

**MALTA FINANCIAL SERVICES AUTHORITY**

**Annual Report and Financial Statements  
31 December 2012**

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## **Board of Governors' report**

The Governors present their report and the audited financial statements for the year ended 31 December 2012.

### **Principal activities**

The Malta Financial Services Authority (MFSA) ('the Authority') is the single regulator for financial services in Malta, which incorporates credit institutions, financial and electronic money institutions, securities and investment services companies, regulated markets, insurance companies, pension schemes and trustees. The MFSA also manages the Registry of Companies, and has been appointed as the Listing Authority.

The Authority is a fully autonomous public institution and reports to Parliament on an annual basis.

### **Review of the business**

The Governors are pleased to report a surplus of €7.6million for the financial year 2012. The results for the year are on a similar level to those achieved the previous year, and reflect the increasing level of regulatory activity during the year. 2012 was a year of further consolidation in Malta's standing as a successful, stable, skilled and reliable financial services economy. Throughout 2012, the MFSA continued to play a core role in disseminating information to consumers, media and the industry, supporting industry education and training programmes, conducting seminars and meetings on legal, technical and regulatory developments, contributing to the framing of national and EU-wide technical policy development and exchanging views and experiences with other national regulatory and supervisory bodies. Despite the worldwide financial and economic crisis, the MFSA is looking at 2013 positively.

### **Results and surplus funds**

The income statement is set out on page 6. The surplus funds payable to Government, in terms of the Malta Financial Services Authority Act, 1988 amount to €6,900,000 (2011: €7,000,000)

### **Governors**

The Governors of the Authority who held office during the year were:

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

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

Dr David Fabri LL.D - Board Secretary

## Board of Governors' report - continued

### Statement of Governors' responsibilities

In preparing the financial statements the Governors are responsible for;

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU and the Malta Financial Services Authority Act, 1988
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation as a going concern.

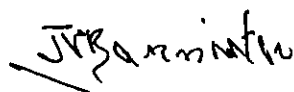
The Governors are also responsible for designing, implementing and maintaining internal control as the Governors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Malta Financial Services Act, 1988. They are also responsible for safeguarding the assets of the Authority and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Authority for the year ended 31 December 2012 are included in the Annual Report 2012, which is published in hard-copy printed form and may be made available on the Authority's website. The Governors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Authority's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.


### Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed.

On behalf of the board



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



Joseph Demanuele F.C.C.A., F.I.A., C.P.A  
Chief Operations Officer

Registered office  
Malta Financial Services Authority  
Notabile Road  
Attard BKR 3000  
Malta

18 March 2013



## **Independent auditor's report**

To the stakeholders of the Malta Financial Services Authority

### **Report on the Financial Statements for the year ended 31 December 2012**

We have audited the financial statements of the Malta Financial Services Authority on pages 5 to 26 which comprise the statement of financial position as at 31 December 2012 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

#### *The Governors' Responsibility for the Financial Statements*

As explained more comprehensively in the Statement of Governors' responsibilities for the financial statements on page 2, the Governors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the Malta Financial Services Authority Act, 1988, and for such internal control as the governors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the governors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



**Independent auditor's report - continued**

*Opinion*

In our opinion the financial statements

- give a true and fair view of the financial position of the Authority as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted by the EU ; and
- have been properly prepared in accordance with the Malta Financial Services Authority Act, 1988.

**PricewaterhouseCoopers**

78 Mill Street  
Qormi  
Malta

A handwritten signature in black ink, appearing to read 'Romina Soler', is written over the printed name and title.

Romina Soler  
Partner

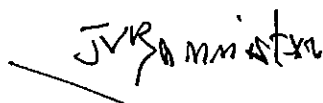
18 March 2013

## Statement of financial position

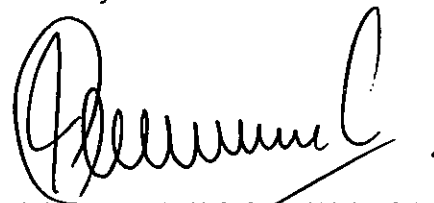
		As at 31 December	
	Notes	2012 €	2011 € (restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	13,095,903	11,440,468
Held-to-maturity financial assets	5	3,415,581	3,674,386
Investment in subsidiary	6	148,379	148,379
<b>Total non-current assets</b>		<b>16,659,863</b>	<b>15,263,233</b>
<b>Current assets</b>			
Held-to-maturity financial assets	5	250,000	996,710
Trade and other receivables	7	780,325	626,164
Cash and cash equivalents	8	6,887,205	8,308,397
<b>Total current assets</b>		<b>7,917,530</b>	<b>9,931,271</b>
<b>Total assets</b>		<b>24,577,393</b>	<b>25,194,504</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Capital fund	10	1,164,687	1,164,687
Asset funding reserve	11	11,403,568	11,403,568
Revaluation reserve	12	2,868,924	1,447,240
Employee pension fund reserve	13	550,002	475,002
Development reserve	14	4,135,316	4,314,472
Reserve fund		1,164,687	731,782
<b>Total equity</b>		<b>21,287,184</b>	<b>19,536,751</b>
<b>Current liabilities</b>			
Trade and other payables	9	3,290,209	5,657,753
<b>Total liabilities</b>		<b>3,290,209</b>	<b>5,657,753</b>
<b>Total equity and liabilities</b>		<b>24,577,393</b>	<b>25,194,504</b>

The notes on pages 10 to 26 are an integral part of these financial statements.

The financial statements on pages 5 to 26 were authorised for issue by the Board of Governors on 18 March 2013 and were signed on its behalf by:



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



Joseph Dèmanuele F.C.G.A., F.I.A., C.P.A  
Chief Operations Officer

## Income statement

	Notes	Year ended 31 December	
		2012 €	2011 € (restated)
Income	19	<b>16,384,556</b>	15,613,781
Operating expenses	16	<b>(9,113,345)</b>	(8,249,947)
<b>Operating surplus for the year</b>		<b>7,271,211</b>	7,363,834
Finance income	18	<b>352,773</b>	370,011
<b>Surplus for the year</b>		<b>7,623,984</b>	7,733,845

## Statement of comprehensive income

		Year ended 31 December	
		2012 €	2011 € (restated)
<b>Surplus for the year</b>		<b>7,623,984</b>	7,733,845
<b>Other comprehensive income:</b>			
Revaluation surplus	12	<b>1,421,684</b>	-
Release from development reserve in respect of development expenses	14	<b>(295,235)</b>	(409,956)
<b>Total comprehensive income for the year</b>		<b>8,750,433</b>	7,323,889

The notes on pages 10 to 26 are an integral part of these financial statements.



### Statement of changes in equity

	Notes	Capital fund €	Asset funding reserve €	Revaluation reserve €	Employee pension fund reserve €	Development reserve €	Reserve fund €	Total €
Balance at 1 January 2011 (as previously reported)		1,164,687	11,403,568	1,447,240	407,640	4,236,693	1,164,687	19,824,515
Effect of prior year adjustment							(restated)	(464,882)
<b>Comprehensive income</b>								
Appropriation from income statement		-	-	-	-	-	7,733,845	7,733,845
Transfer to pension fund reserve	13				67,362		(67,362)	-
Transfer to development reserve	14					487,735	(487,735)	-
Released from development reserve in respect of development expenses	14					(409,956)	-	(409,956)
Total comprehensive income for the year		-	-	-	67,362	77,779	7,178,748	7,323,889
<b>Transactions with stakeholders</b>								
Transfer to the Children's Foundation	15	-	-	-	-	-	(146,771)	(146,771)
Surplus payable to Government in terms of Article 26 of Malta Financial Services Authority Act, 1988		-	-	-	-	-	(7,000,000)	(7,000,000)
Total transactions with stakeholders		-	-	-	-	-	(7,146,771)	(7,146,771)
<b>As at 31 December 2011</b>		<b>1,164,687</b>	<b>11,403,568</b>	<b>1,447,240</b>	<b>475,002</b>	<b>4,314,472</b>	<b>731,782</b>	<b>19,536,751</b>

The notes on pages 10 to 26 are an integral part of these financial statements.

**Statement of changes in equity - continued**

	Capital Fund	Asset funding reserve	Revaluation reserve	Employee pension fund reserve	Development reserve	Reserve fund	Total
Note	€	€	€	€	€	€	€
Balance at 1 January 2012	1,164,687	11,403,568	1,447,240	475,002	4,314,472	731,782	19,536,751
<b>Comprehensive income</b>							
Appropriation from income statement	-	-	-	-	-	7,623,984	7,623,984
Transfer to pension fund reserve	-	-	-	75,000	-	(75,000)	-
Transfer to development reserve	-	-	-	-	116,079	(116,079)	-
Revaluation of property	-	-	1,421,684	-	-	-	1,421,684
Released from development reserve in respect of development expenses	14	-	-	-	(295,235)	-	(295,235)
Total comprehensive income for the year	-	-	1,421,684	75,000	(179,156)	7,432,905	8,750,433
<b>Transactions with stakeholders</b>							
Transfer to the Children's Foundation	15	-	-	-	-	(100,000)	(100,000)
Surplus payable to Government in terms of Article 26 of Malta Financial Authority Act, 1988	-	-	-	-	-	(6,900,000)	(6,900,000)
<b>Total transactions with stakeholders</b>						(7,000,000)	(7,000,000)
<b>As at 31 December 2012</b>	<b>1,164,687</b>	<b>11,403,568</b>	<b>2,868,924</b>	<b>550,002</b>	<b>4,135,316</b>	<b>1,164,687</b>	<b>21,287,184</b>

The notes on pages 10 to 26 are an integral part of these financial statements.

## Statement of cash flows

	Notes	Year ended 31 December	
		2012 €	2011 €
<b>Cash flows from operating activities</b>			
Cash generated from operations	21	7,169,521	8,291,848
Interest received	18	352,773	370,011
Net cash generated from operating activities		7,522,294	8,661,859
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(548,251)	(230,462)
Proceeds from disposal of property, plant and equipment	4	-	1,884
Redemption of long-term investments	5	989,985	824,499
Net cash generated from investing activities		441,734	595,921
<b>Cash flows from financing activities</b>			
Payment to the Children's Foundation	15	(100,000)	(146,771)
Payment for development expenses	14	(295,235)	(409,956)
Payments to Government in terms of Article 26 of Malta Financial Services Authority Act, 1988		(8,989,985)	(7,000,000)
Net cash used in financing activities		(9,385,220)	(7,556,727)
<b>Net movement in cash and cash equivalents</b>		<b>(1,421,192)</b>	<b>1,701,053</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>8,308,397</b>	<b>6,607,344</b>
<b>Cash and cash equivalents at end of year</b>	8	<b>6,887,205</b>	<b>8,308,397</b>

The notes on pages 10 to 26 are an integral part of these financial statements.

## Notes to the financial statements

### 1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Malta Financial Service Authority Act, 1988. They have been prepared under the historical cost convention as modified by the fair valuation of the land and buildings class of property. The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Governors to exercise judgement in the process of applying the Authority's accounting policies (see Note 3 – Critical accounting estimates and judgements).

#### *Standards, interpretations and amendments to published standards effective in 2012*

In 2012, the Authority adopted new standards, amendments and interpretations to existing standards that are mandatory for the Authority's accounting period beginning on 1 January 2012. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the company's accounting policies.

#### *Standards, interpretations and amendments to published standards effective in 2012*

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Authority's accounting periods beginning after 1 January 2012. The Authority has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Governors are of the opinion that, with the exception of the pronouncements below, there are no requirements that will have a possible significant impact on the Authority's financial statements in the period of initial application.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards.

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. IFRS 9, 'Financial instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. Subject to adoption by the EU, IFRS 9 is effective for financial periods beginning on, or after, 1 January 2015. The Authority is considering the implications of the standard and its impact on the Authority's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission, and will also consider the impact of the remaining phases of IFRS 9 when completed.

## **1. Summary of significant accounting policies - continued**

### **1.1 Basis of preparation - continued**

#### *Prior year adjustment*

Income from Securities and markets supervision (Note 19) and reserves for the financial year ending 31 December 2011 were restated by a net effect of €423,905 to reflect the appropriate application of the Authority's revenue recognition policy. As a result, income and trade and other payables were adjusted by way of a prior year adjustment in accordance with IAS 8, the effect of which is explained in Note 24.

### **1.2 Foreign currency translation**

#### **(a) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euro, which is the Authority's functional and presentation currency.

#### **(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

All foreign exchange gains or losses are presented in the income statement.

### **1.3 Property, plant and equipment**

All property, plant and equipment is initially recorded at historical cost. Land and buildings, comprising mainly the Authority's offices, are shown at fair value based on periodic valuation, less subsequent depreciation of buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss.

Items of property plant and equipment comprise land and buildings, furniture, fixtures and fittings and equipment and are initially recognised at acquisition cost. Subsequently they are carried at acquisition cost less subsequent depreciation and impairment losses.

**1. Summary of significant accounting policies - continued**

**1.3 Property, plant and equipment - continued**

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amount to their residual values over their estimated useful lives, as follows:

	%
Furniture, fixtures and fittings	20
Equipment	20

Buildings are depreciated over an estimated useful life of 100 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised in the income statement. When re-valued assets are sold, the amounts included in the revaluation reserve relating to the assets are transferred to retained earnings.

**1.4 Investment in subsidiary**

The investment in subsidiary is accounted for by the cost method of accounting, i.e. at cost less impairment. Cost also includes directly attributable costs of the investment. Provisions are recorded where, in the opinion of the Governors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

The results of subsidiaries are reflected in the Authority's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement as income or an expense.

**1.5 Financial assets**

**1.5.1 Classification**

The Authority classifies its financial assets, other than investment in subsidiary, in the following categories: loans and receivables and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Authority provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Authority's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Notes 1.6 and 1.7)

**1. Summary of significant accounting policies - continued**

**1.5 Financial assets - continued**

**1.5.1 Classification - continued**

**(b) Held-to-maturity financial assets**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Authority's management has the positive intention and ability to hold to maturity. If the Authority were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than twelve months from the end of the reporting period, which are classified as current assets.

**1.5.2 Recognition and measurement**

The Authority recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value plus transaction costs. Loans and receivables (and held-to-maturity financial assets) are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Authority has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

**1.5.3 Impairment**

The Authority assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Authority first assesses whether objective evidence of impairment exists. The criteria that the Authority uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

**1. Summary of significant accounting policies – continued**

**1.6 Trade and other receivables**

Trade receivables comprise amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

**1.7 Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call together with short-term, highly liquid investments that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value.

**1.8 Trade and other payables**

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**1.9 Provisions**

Provisions for legal claims are recognised when the Authority has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.



**1. Summary of significant accounting policies – continued**

**1.10 Revenue recognition**

The Authority recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity, and when specific criteria for each of the Authority's activities have been met, as described below:

- (i) Income from registration fees is recognised on the date of registration.
- (ii) Income from annual fees is recognised by reference to the stage of completion of the transaction, which equates to a systematic recognition of revenue as it accrues over time.
- (iii) Income derived from the Registry of Companies is recognised when payment is received which, in view of the profile of companies including dormant and defunct companies, is determined by the Authority to be the point in time when there is a probability that the economic benefits associated with the revenue will flow to the entity.
- (iv) Interest income from investments are reported on an accrual basis using the effective interest method.

**1.11 Operating leases**

Leases of assets in which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

**2. Financial risk management**

**2.1 Financial risk factors**

The Authority's activities potentially expose it to a variety of financial risks namely market risk, credit risk and liquidity risk. The Authority's risk management is coordinated by the Board of Governors and focuses on actively securing the Authority's short to medium term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Authority does not actively engage in trading of financial assets for speculative purposes nor does it write options. The most significant financial risks that the Authority is exposed to are described below.

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (a) Market risk

In view that the investments in Government bonds (see Note 5) are accounted for at amortised cost, the Governors do not consider that the Authority is exposed to significant market risk.

#### (b) Credit risk

The Authority's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below. The Authority's exposures to credit risk as at the end of the reporting periods are analysed as follows:

	Note	2012 €	2011 €
Held-to-maturity investments	5	3,665,581	4,671,096
Trade and other receivables	7	780,325	626,316
Cash and cash equivalents	8	6,887,205	8,308,397
		<b>11,333,111</b>	<b>13,605,809</b>

The Authority assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of services are effected to customers with an appropriate credit history. The Authority monitors the performance of its receivables on a regular basis to identify incurred collection losses, which are inherent in the Authority's receivables, taking into account historical experience.

The Authority's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers. . None of the Authority's financial assets is secured by collateral.

As at 31 December 2012, trade receivables of €22,535 (2011: €17,392) were impaired, and the amount of the provisions in this respect are equivalent to these amounts. Reversal of provisions for impairment arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The Authority does not hold any collateral as security in respect of the impaired assets.

Credit risk in relation to cash and cash equivalents and held-to-maturity investments is considered to be limited, since the counterparts and issuer are reputable banks, and the Government of Malta.

#### (c) Liquidity risk

The Authority is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise trade and other payables (Note 10). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Authority's obligations.

**2. Financial risk management - continued**

**2.1 Financial risk factors - continued**

(c) Liquidity risk - continued

The Authority monitors liquidity risk by reviewing expected cash flows, and ensures that no additional financing facilities are expected to be required over the coming year. The Authority's liquidity risk is not deemed material in view of the matching of cash inflows and outflows arising from expected maturities of financial instruments.

**2.2 Capital risk management**

The Authority's equity, as disclosed in the statement of financial position, constitutes its capital. The Authority's objectives when managing capital are to safeguard the respective entity's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In view of the nature of the Authority's activities and its financial position, the capital level as at the end of the reporting period is deemed adequate by the directors.

**2.3 Fair values of financial instruments**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as Level 1 in view of the Quoted prices (unadjusted) in active markets for identical assets or liabilities.

The following table presents the company's assets and liabilities that are measured at fair value at the respective dates;

	Level 1 €
<b>31 December 2012</b>	
Held-to-maturity financial assets	<u>3,860,056</u>
<b>31 December 2011</b>	
Held-to-maturity financial assets	<u>4,921,464</u>

At 31 December 2012 and 2011 the carrying amounts of cash at bank, receivables, payables and accrued expenses reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

**3. Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the Governors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

**4. Property, plant and equipment**

	Land and buildings €	Furniture, fixtures and fittings €	Equipment €	Total €
<b>At 1 January 2011</b>				
Cost or valuation	11,410,975	1,870,001	4,484,559	17,765,535
Accumulated depreciation	(602,416)	(1,565,194)	(4,098,768)	(6,266,378)
Net book amount	10,808,559	304,807	385,791	11,499,157
<b>Year ended 31 December 2011</b>				
Opening net book amount	10,808,559	304,807	385,791	11,499,157
Additions	38,724	22,244	169,495	230,463
Disposals	-	(8,446)	(41,016)	(49,462)
Depreciation charge	(53,286)	(49,995)	(182,684)	(285,965)
Depreciation released on Disposals	-	8,446	37,829	46,275
Closing net book amount	10,793,997	277,056	369,415	11,440,468
<b>At 31 December 2011</b>				
Cost or valuation	11,449,699	1,883,799	4,613,038	17,946,536
Accumulated depreciation	(655,702)	(1,606,743)	(4,243,623)	(6,506,068)
Net book amount	10,793,997	277,056	369,415	11,440,468
<b>Year ended 31 December 2012</b>				
Opening net book amount	10,793,997	277,056	369,415	11,440,468
Additions	189,910	139,525	218,816	548,251
Depreciation charge	(55,185)	(71,091)	(186,504)	(312,780)
Impairment of assets	-	-	(1,720)	(1,720)
Revaluation surplus (Note 12)	1,421,684	-	-	1,421,684
Closing net book amount	<b>12,350,406</b>	<b>345,490</b>	<b>400,007</b>	<b>13,095,903</b>
<b>At 31 December 2012</b>				
Cost or valuation	12,350,406	2,023,324	4,830,134	19,203,864
Accumulated depreciation	-	(1,677,834)	(4,430,127)	(6,107,961)
Net book amount	<b>12,350,406</b>	<b>345,490</b>	<b>400,007</b>	<b>13,095,903</b>

**4. Property, plant and equipment - continued**

During the year, the Governors engaged an independent professional valuer to value the Authority's property as at 31 December 2012. The fair value which is equivalent to the market value of the property has been determined to be €12,500,000.

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2012 €	2011 €
<b>Year ended 31 December</b>		
Cost	10,192,367	10,002,459
Accumulated depreciation	-	(655,702)
Closing net book amount	10,192,367	9,346,757

**5. Financial assets**

Financial assets include the following investments:

	2012 €	2011 €
<b>Non-current</b>		
Held to maturity investments	3,415,581	3,674,386
<b>Current</b>		
Held to maturity investments	250,000	996,710
Total	3,665,581	4,671,096

The movements during the year in held-to-maturity investments, which comprise Malta Government Bonds, were as follows;

	2012 €	2011 €
Opening net book amount	4,671,096	5,511,671
Amortisation	(15,530)	(16,076)
Redemption	(989,985)	(824,499)
Closing net book amount	3,665,581	4,671,096

**6. Investment in subsidiary**

€

**Years ended 31 December 2012 and 2011**

Opening and closing cost and carrying amount 148,379

The subsidiary at 31 December 2012 and 2011 is shown below:

Subsidiary undertaking	Registered office	Class of shares held	Percentage of shares held %
Malta International Training Centre Limited	Malta Financial Services Authority Notabile Road Attard BKR 3000 Malta	Ordinary shares	99.9

The following information available to the Authority relates to Malta International Training Centre Limited ("the subsidiary")

	Assets €	Liabilities €	Turnover €	Profit €
<b>2012</b>	<b>315,182</b>	<b>67,132</b>	<b>320,819</b>	<b>43,916</b>
2011	270,173	70,345	283,868	4,911

The Governors consider that the effect of consolidating the assets, liabilities and results of the subsidiary in the Authority's financial statements is not material.

**7. Trade and other receivables**

	2012 €	2011 €
<b>Current</b>		
Receivables – gross	450,405	280,240
Less: Provision for impairment of trade receivables	(22,535)	(17,392)
Trade receivables – net	<u>427,870</u>	<u>262,848</u>
Prepayments and accrued income	352,455	363,316
	<u>780,325</u>	<u>626,164</u>

**8. Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2012	2011
	€	€
Cash and cash equivalents	<b>6,887,205</b>	8,308,397

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**9. Trade and other payables**

	2012	2011
	€	€
		(restated)
<b>Current</b>		
Trade and other payables	<b>397,477</b>	230,133
Surplus payable to Government	<b>1,910,015</b>	4,000,000
Accruals and deferred income	<b>982,717</b>	1,427,620
	<b>3,290,209</b>	5,657,753

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Amounts payable to Government are unsecured, interest free and repayable on demand.

**10. Capital fund**

The capital fund of €1,164,687 represents the initial contribution by the Government to the Authority in 1994 upon its establishment.

**11. Asset funding reserve**

	€
Balance as at 31 December 2012 and 2011	11,403,568

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The asset funding reserve had been created to provide for the purchase of property, plant and equipment

**12. Revaluation reserve**

	2012 €	2011 €
Balance as at 1 January	1,447,240	1,447,240
Net revaluation of land and buildings (Note 4)	1,421,684	-
As at 31 December	2,868,924	1,447,240

The revaluation reserve is not distributable.

**13. Employee pension fund**

	2012 €	2011 €
Balance as at 1 January	475,002	407,640
Transfer for the year	75,000	67,362
As at 31 December	550,002	475,002

The employee pension fund reserve has been created to set aside reserves to prepare for the potential employee pension fund that may be set up for the benefit of the employees at the opportune time.

**14. Development reserve**

	2012 €	2011 €
Balance as at 1 January	4,314,472	4,236,693
Transfer for the year	116,079	487,735
Released in respect of development expenses	(295,235)	(409,956)
As at 31 December	4,135,316	4,314,472

The development reserve had been created to set aside reserves intended to finance long term projects to improve, upgrade and expand the Authority's facilities and services.

**15. Appropriation to the Children's Foundation**

An appropriation of 2% of the annual surplus of the Authority, up to a maximum of €100,000 per annum is transferred to the Children's Foundation set up by the Authority as part of its Corporate Social Responsibility.



**16. Expenses by nature**

	2012 €	2011 €
Depreciation of property, plant and equipment (Note 4)	312,780	285,965
Employee benefit expense (Note 17)	5,965,163	5,124,701
Professional and consultancy fees	492,428	713,483
Promotional expenses	399,316	252,203
Governors' emoluments	126,059	125,816
Administrative expenses	1,817,599	1,747,779
Total operating expenses	<b>9,113,345</b>	<b>8,249,947</b>

Auditor's fees

Fees charged by the auditor for the statutory audit amount to €5,310 (2011: €4,885).

**17. Employee benefit expense**

	2012 €	2011 €
Wages and salaries	5,282,583	4,557,379
Social security costs	322,215	282,394
Other staff costs	360,365	284,928
	<b>5,965,163</b>	<b>5,124,701</b>

Average number of persons employed by the Authority during the year:

	2012	2011
Managerial	118	116
Administration	62	49
	<b>180</b>	<b>165</b>

**18. Finance income**

	2012 €	2011 €
Interest income from demand deposits	137,493	177,015
Interest income from Government bonds	215,280	192,996
	<b>352,773</b>	<b>370,011</b>

**19. Income**

Income represents fees from services rendered during the year as follows:

	2012 €	2011 € (restated)
Authorisations	586,760	794,894
Securities and markets supervision	1,807,361	1,644,079
Insurance and pensions supervision	1,175,971	1,014,044
Banking supervision	2,355,334	2,121,109
Listing authority income	330,735	338,264
Registry of companies	10,126,863	9,697,926
Other income	1,532	3,465
<b>Total income</b>	<b>16,384,556</b>	<b>15,613,781</b>

**20. Tax expense**

Section 30 of the Malta Financial Services Authority Act, Cap 330 exempts the Authority from any liability to pay income taxes.

**21. Cash generated from operations**

Reconciliation of operating surplus generated from operations:

	2012 €	2011 €
Operating surplus for the year	7,271,211	7,363,834
Adjustments for:		
Depreciation of property, plant and equipment (Note 4)	312,780	285,965
Movement in provision for impairment of trade and other receivables	5,143	(11,762)
Amortisation of investment	15,530	16,076
Impairment of property, plant and equipment (Note 4)	1,720	1,302
Changes in working capital:		
Trade and other receivables	(159,350)	(43,416)
Trade and other payables	(277,513)	679,849
<b>Cash generated from operations</b>	<b>7,169,521</b>	<b>8,291,848</b>

**22. Commitments**

	2012 €	2011 €
<b>Capital expenditure</b>		
Capital expenditure that has been contracted for but has not yet been provided for in the financial statements	-	151,169
Capital expenditure that has been authorised by the Board of Governors but has not yet been contracted for	<b>1,080,000</b>	946,031
<hr/>		
<b>Operating leases</b>		
Less than one year	75,318	110,803
2-5 years	37,657	171,622
	<b>1,192,975</b>	<b>1,379,625</b>

**23. Related party transactions**

Except for transactions disclosed or referred to previously, the following significant transactions, which were carried out principally with related entities, have a material effect on the operating results and financial position of the Authority:

	2012 €	2011 €
Surplus payable to Government	<b>6,900,000</b>	7,000,000

Key management personnel compensation, consisting of Governors' remuneration is disclosed in Note 16.

**24. Prior year adjustment**

	Amounts as previously reported €	Effect of prior year Adjustment €	Amounts as restated €
Trade and other payables	5,224,848	432,905	5,657,753
Reserve fund	1,164,687	(464,882)	729,782
Income for the year	15,581,804	31,977	15,613,781
		<hr/>	
		-	

Income from Securities and markets supervision (Note 19) and reserves for the financial year ending 31 December 2011 was restated by a net effect of €432,905 to reflect the appropriate application of the Authority's revenue recognition policy.

**25. Statutory information**

The Malta Financial Services Authority (MFSA) ('the Authority') is the single regulator for financial services in Malta enacted by virtue of the Malta Financial Services Act, 1988 and reports to the Maltese Parliament.

**26. Comparative information**

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform with the current year's presentation format for the purpose of fairer presentation.