

MALTA FINANCIAL SERVICES AUTHORITY

Annual Report and Financial Statements
31 December 2018

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Board of Governors' report

The Governors present their report and the audited financial statements for the year ended 31 December 2018.

Principal activities

The Malta Financial Services Authority (the 'MFSA' or '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 acts as the Resolution Authority and has been appointed as the Listing Authority. The Authority is a fully autonomous public institution and reports to Parliament on an annual basis.

Prior to 30 April 2018, the MFSA also managed the Registry of Companies. The Registry of Companies Agency was established on 30 April 2018 by virtue of Registry of Companies (Establishment as an Agency) Order published on that date.

Review of the business

The Governors hereby report a deficit of €7,756,903 for the financial year 2018 (2017: surplus of €7,570,801). Income generated from applications fees, supervision fees and listing fees increased by 2% as compared with 2017 whereas income from the Registry of Companies decreased by 64% due to the demerger of the Registry of Companies with effect from May 2018. The increasing level of regulatory activity and participation in European meetings across all areas of supervision, saw an increasing cost base for the operations of the Authority.

Throughout 2018, the MFSA continued to perform 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.

Results and surplus funds

The statement of comprehensive income is set out on page 7. During 2018, no surplus funds for the financial year were payable to Government, in terms of the Malta Financial Services Authority Act, 1988. However in 2017, an amount of €13,460,361 were payable to Government. Out of this amount, €11,000,000 were paid in 2017 with the remaining balance settled in 2018.

Governors

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

Prof Joseph V Bannister B.Sc, M.Sc, D.Phil (Oxon) – Chairman (retired on 6 April 2018)

Dr Joseph Brincat B.A. (Lond), B.Sc (Econ) Lond, LL.D

Mr Frans Camilleri DSS (Oxon), Graduate Diploma (UEA), MA (UEA)

Dr John Consiglio Ph.D., M.Phil (Eur Studs.), MBA(Wales), DipFS., Dip Law & Adm., Dip Bus. Law & Actcy., FCIB.

Dr Lauren Ellul B.Accty (Hons), Executive M.B.A. (Edinburgh & ENPC), Ph.D (Birm), F.I.A., C.P.A.

Mr Herbert Zammit Laferla AIFS

Dr Mario Vella B.A., M.Sc. (LSE), Dr. Sc. Oec (Berlin Humboldt)

Mr Joseph Cuschieri FIA, CPA, MBA (Henley UK), CIMA Adv. Dip MA - Chief Executive Officer (appointed on 24 April 2018)

Board of Governors' report - continued

Governors

On 10 April 2018, Prof John Mamo LLD. BLitt. (Oxol). BA was appointed as Chairperson of the Board of Governors in lieu of Prof Joseph V Bannister B.Sc, M.Sc, D.Phil (Oxon) who retired on 6 April 2018. The following persons were also appointed as members of the Board of Governors on 10 April 2018:

Mr Andre Psaila BCom (Econ.) (Hons), MSc Banking and Finance

Mr Mario Borg BCom, MA (ISSS), MSc Public Economics (York)

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 2018 are included in the Annual Report 2018, 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.

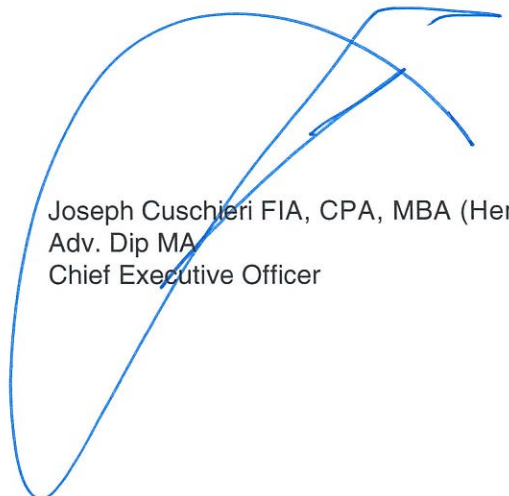
Auditors

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 John Mamo LLD. BLitt. (Oxol). BA
Chairman



Joseph Cuschieri FIA, CPA, MBA (Henley UK), CIMA
Adv. Dip MA
Chief Executive Officer

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

2 May 2019



Independent auditor's report

To the Stakeholders of the Malta Financial Services Authority

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Malta Financial Services Authority's financial statements give a true and fair view of the authority's financial position as at 31 December 2018, and of the authority's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Malta Financial Services Authority Act, 1988.

What we have audited

The Malta Financial Services Authority's financial statements, set out on pages 6 to 32, comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the authority in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent auditor's report - continued

To the Stakeholders of the Malta Financial Services Authority

Other information

The board members are responsible for the other information. The other information comprises the board of governors' report, which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board members for the financial statements

The board members are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Malta Financial Services Authority Act, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board members are responsible for assessing the authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board members either intend to liquidate the authority or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent auditor's report - continued

To the Stakeholders of the Malta Financial Services Authority

- Obtain an understanding of internal control relevant to the audit 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 authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board members.
- Conclude on the appropriateness of the board members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers

78, Mill Street
Qormi
Malta



Stephen Mamo
Partner

2 May 2019

Statement of financial position

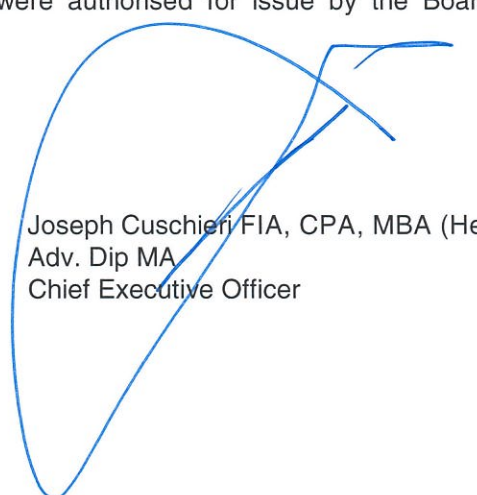
		As at 31 December	
	Notes	2018 €	2017 €
ASSETS			
Non-current assets			
Property, plant and equipment	4	16,354,199	16,025,894
Held-to-maturity financial assets	5	2,169,418	2,171,342
Total non-current assets		18,523,617	18,197,236
Current assets			
Trade and other receivables	7	1,134,635	2,094,125
Loans and receivables	8	-	6,000,000
Cash and cash equivalents	9	5,050,862	1,150,651
Total current assets		6,185,497	9,244,776
Total assets		24,709,114	27,442,012
EQUITY AND LIABILITIES			
Capital and reserves			
Capital fund	11	1,164,687	1,164,687
Revaluation reserve	13	5,220,690	5,220,690
Employee pension fund reserve	14	1,000,002	925,002
Reserve fund		7,351,587	15,183,490
Total equity		14,736,966	22,493,869
Current liabilities			
Trade and other payables	10	9,972,148	4,948,143
Total liabilities		9,972,148	4,948,143
Total equity and liabilities		24,709,114	27,442,012

The notes on pages 11 to 32 are an integral part of these financial statements.

The financial statements on pages 6 to 32 were authorised for issue by the Board of Governors on 2 May 2019 and were signed on its behalf by:



Prof John Mamo LL.D. BLitt. (Oxol). BA
Chairman



Joseph Cuschieri FIA, CPA, MBA (Henley UK), CIMA
Adv. Dip MA
Chief Executive Officer

Statement of comprehensive income

	Notes	Year ended 31 December	
		2018 €	2017 €
Income	19	16,207,671	25,052,588
Operating expenses	16	(24,107,483)	(17,614,898)
Operating (deficit)/surplus for the year		(7,899,812)	7,437,690
Impairment release of investment in subsidiary	6	-	39,479
Loss on reduction of investment in subsidiary		-	(76,776)
Finance income	18	124,457	151,956
Other income	20	18,452	18,452
(Deficit)/surplus for the year – total comprehensive income		(7,756,903)	7,570,801

The notes on pages 11 to 32 are an integral part of these financial statements.

Statement of changes in equity

	Capital fund €	Asset funding reserve €	Revaluation reserve €	Employee pension fund reserve €	Development reserve €	Reserve fund €	Total €
Balance at 1 January 2017	1,164,687	11,403,568	2,868,924	850,002	8,579,795	1,164,687	26,031,663
Comprehensive income							
Appropriation from income statement	-	-	-	-	-	7,570,801	7,570,801
Transfer to pension fund reserve	14	-	-	75,000	-	(75,000)	-
Revaluation of property	4	-	2,351,766	-	-	-	2,351,766
Transfer to reserve fund following amendment to MFSA Act Cap 330, Article 26	12,15	(11,403,568)	-	-	(8,579,795)	19,983,363	-
Total comprehensive income for the year	-	(11,403,568)	2,351,766	75,000	(8,579,795)	27,479,164	9,922,567
Transactions with stakeholders							
Surplus payable to Government in terms of Article 26 of Malta Financial Services Authority Act, 1988	-	-	-	-	-	(13,460,361)	(13,460,361)
Total transactions with stakeholders	-	-	-	-	-	(13,460,361)	(13,460,361)
As at 31 December 2017	1,164,687	-	5,220,690	925,002	-	15,183,490	22,493,869

Statement of changes in equity - continued

	Notes	Capital fund €	Revaluation reserve €	Employee pension fund reserve €	Reserve Fund €	Total €
Balance at 1 January 2018		1,164,687	5,220,690	925,002	15,183,490	22,493,869
Comprehensive income						
Appropriation from income statement		-	-	-	(7,756,903)	(7,756,903)
Transfer to pension fund reserve	14	-	-	75,000	(75,000)	-
Total comprehensive income for the year		-	-	75,000	(7,831,903)	(7,756,903)
As at 31 December 2018		1,164,687	5,220,690	1,000,002	7,351,587	14,736,966

The notes on pages 11 to 32 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December	
		2018 €	2017 €
Cash flows from operating activities			
Cash (used in)/generated from operations	22	(1,035,007)	7,003,599
Interest received	18	124,457	151,956
Other income	20	18,452	18,452
Net cash (used in)/generated from operating activities		(892,098)	7,174,007
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(1,207,691)	(1,343,634)
Proceeds from disposal of property, plant and equipment		-	8,991
Net movement in loans and receivables		6,000,000	4,650,000
Net cash generated from investing activities		4,792,309	3,315,357
Cash flows from financing activities			
Payments to Government in terms of Article 26 of Malta Financial Services Authority Act, 1988		-	(11,000,000)
Net cash used in financing activities		-	(11,000,000)
Net movement in cash and cash equivalents		3,900,211	(510,636)
Cash and cash equivalents at beginning of year		1,150,651	1,661,287
Cash and cash equivalents at end of year	9	5,050,862	1,150,651

The notes on pages 11 to 32 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).

During 2018, the Authority reported a deficit of €7,756,903 and a net current liability position of €3,786,651. The Governors have taken cognisance of the overall performance and cash flow position of the Authority and to that effect, a system of pre-approval of the annual subvention as approved by the House of Representatives has been agreed and established. This will be based on annual and three-year forecasts of revenues and expenditure. On this understanding, the board of Governors have determined that there is a reasonable expectation that the Authority will have adequate resources to continue its operations for the foreseeable future. For this reason, these accounts have been prepared on a going concern basis.

Standards, interpretations and amendments to published standards effective in 2018

In 2018, the Authority adopted new standards, amendments and interpretations to existing standards that are mandatory for the Authority's accounting period beginning on 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Authority's accounting policies.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and is effective for accounting periods commencing on or after 1 January 2018. Amongst others, it replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The standard also introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. This generally results in accelerating provisions for impairment as compared to IAS 39. Notwithstanding this change in recognising impairment, the Authority qualifies for the simplifications afforded in IFRS 9 in recognising impairment losses, by estimating the expected credit loss using a provisions matrix. An assessment was carried out to evaluate the expected losses over a period of time and the impact of such adoption has been reflected in the results for 2018.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when customer obtains control of good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The standard requires that variable considerations be estimated, and that estimate is recognised in the statement of comprehensive income as the performance obligation is satisfied.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Standards, interpretations and amendments to published standards effective in 2018 - continued

After taking cognisance of the nature of the Authority's revenue, the effects of the introduction of IFRS 15 have not resulted in any changes to the Authority's revenue recognition model and have not had material effect on the Authority's financial statements. This standard has been applied retrospectively. Since no impact has been identified, no adjustments to comparative figures has been required.

New standards and interpretations not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements that are mandatory for the Authority's accounting periods beginning after 1 January 2019. The Authority has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Authority's governors are of the opinion that, with the possible exception of IFRS 16, there are no requirements that will have possible significant impact on the Authority's financial statements in the period of initial application.

Under IFRS 16, 'Leases', contract is, or contains, lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and 'right-of-use asset' for virtually all lease contracts; an optional exemption is available for certain short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted.

The Authority's non-cancellable commitments on its operating leases at reporting date amount to thresholds that require the transition to IFRS 16 to result in amounts recognised on-balance-sheet, and differences in the timing and pattern of recognition of costs in respect of leases under IFRS 16, as compared to IAS 17, requiring adjustment during 2019.

The Authority have entered into long-term property and motor vehicles leases; these arrangements were classified as operating leases under IAS 17. As at the reporting date, the Authority has non-cancellable operating lease commitments in respect of long-term property and motor vehicles leases amounting to €1,061,970. The Authority's management has carried out an assessment of the impact of the standard and the governors concluded that these arrangements fall within the remits of this standard.

The Authority will apply the standard from its mandatory adoption date of 1 January 2019 and will apply the simplified transition approach. As a result, the Authority will not restate comparative amounts for the year prior to first adoption. Under this approach, the lease liability is measured at the present value of the remaining lease payments as at 1 January 2019, which management has estimated to amount to €924,973. Right-of-use assets at that date will be measured at an amount equivalent to this lease liability, with no adjustment to equity.

The adoption of IFRS 16 will also result in the replacement of operating lease rental expenditure by amortisation of the right-of-use asset, and an interest cost on the lease liability. On the basis of the lease arrangements in place at 1 January 2019, management estimates that rental costs of €500,724 for the year ending 31 December 2019 will be replaced by a notional interest charge that is expected to be in the region of €27,786, and an annual amortisation charge in the region of €480,743. This will therefore result in a reduction of approximately €7,805 in profitability for the year ending 31 December 2019.

Rental payments under IFRS 16 are allocated between interest payments and a reduction in the lease liability, with a corresponding impact on the Authority's statement of cash flows. The Authority's policy is to present interest payments as financing cash flows. Accordingly, lease payments of €500,724 for the year ending 31 December 2019 will in their entirety be reported as a financing cash flow instead of an operating cash flow.

1. Summary of significant accounting policies - continued

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 75 years whilst improvements carried out on leased property are depreciated over the lease period, which is 3 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

From 1 January 2018, the Authority classifies its financial assets in the following measurement categories;

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Authority's financial assets are classified at amortised cost.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held-for-trading, this will depend on whether the Authority has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Authority reclassifies debt instruments when and only when its business model for managing those assets changes.

1. Summary of significant accounting policies - continued

1.5 Financial assets - continued

1.5.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Authority commits to purchase or sell the asset. 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 the risks and rewards of ownership.

1.5.3 Measurement

Subsequent measurement of debt instruments depends on the Authority's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Authority classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

From 1 January 2018, the Authority assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 1.6 for further details.

1. Summary of significant accounting policies - continued

1.5 Financial assets - continued

Accounting policies applied until 31 December 2017

The Authority has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Authority's previous accounting policy.

Until 31 December 2017, the Authority classified 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, term deposits and cash and cash equivalents in the statement of financial position.

(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.

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.

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 are 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 receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less loss allowance.

IFRS 9 Financial Instruments – impairment of financial assets

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

Impairment

From 1 January 2018, the Authority assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Authority applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Accounting policy applied until 31 December 2017

A provision for impairment of trade and other receivables is established when there is objective evidence that the Authority will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. 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 in the income statement.

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. Summary of significant accounting policies - continued

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.

1.10 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 is 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.

1.12 Government grants

Grants from the Government, including national Government and EU, are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Authority will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

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.

(a) Market risk

In view that the investments in Malta 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:

	Notes	2018 €	2017 €
Held-to-maturity investments	5	2,169,418	2,171,342
Trade and other receivables	7	713,080	1,635,713
Loans and receivables	8	-	6,000,000
Cash and cash equivalents	9	5,050,862	1,150,651
		7,933,360	10,957,706

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 affected 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 are secured by collateral.

As at 31 December 2018, trade receivables of €1,108,000 (2017: €612,474) were impaired, and the amount of the provisions in this respect are equivalent to these amounts. Reversal of provisions for impairment arises 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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Credit risk - continued

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2018 €	2017 €
Balance at beginning of year	612,474	22,833
Increase in Provision for bad debts	495,526	589,641
Balance at end of year	1,108,000	612,474

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 respectively.

(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.

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 and benefits for stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. The Authority's equity is maintained in line with the provisions set within the Malta Financial Services Authority Act, 1988.

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 Governors.

2. Financial risk management - continued

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 authority's assets and liabilities that are measured at fair value at the respective dates:

	Level 1 €
31 December 2018	
Held-to-maturity financial assets	<u>2,699,586</u>
31 December 2017	
Held-to-maturity financial assets	<u>2,772,093</u>

At 31 December 2018 and 2017 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 €
Year ended 31 December 2017				
Opening net book amount	12,096,973	252,289	673,698	13,022,960
Additions	459,243	93,568	790,823	1,343,634
Disposals	-	(3,231)	(82,343)	(85,574)
Depreciation charge	(233,022)	(45,914)	(407,473)	(686,409)
Depreciation released on disposal	-	3,228	76,289	79,517
Revaluation surplus (Note 13)	2,351,766	-	-	2,351,766
Closing net book amount	14,674,960	299,940	1,050,994	16,025,894
At 31 December 2017				
Cost or valuation	15,227,267	2,233,514	5,288,425	22,749,206
Accumulated depreciation	(552,307)	(1,933,574)	(4,237,431)	(6,723,312)
Net book amount	14,674,960	299,940	1,050,994	16,025,894
Year ended 31 December 2018				
Opening net book amount	14,674,960	299,940	1,050,994	16,025,894
Additions	331,959	198,664	677,068	1,207,691
Disposals	-	-	(5,149)	(5,149)
Depreciation charge	(294,655)	(82,240)	(501,998)	(878,893)
Depreciation released on disposal	-	-	4,656	4,656
Closing net book amount	14,712,264	416,364	1,225,571	16,354,199
At 31 December 2018				
Cost or valuation	15,559,226	2,432,178	5,960,344	23,951,748
Accumulated depreciation	(846,962)	(2,015,814)	(4,734,773)	(7,597,549)
Net book amount	14,712,264	416,364	1,225,571	16,354,199

4. Property, plant and equipment - continued

Fair value of land and buildings

The Authority's office building was revalued on 31 December 2017 by independent professionally qualified valuers. The valuation was conducted by DeMicoli & Associates (a firm of architects). The book value of the property was adjusted to the revaluation and the resultant surplus, was credited to the revaluation reserve (refer to Note 13). The Board of Governors has reviewed the carrying amount of the property as at 31 December 2018 and no adjustments to the carrying amount were deemed necessary as at that date taking cognisance of developments that occurred during the current financial year.

The Authority is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The recurring property fair value measurement at 31 December 2018 uses significant unobservable inputs and is accordingly categorised within Level 3 of the fair valuation hierarchy.

The Authority's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the year ended 31 December 2018.

A reconciliation from the opening balance to the closing balance of non-financial assets for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above.

Valuation processes

The valuation of the property is performed regularly on the basis of valuation reports prepared by independent and qualified valuers. At the end of every reporting period, the COO (Chief Operations Officer) assesses whether any significant changes in the major inputs have been experienced since the last external valuation. The COO reports to the Board of Governors on the outcome of this assessment.

When an external valuation report is prepared, the information provided by the valuers – and the assumptions and the valuation models used by the valuers – are reviewed by the COO. This includes a review of fair value movements over the period. When the COO considers that the valuation report is appropriate, the valuation report is recommended to the Board of Governors. The Board of Governors considers the valuation report as part of its overall responsibilities.

4. Property, plant and equipment - continued

Valuation techniques

The Level 3 fair valuation of the Authority's land and buildings was determined by using a comparative approach whereby the current selling prices and rental values of similar developments were compared in order to obtain an equitable rental value of the property. The significant unobservable inputs in the valuation include:

Equivalent rental values based on the actual location, type and quality of property supported by current market rents for similar properties.

Capitalisation rates based on actual location, size and quality of the property and taking into account market data at the valuation date.

Information about fair value measurements using significant unobservable inputs (level 3)

Description	Fair value at 31 December 2018 and 2017 €	Valuation technique	Significant unobservable inputs	
			Equivalent rental value €	Capitalisation Rate %
Office building	14.375m	Comparative and Investment method	0.89m	6.25

The higher the rental yield and the lower the capitalisation rate, the higher the fair value. Conversely, the lower the rental value and the higher the capitalisation rate, the lower the fair value.

Historical cost of land and buildings

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

	2018 €	2017 €
Cost	10,338,536	10,006,577
Accumulated depreciation	(620,312)	(552,307)
Net book amount	9,718,224	9,454,270

5. Financial assets

Financial assets include the following investments:

	2018 €	2017 €
Non-current		
Held-to-maturity investments	2,169,418	2,171,341
As at 31 December	2,169,418	2,171,341

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

	2018 €	2017 €
Opening net book amount	2,171,342	2,173,265
Amortisation	(1,924)	(1,923)
Closing net book amount	2,169,418	2,171,342

6. Investment in subsidiary

	2018 €	2017 €
Year ended 31 December		
At beginning of year	-	106,570
Impairment release	-	39,479
Reduction in investment	-	(146,049)
Carrying amount	-	-
As at 31 December		
Cost	-	2,329
Fair value loss	-	(2,329)
Carrying amount	-	-

The subsidiary at 31 December 2018 and 2017 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

6. Investment in subsidiary - continued

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

	Assets €	Liabilities €	Turnover €	Loss before tax €
2018	57,679	84,624	128,796	(26,455)
2017	127,793	128,285	146,157	(38,533)

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.

The Governors have also entered into discussions to sell its investment on a going concern basis.

7. Trade and other receivables

	2018 €	2017 €
Current		
Trade receivables – gross	1,698,830	2,089,195
Less: Provision for impairment of trade receivables	(1,108,000)	(612,474)
Trade receivables – net	590,830	1,476,721
Amounts due by subsidiary	69,272	69,272
Prepayments	421,555	458,412
Accrued income	52,978	89,720
	1,134,635	2,094,125

8. Loans and receivables

	2018 €	2017 €
Deposits with banks or credit institutions	-	6,000,000

The above deposits earn interest at a fixed rate.

9. Cash and cash equivalents

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

	2018 €	2017 €
Cash and cash equivalents	2,905,828	1,150,651
Technical account held at the Central Bank of Malta (Note 10)	2,145,034	-
	5,050,862	1,150,651

10. Trade and other payables

	2018 €	2017 €
Current		
Trade payables	2,429,583	858,138
Amount due to Registry of Companies Agency	2,656,178	-
Amount due to Government	-	2,460,366
Other creditors	2,212,152	-
Indirect taxation	515,748	255,470
Accruals	1,117,181	291,506
Deferred income	1,041,306	1,082,663
	9,972,148	4,948,143

The Authority provisionally holds on deposit with the Central Bank of Malta an amount of €2,145,034, included within other creditors, as part of its duty as a regulatory body.

11. Capital fund

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

12. Asset funding reserve

	2018 €	2017 €
Balance as at 1 January	-	11,403,568
Transfer for the year	-	(11,403,568)
Balance as at 31 December	-	-

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

On 13 April 2017, by virtue of Act No. XVI of 2017, Article 45, it has been established that the Authority's Reserve Fund shall not at any time exceed the equivalent of the operational expenses registered in the preceding financial year as disclosed in the audited financial statements. As a result, a transfer of €11,403,568 to the Reserve Fund took place during 2017.

13. Revaluation reserve

	2018 €	2017 €
Balance as at 1 January	5,220,690	2,868,924
Net revaluation of land and buildings (Note 4)	-	2,351,766
As at 31 December	5,220,690	5,220,690

The revaluation reserve is not distributable.

14. Employee pension fund

	2018 €	2017 €
Balance as at 1 January	925,002	850,002
Transfer for the year	75,000	75,000
As at 31 December	1,000,002	925,002

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.

15. Development reserve

	2018 €	2017 €
Balance as at 1 January	-	8,579,795
Transfer for the year	-	(8,579,795)
As at 31 December	-	-

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.

On 13 April 2017, by virtue of Act No. XVI of 2017, Article 45, it has been established that the Authority's Reserve Fund shall not at any time exceed the equivalent of the operational expenses registered in the preceding financial year as disclosed in the audited financial statements. As a result, a transfer of €8,579,795 to the Reserve Fund took place during 2017.

16. Expenses by nature

	2018 €	2017 €
Depreciation of property, plant and equipment (Note 4)	878,893	686,409
Employee benefit expense (Note 17)	12,532,762	10,830,652
Professional fees	5,986,526	748,288
Increase in provision for bad debts	495,526	589,641
EU Presidency	-	431,000
Promotional and sponsorship expenses	646,457	242,439
Governors' emoluments	140,940	167,212
Other administrative expenses	3,426,379	3,919,257
Total operating expenses	24,107,483	17,614,898

Auditor's fees

Fees charged by the auditor for the statutory audit amount to €7,000 (2017: €7,000).

17. Employee benefit expense

	2018 €	2017 €
Wages and salaries	10,721,379	9,764,764
Social security costs	659,344	640,199
Other staff costs	1,152,039	425,689
	12,532,762	10,830,652

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

	2018	2017
Managerial	256	241
Administration	70	63
	326	304

During 2018, the Authority has offered its employees a Voluntary Severance Scheme for which the current year's expense, included within other staff costs, amounted to €540,417.

18. Finance income

	2018 €	2017 €
Interest income from demand deposits	17,481	45,086
Interest income from Government bonds	106,976	106,870
	124,457	151,956

19. Income

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

	2018 €	2017 €
Authorisations	979,763	562,175
Securities and markets supervision	2,576,515	3,105,116
Insurance and pensions supervision	2,359,425	1,951,775
Conduct	620,116	580,060
Banking supervision	4,246,631	4,230,521
Listing authority income	377,250	511,300
Registry of companies	5,047,971	14,111,641
Total income	16,207,671	25,052,588

20. Other income

	2018 €	2017 €
EU grants designated for specific purposes	18,452	18,452

EU funds designated for specific purposes amounting to €7,429 at 31 December 2018 (2017: €25,881) are amortised to profit or loss over the term of the service concession.

21. Tax expense

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

22. Cash (used in)/generated from operations

Reconciliation of operating (deficit)/surplus generated from operations:

	2018 €	2017 €
Operating (deficit)/surplus for the year	(7,899,812)	7,437,690
Adjustments for:		
Depreciation of property, plant and equipment (Note 4)	878,893	686,409
Loss/(gain) on sale of property, plant and equipment (Note 4)	493	(2,934)
Amortisation of investment (Note 5)	1,924	1,923
Increase in provision for bad debts (Note 7)	495,526	589,641
Bad debts written off	5,200	-
Changes in working capital:		
Trade and other receivables	458,764	(1,313,972)
Trade and other payables	5,024,005	(395,158)
Cash (used in)/generated from operations	(1,035,007)	7,003,599

23. Commitments

	2018 €	2017 €
Capital expenditure		
Capital expenditure that has been authorised by the Board of Governors but has not yet been contracted for	2,568,965	1,509,675
Operating leases		
Less than one year	582,948	563,013
Between 2 and 5 years	479,022	962,929
	3,630,935	3,035,617

24. Contingencies

- (a) As disclosed in Note 17, during 2018 the Authority has offered its employees a Voluntary Severance Scheme for which the current year's expense amounted to €540,417. The Authority has offered this scheme to other employees for which agreements were not yet finalised as at 31 December 2018 and accordingly no provision has been made in this respect in these financial statements.
- (b) The Authority has not provided for claims instituted against it by a number of persons on the basis that the proceedings are still at an early stage and the potential financial impact and probable outcome of these claims has as yet not been quantified.

25. 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:

	2018 €	2017 €
Amounts due Registry of Companies Agency	2,656,178	-
Surplus payable to Government	-	13,460,361

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

26. 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.

On 20 March 2018, by virtue of Act No. VI of 2018, Articles 2(2) and 6, it has been established that the Register of Companies shall no longer form part of the Malta Financial Services Authority.