home country regulator, to passport into Malta via the freedom of services:

Table 24: New notifications of passporting into malta via the freedom of services in 2012

Category	Number of redomiciled companies
European Credit institutions	21
European Financial Institutions	61
European Insurance Undertakings	38
European Insurance Intermediaries	280
UCITS Schemes (including sub-funds)	27
Investment Services	209

Source: Malta Financial Services Authority

There was also one payment institution which notified the Authority that it will be passporting in Malta via the freedom of establishment.

NOTIFICATIONS FOR OUTWARD CROSS-BORDER SERVICES

During 2012, a number of Maltese companies started providing cross-border services outside Malta. Table 25 represents a breakdown of entities that have notified the MFSA that they will be passporting outside of Malta via the freedom of services.

Table 25: New notifications of passporting outside Malta via the freedom of services in 2012

Category	Number of companies
Credit Institutions	4
Financial Institutions	4
Insurance Undertakings	5
Insurance Intermediaries	2
Investment Services	5
UCITS	2

Source: Malta Financial Services Authority

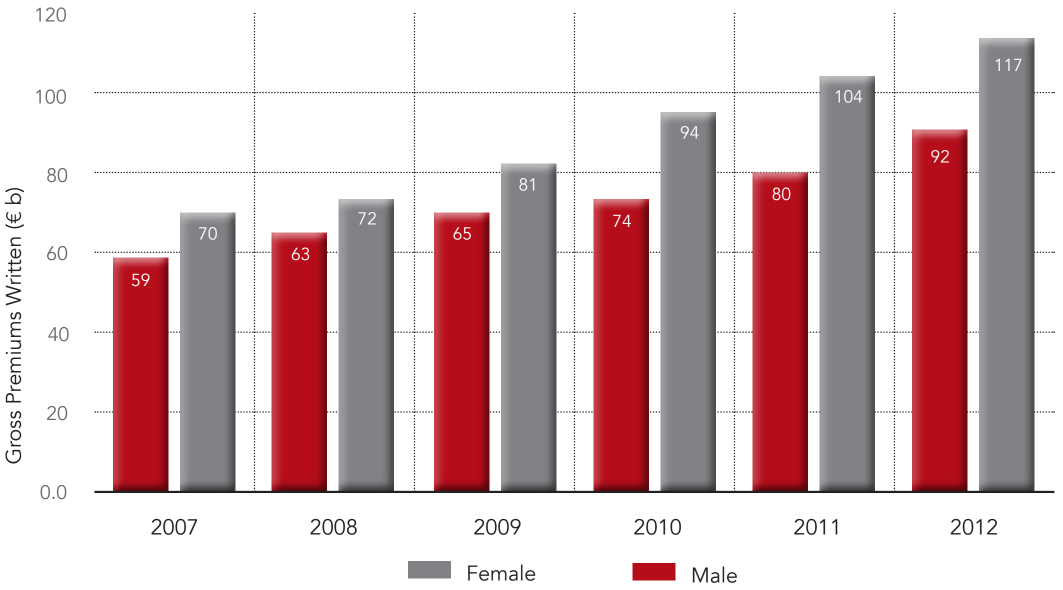
Additionally, there was one credit institution and an insurance intermediary which notified the Authority that it will be passporting outside Malta via the freedom of establishment.

DEVELOPMENT OVERVIEW

HUMAN RESOURCES DEVELOPMENT

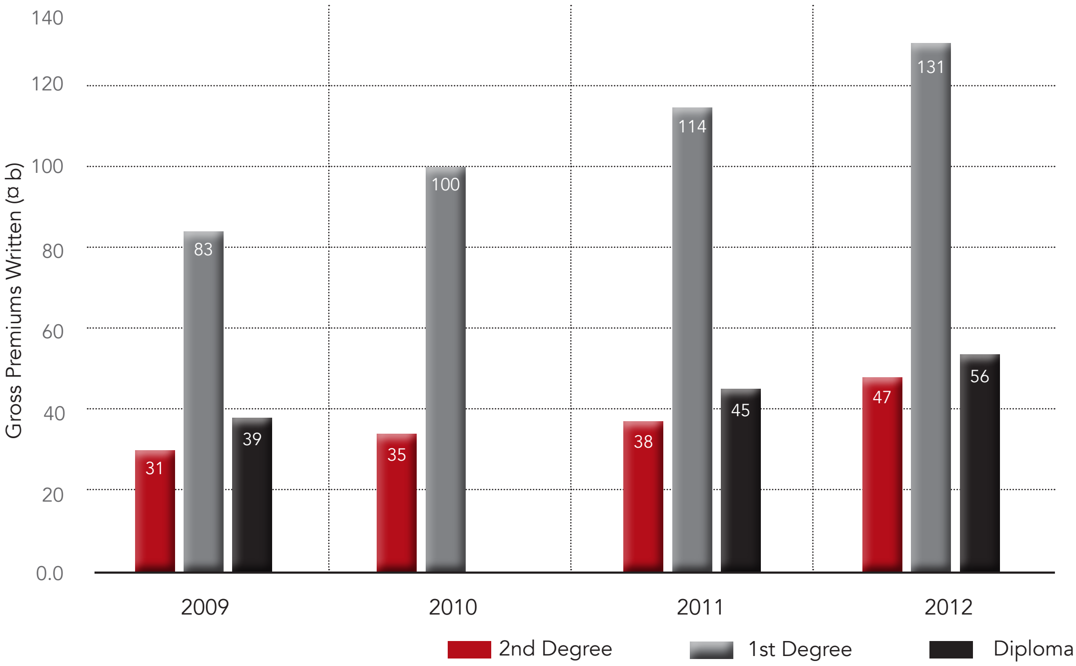
The total staff complement at the MFSA as at end of December 2012 stood at 209.

CHART 24: MFSA EMPLOYEES (2007 - 2012)



Source: Malta Financial Services Authority

CHART 25: MFSA QUALIFIED STAFF (2007 - 2012)



Source: Malta Financial Services Authority

During 2012, thirty six new members of staff were recruited while ten terminated their employment.

HUMAN RESOURCES

The Authority continued to actively support and encourage the widening and deepening of education and training in financial services disciplines. This included the organisation of training and development programmes for its workforce, provision of training activities for firms in the finance sector, co-ordination of courses for employees of other financial institutions and collaboration with training providers whose programmes are targeted at people seeking a job within the sector. In addition, its Education Consultative Council continued to act as a key player in promoting careers and bridging the gap between the educational needs and the industry needs through training and education programmes.

As at end 2012, 131 of the staff complement held a first degree, of which 47 have also attained a post graduate degree or equivalent. Besides, 56 staff members held a diploma in any of the different vocational disciplines.

EMPLOYEE TRAINING AND DEVELOPMENT

The Human Resources & Development Unit is the hub of all the training activities taking place within the MFSA. An important function of the Unit is the promotion and management of the Self Development Scheme. This involves giving advice to employees about suitable courses and programmes of continuing and higher education relevant to their work at the MFSA and mentoring and monitoring the progress of individuals. At the end of 2012, the Self Development Scheme had 50 staff members undertaking studies that involved a wide range of areas in financial services, including: accounting, ICT related studies, actuarial techniques, insurance related disciplines, trusts and estate management and law.

At the end of 2012 there were 50 staff members undertaking studies under the MFSA's Self Development Scheme that involved specialisation in various disciplines. These covered a wide range of areas in financial services, which include: accounting, ICT related studies, actuarial techniques, insurance related disciplines, trusts and estate management and law.

Nine staff members completed their courses during 2012: Stephanie Buhagiar Camilleri, Edward Grech, Jonathan Sammut, Erika Farrugia, Melanie Galea, Carl Mifsud, Clifford Xuereb, Malcolm Saliba and Neville Agius.

The Authority continued to offer opportunities of attachment programmes to its staff members throughout the 2012. The experiences included attachments to finance firms and with professional institutes and similar bodies. A large number of employees took part in sharing and gaining further technical expertise through their participation in programmes organised at EU regulator level. Staff attended programmes of the European Banking Authority (EBA), the European Securities & Markets Authority (ESMA) and the European Insurance & Occupational Pensions Authority (EIOPA).

Duty travel also entailed that a considerable number of staff members travelled to major European countries, in particular, to attend training programmes in line with the Authority's policy on employee development and normal work practices adopted by the respective supervisory units.

An in-house training session at the MFSA

INTERNATIONAL SEMINARS

In 2012, the Human Resource & Development Unit and the Communications Unit jointly organised a number of seminars that involved international as well as Maltese participants. The seminars addressed a range of topical subjects, which included an Enforcement and Oversight training programme in January, held in conjunction with the U.S. Securities & Exchange Commission, the 2nd Annual Malta Fund Servicing Conference on the implications for fund services under Aifm & UCITS IV Directives held in March, the EIOPA Task Force Insurance Guarantee Schemes seminar in April, the Malta International Risk & Insurance Congress held in May and the EIOPA System of Governance seminar held in October.

LOCAL SEMINARS AND IN-HOUSE TRAINING

It is the Authority's philosophy to renew its commitment toward the identification of the sector's training needs and address the likely gaps that may exist. In so doing, it will be enhancing employees' skills and enriching knowledge and experience beyond traditional academic training. Thus, the MFSA, in conjunction with various training institutes, offered programmes with the objective of sustaining the on-going developments being experienced within the finance sector. Moreover, the HR & Development Unit, being the main player in the organisation and set-up of training programmes for MFSA staff, implemented a series of training programmes during the year under review. These included an induction course for newly recruited staff and courses on first aid, verbal and non-verbal communication and time management, supervisory skills for new managerial staff and supervisory information systems. Other initiatives included discussions for senior managers, awareness training on psycho-social and disability issues, and management training for directors.

In addition to the above, the MFSA has supported staff in attending seminars organised locally on work-related topics. Thus, in 2012, a total of 184 employees across all Units within the Authority attended local courses, seminars, conferences and workshops organised by various training and other institutions including the PricewaterhouseCoopers Academy, the Malta Institute of Accountants, the Institute for Financial Services Malta, the Institute of Financial Services Practitioners, the Chamber of Advocates, the Society of Trust and Estate Practitioners (Malta) (STEP), Society Education, the Malta International Training Centre, the Institute for Professional Development (Malta), the Institute of Legal Studies (Malta), the Foundation for Human Resources Development, BPP Professional Education (Malta), the Malta Institute of Management, KPMG, The Active Group, Law at Work (Malta), Lead Events, among others. These training activities amounted to 5337 hours of training over one year.

EDUCATION CONSULTATIVE COUNCIL

CAREERS IN THE FINANCIAL SERVICES SECTOR

The Human Resources and Development Unit is the secretariat and delivery machinery for the Education Consultative Committee (ECC). The ECC was set up on the initiative of the MFSA in 2009 to act as a focus for the continuing improvement in the range and quality of training and education in financial services subjects. As such, the ECC plays a role of strategic national importance in keeping Malta internationally competitive in financial services.

It seeks to engage all relevant parties in ensuring that Malta has the right framework of courses to meet the needs of ambitious and talented people who want to progress in Malta's finance sector and helps ensure that the country can meet the needs of local and foreign finance companies in Malta. Maintaining a good flow of well qualified people has the added benefit of helping to attract mobile capital and of minimising the possibility of the economy overheating through wage inflation in finance, which could damage national economic stability whilst deterring new inward investment.

The ECC has become an established part of the finance education and training scene in Malta. It has no statutory powers and does its work purely through drawing on the expertise, skills, knowledge and goodwill of firms and professional member organisations in the finance sector, the education sector of schools and further and higher education institutes, private sector training concerns, departments of government and the MFSA itself. It is a sounding board for new ideas, an advocate for appropriate new courses, a researcher into financial services marketplace employee demand and supply issues and an authoritative and influential voice for financial sector education and training.

The Youth Section of Malta's Employment & Training Corporation joined the ECC as a new member during 2012.

The highly successful programme of schools visits, undertaken under the auspices of the ECC and delivered by a mixture of MFSA staff and personnel from finance firms, continued throughout 2012. All secondary schools in Malta take part in this programme, which is designed to introduce school students to the idea of a career in financial services. Students hear an introduction outlining the function of the finance industry, the types of services and products it supplies and something of the range of jobs available. Students are told of the type of school, college and university qualifications the industry seeks and of the "soft skills" candidates should have to work successfully in the sector. Students are introduced to the careers advice website run by the MFSA, called careersinfinance. The opportunity is taken at every school for an MFSA employee it give a brief talk on managing personal finance. This is aimed at all students taking part and is likely to have a lasting impact on how future Maltese consumers evaluate and choose financial products.

For the fourth year running, the MFSA on behalf the ECC, organised the Job Exposure Programme in collaboration with the Student Services Department within the Directorate for Educational Services and the Independent Schools Association. The event, which took place in mid-July 2012, was aimed at offering Form IV secondary school students a week's work experience in one of the organisations operating in the financial services sector.

Through this Programme, the ECC continued to strengthen its role as a promoter of careers in finance. As in previous years, this initiative helped students to expand their experiences gained earlier through their career orientation visits to firms in this sector. These on-the-job experiences bring the world of work alive for students. They are able to begin to understand the importance of self-discipline and of teamwork, of

procedure, processes and planning in daily work and get a basic understanding of what a particular business does in the financial services marketplace.
Thirty companies hosted a total of 99 students in 2012. The ECC is extremely grateful to those companies and would encourage more finance firms to offer places in 2013.

During 2012, the ECC again made a major contribution to supporting members that provide financial services education to people working within the sector and those who want to come into the industry for the first time or refresh their skills after a period away from work. In all, 3048 people qualified in or attended courses staged by the ECC Members. This is an extremely encouraging figure and demonstrates that there is a strong appetite in Malta for advanced professional and technical training and education in finance subjects.

In September 2012 Mr Paul Vella retired from the MFSA. He had served with distinction as Director of Human Resources and played a central role in establishing many programmes and initiatives. The Authority thanks him for his service and wishes him well in his retirement.

INFORMATION AND COMMUNICATION TECHNOLOGIES

The Information and Communication Technologies (ICT) Unit provides operational support to the other units and is responsible for managing the Authority's resources efficiently. Recently, the unit has also had its remit extended to include the provision of information security analysis to the Regulatory Units.

In addition to the normal day-to-day routine service and support, the information systems section and the systems infrastructure section within the Unit have completed a number of projects as highlighted below.

INFORMATION SYSTEMS SECTION

CORPORATE-WIDE SYSTEMS

MFSA MAIN WEBSITE AND SISTER WEBSITES

On-going changes were applied to the main MFSA website – www.mfsa.com.mt and the whole suite of sister sites, namely www.careersinfinance.mfsa.com.mt; www.mymoneybox.mfsa.com.mt; www.compensationschemes.org.mt and www.rocsupport.mfsa.com.mt. These included the upgrading their target framework to ASP.NET Framework version 4.0.

The existing content management system was extended to other areas of the main website. Electronic career application forms can now be downloaded directly from the website itself. Enhancements for better search engine optimisation (SEO) were also implemented. Additional functionality to make the website more responsive was also added to make it easier for end-users to access the website from mobile devices.
Additional services including a new insurance comparator web-service and a newsletter generator were developed to the consumers' portal – mymoneybox.mfsa.com.mt.
Enhancements were also carried out on the members' area.

INTRANET PORTAL

The MFSA Intranet portal was also updated in various areas such as the Leave Management System; Stationary Management System; SMS Service; Garage Parking List; Travel Reports Repository; Transport Booking; Employee Map; News & Events; Information & Policies; ICT Help Desk; and a Telephone Extension Search Facility.

REGULATORY AND SUPERVISION SYSTEMS

EUROPEAN SUPERVISORY DEVELOPMENTS

As in previous years, the information systems team continued to assist regulatory and supervision units in monitoring IT-related initiatives undertaken by the respective European authorities, namely European Insurance and Occupational Pensions Authority (EIOPA), European Banking Authority (EBA) and European Securities and Markets Authority (ESMA). To name but a few of the most active projects in this regard one can mention the Omnibus and Prospectus Registers projects by ESMA; the on-going solvency II reporting in XBRL (eXtensible Business Reporting Language) project by EIOPA and a similar initiative by EBA to use XBRL for COREP/FINREP reporting.

RESEARCH AND DEVELOPMENT – SYSTEMS REVIEW FOR SUPERVISION UNITS

During 2012 the information systems section embarked on an extensive exercise to analyse and subsequently outline the main systems that may be deployed at MFSA to achieve better regulation through further automation of the main business processes. Part of this exercise included a 1-day visit to the offices of the Central Bank of Ireland (CBI) in Dublin to meet key units within the CBI. Discussions on the approaches and systems that are being adopted by the CBI were also held with IT staff. The main findings were presented to MFSA supervisory units in November 2012.

In conjunction with this exercise, a high-level architecture was also proposed to management. This framework would include a central authorisation system and also cater for risk-based supervision processes making use of appropriate analytical systems. Other systems like a data warehouse to act as a repository for MFSA data, SharePoint for document management, sharing and collaboration; XBRL plugins to satisfy EU reporting requirements also featured in the proposed framework.

Five main projects/systems forming the basis of a long term plan in this area were proposed for management's consideration.

CENTRALISED REPORTING

New reporting features pertaining to different units within MFSA, namely the Registry of Companies, Finance Unit, Regulatory Development Unit and the Consumer Complaints Unit, were added to the existing setup using SQL Server Report Services (SSRS). These were made available to the respective end-users through SharePoint Sites.

INSURANCE AND PENSIONS SUPERVISION UNIT (IPSU) AND BANKING SUPERVISION UNIT (BSU)

SOLVENCY II REPORTING AND COREP/FINREP REPORTING IN XBRL

The information systems section continued giving its input on a number of XBRL-based projects initiated by the respective European Supervisory Authorities. One such project is the harmonized Solvency II Quantitative Reporting Templates project promoted by EIOPA. The Banking Supervision Unit is also being assisted on a similar initiative undertaken by the EBA in relation to Implementing Technical Standards (ITS) on supervisory reporting requirements for national supervisory institutions like the MFSA.
Various presentations and discussions with tool suppliers and business users were held over web conferencing facilities for these purposes. Members of the IT Unit also participated in an XBRL seminar organised by EIOPA in Tallinn - Estonia in April 2012. Later in May 2012 top members of EIOPA's IT and Data Committee (ITDC) visited the MFSA for further discussions.

The outcome of this exercise showed that ideally the chosen tool should be a common one to be used amongst all supervision units and that can integrate seamlessly with our existing reporting engines.
The proposed roadmap for MFSA is to procure a common XBRL tool to be used across all supervision units.

ROC ONLINE SYSTEM NEW FUNCTIONALITY

In the last quarter of 2012, work started on a new project to integrate the ROC Online System with the European Business Registers platform. Other projects to enhance and add new functionality to the ROC Online system include an enhanced and simpler user registration process; a revamp of the user interface and implementation of a new notification mechanism to inform users when filing of annual return and company's accounts are due.

SYSTEMS INFRASTRUCTURE SECTION

Internet access through the corporate networks has been secured in a centralised manner which requires user identity identification prior to authorisation across the authority. This also permits a higher degree of granular application-level security across the domain. This approach ensures that all data flow across the network is authenticated appropriately prior to undertaking any further activity.

Security systems such as firewalls and content filtering solutions have undergone a reconfiguration procedure to ensure they are not only in line with the internal policies but also set in a manner to deliver the most effective performance. Apart from security compliance and ease of manageability, this process allows systems to be adjusted according to the Authority's requirements with greater flexibility.

Infrastructure systems have started undergoing a hardening process which ensures that systems are stripped down to their specific designated function only. In addition, many systems have undergone major upgrades to ensure the system compliance level is maintained. Hardware upgrades and system updates have been conducted to prolong further usage and guarantee operation stability.

Networking and system design have been designed to accommodate high-availability across the authority. Network Time Synchronisation services, Email Services and Network Load Balancing are a few examples. Such processes are primarily focused on service availability, efficiency, management and security.

BUILDING EXPANSION AND RECOVERY SERVICES

Due to building expansion, ICT facilities had to be extended to new areas. This entailed the provisioning of diverse structured cabling, telephony and network infrastructure to accommodate access with the organisation's network.

A rigorous study was carried out to formulate a system analysis of the ICT architecture and user facilities which could be subject to business continuity requirements. This has triggered a multipart proposal for the overhaul of technologies and procedures to sustain disaster recovery services. Subsequently, a project was kicked-off initiating the redeployment of services and the provision of pertinent solutions.

As part of the ICT disaster recovery services a new network setup was deployed and configured at the recovery site; this addressed the connectivity of all the internal and DMZ servers, user workstations, firewall interfaces and router. To ease network manageability, monitoring tools were implemented both for network equipment maintainability and for network operation activity observation.
A wireless network infrastructure was set-up across the MFSA buildings thus providing independent Wi-Fi Internet access for isolated use and guest access.

INFORMATION SECURITY ANALYSIS

Information security assistance was provided to the Authorisation Unit and other Regulators Units according to each sector and scope. Meetings were also held with the supervisory units to prepare tailored 'audit plans' and discuss the information security review component ahead off site visits.

COMMUNICATIONS UNIT

The MFSA's Communications Unit is responsible for relations with external audiences, for the national and international dissemination of information about the Authority, for the creation and distribution of MFSA publications, for media relations, for the management of MFSA events and sponsorships and for working with external bodies relevant to the Authority's statutory duties.

Protecting and enhancing the MFSA's status as an effective, efficient, well-managed, innovative regulator and supervisor of the finance industry is one of the Unit's most demanding functions.

In the digital age of instant global communications the MFSA's website and other electronically delivered communications tools have taken on great significance. The MFSA website is the first port of call for all journalists, researchers and other interested parties. The website, which has vast amounts of information on legislation, regulation, supervisory procedures, guidance notes, alerts and warnings, is also a tool in daily use by the finance industry. Website use has been growing exponentially over the past ten years.

The MFSA site shows no sign of reaching audience saturation point or a visitor number plateau. Indeed, 2012 saw a further 20% rise in site visits. 93,000 visits were made to the site, which is close to 1,800 a week and some 720 per week from overseas. Recorded inquiries were up by more than 20%. Almost 40% of site visits came from outside Malta. Not only do these figures indicate the increasingly international nature of Malta's finance industry, the consistency of the figures suggests that Malta as a leading finance jurisdiction has a growing constituency of interested followers around the world.

While instruments like the web site and the newsletters and other online publications produced by the Authority have great communications value, it is essential for any organisation – and particularly for an organisation charged with market supervision in financial services – to maintain good contact with respected business, economic and financial services publications. These publications provide readers, who tend to be the most important decision makers and opinion formers, with independent third party endorsement of the MFSA's activities and views.

During 2012 MFSA features in the international media included coverage in The Wall Street Journal, Bloomberg Markets, Hedge Funds Review, Incisive Media's Risk Magazine, Business Outlook for Times representatives' Special Reports, Mondo Alternative, The Global Domicile Report, The International Business Guide by Euro News & Metropolitan Media Ltd, the Hedgeweek Guide to setting up Alternative Investment Funds 2012, FTSE Global Markets Malta Report - Interview coverage and Directory Entry, Clear Path Analysis's Re-Domiciling and Co-Domiciling for Fund Managers Report 2013, First Magazine, and in CBI Business Voice's Business to Business Contacts Guide.

Locally, the Unit's work on consumer education programmes had a high priority and involved close cooperation with the Consumer Affairs Unit.

During the year under review, the Unit participated at press officers' meetings organised by the European Supervisory Authorities. EIOPA held one such meeting in May while the EBA gathering was in June.

A core part of the MFSA's statutory duty is the strategic medium and long-term development of the Maltese finance sector. As such, the Authority supports numerous activities of a generic nature that promote Malta's position as a successful and desirable location.

In 2012, the Authority supported Malta's High Commission in London when it organised a Malta Business Network breakfast in March. This type of activity in major global cities is a proven way of introducing new potential investors to Malta and of keeping very influential business people up to date with Malta's economic progress and business-friendly environment.

Events in Malta that strengthen the industry here or improve international perceptions were also assisted by the MFSA during the year, notably the Malta Institute of Management seminar for Companies Secretaries held in April, the Malta Actuarial Society, the Malta Association of Insurance Brokers' annual conference in May, and the Banking & Finance Department of the University of Malta hosting the annual meeting of the European Association of University Lecturers in Banking and Finance. These lecturers from across Europe teach some of the continent's brightest young people, many of whom will go on to hold senior positions in the finance industry, government, regulatory bodies and business media. Malta therefore is well served by the MFSA investing in helping the University ran a successful meeting.

2012 was another busy year of operations with major events including The 2nd Annual Malta Fund conference in March, the conference on the Implications for Fund Services under AIFM & UCITS IV Directives held also in March, the Malta International Risk and Insurance Congress 2012 held in May and the FATCA (Foreign Account Tax Compliant ACT) Information Seminar held December.

The Unit provided assistance and support to MFSA events in the regulatory sphere and to a range of external organisations working in partnership or being supported by the MFSA,

Events included the Regional Capital Market Development Training Programme in January, organised by the US Securities & Exchange Commission in conjunction with the MFSA.

Later in the year the MFSA held two Continuing Professional Development Courses. The first in March, for Directors of Investment Companies and Investments Funds with a similar CPDC in October for Directors of Insurance Companies.

In October 2012, directors of insurance companies in Malta attended a continuing professional development course run and hosted by the MFSA.

In April, together with the Islands & Small Islands States Institute of the University of Malta, the MFSA organised a workshop on 'Banking and Finance in Small States - Issues and Policies'. The event was sponsored by the Ministry of Foreign Affairs and the Commonwealth Secretariat. Participation included representatives from Financial Authorities of small states within the Commonwealth.

In May the MFSA hosted a meeting with the China Banking Regulatory Commission (CBRC) to discuss issues of mutual interest.

In October Professor Bannister met Mr Marcus Killick the Gibraltar Financial Services regulator.

On the local level, a meeting was held in October between the MFSA Chairman and MFSA supervisors, the Malta Bankers Association and the Central Bank of Malta.

Strong relations were maintained at the meeting in Malta between the China Banking Regulatory Commission and the MFSA.

A workshop on 'Opportunities from Regulatory Development – Widening the breath of services offered by practitioners' was held in July at the MFSA. The event was well attended by around 100 people. In December, the MFSA's Chairman led a seminar for local industry leaders on the Development of Capital Markets in Wholesale Securities.

The MFSA also supported events and training initiatives organised by local entities including seminars by Institute of Financial Services Practitioners (IFSP), the Financial Intelligence Analysis Unit (FIAU), the Institute of Financial Services (IFS), the Active Group, and Northway Brokers.

In 2012 the Unit managed 42 seminars, training events, conferences and high level meetings of the MFSA and gave logistical support to a further 40 other meetings held by third parties at the MFSA premises.

Malta Institute of Management (MIM) – Debtor Chasing Seminar 25th June 2012

On behalf of the Authority the Communications Unit issued 71 notices, 43 circulars, six news releases, 11 consultation papers and three consultation feedback papers.

The MFSA Intranet service continued to be widely used by staff with over 400 notices circulated internally by the Unit.

Over the years the MFSA has built up a large library of hard copy and electronically stored books, periodicals, reports, studies, directives, legislation and other material. Every year sees the library grow and in 2012 380 new publications were added. The library is an important tool that is used by the MFSA's sector experts to help them in a great range of work. Modern libraries that are increasingly digitally based require regular improvements. In 2012 the Communications Unit introduced a new registration system for archived material, with the aim of speeding up retrieval.

The Unit oversees the publication of the MFSA Annual Report and the monthly MFSA Newsletter with the latter having over 2000 subscribers.

The Unit also handles Corporate Social Responsibility issues and Green Initiatives.

CONSUMER AFFAIRS

The Consumer Affairs Unit comprises the functions of the Consumer Complaints Manager, who is empowered by law to investigate complaints from private individuals relating to any financial services transaction in a fair and impartial manner. Recommendations made by the Consumer Complaints Manager are non-binding.
The Unit is also responsible for providing consumer education and information about financial services and to answer queries from the public on financial services matters in general. The Unit also assists the MFSA to identify issues which may affect consumer confidence or lead to consumer detriment.
The Consumer Complaints Manager provides administrative support to and is also the Secretary of the Compensation Schemes Management Committee which administers the Depositor Compensation Scheme and the Investor Compensation Scheme. The Consumer Complaints Manager is also the secretary of the Protection and Compensation Fund.

REVIEW OF COMPLAINTS

During the year, the Unit received 708 formal complaints and 212 formal enquiries. The Unit also received over 1700 phone calls from consumers enquiring on various subjects.

A total of 884 cases were reviewed and concluded, which include a number of cases carried forward from previous years. A number of cases, totalling 209, remain pending.

Table 26: FORMAL COMPLAINTS / ENQUIRIES

	FORMAL COMPLAINTS / ENQUIRIES									
	Cases Recieved		Cases Closed*		Pending Cases		Enquiries		Queries	
Complaints related to	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Banking	22	28	25	26	8	10	63	48	516	466
Insurance	48	63	58	74	14	17	64	105	570	471
Investments	636	277	798	30	187	344	68	116	518	493
Other	2	6	3	10	0	1	17	51	111	90
Total:	708	374	884	140	209	372	212	320	1715	1520

*Includes cases carried forward from previouse years.

'Source: Malta Financial Services Authority

Investment-related complaints constituted a substantial part of the number of complaints received, and processed, during 2012. In the main, these concerned allegations made by investors in regard to the mis-selling by a bank of a property fund targeted to experienced investors and, to a much lesser extent, mis-selling of products by other financial intermediaries.

Between 2011 and this reporting year, the Unit received over 700 complaints from investors who alleged that the said property fund was not suitable for their circumstances as they should not have been considered as "experienced investors".

In terms of the fund's supplementary prospectus, an investor who satisfied one of three criteria would have been eligible to invest in the said fund. Many investors claimed that, during the process of advice, they were not informed about such criteria.

The majority of complaints received on this fund by June 2012 were being reviewed by the Unit, in conjunction with the Securities and Markets Supervision Unit. During such review, some investors claimed that they had not understood the contents and significance of documentation which they had signed. In June 2012, the Authority imposed a fine on the bank for breaching the licence conditions applicable at the time it sold units in the fund and also issued a Directive which required the bank to cooperate with a review by an independent professional services firm, engaged by the Authority to review all client files of the bank. The independent firm finalised its report at the end of 2012. Investors who were not eligible to invest in the fund as identified from the client file review were compensated. All investors, clients of the bank, received a letter from the bank informing them of the outcome of the assessment made of their respective file. Investors who lodged a complaint with MFSA also received a final letter, confirming closure of their case, together with a Question and Answer guide addressing many queries raised by investors during the review.

A review of complaints lodged with the MFSA in regard to the manner other financial intermediaries had sold the same fund to investors is also being carried out by the Consumer Complaints Manager.

As reported in the 2011 annual report, the Unit was processing a number of complaints lodged by investors against a bank in relation to allegations of bad advice and non-disclosure of information concerning certain securities, including perpetual and other preferred securities issued by Lehman Brothers, Royal Bank of Scotland, HBOS and others. A number of new complaints were received during 2012 in relation to the same kind of securities. Each case was reviewed in detail and, where justified, the Unit has recommended the licence holder to pay the original amount invested in the disputed securities. A small number of these complaints remained outstanding as at the end of the year.

The Unit has also received a number of complaints in relation to the manner a number if structured complex investment products had been sold to investors. These investment products also failed to meet expectations of promised guarantees on income and capital. Each case is reviewed on the basis of its own merits and, where justified, the Unit is recommending the reinstatement of the capital invested in such product.

The Enforcement Unit, in conjunction with the Securities & Markets Supervision Unit (SMSU) and the Consumer Affairs Unit, has intensified the review of a complex investigation into the manner a structured fund, meant to be sold to professional investors, had been sold to a number of investors in Malta.

CONSUMER EDUCATION

The Consumer Complaints Unit has been very active in the broadcasting media which is considered to be an important platform through which consumers are educated on various matters relating to financial services. On average, Unit officials participated in four television programmes and two radio broadcasts almost on a weekly basis to discuss a wide range of financial subjects and issues relevant to the rights of consumers purchasing financial products.

New subjects were added to "MyMoneyBox", the Authority's internet portal which provides impartial information to consumers about financial products and services. Some sections have also been translated into Maltese. The Unit is also using Facebook to promote MyMoneyBox and reach out to a broader network of consumers. A monthly electronic newsletter is also sent to subscribers of the portal. The database of tariffs and charges levied on a number of financial products and services continues to be an important feature aimed to facilitate comparison of charges between different banks.

The Unit has widened the scope of the online database by including comparative features of motor insurance policies offered in Malta. The aim of such database is meant to assist policyholders when selecting which policy may be applicable for their circumstances and does not replace the insurance policy provided by the insurer. The Unit aims to widen the database to include other policies, such as travel insurance.

INTERNATIONAL PARTICIPATION

The Consumer Complaints Manager is an active member of FIN-NET, the European out-of-court network for the resolution of disputes between consumers and financial services providers. Within this network, national consumer complaint schemes assist consumers who have disputes with financial service providers based in another Member State in identifying and contacting the scheme which is competent to deal with their complaint. The Complaints Manager is also a member of the steering group which assists the European Commission in the preparation of the agenda of the two annual plenary meetings.

Staff of the Consumer Affairs Unit participated in meetings of the EIOPA Committee on Consumer Protection and Financial Innovation and the EBA SCConFin (Standing Committee on Consumer Protection and Financial Innovation).

APPENDICES

APPENDIX I – ACTS, LEGAL NOTICES AND GOVERNMENT NOTICES

LEGAL NOTICES
BANKING ACT

- Depositor Compensation Scheme (Amendment) Regulations, 2012 [L.N. 159 of 2012]
- Banking Act (Capital Adequacy) (Amendment) Regulations, 2012 [L.N. 278 of 2012]
- Depositor Compensation Scheme (Amendment) (No. 2) Regulations, 2012 [L.N. 340 of 2012]

COMPANIES ACT

- Companies Act (The Prospectus) (Amendment) Regulations, 2012 [L.N. 118 of 2012]
- Companies Act (Recognised Incorporated Cell Companies) Regulations, 2012 [L.N. 119 of 2012)
- Companies Act (Amendment of Second Schedule) Regulations, 2012 [L.N. 171 of 2012]
- Companies Act (Investment Companies with Variable Share Capital) (Amendment) Regulations, 2012 [L.N. 214 of 2012]
- Companies Act (Amendment of Second Schedule) (No. 2) Regulations, 2012 [L.N. 337 of 2012]

FINANCIAL MARKETS ACT

- European Rights for Regulated Markets (Amendment) Regulations, 2012 [L.N. 175 of 2012]
- Financial Markets Act (Short Selling) Regulations, 2012 [L.N. 344 of 2012]
- Designated Financial Market Instruments Regulations, 2012 [L.N. 380 of 2012]

INSURANCE BUSINESS ACT

- Insurance Business (Assets and Liabilities) (Amendment) Regulations, 2012 [L.N. 343 of 2012]

INVESTMENT SERVICES ACT

- Investment Services Act (Capital Adequacy) (Amendment) Regulations, 2012 [L.N. 133 of 2012]
- Investment Services Act (Financial Capital Adequacy) (Consolidation) (Amendment) Regulations, 2012 [L.N. 172 of 2012]
- European Passport Rights for Investment Firms (Amendment) Regulations, 2012 [L.N. 174 of 2012]
- European Passport Rights for Persons Operating Multilateral Trading Facilities (Amendment) Regulations, 2012 [L.N. 215 of 2012]
- Investment Services Act (UCITS Management Company Passport)(Amendment) Regulations, 2012 [L.N. 385 of 2012]
- Investment Services Act (UCITS Mergers) (Amendment) Regulations, 2012 [L.N. 336 of 2012]

MALTA FINANCIAL SERVICES AUTHORITY ACT

- Financial Services Tribunal (Fees) (Amendment) Regulations, 2012

APPENDIX II – RULES – ISSUED AND REVISED

BANKING RULES

[7] BR/01/2012 - Application Procedures and Requirements for Authorisation of Licences for Banking Activities under the Banking Act 1994
[8] BR/02/2011 - Large Exposures of Credit Institutions authorised under the Banking Act 1994;
[9] BR/03/2012 - Own Funds of Credit Institutions authorised under the Banking Act 1994;
[10] BR/04/2012 - Capital Requirements of Credit Institutions Authorised under the Banking Act 1994;
[11] BR/07/2012 - Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994.
[12] BR/08/2012 - Capital Adequacy of Credit Institutions Authorised Under the Banking Act 1994;
[13] BR/10/2011 - Supervision on a Consolidated Basis of Credit Institutions Authorised Under the Banking Act 1994;
[14] BR/12/2012 - The Supervisory Review Process Of Credit Institutions Authorised Under The Banking Act 1994

INVESTMENT SERVICES RULES

- Investment Services Rules for Investment Services Providers
- Investment Services Rules for Retail Collective Investment Schemes
- Investment Services Rules for Professional Investor Funds
- Investment Services Rules for Recognised Incorporated Cell Companies

INSURANCE BUSINESS RULES

- Insurance Rule 1 of 2007 - Own Funds of Companies Carrying on Business of Insurance
- Insurance Rule 6 of 2007 - Schemes of Operations Relating to Business of Insurance;
- Insurance Rule 27 of 2009 - Insurers' Internal Controls
- Insurance Rule 30 of 2012 – Complaints Handling by Authorised Companies

INSURANCE INTERMEDIARIES RULES

- Insurance Intermediaries Rule 12 of 2007 - Scheme of Operations Relating to Enrolment in the Agents List, Managers List or Brokers List and the Application for Enrolment

LISTING RULES

- Listing Rules revised as at 31 January 2012, 30 July 2012 and 12 December 2012

APPENDIX III CIRCULARS 2012

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

- European Commission adopts the implementing AIFMD Level II Delegated Regulation
- MFSA Industry Update on the AIFMD
- 2nd Consultation Procedure on the proposed transposition of certain requirements of the Alternative Investment Fund Managers Directive
- Consultation Procedure on the proposed transposition of certain requirements of the Alternative Investment Fund Managers Directive

ANTI-MONEY LAUNDERING

- Notice to Financial Services Licence Holders - FATF identifies jurisdictions with strategic deficiencies. 24/10/2012
- Notice to Financial Services Licence Holders - FATF identifies jurisdictions with strategic deficiencies 10/07/2012
- Notice to Financial Services Licence Holders - US Designation of JSC CredexBank – Belarus
- FIAU - Revision of FIAU Implementing Procedures
- Notice to Financial Services Licence Holders - FIAU Guidance Note on High-Risk and Non-Cooperative Jurisdictions
- Notice to Financial Services Licence Holders - FATF identifies jurisdictions with strategic deficiencies
- MFSA Notice to Financial Services Licence Holders - FATF - International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation

BANKING SUPERVISION

- Circular to applicants for a Credit Institution licence in terms of the Banking Act, Cap 371
- Circular to applicants for authorisation as Credit Institutions and Insurance Companies

COLLECTIVE INVESTMENT SCHEMES

- Circular addressed to the investment services industry regarding amendments to the Q&A on Recognised Incorporated Cell Companies
- Circular addressed to the investment services industry on proposed rules on cross sub-fund investments
- Publication of Revised Investment Services Rules for Investment Services Providers and Investment Services Rules for Retail Collective Investment Schemes
- Circular to the financial services industry on the Companies Act (Recognised Incorporated Cell Companies) Regulations and Investment Services Rules for Recognised Incorporated Cell Companies and Incorporated Cells

CRD III

- Circular addressed to the investment services industry regarding the transposition of the Third Capital Requirements Directive (“CRD III”)

EMIR

- Circular to the financial services industry on Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs) ('EMIR')
- Circular to the financial services industry on Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs) ('EMIR')

FINANCIAL MARKETS

- Circular on ESMA Statement on the treatment of Forbearance Practices
- Information Note - Legal Notice L.N. 380 of 2012
- Information Note - Legal Notices L.N. 172 of 2012, L.N. 174 of 2012 and L.N. 175 of 2012

INSURANCE AND PENSIONS SUPERVISION

- Circular regarding the application of article 5 (1) of Council Directive 2004/113/EC of the 13th December 2004 implementing the principle of equal treatment between men and women in the access to and supply of goods and services ("the Directive")
- Information Note on the proposed amendments to the Insurance Business (Assets and Liabilities) Regulations 2007, [L.N. 286 of 2007] and Insurance Rule 1 of 2007 – Own Funds of Companies Carrying on Business of Insurance
- Applicants for authorisation as Credit Institutions and Insurance Companies
- Circular on the European Commission Guidelines on the application of Council Directive 2001/113/EC to insurance, in the light of the judgement of the Court of Justice of the European Union in the Case C-236/09 (Test-Achats)

INVESTMENT SERVICES

- Circular addressed to the investment services industry regarding amendments to the Investment Services Rules for Investment Service providers
- Circular addressed to Category 2 and 3 Investment Services Licence Holders regarding the Automatic Execution of Trade Signals
- Circular regarding the Authorisation Process for Investment Services Licences
- Information Note - Legal Notices L.N. 172 of 2012, L.N. 174 of 2012 and L.N. 175 of 2012
- Circular to the financial services industry on the ESMA Guidelines on Systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities

IORP DIRECTIVE

- Circular on EIOPA's consultation on the Draft Implementing Technical Standards for Occupational Pensions
- Circular on the publication of EIOPA's draft technical specification for the QIS of its Final Advice on the IORP Directive
- Circular on EIOPA's public consultation on the draft technical specification for the QIS of its Final Advice on the IORP Directive
- Circular on EIOPA's advice to the European Commission on the review of the IORP Directive

MIFID

- Circular addressed to the Investment Services Industry regarding the Consultation Paper on: Guidelines on remuneration policies and practices (MiFID).
- Circular addressed to Category 2 and 3 Investment Services Licence Holders regarding the Automatic Execution of Trade Signals
- Circular addressed to the Investment Services Industry regarding the Consultation Papers on: Guidelines on certain aspects of the MiFID suitability requirements and Guidelines on certain aspects of the MiFID compliance function requirements

SHORT SELLING REGULATION

- Publication of a Legal Notice and Guidance Notes on Short Selling Regulation

SOLVENCY II

- Directive 2012/23/EU of the European Parliament and of the Council amending Directive 2009/138/EC (Solvency II) as regards the date for its transposition and the date of its application, and the date of repeal of certain Directives
- Note for Information - Outsourcing of operational functions by authorised Insurance and Reinsurance Undertakings
- Circular on EIOPA's final report on the Reporting Package and on ORSA
- Guidance Paper on Risk Management
- Guidance Paper on the System of Governance under Solvency II

UCITS IV

- Circular addressed to the financial services industry regarding the interpretation of article 50(2)(a) of the UCITS Directive

APPENDIX IV – CONSULTATION PAPERS AND FEEDBACK STATEMENTS

CONSULTATION PAPERS AND FEEDBACK STATEMENTS ISSUED BY THE BANKING SUPERVISION UNIT

Credit Institutions Act – Consultation Papers
- Consultation Procedure of the proposals for MFSA Rules on US Dollar Funding

Credit Institution Act - Feedback Statements
- Feedback Statement further to Industry Responses to MFSA Consultation document dated 5th November 2012 on the proposed US Dollar Funding Rule

Financial Institutions Act – Consultation Papers
- Consultation Procedure on the proposed Foreign Currency Lending Rules

Financial Institutions Act – Feedback Statements
- Feedback Statement further to Industry Responses to MFSA Consultation document dated 29th October 2012 on the proposed Foreign Currency Lending Rules

CONSULTATION PAPERS AND FEEDBACK STATEMENTS ISSUED BY THE INSURANCE AND PENSIONS SUPERVISION UNIT

- Consultation procedure on Insurance Rule entitled 'Complaints Handling by Authorised Companies' 15th Oct 2012

Insurance Rule - Feedback Statements
- Feedback Statement further to Industry Responses to MFSA Consultation document dated 15th October 2012 on the proposed Insurance Rule entitled "Complaints Handling by Authorised Companies"

CONSULTATION PAPERS AND FEEDBACK STATEMENTS ISSUED BY THE SECURITIES AND MARKETS SUPERVISION UNIT

Investment Services Act – Consultation Papers
Alternative Investment Fund Managers Directive
- Consultation Procedure on the proposed transposition of certain requirements of the Alternative Investment Fund Managers Directive
- Consultation on the proposed implementation of the Alternative Investment Fund Managers Directive

Trusts & Trustees – Consultation Papers
- Consultation of the proposed amendments to the Trusts and Trustees Act and other related legislation

Listing Rules – Consultation Documents
- Consultation Procedure on the proposal for the creation of an Alternative Companies List
- Consultation Procedure on the proposed amendments to the Listing Policies relating to the creation of a sinking fund for bond issues offered to the retail investor

Listing Authority Policies - Feedback Statements
- Feedback Statement further to Industry Responses to MFSA Consultation document dated 12th December 2011 on the proposed amendments to Listing Authority policies

Listing Authority Rules - Feedback Statements

- Feedback Statement further to Industry Responses to MFSA Consultation document on the proposed amendments to Listing Rule 4.55 and the introduction of other Listing Rules regarding Advertisements dated 26th July 2011

COMPANIES ACT – CONSULTATION PAPERS

- Consultation on the introduction of the proposed regulatory regime for Company Services Providers
- Consultation Procedure on the proposed Companies Act (Investment Companies with Variable Share Capital) (Amendment) Regulations 2012 and accompanying amendments to the Investment Services Rules

VARIOUS FINANCIAL SERVICES LAWS

- Consultation Procedure on the Proposal for a Bill entitled 'Various Financial Services Laws (Amendment) Act 2012

APPENDIX V: ISSUED AND SURRENDERED LICENCES

NEW LICENCES

BANKING

CREDIT INSTITUTIONS
- AgriBank plc.
- Ferratum Bank (Malta) Limited.

FINANCIAL INSTITUTIONS
- EFT Global Limited to provide payment services.
- Fraport Malta Business Services Ltd to carry out lending activities.
- HSBC Merchant Services Limited to provide payment services.
- Insignia Cards Limited to provide payment services and to issue electronic money.
- International Transaction Payment Solutions (Malta) Limited to provide payment services.
- Papaya Limited to issue electronic money.
- RJ Rapid Limited to provide payment services.
- SecureTrading Financial Services Limited to provide payment services.

BANKING – EXTENSIONS

CREDIT INSTITUTIONS
- Ferratum Bank (Malta) Limited to provide issuing and administering other means of payment.
- VoiceCash Bank Limited to carry out the issuing of electronic money.

FINANCIAL INSTITUTIONS
- Credorax (Malta) Limited to carry out the issuing of electronic money.
- Syspay Limited to provide payment services.

INSURANCE BUSINESS

INSURANCE UNDERTAKINGS
- Allcare Insurance Ltd to carry on business of insurance in 14 classes of the general business.
- Axeria Assistance Ltd to carry on business of insurance and reinsurance in six classes of the general business.
- FNF Title Insurance Company Limited to carry on business of insurance in two classes of the general business.
- Genghis Insurance Company Limited to carry on business of insurance and reinsurance in four classes of the general business.
- Werla Insurance Company Limited to carry on business of insurance and reinsurance in five classes of the general business.

PROTECTED CELLS
- A17 has been approved as a cell of White Rock Insurance (Europe) PCC Limited.
- AIF Cell has been approved as a cell of Abbey International Insurance PCC Ltd.
- Totemic Cell 2 has been approved as a cell of Atlas Insurance PCC Ltd.

INSURANCE BUSINESS - EXTENSIONS AND REVISIONS

INSURANCE UNDERTAKINGS

- ArgoGlobal SE to carry on business of reinsurance in two classes of the general business.
- HighDome PCC Ltd to carry on business of insurance and reinsurance in two classes of the general business.
- Platinum Insurance Ltd to carry on business of insurance in two classes of the general business.

INSURANCE AGENTS

- Allcare Insurance Agency Limited to act as insurance agent on behalf of Citadel Insurance plc in one additional class of the general business.
- MIB Insurance Agency Limited to act as insurance agent on behalf of Citadel Insurance plc in one additional class of the general business.
- Millennium Insurance Agency Limited to act as an insurance agent in relation to reinsurance business for and on behalf of Lloyd's Syndicates: Brit Syndicate 2987, Argo International AMA1200, Kiln Syndicate 510 & Others and Canopius Underwriting Limited on behalf of Syndicate CNP 4444.
- S.M.S Insurance Agency Ltd to act as an insurance agent on behalf of Middlesea Insurance p.l.c in relation to four classes of the general business.
- Victoria Insurance Agency Limited to act as insurance agent on behalf of Citadel Insurance plc in one additional class of the general business.

REGULATED MARKETS

- European Wholesale Securities Market Limited to act as a Regulated Market in terms of article 4 of the Financial Markets Act.

INVESTMENT SERVICES

CATEGORY 2

- Alpstar Capital (Malta) Limited Limited to provide the service of investment advice to Retail Clients, Professional Clients (including Collective Investment Schemes) and Eligible Counterparties.
- Andurand Capital Management Ltd to provide the service of investment management to Professional Clients and Collective Investment Schemes.
- C8 Investments Ltd to provide the service of investment management to Professional Clients and Collective Investment Schemes.
- Gamma Capital Markets Limited to provide the service of investment management to Professional Clients, Collective Investment Schemes and Eligible Counterparties.
- Terra Partners Asset Management Limited to provide the service of investment management to Professional Clients and Collective Investment Schemes.
- Vitesse Advisors Ltd to provide the services of investment management, reception and transmission of orders, and execution of orders on behalf of other persons for Professional Clients and Collective Investment Schemes.
- Vatas Asset Management Limited to provide the services of investment management, investment advice, reception and transmission of orders for Retail Clients, for Professional Clients (excluding Collective Investment Schemes) and for Eligible Counterparties.
- Z Investment Partners Malta Limited to provide the services of investment advice and management to Professional Clients and Collective Investment Schemes. Z Investment Partners Malta Ltd qualifies as a 'Maltese Management Company' pursuant to the Investment Services Act (Marketing of UCITS) Regulations, 2011.

CATEGORY 3

- NSFX Ltd to provide the services of reception and transmission of orders, execution of orders, and dealing on own account for Retail Clients, Professional Clients (including Collective Investment Schemes) and Eligible Counterparties.
- Swissquote Europe Ltd to provide the services of reception and transmission of orders, execution of orders, and dealing on own account for Retail Clients, Professional Clients (including Collective Investment Schemes) and Eligible Counterparties.

INVESTMENT SERVICES – EXTENSIONS AND REVISIONS

EXTENSIONS

- Altarius Asset Management Limited to include reception and transmission of orders and execution of orders to Professional Clients (including Collective Investment Schemes) and Eligible Counterparties.
- AUM Asset Management Limited to provide the service of investment advice to Professional Clients (including Collective Investment Schemes) and Eligible Counterparties.
- Calamatta Cuschieri Investment Management Limited to provide portfolio management and investment advisory services to Professional Clients (excluding Collective Investment Schemes) and Eligible Counterparties.
- Fortelus Capital Management Limited to provide investment services to Professional Clients (besides Collective Investment Schemes) and to include the provision of investment advice to Professional Clients (including Collective Investment Schemes).
- HSBC Global Asset Management (Malta) to provide portfolio management to Retail Clients.
- Integradvisory Limited to provide nominee services to Retail Clients and Professional Clients (including Collective Investment Schemes).
- LL Capital & Partners Limited to include all of the instruments listed in the Second Schedule of the Investment Services Act in relation to the investment services for which it is licensed.
- Pamplona Credit Opportunities Investments Limited to provide investment services to Professional Clients (besides Collective Investment Schemes).
- Pamplona PE Investments Malta Limited to provide investment services to Professional Clients (besides Collective Investment Schemes).
- SphereInvest Group Limited to qualify as a 'Maltese Management Company' pursuant to the Investment Services Act (Marketing of UCITS) Regulations, 2011.

REVISIONS

- Crystal Finance Investments Limited has been revised from Category 2 to a Category 3.
- GWM Asset Management (Malta) Limited to be licensed solely for the management of Collective Investment Schemes.

RECOGNISED FUND ADMINISTRATORS

CERTIFICATE ISSUED

- Blue Planet Investment Management Limited.
- Dixcart Fund Administrators (Malta) Limited.

COLLECTIVE INVESTMENT SCHEMES

PROFESSIONAL INVESTOR FUNDS – QUALIFYING INVESTORS

COLLECTIVE INVESTMENT SCHEME LICENCE ISSUED

- A3E Capital SICAV plc in respect of one sub-fund.
- Ananea Funds SICAV plc in respect of two sub-funds.
- Athena Capital Fund SICAV plc in respect of one sub-fund.
- AtonRâ Umbrella Fund SICAV plc in respect of one sub-fund.
- Audentia Capital SICAV plc in respect of one sub-fund.
- Brickstone Real Estate Funds SICAV plc in respect of one sub-fund.
- Catey Investments (SICAV) plc in respect of two sub-funds.
- EF Global SICAV plc in respect of two sub-funds.
- EOS SICAV plc in respect of one sub-fund.
- Excellence Investment Umbrella SICAV plc in respect of one sub-fund.
- FMG Funds SICAV plc in respect of one sub-fund.
- Global Mediscience Master SICAV plc in respect of one sub-fund.
- Global Mediscience Fund SICAV plc in respect of one sub-fund.
- Golden Share Investments SICAV plc in respect of two sub-funds.
- Grow Wealth SICAV plc in respect of one sub-fund.
- HFH SICAV plc in respect of one sub-fund.
- Himalaya SICAV plc in respect of six sub-funds.
- HMP Woodman Funds SICAV plc in respect of one sub-fund.
- Innocap Fund SICAV plc in respect of seven sub-funds.
- J8 Umbrella Funds SICAV plc in respect of one sub-fund.
- JVC Capital SICAV plc in respect of three sub-funds.
- KC Funds SICAV plc in respect of two sub-funds.
- KD Investment Funds SICAV in respect of one sub-fund.
- Luperco SICAV plc in respect of one sub-fund.
- Melita Funds SICAV Ltd in respect of one sub-fund.
- Meridon Funds SICAV plc in respect of one sub-fund.
- Metatron Capital SICAV plc in respect of two sub-funds.
- NBCG Fund SICAV plc in respect of nineteen sub-funds.
- Nova Renewable Energy (Novare) Fund SICAV plc in respect of one sub-fund.
- Orange Capital Funds SICAV plc in respect of one sub-fund.
- Palladium Fund SICAV plc in respect of one sub-fund.
- Paragon SICAV plc in respect of one sub-fund.
- Peak Momentum Funds SICAV plc in respect of two sub-funds.
- PerSYSTEMcy SICAV plc in respect of four sub-funds.
- PMG Focus Funds SICAV plc in respect of one sub-fund.
- PMG Partners SICAV plc in respect of one sub-fund.
- Polaris Finance SICAV plc in respect of one sub-fund.
- Portfinance SICAV plc in respect of one sub-fund.
- Prague Development SICAV plc in respect of one sub-fund.
- Renaissance Institutional Diversified Alpha Fund SICAV plc.
- Resco Funds SICAV plc in respect of two sub-funds.
- Reventón Advanced Solutions SICAV plc in respect of one sub-fund.
- SBS Opportunities Fund SICAV plc in respect of one sub-fund.
- Sunshine Fund (Malta) SICAV Limited in respect of one sub-fund.
- Taliti Funds SICAV plc in respect of three sub-funds.
- TGA Funds SICAV plc in respect of one sub-fund.
- The Nascent Fund SICAV plc in respect of two sub-funds.
- TRIPS SICAV plc in respect of one sub-fund.
- Tuffieh Funds SICAV plc in respect of two sub-funds.
- Valletta Global Equity Events SICAV plc in respect of one sub-fund.

- Villers Investment Funds SICAV plc in respect of one sub-fund.
- Willer Opportunities (Malta) SICAV Limited in respect of one sub-fund.
- World Dynamic Fund SICAV plc in respect of three sub-funds.

PROFESSIONAL INVESTOR FUNDS – EXPERIENCED INVESTORS

COLLECTIVE INVESTMENT SCHEME LICENCE ISSUED

- Clerkenwell SICAV plc in respect of one sub-fund.
- Comino Umbrella Fund SICAV plc in respect of one sub-fund.
- CTH SICAV plc in respect of one sub-fund.
- HFH SICAV plc in respect of one sub-fund.
- LandOverseas Fund SICAV in respect of one sub-fund.

PROFESSIONAL INVESTOR FUNDS – EXTRAORDINARY INVESTORS

COLLECTIVE INVESTMENT SCHEME LICENCE ISSUED

- Athena Capital Fund SICAV plc in respect of two sub-funds.
- Futura Funds SICAV plc in respect of three sub-funds.
- Nemea Alternative Investment Funds (SICAV) Ltd in respect of one sub-fund.
- SC Malta SICAV plc in respect of one sub-fund.
- Strategica Funds SICAV plc in respect of one sub-fund.
- WOOD & Company Funds SICAV plc in respect of one sub-fund.

UCITS

- Alpstar Capital Funds SICAV in respect of one sub-fund.
- Bryan Garnier Umbrella Fund SICAV plc in respect of two sub-funds.
- Dominion Global Trends SICAV plc in respect of one sub-fund.
- Eiger SICAV plc in respect of one sub-fund.
- FCS Global Funds SICAV plc in respect of two sub-funds.
- SphereInvest Global UCITS SICAV plc in respect of one sub-fund.
- Valletta European Event SICAV plc in respect of one sub-fund.

RETAIL NON-UCITS

- APS Funds SICAV plc in respect of one sub-fund.
- Calamatta Cuschieri Funds SICAV plc in respect of one sub-fund.

COLLECTIVE INVESTMENT SCHEMES – CONVERSIONS

- Ananea Funds SICAV plc was converted from Professional Investor Fund targeting Qualifying Investors to Professional Investor Fund targeting Experienced Investors.

- Athena Capital Fund SICAV plc - Athena Capital Special Situations Fund 1 was converted from Professional Investor Fund targeting Qualifying Investors to Professional Investor Fund targeting Extraordinary Investors.
- CieL European SICAV plc was converted from a Professional Investor Fund targeting Experienced and Qualifying Investors to a Professional Investor Fund targeting solely Qualifying Investors.

- EurAsia Alternative Investments Fund SICAV plc - EurAsia Alternative Investments Fund 2 was converted from a Professional Investor Fund targeting Qualifying Investors to a Professional Investor Fund targeting Extraordinary Investors.
- Futura Funds SICAV plc - Futura Real Estate Fund was converted from a Professional Investor Fund targeting Extraordinary Investors to a Professional Investor Fund targeting Qualifying Investors.
- JFP Investments SICAV plc - Jubilee Momentum Fund was converted from a Professional Investor Fund targeting Experienced Investors to a Professional Investor Fund targeting Qualifying Investors.
- PerSYSTEMcy SICAV plc was converted from a Stand Alone to a Multi-Fund.
- S3 Global Multi-Strategy Fund (Valletta) SICAV plc was converted from a Professional Investor Fund targeting Extraordinary Investors to a Professional Investor Fund targeting Qualifying Investors.

RECOGNISED INCORPORATED CELL COMPANIES

RECOGNITION CERTIFICATE ISSUED

- AKJ Simplon RICC Limited, in terms of Article 9A of the Investment Services Act, 1994 to provide incorporated cells with administrative services.

INCORPORATED CELLS

COLLECTIVE INVESTMENT SCHEME LICENCE ISSUED

- Absolute AKJ Fund IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited in terms of Article 6 of the Investment Services Act 1994 to carry out the activities of Professional Investor Fund targeting Qualifying Investors.
- Adequation Fund IC SICAV plc as an incorporated cell of AKJ Simplon RICC Limited in terms of Article 6 of the Investment Services Act 1994 to carry out the activities of Professional Investor Fund targeting Qualifying Investors.

TRUSTEES AND FIDUCIARIES

AUTHORISATION ISSUED

- Abacus Corporate Services Limited to receive property under trusts, to act as a trustee and to provide other fiduciary services (including acting as an administrator of private foundations).
- Aegis Corporate Services Limited to provide fiduciary services which do not include acting as trustees.
- Artio Trustees Limited to act as a trustee and to provide other fiduciary services (including acting as an administrator of private foundations).
- Capricorn Trustees Limited to act as a trustee and to provide other fiduciary services (including acting as an administrator of private foundations).
- FBS Trust Limited to act as a trustee and to provide other fiduciary services (including acting as an administrator of private foundations).
- Plethora Management Services Limited to provide fiduciary services which do not include acting as a trustee.
- Premier Fiduciary and Trusts Limited to act as a trustee and to provide other fiduciary services (including acting as an administrator of private foundations).
- SwissIndependent (Malta) Ltd to act as a trustee and to provide other fiduciary services (including acting as an administrator of private foundations).

TRUSTEES AND FIDUCIARIES – EXTENSIONS

- Abacus Holdings Limited to include acting as an administrator of private foundations.
- Claris Trustees & Fiduciaries Limited to include acting as an administrator of private foundations.

- Credence Holdings Limited to include acting as an administrator of private foundations.
- CSB Trustees and Fiduciaries Limited to include acting as an administrator of private foundations.
- DNT Fiduciary Limited to include acting as an administrator of private foundations.
- Equinox International Limited to include acting as an administrator of private foundations.
- Grant Thornton Fiduciaire Limited to include acting as an administrator of private foundations.
- Integrated-Capabilities Limited to include other fiduciary services as well as acting as an administrator of private foundations.
- Summa Fiduciary Services Limited to include acting as an administrator of private foundations.
- Tri–Mer Services Limited to include acting as an administrator of private foundations.
- Vistra (Malta) Limited to include acting as an administrator of private foundations.

PENSIONS

CERTIFICATE OF REGISTRATION ISSUED

RETIREMENT SCHEMES

- Castille Retirement Plan.
- Bourse Retirement Scheme (Malta).
- Centaurus Retirement Benefit Scheme.
- STM Malta (US Qualified) Retirement Plan.
- STM Protected Retirement Plan.

RETIREMENT SCHEME ADMINISTRATORS

- Bentley Trust (Malta) Limited.
- Sovereign Pension Services Limited.

SURRENDERED LICENCES

INSURANCE BUSINESS

INSURANCE UNDERTAKINGS

- Grafton (Europe) Insurance Company Limited

PENSIONS

RETIREMENT SCHEMES

- The Dominion Malta Retirement Plan

INVESTMENT SERVICES

CATEGORY 2 LICENCE

- GDP Asset Management (Malta) Ltd
- Lembex Global Investments Ltd
- Swiss Settlements Fund Management Ltd
- Tell Capital Ltd
- Tell Investments CP

COLLECTIVE INVESTMENT SCHEMES

PROFESSIONAL INVESTOR FUNDS – QUALIFYING INVESTORS

- Abbey Capital Fund L.P. in respect of 16 sub-funds
- Active Investments SICAV plc in respect of one sub-fund
- Atlantik Advanced Solutions 1 SICAV plc in respect of one sub-fund
- BlackSun Investments SICAV plc in respect of one sub-fund
- EYRY VIII Fund SICAV plc in respect of one sub-fund
- FfM Mittelstand SICAV plc in respect of one sub-fund
- Innocap Fund SICAV plc in respect of 19 sub-funds
- JFP Investments SICAV plc in respect of one sub-fund
- Kerylos Malta SICAV plc in respect of three sub-funds
- Luperco SICAV plc in respect of one sub-fund
- Meridon Funds SICAV in respect of one sub-fund
- NBCG Fund SICAV plc in respect of 14 sub-funds
- NEF Funds SICAV Ltd in respect of one sub-fund
- Norvik Macro SICAV plc in respect of one sub-fund
- Solar Investments Fund SICAV plc in respect of two sub-funds
- Spectrum Fund SICAV plc in respect of one sub-fund
- Swiss Investment Funds SICAV plc in respect of one sub-fund
- SwissFund SICAV plc in respect of two sub-funds
- The ARP Absolute Return Funds SICAV plc in respect of one sub-fund
- Venus Multi-Strategy Fund SICAV plc in respect of three sub-funds

PROFESSIONAL INVESTOR FUNDS – EXPERIENCED INVESTORS

- CTH SICAV plc in respect of one sub-fund
- GlobalCapital Funds SICAV plc in respect of one sub-fund
- PMG Focus Funds SICAV plc in respect of one sub-fund
- SB Global Fund SICAV plc in respect of one sub-fund
- Swiss Settlements Fund

PROFESSIONAL INVESTOR FUNDS – EXTRAORDINARY INVESTORS

- JFP Investments SICAV plc in respect of two sub-funds

PROFESSIONAL INVESTOR FUNDS – EXPERIENCED AND QUALIFYING INVESTORS

- FMG Funds SICAV plc in respect of one sub-fund

UCITS

- Celsius Global Funds SICAV plc in respect of eight sub-funds
- Invictus SICAV plc in respect of six sub-funds

RETAIL NON-UCITS

- HSBC Structured Funds SICAV plc in respect of one sub-fund

NOMINEES

- The Alphabet Trustee (Nominee) Limited
- Thor (Nominee) Limited

CANCELLED LICENCES

INVESTMENT SERVICES

- Category 1A licence issued to Guardian Securities Limited

APPENDIX VI - MEMORANDA OF UNDERSTANDING IN FORCE

Entity	Scope of Agreement
Bilateral MoU with Foreign Regulators	
Australian Prudential Regulation Authority	Banking and Insurance
Austrian Financial Market Authority	Credit Institutions
Banking Regulation and Supervision Agency of Turkey	Banking
Belgian Banking and Finance Insurance Commission	Banking
Bermuda Monitory Authority	Insurance, Credit Institutions and Trusts
Capital Markets Board of Turkey (Semay Piyasasi Kurulu)	Securities
Cayman Islands Monitory Authority	Credit Institutions, Insurance, Securities and Trusts
Central Bank of Portugal	Credit Institutions
Central Bank of Cyprus	Credit Institutions
Central Bank of Netherlands (DNB)	Banking
China Banking Regulatory Commission	Banking
China Securities Regulatory Commission	Securities
Dubai Financial Services Authority	Securities, Credit Institutions, Insurance and Trusts
Financial Services Board of South Africa	Securities, Insurance and Pension Funds
German Federal Financial Supervisory Authority (Bafin)	Banking, Securities and Insurance (Primarily Banking)
Gibraltar Financial Services Commission	Banking, Securities and Insurance.
Guernsey Financial Services Commission	Banking, Investment Services, Insurance and Fiduciary Services
Isle of Man Financial Services Commission	Securities and Banking
Isle of Man Insurance and Pensions Authority	Mutual Assistance and exchange of information
Italian Securities and Exchange Commission (CONSOB)	Securities
Jersey Financial Services Commission	Mutual Assistance and exchange of information
Mauritius Financial Services Commission	Securities, Insurance and Pensions
National Bank of Slovakia	Banking, Insurance and Securities
Nebraska Department of Insurance	Insurance
Qatar Financial Centre Regulatory Authority	Banking, Financial and Insurance related business
Securities Market Commission of Portugal	Securities
Swiss Financial Market Supervisory Authority	Banking and Securities
UK Financial Services Authority	Banking, Insurance and Investment Services

Multilateral MoUs and Protocols	
EIOPA	Insurance and occupational Pensions
ESMA	Securities
Financial Supervisory Authorities, Central Banks and Finance Ministries of the EU	Cross-Border Financial Stability
International Association of Insurance Supervisors (IAIS)	Exchange of Information in insurance regulatory and supervisory matters
IOSCO	Securities
Bilateral MoU's with Local Authorities	
Central Bank of Malta	Payment and Securities settlements systems, and on the Exchange of Information in the Fields of Financial Services
Ministry of Finance, the Economy and Investment and Central Bank of Malta	Co-operation in the management of financial crisis situations
Office of Fair Competition	Mutual Assistance and exchange of information

APPENDIX VII – PENDING APPEALS BEFORE THE FINANCIAL SERVICES TRIBUNAL

1. Christopher J. Pace v. MFSA (Case Ref: FST3/09)
. An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.

2. James Blake v. MFSA (Case Ref: FST5/09)
An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.

3. Nicholas Portelli v. MFSA (Case Ref: FST04/09)
An appeal from a penalty imposed by the MFSA for alleged insider dealing in GlobalCapital plc shares.

4. European Insurance Group Ltd v. MFSA (Case Ref: FST01/10)
An appeal from a decision of the MFSA to revoke the company's licence to carry on insurance business.

5 Bank of Valletta plc v. MFSA (Case Ref: FST04/11).
An appeal from a decision of the MFSA to issue a directive in connection with the La Vallette Multi-Manager Property Fund.

6. Denise Zammit v. MFSA (Case Ref: FST01/12)
An appeal from a decision of the MFSA not to enrol Ms Zammit in the register of insurance brokers.

7 Bank of Valletta plc v. MFSA (Case Ref: FST02/12)
An appeal from a fine for breach of the MFSA's rules record-keeping, suitability and disclosure to potential investors.

8. Bank of Valletta plc v. MFSA (Case Ref: FST03/12)
An appeal from the MFSA's decision to order an independent file review of Bank of Valletta's La Vallette Multi-Manager Property Fund client files.

9. MFSP Financial Management Ltd v MFSA (Case Ref: FST04/12)
An appeal from a fine for failure to properly apply the appropriateness and suitability tests when selling asset-backed securities, specifically the ARM Bond, to retail investors.

MFSA

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