

MALTA FINANCIAL SERVICES AUTHORITY

2005
ANNUAL REPORT

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2005
ANNUAL REPORT



Prof. J.V. Bannister

Chairman's Statement

The Malta Financial Services Authority (MFSA) is pleased to present its report on the activities and operations carried out in 2005.

Malta achieved steady progress in its financial services industry in 2005. It recorded sound achievements in two new sectors and local companies reported a good trading year. Employment numbers have stayed steady, and, as fund management and insurance activities have grown, new jobs have come into being, particularly in administrative, legal and accountancy services. Malta's IT, travel and business hospitality sectors have also benefited as activity with the EU has increased.

Malta is a new player on the EU finance services stage, with just 18 months of membership up to the end of 2005. Nevertheless, our presence is being felt and our competitive attractions increasingly recognised. We had good successes in 2005 and all the trends point towards steady growth in EU finance businesses looking to Malta as a domicile and trading partner.

The need to contribute towards national economic stability is at the heart of the MFSA's philosophy. That is why we seek only to license companies that have good reputations, good management records, sound finances and ambitions that will have real benefits for Malta, in terms of work for local advisers and suppliers, new jobs and new opportunities and sectoral growth.

Our long-established policy of seeking only the best is what attracts the best to Malta. By its nature, it is

a policy that favours incremental growth over rapid expansion. It is a prudent approach that has helped us triple the size of our finance industry over the past ten years.

For Malta's financial services sector, in its second year as an EU member, it was a year in which the objectives to create new sectors in asset management and insurance management services were achieved. We saw licenses issued to companies of strong reputation in both sectors. That major hedge funds are choosing Malta as a domicile is a recognition to the legislation the country has put in place, the quality of service and professional expertise local companies are able to offer and of the country's reputation as a well managed and stable jurisdiction.

The emergence of Malta's fledgling insurance management sector is particularly notable. Malta is extremely well placed to benefit from EU growth in captives as well as third party insurance activity. In both insurance and fund management EU membership is a major aspect of Malta's attractiveness.

The MFSA welcomed two new banking presences, issued a total of 94 new licenses across all categories and recorded another record year for company registrations. The number of licenses issued across all sectors now numbers 152, an increase of 47% over 2004. No foreign or local finance companies of any notable size or importance ceased trading in Malta during 2005.

On the Registry of Companies front, a total of 2,347 new companies were registered. This is very positive news for the country as a whole and particularly for the banking, legal and accountancy sectors.

In February, we were pleased to welcome Prime Minister, Dr Lawrence Gonzi to the MFSA's building for the official opening of the new offices for the Registry of Companies. Given the large rise in the number of companies registering in Malta following EU accession, the new facility has proved to be a valuable and timely investment.

Dedicated People

Inevitably, as Malta has attracted more business and as the development of the EU's single market in financial services speeded up, the staff at the MFSA had to manage a greater volume of work. Every licence application, and every request for guidance

or a ruling is handled on an individual basis. Our staff must consider objectively the legal, competitive, consumer and reputational factors of every case. They seek always to strike the right balance between stimulating free and open competition in the market and protecting the interests of consumers and guarding Malta's reputation.

All of our staff, across every function of the MFSA, worked hard and diligently throughout 2005. They serve the country, the industry and the consumer and I wish to thank them for helping to make the MFSA respected at home and overseas. I also wish to thank my fellow Governors for giving so freely of their time, expertise and guidance.

Building Lasting Ties

Business came to Malta from across the world in 2005, though principally from the EU. Consequently, our task of communicating the structures and machinery of Malta's regulation and finance legislation focussed on EU centres, including London, Dublin, Paris, Milan, Zurich and Lisbon.

London, of course, is the EU's powerhouse of finance. It therefore gave us great pleasure to welcome The Lord Mayor of London, The Hon. Michael Savory, to the MFSA in February. He was visiting Malta in his capacity as ambassador for London's finance industry.

The Lord Mayor also granted two scholarships to MFSA employees, involving work placements with leading City institutions. The Lord Mayor's endorsement of Malta, his granting of the scholarships and his generosity in helping the country reach new high level contacts in London is greatly appreciated.

Her Majesty Queen Elizabeth II visited Malta in 2005 to attend the Commonwealth Heads of Government Meeting, in her role as Head of the Commonwealth. The MFSA participated in the Commonwealth Business Forum and produced a high quality press briefing on the country's finance industry, distributed to all the press attending from the 53 Commonwealth nations.

Other important guests to visit the MFSA during the year included The Chief Minister of Gibraltar, Peter Caruana, Sir Howard Davies, formerly Chairman of the UK's Financial Services Authority and now Director of the London School of Economics, and

Mr. Fabrice de Marigny, Secretary-General of the Committee of European Securities Regulators.

Third Party Endorsement

Malta benefited from extremely favourable coverage in a number of prestigious international financial publications during the year. They included The Banker, Business Money International, FT Mandate, Hedge Funds Review, Portfolio International, PWM, The Investor, Fortune Magazine, Lloyds List and Handelsblatt. Most of the in-depth coverage followed media visits to Malta. These visits are structured and managed by MFSA staff in cooperation with the industry. Careful planning and good briefing of media and those interviewed has helped the country achieve the substantial third party endorsement that is so valuable to Malta in a highly competitive marketplace.

Now in its fifth year, the MFSA's monthly newsletter has evolved into a valuable tool for keeping the industry informed of important developments in regulation, legislation and training. It is also published in full in a Maltese daily newspaper, The Times and circulated to business and media contacts overseas. The Authority also produces a monthly update on EU policy and regulatory issues, that is circulated to the industry.

In addition, the MFSA published new literature on the 2004 Trusts and Trustees Act and oversaw the editorial content for international commercial publications in the fields of trusts and captive insurance.

Education and Training

As I have written in previous reports, continuing education and training are essential to keeping Malta competitive. 2005 began with an MFSA seminar series on Basel II. We then joined with the Institute of Financial Services and the Malta Bankers Association to mount a training course on the EU's Financial Services Framework. Seminars on MiFID and Professional Investor Fund structures were held by the MFSA with guest speakers from the European Commission, CESR and top international practitioners from the London hedge fund sector.

The MFSA entered into partnership with the Malta College of Arts, Science and Technology in offering a training course in basic accountancy. This fifty-week programme is primarily aimed at women

with a good basic education seeking a return to work.

Other courses, seminars and talks, covering the interests of all sectors of the finance industry, were supported by the MFSA. Given the work in finance sector training and education under the auspices of the MFSA, professional bodies, the University of Malta, Malta College of Arts, Science and Technology and the Mediterranean Insurance Training Centre, Malta has developed a comprehensive finance education and training regime of real quality. It is essential that we keep up momentum in these areas and ceaselessly improve and deepen them.

Consumer Protection and Education

In addition to producing a growing range of consumer education and guidance literature, the Authority produced a series of radio programmes covering a broad range of consumer finance issues. They were broadcast on local radio, streamed live on the station's website and remain available on the MFSA consumer website.

The internet has become the primary source of information for the world's consumers and Malta has one of the globe's highest concentrations of internet penetration. The Authority therefore puts great store in the Dolceta project, a joint effort involving the Authority and other European institutions. Dolceta is developing new web based consumer education tools that go beyond the provision of information to include exercises and interactive facilities. Part of the work involves adapting features of the site to take local Maltese requirements into account.

The Office of the Complaints Manager provides a valuable and important service to consumers and achieves equitable resolution in the vast majority of cases. It became clear during the year that more work is needed to educate consumers in relation to products bought with or without investment advice. The Authority will be addressing this need in 2006.

Income and Cost Control

The Authority, which is entirely independent of government funding, achieved all its income targets for the year and met its financial obligations to the

country. Costs continue to be tightly controlled and we have continued to improve our procurement and financial management systems. Fees and charges levied on the industry were held at previous levels.

Industry Consultation and Legislative Developments

For all the advantages EU membership gives the country, it does mean that reforming existing Maltese legislation and creating new laws is complex and time-consuming. Consequently, it makes consultation with the finance industry and advisory firms ever-more essential. As a country, we have to be sure that our law meets local and EU requirements and that we minimise unintended consequences. The Authority is grateful to the industry and its professional bodies for the time given to these critical processes.

During the year we consulted on proposed amendments to the Investment Services Act, the Companies Act, the Insurance Intermediaries Act, the Insurance Business Act and a number of EU and Maltese regulatory instruments.

Strong and Flexible

In 1994 the nation set out on the path to create a new type of finance jurisdiction in Malta. Since then we have made great strides. With every passing year the roots of the finance industry grow deeper into our soil. We are still a young finance centre by international measures, but our very youth keeps us dynamic and flexible. Our relationship with our EU neighbours is bearing fruit. Results are being delivered.

2005 was a good year for Malta, its finance industry and the MFSA. Our challenge now is to stay youthful, dynamic and flexible and keep our focus firmly on quality, stability and service.



J.V. Bannister



Structure and Organisation

Structure and Organisation



*Left to right: - Front row: Dr. David Fabri, Prof. J.V. Bannister, Mr. Michael Bonello, Mr. Albert Attard
Back row: Prof. Charles J. Farrugia, Mr. Joseph V. Laspina, Dr. Anton Felice, Mr. Frank Xerri de Caro*

Board of Governors

Chairman

Prof. J. V. Bannister, B.Sc.; M.Sc.; D. Phil (Oxon)

Members

Mr. Albert Attard

Mr. Michael C. Bonello, M.A. (Oxon); FCIB

Prof. Charles J. Farrugia, Ph.D (Lond.)

Dr. Anton Felice, LL.D.

Mr. Joseph V. Laspina

Mr. Frank Xerri de Caro, ACIB

Secretary

Dr. David Fabri, LL.D.

*The Board of Governors also acts as the Listing Authority
for the purposes of the Financial Markets Act.*

Supervisory Council

Chairman

Dr. Andre Camilleri, LL.D., Director General

Members

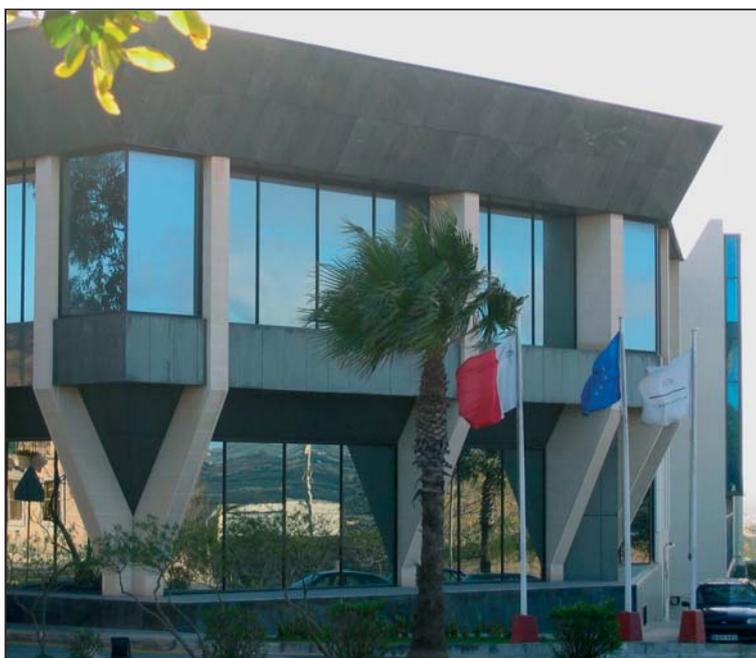
Dr. Marisa Attard, LL.D; ACII, Director – Insurance Business
Dr. Anton Bartolo, LL.D., Director – Corporate Services & Registrar of Companies
Mr. Karol Gabarretta B.A. (Hons.) Econ.; M.A. (Fin. Serv.), Director – Banking
Ms. Cristina Parlato Trigona, B.A. (Hons) Accty; MSc.; CPA; ASI, Director – Securities

Secretary

Mr. Robert Higgans, B.A. (Hons) Bnkg & Finance; M.A. (Fin. Serv.)

In Attendance

Dr. Michelle Buontempo, LL.D.; M.A. (Fin. Serv.), Deputy Director – Company Compliance
Ms. Marianne Scicluna, B.A. (Hons) Bnkg & Finance; MSc. (Fin. Reg & Compliance Mngt),
Deputy Director - Pensions



Board of Management and Resources

Chairman

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

Members

Mr. Charles Theuma, B.A. (Hons) Bs. Mgt.; BSc MCL; B.Com., Consultant/Director – IT & Communications
Mr. Paul Vella, B.A. (Hons) Bs. Mgt., Director – Human Resources and Development
Dr. Michael Xuereb, LL.D.; M.A. (Fin. Serv.), Director - Business Development
Mr. Charles Zammit, D.B.A.; M.C.M.I.; A.A.I.A., Director – Administration

Secretary

Ms. Alexandra Filletti B.Com. (Hons) Banking & Finance

The Organisation in 2005

The Malta Financial Services Authority became the single regulator for all financial services in Malta in 2002. The three main organs of the Authority are the Board of Governors, responsible for policy and direction; the Supervisory Council, responsible for licensing, monitoring and supervision of financial services licence holders; and the Board of Management and Resources responsible for the day-to-day management, the finances of the Authority and for the general co-ordination of the Authority's administrative affairs.

The organisational changes undertaken in 2005 were motivated by the increasing importance of pensions and corporate governance issues at national and international level. Two new regulatory Units, a Pensions Unit and a Corporate Services Unit, were set up during the year.

The Corporate Services Unit is headed by Dr Anton Bartolo and is responsible for issues regarding the prevention of money laundering and oversight of corporate service providers. Dr Bartolo also retains the functions and responsibilities of Registrar of Companies in accordance with the Companies Act.

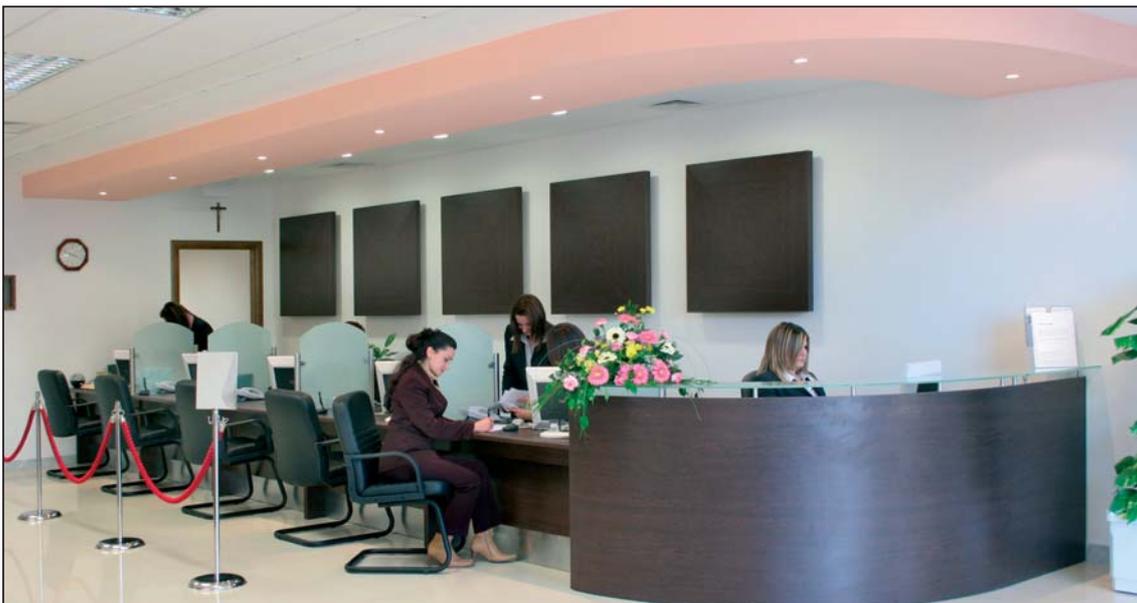
Ms Marianne Scicluna was appointed Deputy Director of the new Pensions Unit which is primarily responsible for the regulatory and supervisory functions deriving from the Special Funds (Regulation) Act. Ms Scicluna has been active in regulation and supervision, mainly in the securities field, since 1995.

The Company Compliance Unit is now headed by a Deputy Director, namely Dr Michelle Buontempo, and is responsible for the regulation and supervision of Trustees, corporate trustees and licensed nominee companies. The Unit also assists the Listing Committee and is responsible for corporate governance issues. Dr. Buontempo has been involved in regulation of nominee companies and registration of trusts since 2001.

Opening of the New Registry of Companies Offices

The MFSA also houses and is responsible for the Registry of Companies. The Company Register continued to grow steadily over recent years. During the two-year period from January 2004 to December 2005 an average of 200 companies were registered every month. As workloads increased, new and larger offices were required to house the Registry in order to continue providing the general public with a consistent level of service.

The new premises for the Registry of Companies at the MFSA were officially inaugurated by the Hon. Prime Minister, Dr Lawrence Gonzi on April 4, 2005. The event coincided with the 10th Anniversary of the opening of the offices housing the Malta Financial Services Authority. A commemorative plaque was unveiled to mark the occasion in the presence of guests and MFSA staff. Mr Fabrice de Marigny, Secretary-General of the Committee of European Securities Regulators (CESR) was also present for the occasion.



The Registry of Companies new offices



Regulation and Supervision

Regulation and Supervision

The Supervisory Council is responsible for the licensing, monitoring and supervision of all areas of financial services, including banking and financial institutions, insurance and insurance intermediaries activities, investment services and securities business, stock exchanges and, trustees, retirement schemes and related services providers.

Licensing

Credit and Financial Institutions

The banking sector expanded considerably in 2005 as new licences were issued to a number of credit and financial institutions.

Credit Institutions

CommBank Europe Limited was granted a licence to carry on the business of banking, specialising in the provision of wholesale banking services. The newly licensed bank is a subsidiary of Commonwealth Bank of Australia which is one of the largest listed companies on the Australian Stock Exchange and is supervised by the Australian Prudential Regulation Authority (APRA).

During the year the MFSA granted a banking licence to Finansbank (Malta) Limited, a subsidiary of Finansbank AS incorporated in Turkey. The bank provides a range of investment banking, life and non-life insurance, factoring services and leasing.

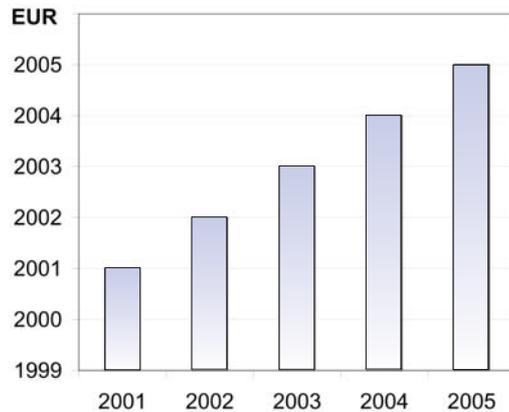
A banking licence was also issued to Mediterranean Bank p.l.c. to carry out the business of banking in terms of the Banking Act, mainly through the provision of private wealth management services to high net-worth individuals and corporate clients, accepting deposits and lending in foreign currency.

The MFSA has also approved a change in the name of Disbank Malta Limited which was renamed Fortis Bank Malta Limited following regulatory approval of

the purchase of shares by Fortis from the majority shareholders of Turk Dis Ticaret Bankasi A.S. (the parent of Disbank Malta Limited) in Turkey.

Financial Institutions

Northway Financial Corporation Limited was issued with a financial institution licence to carry out the business of lending, specialising in short-term unsecured loans known as payday loans. A second financial institution licence was issued to Northway Broker Limited, to carry out the business of money broking. The newly licensed institutions are subsidiaries of Northway Financial s.a.r.l, a company based in Luxembourg, which in turn is part of the Canadian NDG Group.



Balance Sheet Totals at the end of Year

CommFinance Limited, voluntarily surrendered its licence to carry on the business of a financial institution following the licensing of CommBank Europe Limited.

Notification for cross-border services

During the year, 29 banks from other Member States have notified the MFSA of their intention to provide cross-border services in Malta, in terms of Article 21 of Council Directive 2000/12/EC.

Table I: Number of Credit and Financial Institutions

	As at 31 December 2004	As at 31 December 2005
Credit Institutions	17	19
Financial Institutions	12	13
Representative Offices	1	1

Source: Malta Financial Services Authority

Table 2: Notification by country for cross-border services

Country	Number of Notifications Received as at 31 Dec 2005	Country	Number of Notifications Received as at 31 Dec 2005
Austria	4	Italy	1
Belgium	1	Luxembourg	2
Cyprus	1	Netherlands	1
Denmark	1	Poland	1
France	5	Spain	1
Germany	5	United Kingdom	5
Hungary	1		

Source: Malta Financial Services Authority

On the other hand, 2 locally licenced credit institutions have during the year notified the respective EU regulators of their intention to provide cross-border services in other jurisdictions in terms of Legal Notice 88 of 2004 and Council Directive 2000/12/EC.

Insurance

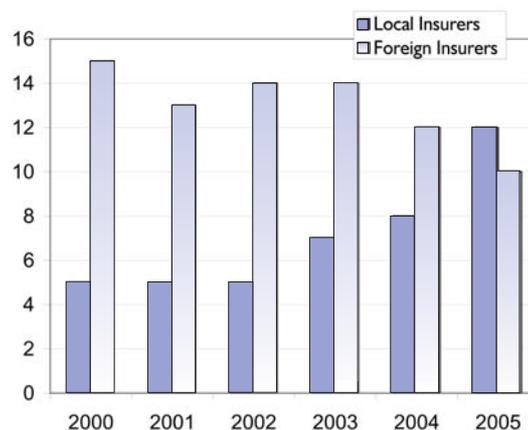
The year under review was characterised by an increase in the number of licensed insurance companies, insurance managers and affiliated insurance companies.

Insurance Companies

Extensive development work on the insurance regime carried out in the previous years placed the industry on a strong footing in the cross-border market. During the first full year of EU membership the Authority issued eight licenses to new insurance companies.

Four companies were licensed to write third party business. Bavaria Reinsurance Malta Limited was authorised to carry on the business of reinsurance in classes of long term and general business, while Multi Risk Indemnity Company Limited was authorised to carry on business in various classes of general insurance and reinsurance business. Bastion Insurance Company Limited was licensed to carry on the specialised class of legal expenses insurance while Central General Limited was licensed to carry on business of insurance in three classes of general business.

Another four companies were licensed as affiliated insurance companies. These were Falcon Insurance



Local & foreign companies authorised to carry on general insurance business in Malta

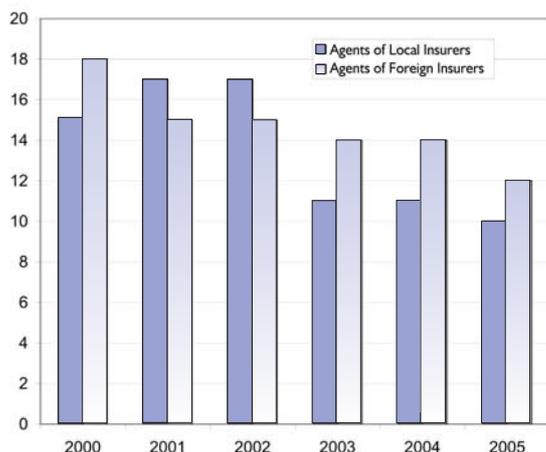
Limited, Rhenas Insurance Limited, Ergon Insurance Limited and Nautilus Indemnity (Europe) Limited.

Insurance Managers

2005 also saw a build-up in insurance management capacity and expertise that has proved to be a determining factor in the expansion and internationalisation of the insurance industry. During the year, the MFSA licensed four insurance managers: Aon Insurance Managers (Malta) Limited, Ark Insurance Management (Malta) Limited, Marsh Management Services Malta Limited and Heath Lambert (Malta) Limited.

Insurance Agents

During the year, Millennium Insurance Agency Limited was granted authorisation to act as an insurance agent of Markel International Insurance Company



Insurance Agents authorised to act on behalf of local and foreign companies

Limited whilst Contingen Insurance Agency Limited, agents for Middlesea Insurance p.l.c., ceased to carry on insurance agency activities. England Insurance Agency Limited ceased acting as insurance agents for ACE Insurance SA-NV as this insurance principal ceased carrying on business in Malta.

With the approval of the High Court of Justice in the UK, ACE Insurance SA-NV transferred its assets and liabilities to ACE European Group Limited.

Insurance Brokers (individuals)

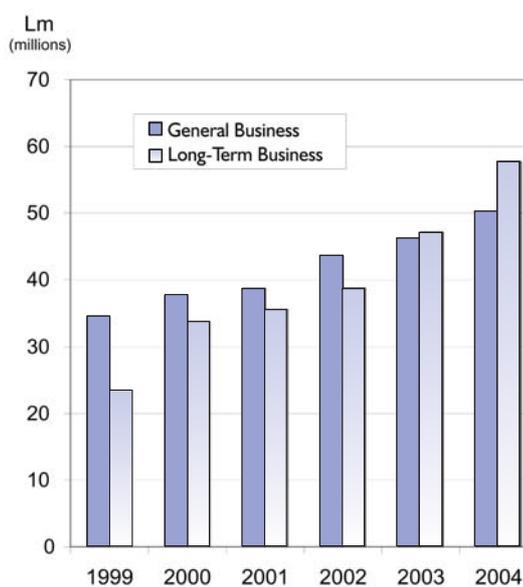
During 2005 three registered brokers who did not carry on insurance broking activities over a twelve month period were removed from the Brokers Register. Another three individuals were registered in the brokers register. The total number of Individual Brokers on the Register at the end of 2005 stood at 39.

Insurance Sub-agents

The number of insurance sub-agents enrolled in the Sub-Agents List at the end of the year stood at 548, compared to 564 at the end of 2004. 49 new Sub-Agents were enrolled in the Sub-Agents List during 2005, while 65 Sub-Agents requested to be removed from the List on a voluntary basis.

Cross Border Notifications - European Insurance Undertakings

During the year the Authority received further notifications from EEA supervisory authorities for authorised European insurance undertakings to carry on business in Malta under the freedom to provide services. The number of notifications received under the European Passport Rights for Insurance Undertakings Regulations was 74.



Gross Premium Income

Table 3: Number of Authorised Insurance Licence Holders

	31 Dec 2003	31 Dec 2004	31 Dec 2005
Locally-domiciled Insurers	7	8	12
Foreign-domiciled Insurers	14	12	10
Recognised Insurance Body	1	1	1
Affiliated Insurance Companies	1	0	4
Insurance Managers	2	2	6
Agents of: Local Insurers	11	11	10
Foreign Insurers	14	14	12
Insurance Brokers – Companies	24	24	24
Insurance Brokers – Individuals	41	39	39
Insurance Sub-Agents	559	564	548

Source: Malta Financial Services Authority

Table 4: Number of European Insurance Undertakings that have exercised their right to provide Insurance services in Malta

Country	Number of notifications	Country	Number of notifications
Austria	9	Latvia	1
Belgium	6	Liechtenstein	1
Czech Republic	4	Lithuania	1
Denmark	2	Luxembourg	13
Estonia	2	Netherlands	8
Finland	3	Poland	1
France	9	Spain	1
Germany	13	Slovak Republic	1
Gibraltar	1	Slovenia	1
Hungary	4	Sweden	6
Ireland	18	United Kingdom	51
Italy	15		

Source: Malta Financial Services Authority – As at 31st December 2005

Table 5: Number of European Insurance Undertakings that have exercised their right to provide Insurance Mediation services in Malta - Freedom of Establishment

Jurisdiction	Number of notifications received
Germany	1
Gibraltar	1
United Kingdom	2

Source: Malta Financial Services Authority – As at 31st December 2005

Table 6: Number of European Insurance Intermediaries that have exercised their right to provide Insurance Mediation services in Malta - Freedom of Services

Jurisdiction	Number of notifications received
Austria	19
Belgium	3
Gibraltar	1
Hungary	1
Estonia	2
Ireland	8
Luxembourg	8
Czech Republic	1882
United Kingdom	338
France	1
Total Notifications	2263

Source: Malta Financial Services Authority – As at 31st December 2005

Table 7: Number of European Insurance Intermediaries that have exercised their right to provide Insurance Mediation services - Freedom of Establishment

Jurisdiction	Number of notifications received
United Kingdom	1

Source: Malta Financial Services Authority – As at 31st December 2005

Cross-border Notifications – Insurance Mediation

The MFSA has also received further notifications of intention of persons registered in EEA Member States to carry on insurance mediation business in Malta. Tables 5 to 7 overleaf, provide an overview of the number of such notifications received broken down by country of origin.

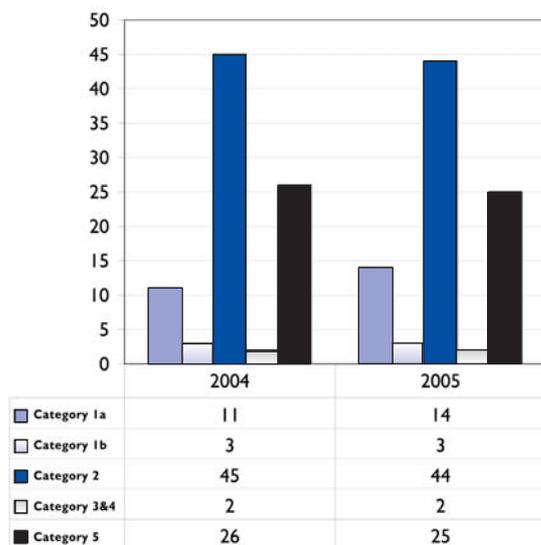
Cross-border Notifications – Maltese Insurance Intermediaries

A Maltese insurance broker notified the MFSA of the intention to carry out reinsurance broking in all EU Member States.

Investment Services (IS)

During the year the MFSA issued five Investment Services Licences and accepted the voluntary surrender of another five.

The licences of a Category 1a and that of two Category 2 IS licence holders were revised to include additional instruments. The licence of an additional Category 2 licence holder was extended to include the provisions of stockbroking services.

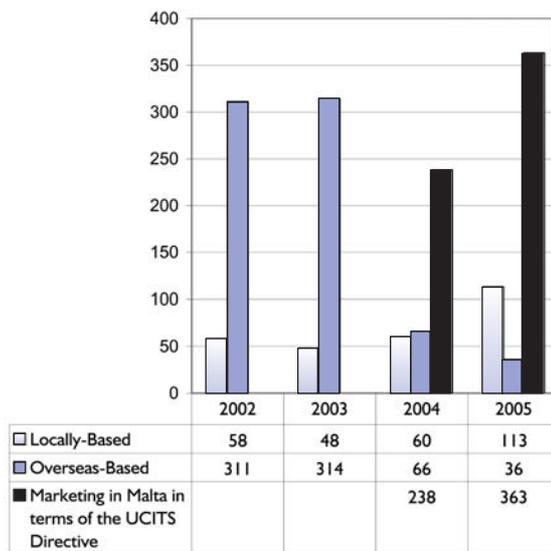


Number and Type of IS licences in issue

Collective Investment Schemes (CISs)

Another major development seen over the past year was the rapid growth of the professional investor funds (PIFs) sector. During the year, the Authority issued 58 CIS Licences (including sub-funds), 53 of which were for PIFs.

The following PIFs were licensed during 2005: Absolute Return Multi-Strategy Fund (SICAV) p.l.c., Altma Fund SICAV in respect of 29 sub-funds, Fairway Forex Trading Fund SICAV in respect of 1 sub-fund, Grenfell Funds SICAV in respect of 4 sub-funds, Harbourside Multi-Manager Fund SICAV p.l.c. in respect of 2 sub-funds, InvestInvent Wind Energy Limited, La Valette Multi Manager Property Fund, NBCG Fund SICAV p.l.c. in respect of 7 sub-funds, OperaFund Eco-Invest UK Fund SICAV p.l.c., Swissfund SICAV p.l.c. in respect of 4 sub-funds, VIP Select Funds SICAV in respect of 1 sub-fund and Yuriplan Invest Fund SICAV p.l.c.



Overseas and locally-based CISs

A CIS licence was also issued to a foreign retail scheme during the year - Brewin Dolphin Portfolios Limited in respect of 1 sub-fund. Furthermore CIS licences were issued to local retail schemes including: HSBC Structured Fund SICAV in respect of 2 sub-funds, HSBC Malta Fund SICAV p.l.c. in respect of 1 sub-fund and La Valette Funds SICAV p.l.c. in respect of 1 sub-fund.

The Authority also accepted the surrender of 35 CIS licences (including sub-funds) during the year.

The foreign retail schemes surrendering their licence continued to market themselves in Malta as UCITS following due notification.

The full list of IS and CIS licences issued is included in the Appendix to this Report.

Fund Administration

We granted two Recognition certificates to Kosco Management Services Limited and Globe Fund Advisors Limited to act as fund administrators in terms of Section 9A of the Investment Services Act.

Cross Border Notifications - UCITS and Investment Intermediaries

Investment Services Directive

During the year under review, regulators from EU and EEA countries notified the Authority that a total of 112 firms intended to provide investment services in Malta on a cross-border basis in terms of the Investment Services Directive. During the same year the MFSA processed 119 such notifications.

Six ISD firms notified the Authority of their intention to cancel the provision of investment services in Malta on a cross-border basis, in terms of the Investment Services Directive.

Table 8: Notifications received from foreign investment firms

Country	Number of Notifications
UK	88
Netherlands	8
Cyprus	3
Austria	5
France	2
Ireland	4
Norway	1
Finland	1

Source: Malta Financial Services Authority

UCITS Directive

During 2005 the Authority received 160 notifications from UCITS schemes with a view to marketing their units in Malta in terms of the UCITS Directive.

21 UCITS firms including a total of 178 sub-funds have during the year, been authorised to market their units in Malta in terms of the UCITS Directive.

Foreign Credit Institutions passporting into Malta in terms of the ISD notifications

32 notifications were received from foreign credit institutions intending to provide banking and investment services in Malta on a cross-border basis in terms of the Banking Co-ordination Directive and the Investment Services Directive. All notifications were processed.

Cross-Border Notifications - Maltese investment firms

One notification was submitted to a number of foreign regulators notifying them that an investment services licence holder intends to provide investment services on a cross-border basis in terms of the Investment Services Directive.

Table 9: UCITS Notifications received

Country	Number of Notifications received
Ireland	38
Austria	1
Luxembourg	121

Source: Malta Financial Services Authority

Registration of Companies

The total number of new commercial partnerships registered during the year was 2,347 (table 10 below), a slight decrease from 2004. The total number of companies registered in Malta since 1965 up to December 31, 2005 totals 37,720. The number of companies involved in mergers during 2005 was 30 while 5 companies were divided into other companies. During the year, 900 companies were placed into liquidation.

During the year, over 100 companies formerly incorporated and registered outside Malta transferred their domicile to Malta in terms of the Continuation of Companies Regulations. Companies registered in approved countries may re-domicile to Malta, subject to the approval of the authorities in their country of origin.

Listing Authority

As Listing Authority, the Board of Governors are assisted by the Listing Committee which evaluates applications for admissibility to listing in respect of securities and monitors compliance with Listing Rules. The Listing Committee is chaired by Mr Paul Spiteri and has as members Mr Edward Carbone (member and secretary), Mr David Pullicino, Mr Robert Lafayette and Mr Albert Attard.

During the year the Listing Committee evaluated and recommended a number of applications for listing including a EUR10 million IHI p.l.c. Second Tranche ordinary share listing, and the listing of various Malta Government Securities, Malta Notes and 3 Collective Investment Schemes.

Table 10: New Company Registration

New Registrations:	Companies	Partnerships	Total
Qtr 1 2005	548	8	556
Qtr 2 2005	605	9	614
Qtr 3 2005	534	7	541
Qtr 4 2005	628	8	636
TOTAL	2,315	32	2,347

Source: Malta Financial Services Authority

Phasing out of Nominee Companies

The coming into force of the Trusts and Trustees Act on January 1, 2005, brought the issuing of new licences for the provision of nominee services to a stop.

Companies and individuals who at the end of 2004 held a license to provide nominee services have until the end of 2006 to apply for a licence to act as Trustees under the new law. In default of this their business has to be transferred to a Trustee who is licensed under the Trust and Trustees Act.

During the year under review the MFSA authorised 57 Trustees under the Trust and Trustees Act.

At the end of December 2005, there were 32 Licensed Nominees, and 37 companies holding a warrant to act as nominees under the MFSA Act.

Supervision and Compliance

One of the main objectives of the MFSA is that of monitoring licence holders in the best possible manner and overseeing that they abide by all applicable rules and regulations. This is implemented through both off-site and on-site compliance work.

Off-site compliance staff monitor adherence by licence holders to their prudential requirements through the review of monthly and quarterly returns as well as through the review of licence holders' audited annual financial statements.

On-site inspections to licence holders' premises are useful in monitoring the extent to which the operational activity of licence holders adheres to the regulations imposed. On-site visits are carried out both on a routine basis and, in certain cases, on a targeted basis.

A total of 142 on-site compliance visits were carried out by MFSA inspectors during the year. These included 18 on-site inspections to Credit Institutions and 10 to Financial Institutions. 55 on-site compliance visits were made to investment services companies while 26 visits were made to insurance companies, broking firms and insurance sub-agents and their respective branches. 33 on-site routine inspection visits were conducted at the premises of licensed nominee companies and trustees.

The outcome of compliance visits was reported to the respective licence holders and where necessary, remedial action was required within specific time-frames.

Administrative Penalties

A number of administrative penalties were levied on insurance agents and sub-agents during the year. Penalties were mainly charged for failure to comply with directives or orders made or given under the insurance laws; failure to enroll persons in the Sub-Agents Company Register, and also for the carrying out of insurance sub-agency activities on behalf of an insurance company without registration in the Sub-Agents Company Register and enrolment in the Sub-Agents List. An investment services licence holder was fined for a breach of certain disclosure requirements to be included in investment advertisements.

Financial Services Tribunal: Cases 2005

The exclusive jurisdiction for the review of the administrative correctness of regulatory measures taken by the Authority against license holders and applicants for a license is vested in the Financial Services Tribunal.

During 2005, one appeal was lodged against the Authority following its decision that an investment services business proposal which was submitted for its consideration did not satisfy the necessary licensing criteria. The Tribunal concluded that it could not take cognizance of the claim because it found that the application did not meet the formal requirements laid down in the law, and accordingly decided in favour of the Authority.

Prevention of Money Laundering

The MFSA attaches great importance to prevention of money laundering. In the course of its regulation and supervisory functions the Authority seeks to ensure that its licence holders are fully aware of their money laundering obligations and that they comply fully in terms of the law.

The MFSA has been appointed as agent of the Financial Intelligence Analysis Unit (FIAU) which is the competent authority for money laundering issues. In the course of its on-site supervision the MFSA acts on behalf of the FIAU in assessing and ensuring compliance by licence holders on matters relating to money laundering and reports accordingly to the FIAU on its findings.

The Money Laundering Reporting Officer represents the Authority at meetings of the Prevention of Money Laundering Joint Committee.

The MFSA is also represented on the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures which meets in Strasbourg. One of the Authority's Directors is a member of the governing board of the FIAU.

In November of 2005, the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures carried out the third round of Anti-Money Laundering / Combating the Financing of Terrorism evaluation of Malta. Malta's legislation and measures including practical aspects were evaluated in order to establish compliance. The report of the evaluation is expected to be discussed and approved by the Committee during 2006.

International Sanctions

The MFSA is represented on the Sanctions Monitoring Board, which is established by law to monitor the operation of regulations imposing sanctions and other similar measures. Lists of persons and entities against whom sanctions are imposed in adherence to U.N. Security Council Resolutions and E.U. Regulations continue to be made available on the MFSA website for access by licence holders.



Consumer Protection

Consumer Protection

The year under review is the third full year since the establishment of the Office of the Complaints Manager. The staff complement was strengthened during the year with the addition of a lawyer. The main task of this Office is to educate consumers on financial services issues, to receive complaints against financial services licence holders and to assist the complainant and the intermediary to arrive at a voluntary and fair solution.

Complaints reviewed

Tables 11 and 12 below captures the number of queries and complaints received and processed during 2005. In addition the office received 91 enquiries for information related to consumer affairs.

The MFSA reviewed and concluded a total of 151 formal complaints during 2005. It has been estimated that the average turnaround for complaints is around 60 days, although this estimate is highly dependent on the nature and complexity of the complaint under review. The Authority is aiming to reduce the turnaround time during 2006.

As in previous years, the majority of complaints related to insurance business. Motor insurance-related complaints remained the most common type of complaint. In most cases, the dispute arises when the expectations of third parties exceed those which

the insurer may legally and contractually be obliged to provide.

The MFSA was also asked to intervene in a large number of cases relating to health insurance. The issue is usually the amounts reimbursed to the policyholder.

In the investment services area, the MFSA investigated a substantial number of complaints relating to “structured products” whose main characteristic was the full repayment of capital on maturity. The main issue related to currency exchange losses.

The pattern of complaints received during this year highlights the inability of many consumers to distinguish between execution-only services and investment advice. A large proportion of complaints indicate that complainants were not aware that they were acquiring an investment without advice, even after they had signed documents attesting that it was an execution-only transaction. The Authority will focus on this issue in 2006 through further education initiatives and through its continuing emphasis with licence holders during compliance visits regarding the importance of ensuring that the client is fully aware of terms of the investment service provided.

The Authority also took note of the fact that the majority of banking-related complaints processed referred to bank charges and credit card transactions.

Table 11: Complaints Received

	Formal	Verbal	Total
Banking	33	12	45
Insurance	107	211	318
Investment Services	60	24	84
TOTAL	200	247	447

Source: Malta Financial Services Authority

Table 12: Formal Complaints, Concluded and Pending

	Formal Complaints Concluded	Formal Complaints Pending
Banking	28	5
Insurance	78	29
Investment Services	45	15
TOTALS	151	49

Source: Malta Financial Services Authority

Queries received indicate that the MFSA is being approached on a wide range of issues. However, there are also indications that many licence holders are trying to solve complaints directly with the licence holders.

In 2005, the MFSA launched an updated Consumer Complaints Form which consumers could use for lodging a complaint with MFSA. The Form may be downloaded from the Authority's consumer website or sent by post on request. The Form is intended to guide consumers in the formulation of their complaint.

Consumer education

One of the Authority's key responsibilities is to disseminate information of educational value to consumers of financial services.



Building awareness for the future

Members of the Consumer Complaints Office regularly took part in various radio and TV programmes throughout the year, while the Consumer Complaints Manager also delivered talks on investor education and consumer rights in financial services in various fora.

The Authority also produced a series of 26 programmes about a wide range of consumer issues. The series is currently being aired on a local radio station and can be downloaded from the MFSA's consumer website www.mfsa.com.mt/consumer.

A number of media releases were also issued to warn the public about persons or entities which were soliciting financial services without a licence. These warnings are posted on the MFSA website and are also included in the MFSA newsletter which is published in a local newspaper every month.

Participation in an EU Funded Project

The MFSA is participating in the EU DOLCETA project along with a number of other European institutions. The project, which is led by EUCEN (the European Universities Continuing Education Network), is aimed at developing a web-based consumer education platform targeting trainers and other multipliers in consumer education as well as the "informed" consumer.



The project aims at raising the level of awareness and understanding of European Consumer rights among adults in the European Member States. It consists in the development of two modules: a generic module on basic consumer rights and the advantages of the internal market and redress possibilities; and a specialised module on financial services.

The MFSA together with the Consumer and Competition Division within the Office of Fair Trading is currently involved in the development of these two modules. The Maltese team has been entrusted with the adaptation of these modules to the Maltese legal and cultural scenario.

Participation in consumer fora

The MFSA took part in a number of FIN-NET meetings. FIN-NET is the out-of-court consumer complaints settlement network for the Internal Market. The MFSA also participated in other consumer related seminars organised by CESR.



Development Overview

Development Overview

Legislative Overview

2005 was particularly intensive on the legislative front due to the transposition of some major pieces of EU legislation, most notably the Market Abuse Directive, the Prospectus Directive, the Insurance Mediation Directive and the Pensions Directive. Some of these Directives substantially affected provisions in a number of related laws and regulations and consequently the task of transposing them proved to be more onerous than is normally the case. Preparatory work was also undertaken on a number of other directives, amongst which the Markets in Financial Instruments Directive (MiFID).

During the year, the MFSA also consulted with the Financial Services Consultation Council (FSCC) with regards to distance selling, insurance sub-agents, insurance directive on internal controls, EU Prospectus Directive, implementing MiFID, legal notices on Companies Act (Amendment), Proposed Amendment to the Markets Abuse Directive, insurance legislation, proposed legal notices related to the Special Funds Act, Property Funds Policy, Control of Assets Regulation and Off-Exchange Trading.

Banking

Various amendments were undertaken to a number of Banking Directives during the year. One of the major changes carried out concerns the updating of the schedules of the Statutory Financial Information Banking Directive BD/06.

The Electronic Money Institutions Directive EMID/01 was amended in order to exclude electronic money institutions operating under waiver conditions from benefiting under the provisions of the European Passport Rights for Credit Institutions Regulations. The amendment brought the directive in line with Article 8(2) of the Directive 2000/46/EC. Changes were also incorporated to the European Passport Rights for Credit Institutions. Regulations were revised to include Electronic money institutions as provided for under EU Directive 2000/12/EC.

The Authority commenced the process of evaluating proposed amendments to a number of Banking Directives which would need to be amended with the provisions of the Capital Requirements Directive

(CRD). During 2005, the MFSA held a series of technical and information meetings with representatives of the local credit institutions to explain the changes that need to be affected to the local Banking Directives and discuss the relative impact on the local banks' current Solvency Ratios. During the last quarter of 2005, the Authority coordinated and assisted two local credit institutions in their participation in the fifth Quantitative Impact Study (QIS5) organised by the Basel Committee on Banking Supervision and the CEBS. The MFSA is also represented on other related working groups set up by CEBS and has on an ongoing basis, been required to provide feedback and suggestions regarding specific issues related to the CRD, and its forthcoming implementation on January 1, 2007.

The MFSA also reviewed Banking Directive BD/03 in line with CEBS Guidelines on prudential filters. The requirements on prudential filters will aim to mitigate fair value movement of financial instruments and property.

Legal Notice 405 of 2005, establishing bank holidays for 2006/2007, was also published in the Government Gazette.

Securities

The Prevention of Financial Markets Abuse (PFMA) Act was published and brought into force on April 1, 2005. The Act transposes and implements the EC Market Abuse Directive and aims to safeguard the integrity of Maltese and European financial markets and to enhance investor confidence in these markets.

A number of legal instruments also came into effect on the same date:

- Legal Notice 106 of 2005 entitled 'Prevention of Financial Markets Abuse (Fair presentation of investment recommendations and disclosure of conflicts of interest) Regulations, 2005.'
- Legal Notice 107 of 2005 entitled 'Prevention of Financial Markets Abuse (Market practices and manipulative behaviour) Regulations, 2005.'
- Legal Notice 108 of 2005 (as amended by Legal Notice 322 of 2005) entitled 'Prevention of Financial Markets Abuse (Disclosure and Notification) Regulations, 2005.'

Guidance Notes for Investment Services Licence

Holders and Issuers were also drafted with the aim of facilitating the interpretation of and compliance with the Prevention of Financial Markets Abuse Act (PFMA) and the above mentioned Regulations. The MFSA also held a presentation about the implications of the PFMA Act for Investment Services Licence Holders, Recognised Investment Exchanges and Issuers.

The Authority was also involved in reviewing the proposed revisions to Bye-Laws of the Malta Stock Exchange to cater for validations and reporting of off-exchange trades.

Amendments have also been drafted to the Control of Assets Regulations, 1998 in order to ensure flexibility in the Regulations so as to guarantee consistency with the regulatory requirements for Professional Investor Funds (PIFs). The proposed amendments clarify that Part 4 of the Regulations does not apply to PIFs and that in so far as custodial arrangements are concerned, PIFS should comply with any specific guidelines issued by the competent authority.

The following Regulations issued in terms of the Investment Services Act (ISA), 1994 were issued to transpose the relevant requirements of the EU Prospectus Directive:

- The ISA (Investment Advertisements and Prospectus Exemption) (Amendment) Regulations, 2005
- The ISA (Prospectus of Collective Investment Schemes) Regulations, 2005

The Companies Act (Investment Companies with Variable Share Capital) (Amendment) Regulations, 2005 were also issued. The regulations clarify the application of the provisions of the Companies Act relating to the insolvency of segregated sub-funds within an umbrella SICAV.

The Investment Services Guidelines issued by the MFSA in terms of the ISA were also updated during the year.

Pensions

The process for the implementation of the Pensions Directive was underway in 2005 and the Directive is expected to be fully implemented by March 2006.

Insurance

The European Passport Rights for Insurance Intermediaries Regulations, 2005 were published by Legal Notice 35 of 2005. These regulations have since January 15, 2005 permitted European Insurance intermediaries registered in EU or EEA Member States to passport their activities into Malta through the freedom of establishment or freedom to provide services. These regulations also contain provisions making it possible for Maltese Insurance Intermediaries to passport their insurance intermediaries activities in the same manner into other EU or EEA Member States.

The Insurance Business (Fees) (Amendment) Regulations published by Legal Notice 8 of 2005 came into force on January 28, 2005. These amendments provide for the payment of fees by Protected Cell Companies and cells of these companies. These Regulations also introduce a fee to be paid by European Insurance Undertakings which carry on business in Malta under the freedom of establishment.

The MFSA also issued four new Insurance Directives pursuant to the European Passport Rights for Insurance Undertakings Regulations, 2005. These Directives along with another Directive relating to Export Credit Insurance came into force on February 1, 2005.

A number of regulations amending other regulations already in force were issued during the year. These are: the Insurance Business (Companies Accounts) (Amendment) Regulations 2005, published by Legal Notice 126 of 2005, and published in the Government Gazette on April 26, 2005; the Insurance Business (Linked Long Term Contracts) (Amendment) Regulations 2005; the Insurance Business (Supplementary Supervision of Insurance Undertakings in an Insurance Group (Amendment) Regulations, 2005 and the Insurance Business (Insurers' Assets and Liabilities) (Amendment) Regulations, 2005 published in the Government Gazette on October 28, 2005.

During the year the Authority consulted with the insurance market on the draft Insurance Intermediaries Act which is intended to repeal the Insurance Brokers and Other Intermediaries Act, 1998. Consultations were also carried out in relation to a number of amendments to be introduced to the Insurance Business Act, 1998.

The Insurance Intermediaries Directive 20 of 1999 on the Issuing and Registration of Underwriting Agreements was amended in order to remove the restriction on the number of underwriting agreements which an enrolled company can enter into with authorised companies. This amendment came into force on March 1, 2005.

The Authority also issued the following directives following consultation with the industry:

- Insurance Intermediaries Directive 22 on Computer Links Arrangements effective from November 1, 2005; and
- Insurance Directive 27 on Insurers' Internal Controls, effective from January 1, 2006.

Listing

During the year, the MFSA published legal notices transposing the Prospectus Directive into Maltese Law. These shall apply to offers of securities and to prospectuses delivered or served on the Listing Authority and/or Registrar of Companies on or after the 15th December 2005. The MFSA has also completed the proposed amendments to the Companies Act and the Listing Rules to comply with the Prospectus Directive.

The Listing Rules which came into force at the beginning of 2004 were also revised and re-launched in November 2005. The new listing rules reflect

amendments required by the transposition of the Prospectus Directive.

The Listing Committee together with the Company Compliance Unit reviewed the existing Principles of Good Corporate Governance and a new code was proposed. The proposed new code was launched during a seminar on Corporate Governance held in conjunction with the Institute of Directors. The consultation process expires at the end of February 2006 after which the comments received will be analysed and further steps announced.

Work is currently underway on the transposition of the Takeover Bids Directive. The Listing Rules are also being reviewed with respect to the transposition of the Takeover Bids Directive.

Work on the Securitisation Bill was finalised. The Bill is expected to be debated in Parliament early in 2006.

Trusts and Trustees

The new Trusts and Trustees Act came into force on January 1, 2005. The legislation simplifies and accelerates setting up a trust and offers domestic and international clients greatly enhanced flexibility and higher standards of certainty.

During the year, the draft rules relating to the form and content of accounting records to be kept by trustees in case of trusts have been finalised.

Table 13: FSAP Measures adopted and being implemented

	Implementation Date
Conglomerates Directive	January 2005
Distance Marketing Directive	February 2005
Market Abuse Directive	April 2005
Prospectus Directive	December 2005
Take-Over Bids Directive	In progress
Occupational Pension Funds Directive	In progress
Insurance Mediation Directive	In progress
Markets in Financial Instruments Directive	In progress
Capital Requirements Directive	In progress
Transparency Directive	In progress
Disclosure Requirements Directive	In progress
Cross-Border Mergers	In progress

Source: Malta Financial Services Authority

International Relations

Memoranda of Understanding

The MFSA has in the past years signed a number of bilateral MoUs with its foreign counterparts. The aim of a Memorandum of Understanding is to facilitate the exchange of information and to create a formal framework for regulatory collaboration and co-operation between regulatory authorities.

During 2005, the MFSA signed two Memoranda of Understanding on mutual assistance and exchange of information with the Insurance and Pensions Authority of the Isle of Man and the Financial Services Commission of Jersey. Negotiations are currently underway with other overseas financial services regulators for the purposes of entering into new MoUs.

During May 2005, the MFSA also signed a multilateral MoU on co-operation between banking supervisors, Central Banks and Finance Ministers of EU Countries in Financial Crisis Situations. The MoU came into effect on July 1, 2005.

Substantial progress was also made during the year with regards to the MFSA's application to become a signatory to the IOSCO Multilateral Memorandum of Understanding (MMoU). During the last quarter of 2005, a meeting was held with the head of the verification team assessing the MFSA's application, eventually leading to a positive recommendation by the verification team to the screening group. Following a meeting of the screening group in Rome yet another positive recommendation was given for the MFSA to become a signatory of this MMoU. A final decision by the Committee of Chairmen on the basis of this recommendation is expected early in the new year.

Working Committees and International Fora

As an EU Member State, Malta participates in a number of Committee Meetings and Working Groups. During the year, MFSA officials involved in the regulation of Banking, Insurance, Securities, Pensions and Company Compliance within the MFSA participated in a number of meetings of sub-Committees and Working Groups of the Committee of European Securities Regulators (CESR), the Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), the Company Law Expert Group (CLEG) and the Group

de Contact. The MFSA participated in meetings and consultations conducted by the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities Commissions (IOSCO).

The MFSA also participated in various seminars and training courses organised by the Bank for International Settlements (BIS) related to on-site and off-site banking supervision with particular focus on Pillar II; Credit Derivatives; internal-rating based approach and credit risk modelling, and market and liquidity risk.

The MFSA also participated in the 18th conference organised by the European Insurance Supervisory Services on the challenges of prudential supervision: risk based approach and new accounting rules.

Training Overview

Human Resources and Training Development

The Authority regards the training of MFSA personnel and of people employed in the finance industry as critical to the quality of service and growth in the sector. During 2005 the Authority continued to play an active part in the ongoing effort to enhance skills and expertise available within the sector by actively collaborating with training institutions and industry bodies. The Authority has continued to determine areas of training that would be of relevance to MFSA staff and the industry and to consolidate internal policies geared towards the strengthening of staff welfare in general.

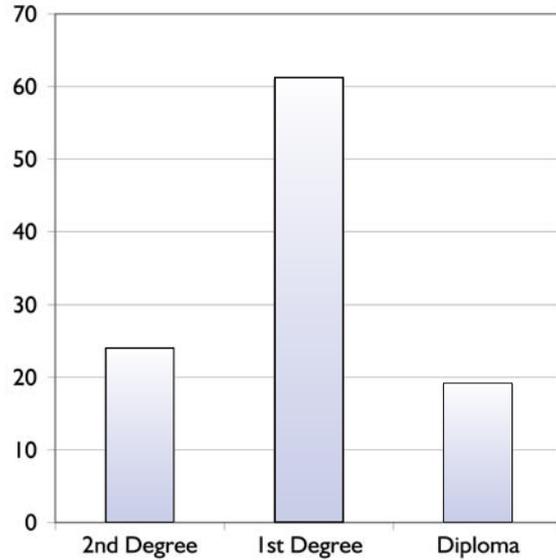
The MFSA also contributed to careers oriented events organised in a number of secondary schools and also received periodic organised visits by different categories of students within the scope of their financial services related studies.

MFSA Staff Development

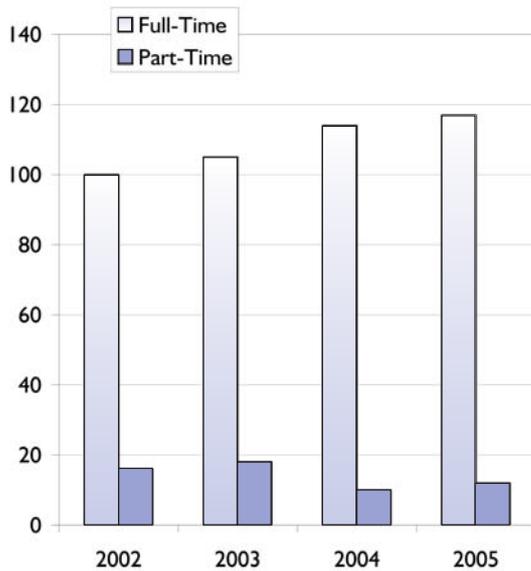
Apart from periodic technical and general training offered to staff, the Authority also introduced an Employee Assistance Programme to staff members. This programme was made up of a series of intensive life and management skills training sessions run by CARITAS. Directors and Deputy Directors were also involved in an intensive two day residential workshop focused on the application of management skills within the MFSA as a growing organisation.

The Authority has during the year, brought into force an internal Sexual Harassment Policy under the guidance of the National Commission for the Promotion of Equality. Specific awareness sessions were held for staff members in relation to the Policy.

During the year, 16 staff members have successfully completed their course of studies through the MFSA's Self Development Scheme while another ten commenced their studies. As at the end of December 2005, 23 staff members were still undergoing self development studies.



Number and type of qualifications held by MFSA employees



MFSA Staff Complement

Industry Training

The process of co-operation and consultation with the financial services industry and major professional

and teaching bodies has continued during 2005. The MFSA was actively involved at different levels in the organisation of programmes focusing on Insurance Services Regulation, Specialised Categories of Insurance and Insurance Products, European Union Law in Relation to Financial Services, Investment Services and Securities Regulation and Maltese Company Law. These programmes were jointly organised with the Institute of Financial Services (Malta), the Malta International Training Centre, the Malta Bankers' Association and the Institute of Legal Studies.

During this year, together with the Institute of Business and Commerce within the Malta College of Arts Science and Technology (MCAST), preparatory work was concluded in relation to programmes financed through the European Social Fund for the attainment of a recognised accountancy technician qualification. These programmes will be run during 2006 and will target females who wish to re-enter the labour market through employment in the financial services sector.

Table 13: Industry Training Programme 2005

Assessing the Impact of the EU Directive on Insurance Mediation and other EU Directives on the Insurance Market in Malta
Marketing Communications for Small Firms, lecture by Martin Roche, Communications Specialist
The EU Financial Services Framework
Investment Services Regulation – Implications, Obligations and Expected Developments
An Introduction to Affiliated Insurance and Insurance Management
Preparing to adopt the MiFID
Company Law Course
Life Insurance Contracts
IAIS Core Principles Course
Force for Change – Corporate Governance
Prevention of Financial Market Abuse

Business Overview

The global economy in 2005 experienced greatly mixed fortunes. Oil and gas prices rocketed, commodity prices accelerated and gold reached a record high, stock markets rose and many investors moved back into equities. The economies of the EU and Europe showed modest growth while Asian economies powered ahead. Business confidence across the world improved, but not remarkably so, as events in the Middle East and the ever present threat of terrorism coloured medium term attitudes.

Whilst the German economy showed some signs of recovery, much of the EU remained sluggish and the UK had an almost flat year. Consumer spending in Europe stayed modest, unemployment levels changed little and the Eastwards movement of manufacturing continued.

Throughout the year, despite peaks, troughs and geopolitical uncertainties, the EU's and the world's economic systems remained largely stable. Markets remained stable, interest rates stayed steady and inflation remained under control. The EU's and the world's financial systems absorbed the shocks that came and steady progress was achieved.

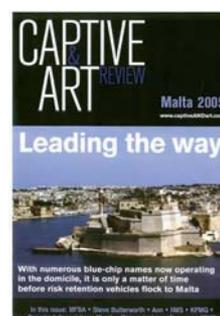
Meanwhile the MFSA continued to monitor business developments on the international and the domestic scene on an ongoing basis. This provides the necessary insight into the main business trends and perceptions, and places the organisation in a better position to be able to respond to business needs as they arise. The "Agenda for Maltese Financial Services in Europe", the strategic document drawn up in 2004, continued to provide the main reference point for the co-ordination of development initiatives in regulation, training and the business environment in order to facilitate and promote further growth in the industry.

During the year under review developments in the Maltese financial services sector came under increasing attention from the international media, particularly the specialised end of the media, confirming that Malta's communications strategy for financial services is having the desired results. News reports and features on Maltese financial services were carried in, amongst others: FT Mandate, Finance Dublin, International Investment Review, The Banker, EuroHedge, Handelsblatt, Fortune Magazine, The Investor, Business Money International, Lloyds Loading List, Irish Examiner, Lufthansa Inflight Magazine, Le Cahiers d'ARRI, Malta in Focus, Business

Money International, Captive.com, Captive & ART Review, Reactions Global Insurance Magazine, Strategic Risk and Commonwealth Business. AVANTI, the official journal of the Society of Trusts and Estate Practitioners (STEP), also featured articles on Trusts in Malta. Malta also featured in various statistical and news bulletins provided by international market research companies such as AXCO, The Cerulli Group and FERl - Fund Market Information.

The MFSA was closely consulted on three product-related publications on trusts, hedge funds and captive insurance. In April, *Hedge Fund Review* produced a Special report on Malta's emerging hedge fund sector putting together a collection of stories, articles and other features in an electronic supplement circulated to subscribers world-wide.

Captive & ART Review launched a Malta edition at a Captive Insurance conference held in London in May. The publication provided a complete overview of the financial services sector in Malta with particular emphasis on the affiliated insurance business and the relevant legislation in Malta. It carried a message from MFSA Chairman, Prof. J.V. Bannister, and various articles and features by various experts, insurance managers and service providers.



Another highly respected journal, *Trusts & Trustees*, dedicated its May Edition to Malta's trust legislation. Entitled "Malta Focus 2005", the publication provides a comprehensive overview of Trusts and Trustees in Malta and a thorough compilation of studies and opinions by leading practitioners in the field.

Business Developments

Coverage in the international media closely reflected the developments that were taking place in the sector. Hedge funds and insurance management were in fact the areas that registered the most impressive results during the year. A total of 53 professional investor funds (including sub-funds) were licensed during the year compared to eight, the previous year. This has in turn generated renewed interest in Malta from fund administrators and other fund servicing companies.

Eight new insurance companies were licenced during the year, a clear indication that the insurance sector is positioning itself to make full utilisation of the freedom to provide cross-border services. The banking sector is seeing growth in the provision of structured products and services to high net worth individuals.

Highlights 2005

Lord Mayor of London at MFSA

In February, the MFSA held a meeting with a delegation led by the Rt Hon. Alderman Michael Savory, the Lord Mayor of the City of London. Areas of common interest, including the EU single market in financial services were discussed. The Lord Mayor later gave a keynote speech at a conference and networking meeting with finance industry associations held at the MFSA. The Lord Mayor emphasised that “Malta’s financial growth has been hard won, but remarkable” and underlined the potential in further strengthening its position as a regional finance centre in partnership with the City of London. To further strengthen the ties between the two centres, the Lord Mayor announced that he had granted the MFSA two work placements with City institutions via the Mansion House Scholarship Scheme.



Lord Mayor of the City of London visits MFSA

Lecture by Sir Howard Davies

Sir Howard Davies, former Chairman of the UK Financial Services Authority, delivered a talk on ‘The Single Market in Financial Services’ to industry representatives at the MFSA in June. His visit to Malta was organised by the British High Commission in Malta. The talk centred on the progress registered so far on the development of a ‘deeper and richer capital market’ as envisaged in the Lisbon Agenda.

Preparing to adopt the Markets in Financial Instruments Directive (MiFID)

In June the MFSA organised a one day seminar on the implementation of the EU Markets in Financial Instruments Directive (MiFID). Speakers included Ms Maria Velentza, Deputy Head of Unit, European Commission – DG Internal Market who outlined the main reasons why it was felt that the 1992 Investment Services Directive had to be revised and upgraded and Mr Carlo Comporti, Deputy to the Secretary General of the Committee of European Securities Regulators (CESR) who provided an overview of the EU’s approach and work plan for the implementation of the MiFID and the role of CESR in the matter.

‘Malta – opportunities and potential in Europe’s new model finance centre’

The Egyptian Room at The Mansion House, the official residence of The Lord Mayor of London, staged the Malta seminar in June 2005. The event followed Lord Mayor Michael Savory’s visit to Malta in February when he honoured Malta by offering The Mansion House as the venue for the seminar. Delegates from top banks, insurance companies, fund managers, law and accountancy firms heard presentations from the Governor of The Central Bank of Malta, Mr Michael Bonello, Malta Financial Services Authority Chairman, Professor Joe Bannister, Mr Shaun Wallis, Chief Executive Officer, HSBC Malta and Mr Carmelo Formosa of The Ministry of Finance. An audience of around 130 delegates including senior representatives from some 20 Maltese financial services and legal and accountancy firms were present for the seminar.



Panel of speakers at the London Seminar held at The Mansion House in London



Panel of speakers during the "Force for Change" Seminar

'Force for Change – Corporate Governance'

In November, the MFSA launched a draft revised Code of Governance for Issuers of Listed securities for consultation at a conference on Corporate Governance - Force for Change - organised by the Malta Branch of the Institute of Directors. Speakers included Ms Patricia Peter, Head of Corporate Governance at the Institute of Directors UK, The Hon. Tonio Fenech, Mr Paul Spiteri, Chairman Listing Authority and Dr Michelle Buontempo Deputy Director Company Compliance Unit, MFSA. The Code will be reviewed and revised following a three-month public consultation.

Other Events and Activities

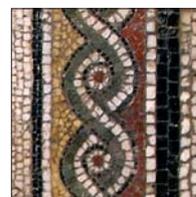
Other events in which the MFSA participated during the year included a conference entitled 'Financial Services 2005 and Beyond' organised by the Technical Assistance Information Exchange Unit (TAIEX) of the DG Enlargement with the EU in co-operation with the Malta Chamber of Commerce and Enterprise; a conference organised by KPMG – Financial Services a Springboard to Malta's Economic Success; Credal/European Conference of Geneva Group International (GGI) and Lawspan International

(LSI) held in April, EMEA Conference of the Polaris Group: International meeting of practitioners held in September, Hedge Fund workshop held at the MFSA in October, and meetings with the Gibraltar Chief Minister's delegation which visited Malta in November.

On the international front the MFSA participated in the Finance Dublin Annual Conference; the London Rendezvous Captive Insurance Conference held in May; the AIRMIC Insurance Conference and Exhibition held in Brighton in June; the Aon Captive Services Group Conference held in Athens in September and a conference on Captive Insurance in Europe organised by the Federation of European Risk Management Associations (FERMA) held in Lisbon in October.

Media Briefing Sheets were also issued in June on the occasion of the Malta Seminar held at Mansion House, London in June and the Commonwealth Business Forum held in Malta in November.

Other publications supported by the MFSA included the *Market Essentials – Malta Focus 2005*, which was one of a series of market briefings published on behalf of UK Trade and Investment. The publication covered the Maltese financial services sector as part of the Malta edition which was launched in March.



Appendix
New Licences issued
during 2005

APPENDIX - New Licences issued during 2005

Banking Licences

Credit Institutions

- Finansbank (Malta) Limited
- Mediterranean Bank p.l.c.
- CommBank Europe Limited

Financial Institutions

- Northway Financial Corporation Limited
- Northway Broker Limited

Insurance Licences

Insurance Companies

- Multi Risk Indemnity Company Limited was licensed to carry on in or from Malta the business of insurance and reinsurance in various classes of general insurance business.
- Bastion Insurance Company Limited licensed to carry on business of insurance restricted to risks situated outside Malta in Class 17 – Legal Expenses.
- Central General Limited licensed to carry on business of insurance restricted to risks situated outside Malta in various classes of general insurance business.

Reinsurance Companies

- Bavaria Reinsurance Malta Limited licensed to carry on business of reinsurance restricted to risks situated outside Malta in respect of Class 1 – Life and Annuity and various general business classes of insurance.

Affiliated Insurance Companies

- Nautilus Indemnity (Europe) Limited
- Ergon Insurance Limited
- Rhenas Insurance Limited
- Falcon Insurance Limited

Insurance Managers

- Aon Insurance Managers (Malta) Limited
- Ark Insurance Management (Malta) Limited
- Marsh Management Services Malta Limited
- Heath Lambert (Malta) Limited

Insurance Agents

- Millenium Insurance Agency Limited was granted authorisation to act as insurance agent on behalf of Markel Insurance Company Limited.

Insurance Brokers (Individuals)

3 individuals were registered in the Brokers Register during 2005.

Insurance Sub-Agents

49 new sub-agents were registered in the Sub-Agents Register during 2005.

Investment Services Licences

Collective Investment Schemes

Retail Schemes - Local

- La Valette FTSE 100 Capital Guaranteed Fund in respect of 1 sub-fund
- HSBC Structured Funds SICAV in respect of 2 sub-funds
- HSBC Malta Funds SICAV p.l.c. in respect of 1 sub-fund
- InvestInvent Wind Energy Limited in respect of 1 scheme
- La Valette Funds SICAV p.l.c. in respect of 1 sub-fund

Retail Schemes – Foreign

- Brewin Dolphin Portfolio Funds in respect of 1 sub-fund

Professional Investor Funds

- Absolute Return Multi-Strategy Fund (SICAV) p.l.c. in respect of 1 scheme
- Grenfell Funds SICAV in respect of 1 scheme and 4 sub-funds
- V.I.P Select Funds SICAV p.l.c. in respect of 1 Scheme and 1 sub-fund
- Yuriplan Invest Fund SICAV p.l.c. in respect of 1 Scheme
- Fairway Forex Trading Fund SICAV Limited in respect of 1 Scheme and 1 sub-fund
- La Valette Multi Manager Property Fund in respect of 1 sub-fund
- Altma Fund SICAV p.l.c. in respect of 1 Scheme and 29 sub-funds
- NBCG Fund SICAV p.l.c. in respect of 1 Scheme and 7 sub-funds
- Harbourside Multi-Manager Fund SICAV p.l.c. in respect of 1 Scheme and 2 sub-funds
- OperaFund Eco-Invest UK Fund SICAV p.l.c. in respect of 1 Scheme
- Swissfund SICAV p.l.c. in respect of 1 Scheme and 4 sub-funds
- InvestInvent Wind Energy Limited

Investment Services Licences

Category 1a

- HSBC International Financial Advisors (Malta) Limited
- Mercieca Financial Investment Services Limited
- NDB Administration Centre Limited

Category 2

- Mediterranean Bank p.l.c.
- Montaigne Investment (Malta) Limited

Category 5

- A & J Borg Investments Limited

Extension/Revision of Investment Services Licences

- The licence of Montaigne Investment (Malta) Limited was extended to include the provision of stockbroking services.
- The licence of Cougar Asset Management Limited was extended to include management and investment advice to non-private clients in relation to instruments listed in the Company's licence.
- The licence of Cultor Asset Management International Limited was extended to cover the provision of arranging deals, dealing as agent, investment advice and management of investments for Collective Investment Schemes in relation to additional instruments.
- The licence of Quest Investment Services Limited was revised to include investment advice and arranging deals in relation to notes or other instruments creating or acknowledging indebtedness.

Recognition Certificates in relation to Fund Administration

- Kosco Management Services Limited
- Globe Fund Advisers Limited

Trustee Licences

Authorisation to act as trustee

- HSBC Bank Malta p.l.c.
- Aver Trustees Malta Limited
- Blevins Franks Trustees Limited
- FJV Fiduciary Limited
- International Beneficiary Services Limited
- Finco Control Company Limited
- Bank of Valletta p.l.c.
- Bentley Trust Limited
- EMCS International Services Limited
- Grant Thornton Fiduciare Limited
- Ganado Trustees and Fiduciaries Limited
- Osiris Trust Limited
- Fiduciary Trust Limited
- MSS International Services Limited
- Abacus Holdings Limited
- BDO Consult Limited
- Mifra Consultants Limited
- Summa Fiduciary Services Limited
- Peralta Custodian Limited
- Medfinco Limited
- PKF Fiduciaries International Limited
- Vicaro Services Limited
- Mifra Consultants Limited
- Summa Fiduciary Services Limited
- Peralta Custodian Limited
- Medfinco Limited
- PKF Fiduciaries International Limited
- Vicaro Services Limited
- Intershore Fiduciary Services Limited
- CRV International Limited
- Corporate Services Limited
- Credaltrust Management Limited
- D. G. Fiduciary Limited
- Fenlex Holdings & Services Limited
- Manduca Randon & Co. Limited
- Ab Initio Limited
- TCV Management and Trust Services Limited
- AVMT (Trustees) Limited
- LCI Services Limited
- International Trust Limited
- GSN Limited
- Globserv International Limited
- Profitrust Services Limited
- SW Bentley (Malta) Trust Limited
- MSD Holding Limited
- F & F Trust Services Limited
- Cavalier Trust Services Limited
- PCL International Holdings Limited
- Camco Holdings Limited
- Blevins Franks Gamma Limited
- F & A Services Limited
- Sovereign Trust (Malta) Limited
- GMA Holdings Limited
- Mdina Trust Services Limited
- Mamo, Pace & Associates Limited

Authorisation to provide fiduciary services

- Moore Stephens Fiduciary Limited
 - Jyske Bank (Gibraltar) Management Limited
 - Mamo & Mercieca Limited
 - Tri-Mer Services Limited
 - Savona Holdings Limited
 - Deloitte & Touche Limited
 - Fiduciare Limited
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The mosaic pavements in the 'DOMVS ROMANA' at Rabat, Malta rank among the finest and oldest mosaic compositions from the western Mediterranean, alongside those of Pompeii and Sicily. They were discovered in 1881 just outside Mdina in the remains of a rich and sumptuously decorated town house of the Roman period.

MFS A

MALTA FINANCIAL SERVICES AUTHORITY

Attard - Malta

Tel: 00356 2144 1155 Fax: 00356 2144 1189

communications@mfsa.com.mt

www.mfsa.com.mt