

Letter of Transmittal

The Chairman

Malta Stock Exchange

27 Pietro Floriana Street

Floriana

VLT 14

30 April 1997

The Hon Leo Brincat ACIB MP

Minister of Finance & Commerce

Ministry of Finance

Valletta

Dear Minister

In accordance with Section 28(I) of the Malta Stock Exchange Act (Cap. 345) I have the honour to transmit the Audited Accounts and Report on the activities of the Malta Stock Exchange for the Financial Year ended 31 December 1996.

Yours sincerely

F Mifsud Bonnici Chairman

Chairman's Report

"Why have company listings on the Malta Stock Exchange remained a mere handful?"

This is perhaps the most frequently asked question in connection with the Exchange. On the occasion of the 5th Annual Report of the Exchange, it may well be appropriate at this stage to give this issue its due consideration.

Some local commentators point at other countries, at times suggesting that even smaller countries have had experience of much faster developing exchanges. I firmly believe that the growth of an Exchange, indeed the rate of growth of capital markets as a whole, mainly reflects the development stage of the whole range of those constituents that form the business environment including cultural, attitudinal, financial, infrastructure and traditional aspects of doing

business. Accordingly it should come as no surprise that the number of listings increase that much quicker in an exchange operating in a country where these attributes are fairly advanced.

Now what is the position in Malta?

Business in Malta is traditionally family owned where outsiders are rarely given the opportunity to assist in its development whether in the form of management expertise or indeed by providing capital. Management, accordingly, tends to reflect a self-perpetuating chain where sons and daughters occupy executive positions about which they know very little or are appointed board members having scant knowledge or experience of how a board should operate. This state of affairs nearly always prevents the possible cross germination of ideas, whether these concern the business's strategic objectives and/or the executive management expertise required to attempt to achieve those objectives. Whilst some progress has been registered in this direction so far, all this reflects rather poorly on local cultural, attitudinal and traditional standards in the country's business arena.

The availability of bank finance, albeit with security of substance, has made it, thus far, fairly easy to obtain bank finance and the banks have successfully delivered in this respect particularly to businesses with a good history behind them. Balance sheet structures and ratios have therefore not been considered of primary importance in assessing applications for finance in respect of new ventures or for expansion. Fixed interest rates have also helped because businesses did not have to deal with fluctuating rates and the effect of gearing on the entity's results.

The necessity for local businesses to become more efficient and hence the need for widespread restructuring, has been a major issue discussed by industry on a regular basis over the last few years. Whether this was the perceived threat represented by the prospect of joining the EU or the effect of the globalisation of the market, which brings more competition on our doorstep, such restructurings cannot continue to be postponed indefinitely. Moreover, no matter in what form and size state assistance may present itself, major capital investment in equipment and other resources make the raising of long-term capital an issue that few businesses can afford to ignore. It is unfortunate that in Malta such decisions are rarely given their due consideration and are usually left to the last minute. Taking advantage of the opportunities presented by the Exchange thus unnecessarily becomes a major hurdle when with some more serious planning and foresight, such an exercise would not constitute more than a normal problem

faced by businesses in their daily life.



Given the experience of the recent past, local businesses do not yet believe that this time has come. This may well be because most local businesses have not yet felt the pressure resulting from the higher demands of more discerning customers or of the enforcement of quality standards by the state whether they concern environmental, health and safety issues, or are, indeed brought about by advanced technology. But of course,

progress cannot be halted. Will local businesses be ready when (not if all this will begin to cause concern? Unfortunately, only time will tell. Then there is then the aspect of control. Is going public and listing on the Exchange, in effect, synonymous with loss of control? I daresay that from meetings I have had with prospective applicants, this is indeed the perception of most businessmen. Of course, the listing rules themselves are geared to protect the general body of investors, particularly the smaller ones. Moreover, the Exchange Council invariably lays down conditions for the specific circumstances particular to each applicant in the Listing Agreement which is a private agreement entered into by the Exchange with the applicant which specifies the conditions that the Council of the Exchange requires to be met in addition to the listing requirements.

But does all this represent loss of control to the majority shareholder? It certainly does not. Naturally, it will prevent the majority shareholder from using his business as a personal toy or families from using it as an heirloom to be bandied around as they wish. But should not such conditions be highly welcome to make our family-businesses act as real businesses with real business objectives and performance targets to be achieved?

Finally, where does the related infrastructure stand in all this? Do our financial institutions really believe that an active, efficient and reliable capital market presents them with a challenge which should push them into sharpening their claws, identifying new and varied sources of income? Or is the Exchange seen as a direct competitor to their interest-earning activities? Does the Government, pre or post October 1996, see a thriving capital market as a modern mechanism to increase accountability in compliance, in reporting, in improving corporate governance, indeed in providing industry benchmarks to compare performance in the profitable use of resources or indeed efficiency and openness in centre of repute. Whilst participating in foreign fora, it has become increasingly obvious to officials of the Exchange that e having a reputable domestic Stock Exchange is one of the major attributes that sophisticated financial services players running businesses, perhaps also those of national importance? Or is the Exchange another institution which is a nice trophy to display in the national showcase?

Better still, if there is national consensus that the financial services sector is an important contributor to the economic development of the country, has the role of the Exchange been given its due consideration in this respect? These are important questions which need to be answered. When some progress is registered in any of these areas, the rate of development of the Exchange will register the same rate of progress that the country has been experiencing in other spheres in recent times.

The other very important aspect that must not be forgotten is the internationalisation of the role the Exchange. The Exchange has a key role to play in promoting Malta as a Financial services centre of repute. Whilst participating in foreign for a, it has become increasingly obvious to officials of the Exchange that having a reputable domestic Stock Exchange is one of the mayor attributes that sophisticated financial services players look for when identifying locations for the furtherance of their business objectives. The Cayman Islands, without having a domestic market have recently embarked on this initiative and that Guernsey was seriously considering this possibility is public knowledge. Fiscal measures are needed to complement the regulatory functions and to enable the utilisation of the Malta Stock Exchange not only as an internationally recognised and reputable Exchange, but also to encourage the local investment of some of the substantial funds that are currently being invested in other emerging markets operating with much lesser safeguards to the investor than those ruling in Malta. Should even the slightest proportion of these funds be invested in quoted Maltese stocks and shares, the benefits will be quickly recognisable as will the multiplier effect; for example in terms of liquidity. The challenges ahead of us remain formidable. The new Government's clear message in confirming the whole Council after the election augurs well. The commitment by the Exchange executive and its dedicated staff remains undiminished and, therefore, I am optimistic of the future.

Frederick Mifsud Bonnici

Administration Report

The Council

The Council of the Malta Stock Exchange was re-appointed by the Minister of Finance for a period of six months with effect from 1 July 1996 in terms of Section 4 of the Malta Stock Exchange Act (Cap. 345) and Section 5 of the First Schedule of the Act.

The Council met 15 times during 1996. A Special Meeting in terms of Section 9(iv)(a) of the First Schedule of the Malta Stock Exchange Act (Cap. 345) for the Members of the Exchange was held on 25 March 1996. During this Special Meeting the Chairman presented the Report and Accounts of the Exchange for 1995. Several other meetings of the Listing, Promotion of Exchange Business and Premises Committees involving the Members of the Council and the senior management of the Exchange were also held during the course of the year. The Council also held a number of meetings with the Stock Exchange Committee in order to consider issues raised by the Committee in terms of Article 6(i)(a) of the First Schedule and to discuss various other matters of mutual interest.



Human Resources

Staff Complement

The staff complement of the Exchange remained unchanged during 1996 with the exception of the Senior Messenger who retired at the end of the year on reaching pensionable age. Human resources constraints required the Exchange to foster a sense of flexibility in the staff while, at the same time, ensuring certain levels of separation of duties. However, the continuous development of the Exchange will require the recruitment of a number of new staff during 1997 mainly to strengthen the surveillance and the administrative functions.

A University student was recruited by the Exchange in the summer months. During this period, he was mainly engaged in assisting the Central Securities Depository Section.

Staff Development

The Exchange believes in the need to continue the development of its staff members and encourages them to continually enhance their knowledge and experience through participation at various courses and seminars.

The London Business School was the venue for an intensive five-day residential course entitled '*Interpersonal Skills for Senior Managers*' which was attended by Miss Eileen V Muscat, Manager Administration. The Manager Accounts, Mr. Aldo Ellul and the Deputy General Manager, Mr. Mark A Guillaumier also attended courses in London dealing with '*Repurchasing of Securities*' and '*Finance for Non-Financial Managers*', respectively.

At the same time, the Exchange also took the opportunity of sending various members of the staff to a number of locally organised seminars dealing with topics of interest to Exchange business. Seminars attended covered various different areas such as '*Data Warehousing and Support systems*', '*The New Companies Act*' and '*An Introduction to Collective Investment Schemes*'.

International Affiliations

During 1996 the Malta Stock Exchange continued to participate actively in the statutory meetings of those international organisations of which it is a member, i.e. the International Organisation of Securities Commission (IOSCO), the Federation of European Stock Exchanges (FESE), the Federation of International Stock Exchanges (FIBV) and the European Capital Markets Institute (ECMI). During 1996, the Malta Stock Exchange became an Affiliate Member of FIBV (the Exchange had previously been an Associate Member) and was thus invited for the first time to attend the General Assembly of this Organisation which this year was held in Hong Kong. Membership of the FIBV is not only an honour for the Malta Stock Exchange but also represents a confirmation of the professional way it has developed and an endorsement of its plans for the future.

Participation in International Organisations

Various members of the senior managerial staff also represented the Exchange in a number of overseas meetings and conferences organised by these international bodies. Such meetings are instrumental in keeping staff abreast of the latest developments taking place in the international securities markets.

The Chairman, Mr F Mifsud Bonnici attended two Regional Committee Meetings of the International Organisation of Securities Commission (IOSCO) both held in Brussels in February and August. The General Manager, Mr P J Spiteri headed a delegation which included a representative of the Malta Financial Services Centre at the IOSCO Annual Meeting which this year was held in Montreal, Canada.

The Malta Stock Exchange was represented by the Chairman and the General Manager at the Spring Meeting of the Emerging Markets Task Force within the Federation of European Stock Exchanges (FESE) which was held in Paris in June. It is to be noted that the Malta Stock Exchange subsequently hosted the Autumn Meeting of this Organisation later on in the year in October.

Mr. P J Spiteri also attended the '*Globalisation of Mutual Funds*' Conference in Bermuda and later accompanied the Chairman to London where they joined the representatives of 37 other countries in a very intensive five-day '*Regulatory Familiarisation Conference*' at the invitation of HM Treasury. The aim of the programme was to consider topical issues in financial services regulation in the context of the UK regulatory system.

Mr. Mark A Guillaumier, Deputy General Manager, represented the Malta Stock Exchange at the IOSCO Emerging Markets Meeting which this year was held in Warsaw, Poland as well as at a Conference dealing with various regulatory issues which was organised by the Commission Des Operations Des Bourses (COB) in Paris and which took place immediately following the Warsaw Meeting. Mr. Guillaumier also represented the Malta Stock Exchange at the

official opening of the new Prague Stock Exchange Building which took place in April.

Later on in the year, the Deputy General Manager represented the Exchange at the General Assembly of the Federation Internationale des Bourses de Valeurs (FIBV) which this year was held in Hong Kong. A post-conference seminar was organised by the Stock Exchange of Hong Kong in conjunction with the China Securities Regulatory Commission (CSRC) in Beijing, China. The participation of the Malta Stock Exchange at the FIBV General Assembly was possible as a result of the Exchange attaining Affiliate Membership of this Organisation in January 1996. The Malta Stock Exchange was previously an Associate Member of this Organisation and as such did not participate in the General Assembly.

During 1996, the Exchange also partly sponsored the attendance of two Stockbrokers at a conference held in London dealing with the new *Alternative Investment Market (AIM)*. The meeting examined the role of the stockbroker in the listing process, tracing the progress of this market since its setting up

and reviewing its plans for the future. The Senior Manager in charge of Compliance, Mr M G Farrugia represented the Exchange at this conference.

In November, the Chairman of the Malta Stock Exchange and the Chairman of the Malta Financial Services Centre were invited to chair a number of working sessions at the *'8th Annual Offshore Funds Conference* organised by IBC in London.

Exchange Operations and Other Activities

Trading Developments

The introduction of the Malta Automated Trading System (MATS) at the Malta Stock Exchange was undoubtedly the main trading development of 1996.

The characteristics of this new system are explained in greater detail elsewhere in this Report. Whilst the basic software package was acquired from EFA Software Services Ltd of Canada, the package had to be customised and enhanced to meet the specific needs of the domestic financial environment and to retain existing trading characteristics.

This new development necessitated a complete revision of the Bye-laws of the Malta Stock Exchange in order to reflect the new electronic environment. The Bye-laws dealing with trading procedures had to be completely revised in order to reflect the changeover from the previous manual trading system to the new electronic setup.

One of the main features of the manual system which was retained in the new system was

the possibility of the Exchange establishing trade ranges for listed equities. These trade ranges were originally introduced in January 1993 with the aim of limiting hyper-volatility in the market and had remained unchanged at +/- 5% since that time. Following an evaluation of market trends during the first half of 1996, the Council decided in July that trade ranges for equities were to be widened across the board by two points, up to +/- 7%. This decision was introduced on the market during the trading session held on 24 July.

New Listings

During 1996, six Government stocks, namely the 6.5% LDRS 1996/97 (I) – (VI) issues, were redeemed on maturity. The nominal value of these stocks amounted to Lm10.5 million. The Treasury issued nine new stocks with a total nominal value of Lm87.7 million. These stocks were the 6.3% MGS 1999 (III), (IV) and (V) issues, the 7.25% 2006 (II) and (III) issues, the 7% MGS 2006 (IV) issue (which was placed entirely with the 'Foundation for Church Schools'), the

6.75% MGS 2001 (III) and (IV) issues together with the first ever 15-year bond, namely, the 7.5% MGS 2011 (I) issue.

Also listed during 1996 was the third sub-fund forming part of the La Valette Fund SICAV plc. umbrella fund, namely the La Valette Malta Fund. This sub-fund is quoted in Maltese Liri as opposed to the other two sub-funds which are quoted in Sterling.

Market Performance during 1996

The Malta Stock Exchange registered a market turnover of Lm25.2 million during the past year compared with the Lm46.2 million recorded during 1995. The latter figure, however, includes a sum of Lm14.8 million representing the turnover generated on the market floor as a result of the Government offer for sale to the public of 12 million Bank of Valletta shares which took place in March of that year.

This year to year contraction in turnover mainly reflected reduced levels of trading in Government paper which fell from Lm25.8 million in 1995 to Lm20.5 during the period reviewed. This contraction was mainly due to a marked slowdown in the level of participation in trading by institutional investors. Market trading in corporate bonds was more or less unchanged at just under Lm0.5 million

At the same time, equity business was also lower this year, down to Lm4.2 million from Lm5.2 million. The latter figure excludes the Lm14.8 million turnover registered in connection with the Government offer . for sale of Bank of Valletta shares mentioned earlier.

The contraction in equity business levels during 1996 reflected a decline in the volume of trading in all listed company shares with the exception of Bank of Valletta and Simonds Farsons Cisk. The number of Bank of Valletta shares traded, in fact, increased from 1.3 million in 1995 (excluding the 12 million shares sold by the Government) to 1.6 million this year. The increased turnover in Simonds Farsons Cisk shares, up from 23,371 to 221,719 was mainly due to the fact that Farsons was listed late in 1995. On the other hand, the number of Lombard Bank and Middle Sea Insurance shares traded this year both declined, the former by 35% and the latter by 68%. At the same time, there was also a drop of almost 40% in the number of Mid-Med Bank shares traded on the market.

	Number Of deals	Nominal Value*				Market Value (in Lm)	
		1995	1996	1995	1996	1995	1996
Bank of Valletta Ltd	438	1141	13334664	1649127	16427300	2072787	
Mid Med Bank Ltd	300	398	1614386	977265	2343531	1377117	
Lombard Bank (m) Ltd	157	179	304777	198528	470987	286293	
Middle Sea insurance	95	101	413637	130588	543398	157929	
SFC Ordinary	4	109	2100	170780	1359	105049	
SFC 8.5% Pref	3	68	1309	32719	1346	33142	
SFC 6% Pref	14	87	19962	18220	214680	195680	
Equity total	1011	2083	15690835	317777277	20002601	4227997	

Gasam Bonds	94	57	188200	124500	186388	122614
mid-Med Bank Bonds	75	170	215300	335840	215986	335706
Corporate Bonds Total	169	227	403500	460340	402374	458320
Government Stocks	1319	21480	25253400	20522700	25789520	20501656
Total	2499	3790	41347735	24160267	46194495	25187973

Deals

The overall decline in the value of trade during 1996 was not reflected in the number of deals concluded on the market floor which went up from 2,499 in 1995 to 3,790 this year. This sharp increase came about mainly due to technical factors. With the introduction of the new electronic trading system on the Exchange, in fact, the aggregation of a number of separate transactions into a single deal during a trading session is now no longer possible. Under the new system, all market transactions are considered to be single and separate deals.

The Primary Market

Activities in the primary market during 1996 continued to exert a strong impact on Exchange trading levels. During the past year, in fact, the Government issued stocks worth Lm87.7 million. This figure included Lm10.5 million of converted stocks. As a result, Government paper listed on the Exchange went up from Lm279 million (nominal) at the end of 1995 to Lm356 million (nominal) a year later. Of these, Lm170 million (47.8%) were held by the non-bank sector compared with Lm122 million (43.7%) a year ago.

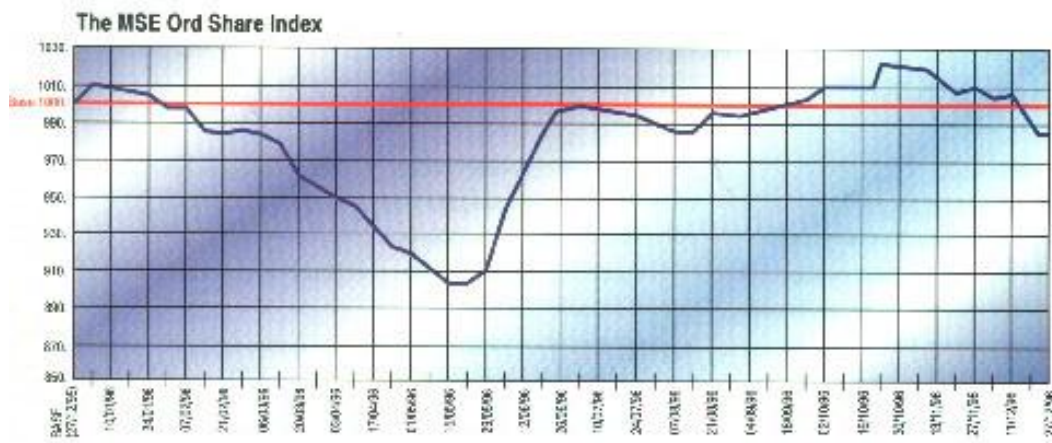
Holdings in Lm Millions			Change in Lm millions	% of total	
	Dec 96	Dec 95		1996	1995
Central Bank	47.0	38.9	8.1	13.1	14.0
Commercial Banks	139.0	118.2	20.8	39.0	42.3
Non bank Public	170.2	121.9	48.3	47.9	43.7
Total	356.2	279.0	77.2	100.0	100.0

The MSE Index

The Exchange chose the occasion of the commencement of electronic trading on the market floor in July to commence the publication of the Malta Stock Exchange Share Index. The Index, which was prepared on the basis of the International Finance Corporation methodology for the setting up of share indices in emerging markets, measures market price movements of ordinary shares listed on the Exchange excluding preference shares from the calculations. The Index calculates on a weekly basis the value of a basket of ordinary shares which is then compared with the value of the

same basket prevailing on the base date, which was set on 27 December 1995. The base value on that date was set at 1000.

As can be seen from the movements of the Index during the year, equity prices slipped during the first half of the year down to a low point for the year of 904.4 on 15 May. Subsequently, equity prices picked up strongly during the summer months reaching a peak of 1023.1 on 30 September. Towards the end of the year, however, prices tended to slip once more as trading entered the ex-div period for the various equities.



Listing of Collective Investment Schemes

During 1996, the Malta Stock Exchange published a revised set of regulations relating to the listing of Collective Investment Schemes on the Malta Stock Exchange. The new Sections, which form part of Chapter 9 of the Bye-laws, deal with the listing of both closed-ended as well as open-ended schemes incorporated either locally or abroad.

The main principle underlying these regulations is that investors participating in such schemes should benefit from an equivalent level of investor protection as that enjoyed by investors in other securities listed on the Malta Stock Exchange. The disclosure requirements relating to these funds are, in fact, an essential part of the regulations and are in line with recommendations by world regulatory bodies in this area. At the same time, the Exchange has also been careful to take a flexible approach which would enable Collective Investment Schemes listed on the Malta Stock Exchange the better to match investor needs, both locally as well as overseas.

The Central Securities Depository

During 1996, the Central Securities Depository (CSD) processed the handling of the nine new Government Stock issues on the primary market. The subsequent listing of these new issues was the main factor contributing to the increase in the number of registered holders on the CSD during the past year. As can be seen below, the number of registered holders across the various registers maintained by the Central Securities Depository at the Exchange continued to increase during 1996 up from 77,000 last year to just over 84,000. At the same time, the number of account holders (counting as single holders all those with holdings in separate registers) increased from 43,583 at the end of 1995 up to 44,720 a year later.

The increase in the number of holders during the past year pushed up the level of activity of the CSD. For instance, during the period under review, the amendments to the various registers resulting from transactions recorded on the floor rose by 30% from 6,458 in 1995 to 8,395. The Table overleaf sets out the various types of movements which were input into the system during the year.

The introduction of the new electronic trading system during 1996 also had a major impact on the operations of the CSD.

Holder Amendment	126	93	50	32	72	69	17	6	9	9	19	39	631
Mandate! Power of Attorney	95	120	54	55	47	96	29	22	68	90	57	52	785
Bought Movements	589	32334	228	225	280	420	424	275	417	341	373	308	4214
Sold Movements	568	292	210	255	283	435	424	275	417	341	373	308	4181
Off Market Transfers	69	62	56	70	80	139	69	120	61	126	103	54	1009
Pledge Insert/ Release	78	54	49	54	67	76	65	23	60	43	121	67	757
TOTAL AMENDMENTS	1562	1002	673	749	861	1294	1068	766	1056	1106	1092	866	12095

The Central Securities Depository issued a total of 92,000 interest and dividend payments during 1996. The aggregate value of these payments amounted to Lm24.5 million.

Compliance

One very important function of the Exchange is to ensure that the market itself as well as the market players involved are well regulated. Under Section 5 of the Malta Stock Exchange Act (Cap. 345) the Council of the Malta Stock Exchange has the responsibility to ascertain that members operating on the Exchange are fit and proper persons and that their conduct and operations are consistent with the proper functioning of the Exchange. The Council is also empowered to monitor trading and to ascertain that it is conducted in a fair, transparent and orderly fashion.

The Council of the Exchange places great importance on this regulatory function and the Compliance Office was set up in order to ensure that the surveillance functions of the Exchange are regularly carried out. The periodic submission by each licensed broker of the 'Quarterly Stockbrokers Return' together with on-site inspections at the brokers' offices by authorised officers of the Exchange, form the basis of the Exchange's surveillance programme.

The data obtained from these sources is supplemented by the information gathered from the Exchange's own records, both through the clearing and settlement system as well as through the database of the Central Securities Depository.

Quarterly Reporting Statements

The Quarterly Reporting Statements which the licensed brokers are required to submit to the Exchange contains information which allows the Compliance Section to monitor regularly the financial position of each stockbroking firm.

By means of the Quarterly Return, the Exchange is able to monitor:

- i. the capital adequacy of stockbroking firms;
- ii. (ii) stockbrokers' financial stability;

(iii) the gross revenue of stockbroking firms, including revenue derived from off- market trading as well as from other services; and

iii. other basic information which is useful to the Exchange.

On-site Inspection Programmes

Exchange officers from the Compliance Section carry out inspections both on a routine as well as on a random basis thus gaining access to information which is not readily available at the Exchange. The programme of on-site visits is mainly divided into five major lines of audit dealing with various aspects of the trading cycle and are designed to ensure that investors' interests are adequately protected at all times and that stockbrokers conform to the Code of Ethics which forms part of the Exchange Bye-laws.

Furthermore, the Exchange also considers it necessary to examine the internal office functions of the stockbroking firms such as its accounting and record-keeping procedures and other back-office controls. To this end the Quarterly Reporting Statements submitted to the Exchange by the Firms are reconciled against the management accounts.

The Compliance Section regularly provides a fully documented report to the Council with regards to the work undertaken in the course of its surveillance programme work.

During 1996, seventeen on-site formal visits and five "surprise" visits were carried out by the Compliance Section with each stockbroking firm being visited at least twice.

Market Monitoring

As far as the conduct of the market is concerned, the Exchange has sufficient sources of information in its own records – through the trading, clearing, settlement and the maintenance of security registers – which enable it to maintain an ongoing monitoring and surveillance programme. Various programmes, both manual and computer generated, have been developed which allow the Exchange to carry out full audit trails with regards to the trading, settlement and registration cycle. Besides contributing towards the increased market transparency which comes about as a result of the real time information which is available to all market participants, the Malta Automated Trading System (MATS) also includes the added advantage of being capable of producing detailed reports which can be closely analysed during the immediate post trading period in order to ascertain that trading is being conducted in a fair and orderly manner.

Continuing Obligations

The Compliance Office also maintains a close watch and monitors the performance of companies admitted to the Official List in order to ensure that they meet the Continuous Listing Obligations as laid out in the Bye-laws. Listed companies, in fact, are not only obliged to publish periodic reports but must also make available to investors all price-sensitive information the publication of which is considered necessary to maintain a fair market.

In this respect, forty-seven company announcements were issued during the year under review. The company announcements included information connected with half-yearly reports on the financial activities of the company, annual reports, dates fixed for any board meeting at which declarations or recommendations of a dividend are expected to be decided, any resolutions put to a general meeting and, subsequently, whether such resolutions were carried or not.

The Compliance Section also makes sure that company reports are prepared in accordance with Bye-law requirements. Transactions by directors and employees of listed companies are also monitored to ensure that the conditions contemplated in the Bye-laws in this respect are adhered to.

Conclusion

In carrying out its delicate task of regulating the functions of the Exchange the Council is pleased to note that a close working relationship with the stockbroking firms and the listed companies has been established.

Other Activities Organised by the Exchange

Going Public and Seeking a Listing' - Forum

In May, the Malta Stock Exchange organised a Forum for stockbrokers and accountants. The subject of this Forum was *'Going Public and Seeking a Listing'* and the objective was to create a platform for discussion for market practitioners and professional advisers where they could have

the opportunity of discussing this highly topical subject and how the two different professional bodies can co-operate further for their mutual benefit and for the benefit of the market.

Conference in London

Two stockbrokers joined the Senior Manager of the Exchange to attend a Conference in London entitled *'New Small Stock Exchanges'* which discussed the development of the Alternative Investment Market (AIM) one year after its setting up. The stockbrokers' attendance was partly sponsored by the Exchange as it was felt that their attendance at this Conference would further enhance their understanding of the workings of this type of market.

European Forum Task Force Meeting

The Malta Stock Exchange had the privilege of hosting the Autumn Meeting of the European Forum Task Force of the Federation of the European Stock Exchanges (FESE) at the San Gorg Corinthia on Friday, 11 October 1996.



The Malta meeting was attended by some forty senior executives representing more than twenty European Exchanges from both the established and emerging markets with Mr Manfred Heider from the Vienna Stock Exchange acting as the Chairman. Also present was the current President of the Federation of the European Stock Exchanges (FESE) Mr Antonio Zoido who is also the Chairman of the Madrid Stock Exchange. His presence in Malta was a clear indication of the importance the FESE attaches to these meetings and of Mr Zoido's personal commitment to the Task Force.

Papers were presented by Mr Bent Mebus from the Copenhagen Stock Exchange, Mr Richard Meier from the Swiss Exchange and Mr Frederick Mifsud Bonnici the Chairman of the Malta Stock Exchange. The topics dealt with included liquidity in the market, the role of derivatives and the organisation of the Task Force.

Workshop sessions were chaired by Mr Wieslaw Rozlucki and Mr Drasko Veselinovic from the Warsaw and Ljubljana Stock Exchanges, respectively.

These bi-annual meetings provide delegates with the opportunity to establish closer relationships while providing a venue where the emerging markets can learn from the experiences of the more mature and advanced exchanges.

This meeting provided the Malta Stock Exchange with the opportunity to illustrate to the other European delegates the measures that have been introduced locally with the aim of putting the domestic financial institutional infrastructure on a sound footing.

The delegates were officially welcomed by the Chairman of the Malta Stock Exchange, Mr Frederick Mifsud Bonnici. The Hon John Dalli, Minister of Finance delivered the opening address which was acknowledged by Mr Antonio Zoido, President of the FESE.

Visit by Minister of Finance

The newly appointed Minister of Finance, the Hon Lino Spiteri, paid an official visit to the Exchange on 14 November 1996. This was an opportunity for the Minister to meet the Council,



Management and Staff of the Exchange as well as the Stockbrokers. The Hon Minister discussed matters of mutual interest with the Council and he also visited the various offices of the Exchange and also took the opportunity to address Exchange Officials and its Members regarding the new Government's policy regarding the Exchange, privatisation and other related matters.

Conclusion

The Council notes with satisfaction the positive development which has taken place in the Exchange since its inception. Such development took place within both financial and human resources constraints due to which the Exchange has had to instill flexibility in its staff while, at the same time, ensuring certain levels of separation of duties. The Council, therefore, wishes to express its appreciation to all members of the staff for their efforts and diligence during the year. It also wishes to record its thanks to all Member Firms and other institutions which in 1996 provided technical assistance to the Exchange or contributed to the training and development of members of the staff.

Members of the Exchange	
Paul V Azzopardi	Azzopardi Stockbrokers Ltd. Il-Piazzetta, Fourth Floor, Tower Road, Sliema SLM 16
Joseph G P Bonello	Financial Planning Stockbrokers Ltd. 4, Marina Court, G Cali Street, Ta' Xbiex MSD 14
Ivan J Burrridge	Ivan Burrridge Stockbroking Ltd.1, Britannia House, 9 Old Bakery Street, Valletta VLT 09
Alfred Calamatta	Calamatta Stockbrokers Ltd. 3rd Floor, Valletta Buildings, South Street, Valletta VLT 11 3 Gelmus Court, Pope John Paul II Street, Victoria, Gozo
Neville A Curmi	Curmi & Mallia (Stockbrokers) Ltd.25/26, St Barbara Bastion, Valletta VLT 06
Karol F Farrugia	Rizzo, Farrugia & Co (Stockbrokers) Ltd. Airways House, Third Floor, High Street, Sliema SLM 15
Mark R Hogg '	Hogg Capital Stockbroking Ltd .66/3, Tower Road, Sliema SLM 15
Wilfred Mallia	Curmi & Mallia (Stockbrokers) Ltd. 18A, Third Floor, Europa Centre, Floriana VLT 15
Christopher J Pace	Globe Financial (Stockbrokers) Ltd. 114/4, The Strand, Gzira GZR 03 1 Bastion Court, Wied is-Seqer Street, Victoria VCT 108, Gozo
Vincent J Rizzo	Rizzo, Farrugia & Co (Stockbrokers) Ltd Airways House, Third Floor, High Street, Sliema SLM 15
Joseph C Aquilina	CBM Stockbroker Central Bank of Malta, Castille Place, Valletta CMR 01
Financial Intermediaries	

APS Bank Ltd.	APS House 24, St Anne Square, Floriana VLT 16
Bank of Valletta Ltd.	Head Office Fifth Floor, BOV Centre, High Street, Sliema SLM 16
Lombard Bank (Malta) Ltd.	Lombard House 67, Republic Street, Valletta VLT 05
Mid-Med Bank Ltd.	Head Office 233, Republic Street, Valletta VLT 05
Valletta Investment Bank Ltd.	144, St Christopher Street, Valletta VLT 03
Finco Treasury Management Ltd.	113, St Francis Street, Floriana VLT 13
Valletta Fund Management Ltd. '	Ground Floor, Development House, St Anne Street, Floriana VLT 01

Review of the First Five Years

Introduction

The Malta Stock Exchange celebrated its fifth anniversary since the commencement of trading, on 8 January 1997. The first securities to be listed on the Malta Stock Exchange were 37 Government Stocks with their holding spread among just over 8000 subscribers. The Exchange was actually founded a year earlier on 24 January 1991 when the key provisions of Act XXXIII of 1990 were promulgated and the Council Members of the first Council of the Exchange were appointed and vested with the responsibility for its management. The intervening year was a period of intense preparation because the Malta Stock Exchange was starting from scratch. There was an organisation to set up, systems to establish, ground rules to be determined, staff to be recruited and trained. A lack of basic knowledge regarding the conduct of operations necessitated the need to lean on the experience of others especially the London Stock Exchange and the Irish Stock Exchange.

Relationships with international bodies were also established at the very outset and the Exchange greatly profited from the wide contacts made possible through its association with the Federation Internationale des Bourses de Valeurs (FIBV) and the International Organisation of Securities Commissions (IOSCO). With the help of these organisations, Exchange staff were exposed to systems in operation abroad and appropriate technologies-particularly with regards to clearing and settlement as well as securities registration-were procured. An ongoing public awareness programme was initiated in order to promote an understanding of the advantages of having a stock exchange and of its role in complementing the operations of the other financial institutional structures. The members of the Exchange-the licensed stockbrokers-were introduced to the system and acquainted with the rules under which it would be conducted.

In the meantime, the Council embarked on the preparation of the Bye-laws which were published in June 1991 in readiness for the launching of business. The recommendations of the G30 were taken very much into consideration when the Malta Stock Exchange was set up. The most important of these was the fact that the Malta Stock Exchange operated a dematerialised system and settlement on a T + 4 basis. The Council decided to introduce extensive computerisation at the outset including clearing and settlement operations as well as securities' registration within the Central Securities Depository (CSD). The floor trading system was not immediately computerised and trading was carried out manually,

adopting the "call-over" system with trading sessions taking place once a week on Wednesdays. This system, which is based on the principle of order-matching, operates in a number of emerging stock exchanges around the world partly because of the ease with which it can be conducted and also because of its transparency.

Functions of the Exchange

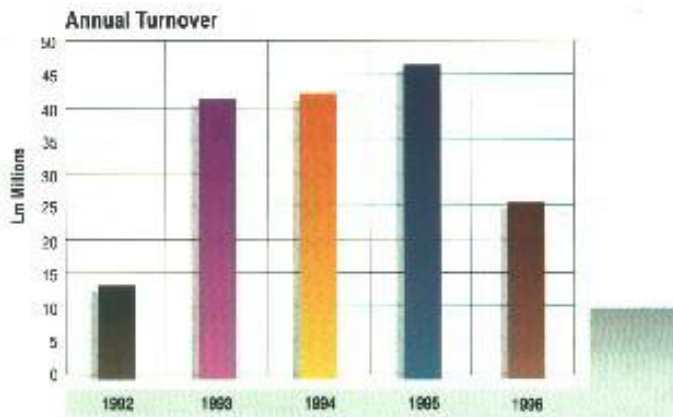
The role of a stock exchange is, essentially, to match demand for funds with supply, providing facilities for a fair and fully informed market where listed securities-whether issued by the Government, public companies or by other entities-can be bought and sold. In its primary function,

then, the Exchange provides the mechanism for the purchase of securities on first issue and thus acts as a positive influence in translating savings into investment. In its secondary function the Exchange provides a floor where securities already issued can subsequently be freely traded. This facility for subsequent trading provides ready

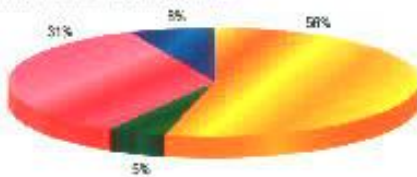
liquidity and acts as a positive influence on the mobilisation of capital, since it makes the holding of such securities that much more attractive to investors. In both its primary and secondary functions, therefore, the Exchange helps to attract savings promoting their channeling into productive use. Furthermore, the Exchange helps to promote two further objectives:

- attracting an increased volume of medium and long term savings into the financial system by offering investors a greater variety of financial instruments and investment opportunities; and
- improving efficiency in the allocation of financial resources thus enhancing the prospects of finance being found for projects that are economically and financially viable.

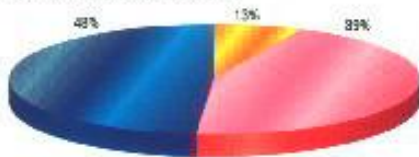
The Market



Holders of Government Stocks as at end 1992



Holders of Government Stocks as at end 1996



■ Holdings of Central Bank ■ Holdings of Commercial Banks
■ Holdings of Non-Bank Sector ■ Sinking Funds

The first securities to appear on the Official List of the Malta Stock Exchange for 8 January 1992 were 37 Government issues with a nominal value of Lm124.6 million. By the end of that year, however, the first listed equity had appeared on the scene. In fact, on 2 September 1992, 11,620,000 Bank of Valletta Ltd Ordinary "B" shares of 50 cents nominal commenced trading and by the end of the year a total of 213,710 shares with a market value of just over Lm342,000 had been dealt on the market floor. As a result, total turnover during the first year of operations of the Exchange reached Lm1.7 million. The number of account holders registered with the Central Securities Depository doubled from 8,313 on take-on in January up to 16,702 by year-end.

By the end of January 1993, Mid-Med Bank had become the second company to list its shares on the Exchange. In fact, the Bank converted its "A", "B", "C" and "D" shares into one class of share and a total of 18,240,000 shares, each with a nominal value of 50 cents, were listed. The equities

sector was also boosted during 1993 by the conversion into Class "B" and subsequent listing of Bank of Valletta Ltd Class "C" shares in September. Total equity business during the year reached Lm2.9 million. At the same time, trading in Government securities went up sharply from Lm11.4 million in 1992 to Lm38.3 million the following year partly because institutional investors participated more actively in the market and also because the number of private holders of securities continued to grow.

Throughout this period, the Central Bank played a very important role in supplying liquidity in the Government securities market. In fact, prior to the commencement of trading in January 1992, the Central Bank appointed a broker to

buy and sell Government securities in the market for its own account with the aim of smoothening the transition from an administered price regime to a market-determined system. The Central Bank was, in fact, the primary source of supply on the capital market during 1992 and effectively reduced its holdings of Government stocks by Lm6.1 million during the course of that year. The major part of this offloading was absorbed by the non-bank sector. This trend continued during 1993 even though towards the end of the year, the Central Bank's role as a market maker in Government paper was becoming somewhat limited due to supply constraints. During that year, in fact, the Bank offloaded a total of Lrn 28.5 million of its holdings onto the rest of the economic sectors with the result that its ability to satisfy market demand for Government stocks was significantly diminished.

The Central Bank continued to utilise the secondary market to run down its holdings of Government stocks throughout the five years under review-while replenishing on the primary market-indicating the very substantial refinancing of Government Debt out of private savings which took place during this period either directly or indirectly through the financial institutions

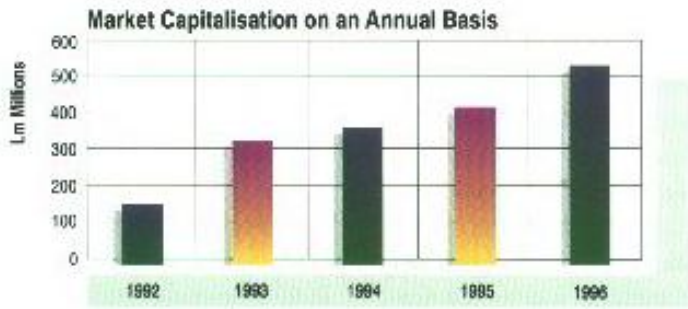


While the Exchange has certainly fulfilled its role of facilitating the financing and subsequent trading of Government Debt, its primary purpose must still be considered to be the harnessing of private savings into private investment. The two major commercial banks, Sank of Valletta Ltd and Mid-Med Bank Ltd were listed in 1992 and 1993, respectively. Lombard Bank (Malta) Ltd and Middle Sea Insurance Co Ltd were both listed in 1994, whilst Simonds Farsons Cisk Ltd was listed in 1995. The listing of Simonds Farsons Cisk Ltd was of particular importance since this was the first company completely held by the private sector to list its equity on the Exchange. Another private sector company, Gasan Finance Co Ltd, listed its corporate bonds in 1994 followed in 1995 by the listing of unsecured bonds issued by Mid-Med Bank Ltd. The total market capitalization of these securities at the end of December 1996 reached Lm170 million. The market value of Government paper listed amounted to another Lm359 million.

In October, 1995 the Exchange listed the first Collective Investment Scheme. The Scheme, La Valette Fund (SICAV) is an open-ended investment company operating as an umbrella fund. Its three sub-funds, La Valette Global Fund, La Valette Capital Growth Fund and La Valette Malta Fund all appear on the Official List of the Exchange.

The listing of Collective Investment Schemes is seen by the Exchange as a promising line of business in an area which is one of the fastest growing in the financial world. In fact, during 1996, the Exchange published a revised set of Bye-laws designed to attract not only locally registered schemes but also schemes registered in foreign jurisdictions.

In order to develop this area of business, the Exchange plans to become a full member of the Federation Internationale des Bourses de Valeurs (FIBV), During January 1996, the FIBV offered the Malta Stock Exchange to change its membership status to a higher, recently formed category of "Affiliate Securities Market". When accepting this status, the Exchange accepted in principle to meet the requirements for full membership. The status of full membership of the FIBV (an institution based in Paris which has been established for the past 36 years and which has a total of 40 members worldwide comprising the most important securities markets in the world), therefore, gives the holder, especially if it is a new Exchange such as ours, a stamp of quality and integrity which is vital if we are to go for this foreign business.



At the same time, the Exchange will also seek to establish Bilateral Agreements with Regulatory Authorities particularly in the USA and in Europe which are seen as the most likely sources of foreign business for the Exchange particularly in the area of investment funds. The Malta Stock Exchange has been a full member of the International Organisation of Securities Commissions (IOSCO) since 1992. This Organisation, which is made up of 75 securities regulators in 60 different countries, imposes a set of standards on its members with regards to such areas as market practices, surveillance and codes of conduct for members. Membership of this Organisation, therefore, affords the Exchange a recognition of status which is essential when seeking business in this area and should prove of great help when negotiating these Bilateral Agreements.

The Financial Performance of the exchange

The Exchange was set up with the enactment on 13 November 1990 of the Malta Stock Exchange Act 1990 (Cap. 345). In terms of Section 27 of the Act, the Government of Malta made a capital contribution of Lm500,000 towards the setting up of this Exchange. Costs during the setting up phase amounted

to just under Lm200,000 which combined with a Lm40,000 deficit registered on operating activities during 1992, meant a deficit for the period of Lm230,000 (after allowing for interest receivable. In cash terms the shortfall was somewhat higher -Lm270,000) - and took up the greater part of the original capital endorsement of Lm500,000. These outflows reflected the heavy investment that the Exchange had to undertake in the initial period both in terms of human resources as well as in technology and in the acquisition of the appropriate know-how.

The second operational year of the Stock Exchange was a more profitable one. The efforts of the Exchange were directed towards the attainment of a financial position where the Exchange could support itself without the need for Government subventions, or fresh capital injections.

During 1993, in fact, the Exchange registered an operating profit of just under Lm100,000. This was primarily due to three surplus main factors:

- (i) the increase in stockbroking firm fees resulting from higher turnover during 1993
- (ii) the fees accruing from the listing of the shares of Mid-Med Bank Ltd; and
- (iii) the fact that the Government agreed to pay listing fees (albeit discounted) on its quoted stocks with effect from the start of 1993.

During this year the Exchange contributed towards the setting up of the Compensation Fund in terms of Section 8 of the Statute contained in the First Schedule to the Malta Stock Exchange Act (Cap. 345). The contribution by the Exchange was matched by an equivalent contribution of the Members and a resource base was thereby established.

The significant increase in operations registered during 1994 mainly reflected the new share listings of Lombard Bank (Malta) Ltd, Middle Sea Insurance Co Ltd as well as the listing of the first corporate bond on the Exchange issued by Gasan Finance Co Ltd. The Government also listed five new stock issues totaling Lm39 million.

In its drive aimed at establishing a basis of autonomous long-term liability, the Exchange also looked to other sources of business. During 1994 in fact, the Exchange formed part of a Consortium with two UK firms which contributed through the provision of its in-house clearing and settlement system, towards the setting up of the Estonian Central Securities Depository Limited (EVK). The Exchange also assisted by providing training to the Estonian personnel as well as in the overall implementation of the whole project.

The new listings together with the Estonia project gave rise to an increase of Lm116,000 in operating income up to Lm411,000. At the same time operating expenditure increased by just over Lm60,000 to Lm246,000.

The following year, 1995, was characterised by a high level of activity throughout the year.

New listings and the Government sale of 25% of its shareholding in Bank of Valletta Ltd, all contributed to push up operating revenue by 13% to Lm466,000. Revenue was also adversely hit by a Council decision to revise listing charges with a view to attract more business. The new tariff structure narrowed the bands previously applied with the result that listing fee scales rise less sharply in relation to an increase in the value of the instruments quoted. This revision had a negative impact of Lm54,000 on revenue. On the other hand expenditure went up sharply by 62% to Lm384,000 mainly under the impact of the leasing of new premises to house the Exchange and the outlays associated with the move towards the electronic trading system.

The most important investment during 1996 was that made in respect of the introduction of the automated trading system. The substantial cash outflows involved in this project were all self-funded, as a result of the prudent management of the assets and resources of the Exchange. Revenue from listing fees was down Lm22,000 when compared to 1995 due to the absence of new share or corporate bond listings which, however, were somewhat compensated for by the listing of Government Stocks in excess of what

	1992*	1993	1994	1995	1996
Operating income	145,543	294,505	411,286	465,681	449,033
Operating expenditure	(186,650)	(201,909)	(262,821)	(425,386)	430,847
Surplus/Deficit	(41,107)	92,596	148,465	40,318	18,186
interest Receivable	10,418	10,318	19,497	19,894	17,054
Surplus/Deficit before Taxation	(230,211)**	102,914	167,962	60,212	35,240
Taxation		23,374	57,594	14,555	12,642
Surplus/Deficit for the Year	(230,211)	79,540	11,368	45,657	22,598

*covers the period 24.01.91 to 31.12.92

** includes Lm199,522 pre-trading expenditure

had been expected as well as the listing of the La Valette Malta Fund.

Conclusion

Over the last five years, the Exchange has sought to establish itself as an important player in the Maltese Capital Market. This it has tried to do by establishing a reputation for being able to respond swiftly and efficiently to market demands without, however, ever compromising on what must always remain the main responsibility of the Exchange, the protection of the investor.

New technologies continue to develop, financial instruments come on-stream and the breadth of capital market operations continues to widen. The aim of the Exchange is to keep abreast of these changes, to grow with them and thus contribute to the move of the Maltese economy into the next century.

History of the Malta Stock Exchange

1990	Malta Stock Exchange Act establishing a stock exchange in Malta was approved by the House of Representatives.
1991	First Council appointed and certain provisions of the Act came into effect.
1991	Bye-laws governing the day-to-day operations of the Exchange published.
1992	First trading session held at the Malta Stock Exchange. Trading sessions conducted manually but the Clearing and Settlement System and the Central Securities Depository were fully automated.
1992	First equity listing took place in September.
1994	The Clearing and Settlement System and the Central Securities Depository were fully integrated.
1994	Corporate Bond – the first of its kind – was issued on the Primary Market and simultaneously listed on the Exchange.
1995	The first private company (with no Government shareholding) was listed on the Malta Stock Exchange
1995	Two sub-funds under a SICAV umbrella fund were listed on the Malta Stock Exchange.
1996	Electronic trading fully interfaced with the Clearing and Settlement System and the Central Securities Depository introduced on the Malta Stock Exchange.

Automation of the Malta Stock Exchange - A Quantum Leap in Business Efficiency

The recent introduction of a world class trading system at the Malta Stock Exchange (MSE) has laid down the necessary infrastructure for the expected future growth of the Maltese capital market. The Malta Automated Trading System, or "MATS" as it is known locally, went live on 24 July, 1996 with all the 55 stocks quoted on the Exchange. The whole market was launched onto MATS on one day following extensive "live testing" periods conducted by both the MSE staff and the brokers.

A brief history of MATS

The launching of MATS by the Minister of Finance was the culmination of a successful project aimed at putting the full life cycle of a securities transaction in Malta in an electronic environment. The MSE now has the full end-to-end integrated technology covering the whole transaction life cycle with technology solutions for trading, surveillance, clearing, settlement, depository and registration. The implementation of this project, which has been a goal of the MSE since its inception in 1991, has followed a strict business and IT strategy focused on ensuring that back office processes are well developed and able to support these new developments in the market.

The MATS project was launched when the market had reached a critical mass of equities, corporate and Government bonds as well as investment funds. Malta is now seeing a steady flow of interest in primary offerings, from both domestic and foreign issuers, in response to a successful marketing programme undertaken by the management and Council of the MSE. Once the Council had approved the MATS project, the market model for the automated environment was determined by the MSE management in conjunction with international exchange consultants BTA from the UK. This partnership created the framework for an international tender, which was awarded to EFA Software Services Ltd of Calgary, Canada. What was particularly interesting about the EFA solution was the ability to offer an open system client server solution that had the full functional support for a whole range of market scenarios.

Once EFA had been selected, the MSE embarked on the implementation project working closely with EFA. Malta wanted to be the first installation of the windows based client server version of EFA's Stock Exchange Automated Trading System (SEMS). The base solution was customised for the Maltese environment to reflect the local needs.

Integration of Trading, Clearing and Settlement and CSD Environment

The MSE believes that the integration of the Trading System with the Central Securities Depository (CSD) and the Clearing and Settlement System (CSS) is the key to the long term development of the market. The MSE knows very well that this method may prevent some speculative activity that may occur as a result of operators being able to churn certificates in other market places. In Malta, however, it was decided from the beginning to manage market behavior patterns and thereby gain a solid reputation for market safety.

Thus, when a broker places a selling order onto the market, the EFA system checks in real time that the investor has the shares in the account free from any encumbrances e.g. blocked accounts as a result of pledges etc. At the same time, on the buying side the EFA system checks that the buyer has a valid CSD account. Only those orders that meet these validation criteria will be accepted to the order queue. This effectively means a 100% settlement success rate. This method has been adopted to reduce risk in the market place. All these checks are achieved with a sub-2 second response time. Furthermore, copying of the CSD database into the trading engine was not required and this in turn improved CSD data integrity.

Now that the system is totally integrated, the Exchange plans to examine the feasibility of changing the pre-freezing algorithm, thus enabling brokers to sell stock that awaits settlement and to provide for a further series of pre-validation routines. This strategy will then facilitate the move to real time settlement at the point of order matching (i.e. on trade day).

Ensuring Best Execution At All Levels

The second key feature of the Maltese marketplace is the "put-through" market. These "put-through," or agency crosses, are a very important feature of the market and a special module was built onto the EFA system dedicated to handle this type of transaction. The Malta Stock Exchange, takes a very strong view on best execution on the market floor and, therefore, for all agency crosses, Exchange rules insist on market testing the trades to ensure that the parties to a "put-through" transaction do get the best possible consideration for their bargains. This philosophy has been incorporated into the automated trading system and the "put-through" market can thus co-exist alongside the regular market.

Functionally Rich Solution

The third key feature characterising the new MSE trading system is its extreme versatility. At the outset, the philosophy adopted when selecting the system was to take on a proven package solution that could be operated in mature markets having business objectives similar to those of the MSE. At the same time, it had to be a system which had already proved its worth in an emerging market.

The MATS solution is currently implemented in a range of markets but perhaps the markets where there is the greatest synergy is Alberta, Canada where the market place includes a dominant "Junior Capital Pool" which is more or less similar in concept to the future MSE plans to launch a venture capital board-and Ljubljana,

Slovenia an emerging market which has seen a rapid growth of liquidity following the implementation of this trading system.

The MSE has also added certain custom built features to suit the Maltese market place. Besides the "put-throughs" mentioned earlier, other features include the ability to set "trade ranges" for specific equities based on the "trade weighted average price" (TWAP) emerging from the previous trading session. In Malta it is necessary to use the TWAP as the trade range benchmark for some shares as this prevents market distortions through skewed trading patterns at the start or at the end of trading sessions.

These are some of the most important features of the new system. However, MATS is a very flexible system providing an ideal vehicle for market growth.

Capacity to Move to a Floor less Environment

MATS is a high performance client server technology solution that offers the ability to move away from the traditional market floor without reengineering the whole system. This helps the immediate needs of the Maltese market place but also ensures that Malta does not have redundant technology if it opts for further expansion. The MSE will be able to switch on further functionality's provided by EFA such as quote driven capabilities, derivatives trading and other technologies.

For the immediate future, however, the MSE plans to spread the MATS infrastructure across the islands of Malta and Gozo. The Exchange, in fact, has now embarked on a project to assess the feasibility of moving the market off the floor and thus improving the continuity and length of the trading sessions. Conceptually there is no reason to limit trading and as part of the Exchange's drive to attract foreign investors as well as to mobilise domestic savings even more, there are plans to increase the number of trading sessions per week, to lengthen the trading day and to facilitate screen based trading from brokers' offices.

Systemic Risk Reduction

In line with current global initiatives to reduce systemic risk, the MSE also plans to reduce the settlement period from T+4 as it stands today. It must be said that the MSE has never had a failed trade in the five year history of the market place. With the reduction in the volume of paper work associated with electronic trading, the MSE will have the opportunity to move to a T+2 settlement period. This move will require a change in the central settlement algorithms, but it will have no impact on broker back offices as most of the back office functionality is already handled by the MSE.

To make the MSE attractive to the foreign institutional investor the Stock Exchange Council is also investigating the possibility of adopting SWIFT message and data standards, and thus becoming a SWIFT recognised market.

Market Education

The Council of the Exchange is very sensitive to the need to encourage investors to understand more about capital markets. As well as undertaking market awareness campaigns the MSE will also be examining the feasibility of integrating MATS into FM or Internet technologies that can be used as highways to disseminate market prices and data on a low cost basis. The creation of an MSE web page would be a start, but may not necessarily achieve the local focus – hence the use of FM technology. The distribution of data will help stimulate changes in portfolio structure, especially as Malta has

traditionally been a saving based economy.

Conclusion

The introduction of MATS has provided the Malta Stock Exchange with the facility to

provide a whole new range of services that it can offer to the market now that it has a full end-to-end technology solution. The Malta Stock Exchange is today backed by a package of modern financial legislation and by a set of listing rules and regulations designed to strike a balance between swift processing of applications and worldwide standards of investor protection. This legislative and regulatory infrastructure is now supported by state-of-the art technology and the Malta Stock Exchange is confident that it is well positioned to establish itself as an important player in the world of capital markets.

Financial Report

The most prominent feature of the financial year under review was undoubtedly the introduction of the new automated trading system (MATS). With this new, fully computerised trading system, the Exchange is now confident that the infrastructure necessary to sustain its future growth is in place and fully operational. The Exchange can now look forward to reviewing its current trading practices possibly by increasing the number of trading days or, perhaps even more importantly, by moving on to a fully remote screen-based trading system without incurring further large capital outlays. The project was completely self-financed and in spite of the considerable levels of financial and human resources required for the implementation of this project, an encouraging surplus before taxation of Lm35,000 was recorded for the year. Net cash outflow was thus limited to Lm53,000, a very positive result indeed considering that originally an operational deficit of Lm60,000 was envisaged for 1996 with a consequently much higher net cash outflow.

During 1996, the Exchange registered a gross operating income of Lm53,000 in excess of that budgeted. Government

Stock issues were in excess of what had been expected and so partly compensated for the absence of new share or corporate bond listings during the year. Accordingly, listing fees were only Lm22,000 down when compared to 1995.

At the same time, operating expenditure, at Lm431,000, was significantly less than that budgeted, mainly the result of savings in respect of personnel costs, repairs and maintenance, consultancy and depreciation. Increases in expenditure compared to the previous year were incurred in respect of depreciation (full year charge for MATS), personnel costs and overseas training. These were offset by substantial decreases of Lm29,000 and Lm22,000 in two areas, namely, repairs and maintenance and consultancy expenses. The costs incurred in the refurbishment of the Floriana premises and consultancy expenditure in connection with the MATS project were, in fact, mainly incurred in 1995. Personnel costs increased by 14% owing to a staff complement of twenty for the whole year compared to a staff complement of seventeen for most of the previous year as well as revised staff salary scales. Additional costs were also incurred in organizing in Malta the Emerging Markets Task Force Meeting of the Federation of European Stock Exchanges in October 1996. The major cost components, however, remained payroll costs (36%) and establishment expenses (24%).

The outlook for 1997 indicates a break-even operating result. However, this is subject to the successful outcome of ongoing negotiations with the Treasury relating to the listing fees payable by Government following the expiry of a three year agreement between the Exchange and the Treasury. Accordingly, income is expected to increase to Lm485,000 compared with the Lm450,000 for 1996. Expenditure, on the other hand, is expected to increase to Lm485,000 - up from Lm431,000 in 1996 - mainly reflecting the planned engagement of additional staff in order to meet the increasing demand being made by the listings of funds and to enable the Exchange to implement a marketing plan which is in the process of finalisation. No costs have been budgeted for this plan as it is expected that expenses incurred will, by agreement, be shared with the listed companies.

Report of the Council

for the year ended 31 December 1996

Council Members

The Council, appointed in terms of Article 5 of the Statute is as listed below:

F Mifsud Bonnici (Chairman)

L E Galea (Deputy Chairman)

V Falzon

J V Laspina

G Wells

The Council submits herewith its annual report together with the audited financial statements for the year ended 31 December 1996.

Activities

The Malta Stock Exchange regulates and maintains facilities to ensure an orderly and efficient market place for securities trading. The Exchange also provides clearing and settlement, depository and related services for securities.

Results

The results for the year are set out in the income and expenditure account on Page (V).

Committee Members

The Committee, formed in terms of Article 6 of the Statute, comprises four members representing the stockbroking community and one appointed by the Council from the Malta Stock Exchange senior executives.

Following the statutory elections of the Stock Exchange Committee members held on 27 March 1996 in terms of Article 6 (iv) of the Statute, Messrs W Mallia and K Farrugia were elected as new members replacing Messrs P V Azzopardi and J G P Bonello. Consequently the Stock Exchange Committee is composed as follows:

Committee:

I J Burrridge (Chairman)

K Farrugia (Deputy Chairman)

W Mallia

C J Pace

M A Guillaumier

Auditors

The auditors Coopers & Lybrand, have intimated their willingness to continue in office.

By order of the Council

P.J Spiteri

27 Pietro Floriani Street

Floriana

Malta

7 March 1997

Statement of Council Members' Responsibilities

The Council Members are responsible for the preparation of financial statements which give a true and fair view of the state of affairs at the end of each financial year and of the results for that year. In preparing the financial statements, the Council Members:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether International Accounting Standards have been followed; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the

Exchange will continue in business.

The Council Members are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Exchange and to enable them to ensure that the financial statements comply with the Malta Stock Exchange Act (Cap. 345). The Council Members are also responsible for ensuring that an appropriate system of internal control is in operation to provide them with reasonable assurance that the assets of the Exchange are properly safeguarded and that reasonable steps are taken for the prevention and detection of fraud and other irregularities.

Statement of Auditors' Responsibilities

It is the responsibility of the auditors to form an independent opinion on the financial statements presented by the Council Members based on their audit and to express their opinion thereon. The auditors are also required to state:

- whether, in their opinion, the Exchange has maintained proper accounting records;
- whether the financial

statements are in agreement

with the accounting records;

- whether the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit;
- whether the accounts comply with the requirements of the Malta Stock Exchange Act (Cap. 345).

Report of the Auditors

We have audited the financial statements set out on Pages (V) to (X).

Respective Responsibilities of Council Members and Auditors

As described on Page (III), the Council Members are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on the financial statements presented by the Council Members.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Exchange, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

These financial statements are in agreement with the books which, in our opinion, have been properly kept. We obtained the information and explanations we required.

In our opinion, the financial statements have been prepared in accordance with International Accounting Standards and give a true and fair view of the state of affairs of the Exchange at 31 December 1996 and of the surplus and cash flows for the year then ended and comply with the Malta Stock Exchange Act (Cap. 345).

Coopers & Lybrand Certified Public Accountants and Auditors

167 Merchants Street

Valletta

Malta

7 March 1997

Income and Expenditure Account

for the year ended 31 December 1996

	Notes	1996	1995
		Lm	Lm
Operating income	3	449,033	465,681
Operating expenditure			
Administrative expenses	4	365,889	384,032
Depreciation		64,958	41,331
		430,847	425,363
Operating surplus for the year		18,186	40,318
Interest receivable		17,054	19,894
Surplus before taxation	5	35,240	60,212
Taxation	6	12,642	14,555
Surplus for the year		22,598	45,657
Statement of accumulated surplus			
Surplus for the year		22,598	45,657
Accumulated surplus/(deficit) at the beginning of the year		5,354	(40,303)
Accumulated surplus at the end of the year		27,952	5,354

Balance Sheet

at 31 December 1996

	Notes (Lm)	1996(Lm)	1995
Fixed assets			
Tangible assets	7	168,682	87,672
Current assets			
Debtors and prepayments		187,301	178,175
Investments	8	178,000	227,455
Cash at bank and in hand		46,741	99,564

		412042	505194
Creditors: amounts falling due within one year	9	41431	87512
Net current assets		370,611	417,682
Total assets less current liabilities		539,293	505,354
Provisions for liabilities and charges Deferred taxation	10	11,341	
Net assets		527,952	505,354
Capital and reserves			
Capital	11	500,000	500,000
Accumulated surplus		27,952	5354
		527952	505354

The financial statements on Pages (V) to (X) were approved by the Council on 7 March 1997 and were signed on its behalf by:

F Mifsud Bonnici Chairman

L E Galea Deputy Chairman

Cash Flow Statement

for the year ended 31 December 1996

	Notes	1996 (Lm)	1995 (Lm)
Operating activities			
Net cash inflow before interest and charges	12	39831	64915
Interest received		17054	19894
Tax paid		13195	59874
		43690	294935
Investing activities			
Purchase of tangible fixed assets	7	145968	103154

Disposals/(purchases) of investments		49455	37455
		96513	140609
Decrease in cash and cash equivalents		52823	115674

Notes to the Financial Statements

for the year ended 31 December 1996

1 Principal accounting policies

These financial statements have been prepared in accordance with the requirements of the International Accounting Standards issued by the International Accounting Standards Committee. A summary of the more important accounting policies, which have been applied consistently during the year, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated so as to write off the cost on a straight line basis over the expected useful economic lives of the assets concerned. A full year's depreciation is provided for in year of acquisition. The principal annual rates used for this purpose are:

Settlement of deals

The Malta Stock Exchange provides the services of a clearing house to facilitate the settlement of deals made during the trading session. The financial transactions emanating therefrom are not included in the financial statements of the Exchange.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise. Full provision is made for deferred taxation arising from the difference between tax allowances and depreciation.

2 Compensation Fund

The Malta Stock Exchange maintains a Compensation Fund established in terms of Section 12 of the Statute contained in the First Schedule to the Malta Stock Exchange Act (Cap. 345) for the purpose of compensating the general public who has suffered pecuniary loss as a result of or in connection with any default of a member of the Exchange.

The Fund is administered by the Council of the Malta Stock Exchange in terms of Bye-laws issued by Council on 24 July 1995, which provide inter alia for the separate management of the Fund's assets. Separate financial statements have been drawn up in respect of the Fund.

Computer systems	20-33 %
Office furniture, fixtures & equipment	15-25%
Motor vehicle	20%

3 Operating income

Operating income comprises membership and other fees payable by stockbrokers and financial intermediaries together with fees payable in respect of the listing, clearing, registration and trading of quoted securities and related services.

The income from the main activities was as follows:

		1996 Lm	1995 Lm
Fees payable by stockbrokers and financial intermediaries	23,063		22,813
			227,242
Listing fees	205,400		215,626
Central clearing, settlement and depository fees and other income	220,570		
	449,033		465,681

4 Administrative expenses

		1996 Lm	1995 Lm
Personnel costs	155,754		136,286
Other administrative expenses	210,135		247,746
	365,089		384,032

The average weekly number of persons employed by the Exchange during 1996 was 20 (1995: 19 persons).

5 Surplus before taxation

		1996 Lm	1995 Lm
The surplus before taxation is stated after charging:			
Emoluments of Council Members and Chairman inclusive of allowances, honoraria and remuneration for services given	14,770		14,155
Auditors' remuneration	1,050		1,050

6 Taxation		
	1996 (Lm)	1995(Lm)
Taxation has been provided as follows		
Income tax at 35%		
Current		

Deferred	11341	
On investment income subject to 15% final withholding tax	1301	2661
	12642	14555

7 Tangible fixed assets				
	Computer systems Lm	Office furniture fixtures & equipment Lm	Motor vehicles Lm	Total Lm
Cost				
At 1 January 1996	120600	41619	25004	187223
Additions	131593	14375		145968
At 31 December 1996	252193	55994	25004	333191
Depreciation				
At 1 January 1996	62891	23688	12972	99551
Charge for the year	50124	9833	5001	64958
At 31 December 1996	113015	33521	17973	168509
Net Book Value At 31 December 1996	139178	22473	7031	168682
Net Book Value At 31 December 1995	57709	17931	12032	87672

8 Current asset investments

Current asset investments, which are stated at the lower of cost and market value, relate to the holding of short term Malta Government Stocks and Treasury Bills.

9 Creditors: amounts falling due within one year

1996 Lm 1995 Lm

Creditors and accruals	29,814	63,076
		11 894
Taxation	11,617	12,542
Prepaid listing fees		87,512
	41,431	
10 Deferred taxation		1996 Lm 1995 Lm
Deferred taxation provided in the financial statements is as follows:		11341
Tax effect of timing differences:		
Excess of tax allowances over depreciation		
11 Capital	11041	
This represents the initial capital contribution by the Government of Malta as specified by Section 27 of the Malta Stock Exchange Act (Cap. 345).		
12 Net cash inflow before interest and tax		
Reconciliation of operating surplus to net cash inflow before interest	1996 Lm	1995 Lm
Operating surplus for the year Depreciation	18,186 64,958 (9,126)	40,318
	(34,187)	41,331
Loss on sale of fixed asset Movement in working capital: Debtors and prepayments Creditors and accruals		433
		(50,925)
		33,758
Net cash inflow before interest and tax	39,831	64,915

Report of the Auditors

We have audited the financial statements set out on Pages (II) to (IV)

Respective Responsibilities of Council Members and Auditors

These financial statements are the responsibility of the members of the Council of the Malta Stock Exchange. It is our responsibility to form an independent opinion, based on our audit, on the financial statements presented by the Council Members

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Fund, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated

the overall adequacy of the presentation of information in the financial statements.

Opinion

These financial statements are in agreement with the books which, in our opinion, have been properly kept. We obtained the information and explanations we required.

In our opinion, the financial statements have been prepared in accordance with International Accounting Standards and give a true and fair view of the state of affairs of the Fund at 31 December 1996 and of the surplus for the year then ended.

Coopers & Lybrand Certified Public Accountants and Auditors

167 Merchants Street

Valletta

Malta

7 March 1997

Income and Expenditure Account and Other Movements

for the year ended 31 December 1996

	1996 Lm	1995 Lm
Income Investment income (gross)	1029 (274)	1,080 (162)
Taxation deducted at source		
Operating surplus for the year	1,555	918
Accumulated fund at 1 January	37000	22,382
Contributions due in terms of Chapter 7 of the Malta Stock Exchange Byelaws		7,000
	8000	7,000
Stock Exchange contribution	8000	
Stockbrokers' contribution		
Accumulated fund at 31 December	54055	37,300

Balance Sheet

as at 31 December 1996

1996 Lm 1995 Lm

Assets	3	37,000	16,000	22,000
				14,000
Investments		1855		1,300
Debtors				
Cash at bank				
		54055		37,300
Accumulated fund (Page II)		54055		37,300

The financial statements on Pages (II) to (IV) were approved by the Council of the Malta Stock Exchange on 7 March 1997 and were signed on its behalf by:

F Mifsud Bonnici Chairman

L E Galea Deputy Chairman

Notes to the Financial Statements

for the year ended 31 December 1996

1 The Compensation Fund

The Malta Stock Exchange maintains a Compensation Fund established in terms of Section 12 of the Statute contained in the First Schedule to the Malta Stock Exchange Act (Cap. 345) for the purpose of compensating the general public who has suffered pecuniary loss as a result of or in connection with any default of a member of the Exchange.

The Fund is administered by the Council of the Malta Stock Exchange in terms of Bye-laws issued by Council on 24 July 1995, which provide inter alia for the separate management of the Fund's assets. Accordingly, separate financial statements are drawn up in respect of the Fund.

2 Principal accounting policies

These financial statements have been prepared in accordance with the requirements of the International Accounting Standards issued by the International Accounting Standards Committee. A summary of the more important accounting policies, which have been applied consistently during the year, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Contributions

Contributions in terms of Chapter 7 of the Malta Stock Exchange Bye-laws are accounted for in the year to which they relate.

3 Investments

Investments, which are stated at the lower of cost and market value, relate to the holding of short term Malta Government Stocks.