

Letter of Transmittal

The Chairman

Malta Stock Exchange

27 Pietro Floriana Street

Floriana

VLT 14

30 March 1998

The Hon L Brincat MP FCIB

Minister of Finance & Commerce

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 1997.

Yours sincerely

F Mifsud Bonnici

Chairman's Report

That the Exchange has firmly established itself as an integral and fundamental component of the local capital market is clearly supported by the statistics amply discussed in other parts of this Annual Report.

The factors that have contributed to such a substantial rise in the level of market turnover during 1997 are various and too complex to be discussed in this context. However, an increase to Lm114 million which is more than double the highest annual turn over registered to date augurs well for the future. This level of volume becomes even more significant when one considers the record level of Treasury Bills outstanding during the year as well as the record level of issues in the primary market of Government stocks, particularly when it is a well known feature of the local market that local investors have in the past shown a preference for primary issues. Also noteworthy is the fact that this substantial rise was spread across all the market with equities and corporate bonds registering increases in turnover of 91% and 201% respectively. In the first three months of this year the level of turnover for equities and corporate continued to increase strongly.

All this was achieved without any increase in the number of staff. However, as a result of recent developments it is now possible to strengthen the staff complement to achieve a better functional and service line based organisation. This structure will enable the Exchange to continue to fulfill its regulatory function and to meet the increase in business as well as the challenges of its increasing complexity.



The attraction of more instruments and issuers remains a high priority on the domestic front. The implementation of a dynamic marketing plan devised last year is very much a key tool to help explain any incorrect perceptions about the implications of a listing, its advantages and possible burdens. This initiative is particularly timely when the restructuring of local industry is such a topical subject and when the need to move from words to deeds with urgency cannot be over-emphasised. Government's decision to go ahead with the partial privatisation of Maltacom and the Malta International Airport will add breadth to the market. In the case of Maltacom, the Exchange will be meeting new challenges brought about by Government's excellent intention to list some of the shares in London simultaneously as in Malta.

The operating and cost structures within the Exchange remain under continuous review to ensure that operators on the market get value for money. This is a determining factor to ensure that liquidity levels continue to improve as the investment culture permeates into Maltese society. The market's rapid development is also hindered by the absence of major

institutional players although the advent of local collective investment schemes have gone a long way to mitigate this feature of the local market. The review of the area of pensions which was recently given a boost by the launching of a study by Government is notably welcome. Investment in local listed instruments by foreign collective investment schemes who are selling units or shares to Maltese investors also needs to be nurtured to infuse more liquidity in the local market.

The consideration of the introduction of a second-tier board remains active but there are serious implications in this regard, particularly, to identify what will constitute the main areas of difference from the senior board. On the international front too, excellent progress has been made in our commitment to complement the Malta Financial Services Centre's efforts in developing the financial services sector. During 1997 no less than 47 funds and sub-funds were listed. While most of these were triggered by the attraction of capital gains tax exemption for local investors, more importantly funds have also been attracted which are not aimed to any degree to the local investment community.

That substantial opportunities exist for Malta in the international financial services industry is confirmed by the feedback that we continually receive from contacts with foreign players in this industry. To exploit these opportunities in a reasonable time-scale, major strategic decisions need to be taken to identify those products and those countries which represent the most fertile ground for our efforts to produce results. Once this is done, the marketing approach can become focused on these products and markets and more specifically on those individual targets which represent the best potential for success. For greater effectiveness, our financial services sector needs to be more focused in its approach. With the Chairman of the MFSC on the Board of Governors of the Central Bank and a senior Central Bank executive on the Council of the Exchange and the Governor of the Central Bank and myself on the Board of Governors of the Malta Financial Services Centre, the circuit is complete and, therefore, a coherent national approach is possible. A common clear strategy in terms of regulation, products, geographical spread and market players complemented by a very close working relationship of the three organisations can only make what is a difficult task, an achievable one.

The Exchange has a dedicated team which has been the backbone of the progress made both domestically and internationally. The Council decides on strategy while its implementation is achieved through the unstinted commitment of

the senior executives and staff. This bodes well for the future.

Finally, I would like to thank the Hon. Minister of Finance and the Permanent Secretary at the Ministry, the Governor of the Central Bank and the Chairman of the Malta Financial Services Centre for their continued support throughout the year. Lastly but not least I would like to thank my fellow Council Members for their patience and their unqualified support during 1997.

Frederick Mifsud Bonnici

Chairman

Administration Report

The Council

The Council of the Malta Stock Exchange was re – appointed by the Minister of Finance with effect from 1 January 1997 for a period of one year, in terms of Section 4 of the Malta Stock Exchange Act (Cap. 345) and Section 5 of the First Schedule. The Chairman, Mr Frederick Mifsud Bonnici, was re – appointed for a period of two years with effect from the same date. The Central Bank of Malta nominated Mr R G Saliba with effect from 1 July 1997 following the expiry of the term of Mr J V Laspina, the former Central Bank of Malta nominee.



The Council held 14 meetings during the year under review, however, in addition to attendance at Council Meetings, individual Council Members also participated in meetings of the sub – committees set up by Council concerning listing, premises and the promotion of Exchange Business. The statutory Special Meeting in terms of Section 9 (IV)(a) of the First Schedule of the Malta Stock Exchange Act (Cap. 345) was held on 24 March 1997. At such meeting the Chairman of the Exchange presents his Report for the financial year and lays on the Table a copy of the audited accounts of the Exchange. The Special Meeting is also attended by the licensed stockbrokers.

The Council also held regular quarterly meetings with the Malta Stock Exchange Committee, set up in terms of the Act. The main task of the Committee is to tender advice to the Council on matters effecting trading procedures and on other matters of concern to the Members of the Exchange or incidental to the proper functioning of the Exchange.

Human Resources

Staff Complement

The resignation of a Manager I in December reduced the staff complement by one to the present staff complement of 20 which has remained fairly stable during the last couple of years. The Ex-change's limited financial resources necessitated the Council to adopt a prudent attitude and staff was not recruited unless absolutely necessary. However, the Council acknowledges that the positive development in practically all the activities of the Exchange witnessed during 1997 has stretched human resources to the limit. The Council is there- fore, endeavoring to recruit competent staff to ensure that

the Exchange's duties and obligations do not diminish as a result of human resources constraints.

Staff Development

The Exchange continued with its policy of encouraging staff to develop and broaden their horizons and to gain experience and, therefore, sees their active participation in seminars, conferences and workshops, both locally and overseas, as essential. This is useful also to establish and then to maintain contacts with overseas stock exchanges personnel



In March, Mr Aldo Ellul, Manager I, attended the "Accounting Standards Conference" in Brussels, and Mr Mark A Guillaumier, Deputy General Manager and Mr Martin G Farrugia, Senior Manager, participated at the conference on the "Globalisation of Securities Markets" in London. In June, Mr Guillaumier accompanied by Dr Robert Vella Baldacchino, the Legal Officer of the Exchange, attended the "9th Offshore Funds Conference" in New York. Later on in the year, Mr Guillaumier was invited to take part in a seminar on "Alternative Structures in Securities Markets" organised by Georgetown University, Washington DC while in October Dr Vella Baldacchino was again a participant at a conference in London regarding "The City Code on Takeovers and Mergers".

The Chairman, Mr. Frederick Mifsud Bonnici, was invited by the US Embassy in Malta to pay a month – long familiarisation visit to the major financial institutions in several cities in the USA.

For the second consecutive year the Malta Stock Exchange sponsored the attendance of two licensed stockbrokers, to attend the "Alternative Investment Market Annual Conference" in London. Mr Ivan Burrige and Mr. Alfred Calamatta, stockbrokers, attended.

Malta Stock Exchange staff participated in various seminars and conferences held locally on a diverse number of subjects ranging from Risk Management and International Tax Planning to the New Tax System in Malta and its implications for Business.

During the year Malta Stock Exchange Executives were also invited to be guest speakers at several local seminars and conferences. The Chairman, Mr Mifsud Ronnici, presented a paper at the prestigious international conference held in Malta in September – the Mediterranean Asset Management Conference. Mr Mifsud Bonnici was one of a panel of speakers and he addressed participants on "Listings for Local and International Funds".

In June, Mr Mifsud Bonnici was also the guest speaker at a Business Breakfast organised by the Malta Business Weekly while in July Dr Robert Vella Baldacchino addressed an MFSC Workshop on "Proposed Amendments to the Malta Stock Exchange Act". The General Manager addressed an official Chinese Trade Delegation about the "Operations of the Malta Stock Exchange" at the Malta Financial Services Center and in October Mr Mark Guillaumier, Deputy General Manager was a guest speaker at a workshop organised by the Malta Chamber of Commerce where he addressed participants on "Consumer Protection at the Malta Stock Exchange".

International Affiliations

During 1997 the Malta Stock Exchange was represented at the various regular meetings of which it is either a member or affiliated to, namely the International Organisation of Securities Commission (IOSCO), the Federation of International Stock Exchanges (FIBV), the Federation of European Stock Exchanges (FESE) as well as the European Capital Markets Institute (ECMI). The Chairman was a participant at the IOSCO's European Regional Committee Meeting in

Rome and at the Annual General Meeting in Taiwan, where he headed the Malta Delegation which included also representatives from the Malta Financial Services Centre. The General Manager, Mr Spiteri, attended the IOSCO's Emerging Markets Committee Meeting in Johannesburg and represented the Malta Stock Exchange at the FIBV's Annual General Meeting in New York. The General Manager was also the Malta Stock Exchange's representative at both the Spring and Autumn Meetings of the Emerging Markets Task Force of the FESE. During the Autumn Meeting Mr Spiteri addressed participants on "Technical Co – operation".

Premises

The prospects of the Malta Stock Exchange having proper premises appeared to become brighter after the declared move of Posta Ltd from the Barrakka Hall to another site. As a result the Council set up a Premises Sub – committee and Architecture Project, an architectural firm, was appointed to initiate and develop the necessary plans for the rehabilitation of the Barrakka Hall to house the Malta Stock Exchange. The Premises Sub – committee met frequently with Architecture Project, as well as other interested parties to discuss requirements, plans and deadlines and iron out any difficulties remaining before the actual development of the site and building can commence. It is envisaged that the rehabilitation and refurbishment of the Barrakka Hall will be completed by the end of 1999 for the Exchange to move into the building by the beginning of the new millenium.

Exchange Operations and other Activities

Market Performance during 1997

Turnover on the Malta Stock Exchange during the year under review reached an all – time high of Lm114.3 million. This figure represents a significant increase when compared to the Lm25.2 million turnover registered on the market during the previous year. The increase in turnover was reflected in the number of deals concluded on the Floor which nearly doubled, rising from 3,790 during 1996 to 6,114 in 1997.

The market was strongly boosted during the year by sharply higher levels of activity in Government Stocks mainly by institutional investors and locally registered funds. Turnover in these securities rose from Lm20.5 million in 1996 to Lm104 million during 1997, or,

The Market during 1997

Security	Number of deals	Nominal Value*			Market value		
		1996	1997	1996	1997	1996	1997
Bank of Valletta							
Mid-Med Bank							
Lombard Bank							
SFC Ordinary Shares	109	128	170,780	229,979	105,049	106,968	
SFC 8.5% Pref.	68	68	32,719	25,109	33,142	24,732	

SFC 6% Pref.	87	62	18,220	6,288	195,680	62,523
Suncrest Hotels plc		37		316,483		230,176
equity	2083	2738	3,177,227	6,175,180	4,227,907	8,056,331
Gasas Bonds	57	99	124,500	345,500	122,614	342,934
Mid-Med Bonds	170	268	335,840	625,700	335,716	622,020
Suncrest Bonds		39		414,700		416,804
Total Corp. BDS.	227	406	406,340	1,385,985	458,330	1,381,758
Government Stocks	1480	2970	20522700	103943400	20501656	104791524
Total all securities	3790	6114			25 187 983	114 229 613

'Denotes number of shares in the case of equities and the par value in the case of bonds

Government Stocks by Holder

	Dec 1996	Dec 1997		Dec 1996	Dec 1997
Central Bank	47.0	36.2	10.8	13.1	6.9
Commercial banks	139.0	263.8	124.8	39.0	50.4
Non-Bank Public	170.2	223.4	53.2	47.9	42.7
Total	356.2	523.4	167.2	100.0	100.0

Government Securities Movements in 1997

Security Type

Deals Volume (Lm) %
Volume

10505	5.40%	LDRS	LDRS					
10273	4.50%	LDRS	LDRS					
10315	4.50%	LDRS	LDRS					
10539	5.65'	MGS	MGS	1	800	0.00	0.00	
						0.00	0.01	
10182	4.50%	LDRS	LDRS	2	2,500	0.01	0.01	
						0.02	0.02	
10190	4.50%	LDRS	LDRS	1	5,000	0.02	0.03	
						0.04	0.05	
10232	4.50%	LDRS	1997 (II)	4	7,400	0.05	0.06	
						0.06	0.07	
10323	3.00%	LDRS	1996/1998 (IV)	5	8,600	11,000	0.19	0.29
						15,800	0.31	0.49
10364	3.00%	LDRS	1996/1998 (V)	5	19,000		0.52	0.55
						23,400	0.70	0.73
10299	3.00%	MGS	1998 (IV)	7	27,400		0.92	0.96
						37,200	1.05	1.24
10471	6.35%	LDRS	1996/1998	27	50,000		1.30	1.57
						52,800	1.60	2.03
10281	7.00%	LDRS	1996/1998 (II)	32	57,500		2.07	2.14
						62,400	2.17	2.18
10331	7.00%	LDRS	1996/1998 (III)	33	72,700		2.31	2.94
						201,000	3.13	3.87
10356	7.00%	LDRS	2001 (III)	10	304,000		4.03	4.39
						321,400	4.40	4.46
10224	3.00%	LDRS	2001 (IV)	1	513,000		4.71	4.83
						535,800	5.57	5.70
10372	4.50%	MGS	2001 (II)	21	570,400		5.92	
						731,900	10.08	
10513	5.00%	LDRS	1998 (II)	12	761,400		10.17	
						956,100		
10398	7.25%	LDRS	2000/2001 (IV)	9	1,002,900			
						1,091,000		
10216	7.00%	LDRS	2000/2001 (V)	14	1,287,500			
						1,346,800		
10166	7.00%	LDRS	2000/2001 (VI)	4	1,635,900			
						1,666,100		
10752	6.65%	LDRS	2001	2	2,112,500			
						2,154,400		
10695	7.00%	MGS	1996	8	2,219,400			
						2,257,900		
10760	6.90%	LDRS	1998 (VI)	23	2,260,800			
						2,405,900		
10703	6.30%	LDRS	2001	18	3,051,000			
						3,250,300		
10257	7.00%	LDRS	2000 (II)	146	4,027,300			
						4,191,200		
10562	7.00%	LDRS	2000	23	4,563,100			
						4,577,200		
10547	6.00%	LDRS	2001 (II)	8	4,640,000			
			2000/2001			4,900,700		
10380	6.75%	MGS		20	5,025,300			
						5,794,700		
						5,927,000		

10521	5.65%	LDRS	2000 (VI)	19	6,154,200
					10,479,700
10588	6.50%	LDRS	2006 (IV)	21	10,572,100
10612	6.50%	LDRS	2002 (IV)	58	
10646	6.75%	LDRS	1999 (V) 2000/2001 (III)	51	
10497	6.00%	LDRS	2006	32	
10778	7.00%	MGS	1999 (II)	35	
10679	3.50%	LDRS	1997	26	
10455	6.35%	LDRS	1998 (III)	24	
10729	6.75%	LDRS	2000 (III)	56	
10158	6.75%	LDRS	2000 (IV)	69	
10620	6.90%	LDRS	2001 (III) 1999/2007	182	
10489	6.70%	MGS	2001 (IV)	102	
10596	6.90%	LDRS	1998	27	
10570	6.00%	LDRS	2000 (V)	27	
10638	6.30%	LDRS	2000	122	
10786	7.80%	LDRS	2002 (III)	16	
10661	6.30%	LDRS	2004/2002 (II)	31	
10604	6.00%	MGS	1998 (V)	91	
10737	7.25%	LDRS	1999 (III)	103	
10554	6.50%	LDRS	2013	172	
10406	7.00%	LDRS	1999 (IV)	250	
10653	7.50%	LDRS	1998 (VI)	234	
10463	7.25%	LDRS	2005	188	
10745	7.80%	MGS	2001 (II)	144	
10687	7.25%	LDRS	2002	437	
10711	7.50%	LDRS	2006 (II)	17	
10448	7.00%	MGS	2003 (II)		
			2012		

2006 (III)

2011

2003

Totals 2,970 103,943,400 100.00

Redeemed

over 90% of the total market turnover for the year.

At the same time, dealing in equities almost doubled when compared to 1996 figures, from Lm4.2 million to just under Lm8 million. Trading in Bank of Valletta Ltd shares was the most active with the turnover being almost one and a half times that registered for 1996 while movements in the Middle Sea Insurance Co Ltd shares towards the end of the year sparked a series of "Special put – through" involving large investors which significantly changed the shareholding structure of the company. These were the prime causes for the increase in dealings in equities.

The same pattern of increased trading also emerged in the Corporate Bond sector where turnover almost trebled from just under Lm0.5 million last year to Lm1.4 million in 1997, in part due to the listing of the Suncrest Bond in April.

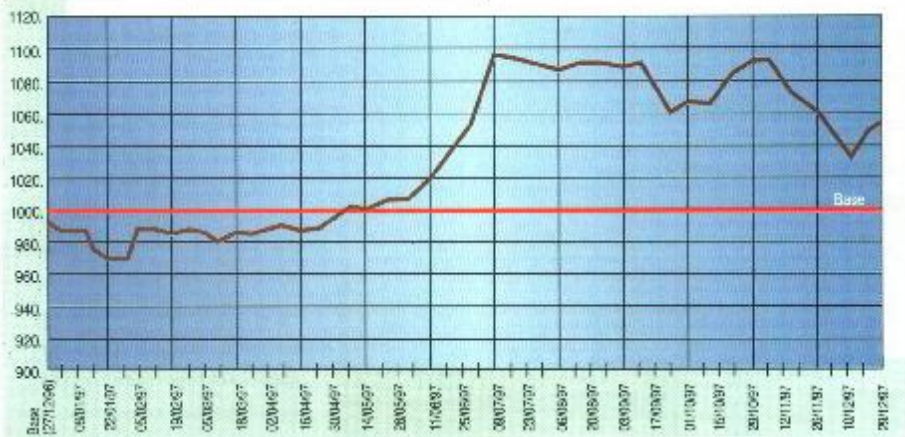
The trading results obtained during 1997 coincided with the first full year of electronic trading introduced in July 1996. This system, which has now been fully assimilated by all market participants, facilitates the creation of liquidity in the market and thus promotes higher turnover levels.

Prices of equities fluctuated considerably during the year and these movements were reflected in the Malta Stock Exchange Share Price Index. This in fact, varied by

The Malta Stock Exchange Share Index for 1997

around 130 points during 1997 from its lowest of 970.48 on 28 January to a high value of 1097.41 on 9 July. The Index ended the year at 1057.4, up by 6.7% on the end of 1996 value.

The Malta Stock Exchange Share Index for 1997

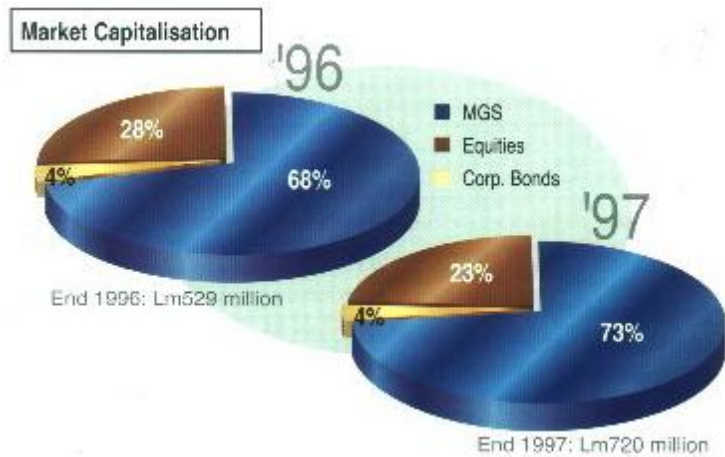


Market capitalisation of listed securities (excluding Collective Investment Schemes) also continued to increase during 1997 to end the year at Lm719.8 million, up from Lm528.7 million the previous year.



Listing

The highlight of 1997 was the admittance to the Official List of the Malta Stock Exchange of forty three Collective Investment Schemes registered both locally and overseas which continued to enhance the international profile of the Exchange, and the listing of Ordinary Shares and a Corporate Bond issued by a company operating within the tourism sector. Suncrest Hotels pic listed on the Malta Stock Exchange a total of 10 million ordinary shares of 10 cents nominal each share and Lm3 million 8.25% Suncrest Bonds maturing in 2005/2007. These securities commenced trading on the Exchange in April 1997. During the year, seven new issues of Government Stocks were also listed with a total Nominal Value of just over Lm188 million, Lm53 million of which were taken up by private investors. The new Government stock issues included for the first time fifteen and sixteen year bonds, namely, the 7.8% MGS 2012 and the 7.8% MGS 2013



During the year under review, the Malta Stock Exchange processed applications from several Collective Investment Schemes registered both locally and abroad seeking a listing on the Malta Stock Exchange. The locally registered funds listed in 1997 were Tri – Med Accumulator Fund SICAV pic, La Valette Developing Country High Yield Fund and La Valette Malta Bond Fund, as well as the Vilhena Funds SICAV plc, whereas the foreign funds listed during the year included Barclays Investment Funds (Luxembourg) SICAV, Barclays Investment Funds (Channel Islands) Ltd, 33 sub – funds of Fidelity Funds SICAV, ANZ Russian Debt Portfolio and 4 sub – funds of Commercial Union Privilege Portfolio SICAV, all quoted in different currencies. At the end of 1997, market capitalisation of all the Collective Investment Schemes listed on the Malta Stock Exchange was approximately US\$8 billion.



Subscribers to The Primary Market in Government Securities during 1997

Security name	Issue date	Nominal (Lm)	Redemption date	Central Bank (lm)	Banking Sector(Lm)	Other (lm)
6.75% MGS 2000	12.05.97	30000000	16.06.2000	4250000	20820000	4965000
7.25% MGS 2005	12.05.97	23,500,000	24.05.2005	4,041,000	13,250,000	6,209,000
7.8% MGS 2012	12.05.97	34,500,000	24.05.2012	4,130,400	16,055,000	14,314,600
6.65% MGS 2000 (VI)	18,10.97	17,500,000	30.09.2000	1,000,000	13,177,300	3,322,700
6.9% MGS 2002 (IV)	18.10.97	23,750,000	30.09.2000	6,000,000	14,235,700	3,514,300
7.35% MGS 2007	18.10.97	24,750,000	18.10.2007	6,000,00	11,336,200	7,413,800
7.8% MGS 2013	18.10.97	34,250,000	18.10.2013	7,000,00	14,296,800	12,953,200
Total				32416400	103171000	52662600

Redemption during 1997

Security	Nominal (Lm)
6.75% MGS 1997	14,800,000
5.4% MGS 1997 (II)	1,000,000
4.5% LDRS 1996/98	1,000,000
4.5% LDRS 1996/98 (II)	1,000,000
4.5% LORS 1996/98 (III)	500,000
4.5% LDRS 1996/98 (IV)	1,000,000
4.5% LDRS 1996/98 (V)	1,000,000
4.5% LDS 1996/98 (VI)	700,000
Total	21 000 000

Collective Investment Schemes

listed on the Malta Stock Exchange as at 31 December 1997

	Currency
'La Valette Global Fund	Stg
La Valette Capital Growth Fund	Stg
La Valette Malta Fund	Lm
La Valette Malta Bond Fund	Lm
La Valette Developing Country High Yield Fund	US\$
Tri-Med Accumulator Fund	Lm
Barclays International Bond Fund	US\$
Barclays Sterling Bond Fund	Stg
Fidelity Funds America Fund	US\$
Fidelity Funds American Growth Fund	US\$
Fidelity Funds ASEAN Fund	US\$
Fidelity Funds Asian Special Situations Fund	US\$
Fidelity Funds Australia Fund	AUD
Fidelity Funds Emerging Markets Fund	US\$
Fidelity Funds European Growth Fund	DM
Fidelity Funds European Smaller Companies Fund	DM
Fidelity Funds France Fund	FF
Fidelity Funds Germany Fund	DM
Fidelity Funds Hong Kong & China Fund	US\$
Fidelity Funds Iberia Fund	SPta
Fidelity Funds Indonesia Fund	US\$
Fidelity Funds International Fund	US\$
Fidelity Funds Italy Fund	ITL
Fidelity Funds Japan Fund	JPY
Fidelity Funds Japan Smaller Companies Fund	JPY
Fidelity Funds Korea Fund	US\$
Fidelity Funds Latin America Fund	US\$
Fidelity Funds Malaysia Fund	US\$
Fidelity Funds Nordic Fund	Skr
Fidelity Funds Pacific Fund	US\$
Fidelity Funds Singapore Fund	US\$
Fidelity Funds South East Asia Fund	US\$
Fidelity Funds Switzerland Fund	CHF
Fidelity Funds Taiwan Fund	US\$
Fidelity Funds Thailand Fund	US\$
Fidelity Funds United Kingdom Fund	Stg
Fidelity Funds European Bond Fund	ECU
Fidelity Funds International Bond Fund	US\$
Fidelity Funds Sterling Bond Fund	Stg
Fidelity Funds US Dollar Bond Fund	US\$
Fidelity Funds European Balanced Fund	DM
ANZ Russian Debt Portfolio	US\$
Commercial Union Privilege Portfolio Global Managed Fund	US\$
Commercial Union Privilege Portfolio European Growth Fund	ECU
Commercial Union Privilege Portfolio Far Eastern Growth Fund	US\$
Commercial Union Privilege Portfolio German Growth Fund	DM
Vilhena Malta Fund	Lm

The Central Securities Depository

Throughout 1997 the Central Securities Depository (CSD) continued to perform a vital role within the operating structure of the Exchange. As the role of the CSD continued to gain in importance, it was felt necessary to review all the services offered by the CSD and the charges structure to both issuers and investors in order to render the CSD more efficient and cost – effective.

Consequently, in July 1997 the Exchange issued a formal document entitled "The CSD – Responsibilities and Services" which also forms part of the Bye – laws. This document which is primarily intended for the issuers of listed securities, includes all the responsibilities and services undertaken by the CSD, reports provided and the relevant fees, where applicable.

The annual Statements sent to all holders of listed securities were issued at the end of 1997, for the first time, in both Maltese and English, with the appropriate explanation of the contents on the reverse side which reflected the CSD's continued endeavours to provide investors with the best service possible.

A number of enhancements were also made to the registration software itself to continue to upgrade the level of services provided by the CSD. In its efforts to provide issuers with all the updated information regarding their particular registers as quickly and efficiently as possible, the Exchange also made a major enhancement to the software to provide listed companies with a remote workstation establishing a direct electronic link between the CSD and the company.

During the year, the CSD processed the applications of all seven primary issues of the new Government Stocks as well as those of the Suncrest pic shares and bonds. Mainly as a result of these new issues, particularly those of the Government Stocks, the number of registered holders across all the registers of listed securities rose from just over 84,000 at the end of 1996, to over 93,000 this year. This figure represents almost 47,000 individual account holders – an increase of almost 2,000 from the

previous year end figure.

The increase in the number of registered holders as well as the growth in trading activity accounted for the rise in the level of activity within the CSD. As can be seen from the Table below, the number of amendments to the various registers held within the CSD rose from 12,095 last year to 16,913 during 1997, an increase of almost 40% with amendments resulting from trading activity (Bought/Sold movements) rising considerably from 8,395 during 1996 to 12,154.

The CSD also issued over 96,000 interest and dividend payment cheques during 1997 amounting to an aggregate value of Lm26.8 million.

Number of Holders in Listed Securities' Registers

Security	December 1996	December 1997
Bank of Valletta Ord	16781	16287
Mid-Med Bank Ord	5133	4993
Lombard Bank Ord	1560	1487
Middle Sea Insurance Ord	2497	2481
Simonds Farsons Cisk Ord	1615	1629
Simonds Farsons Cisk 6% Pref	2913	2874
Simonds Farsons Cisk 8.5%	2871	2816

PrefSuncrest Hotels Ord		282
Total Equity Holders	33370	32849
Gasam Bond	1375	1320
Mid-Med Bank Bond	8356	8261
Suncrest Bond		967
Total Corporate Bond Holders	9731	10548
Malta Government Stocks	40961	49784
Total	84062	93181

CSD Register Amendments for 1997

Amendment	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Causa Mortis	68	34	79	85	103	63	61	50	31	78	83	70	805
Garnishee Insert	3	4	10	4	5	2	0	0	3	21	48	12	112
Garnishee Release	9	0	0	2	14	0	0	1	7	8	25	2	68
Holder Amdements	49	159	63	54	45	30	50	2	4	20	18	70	564
Mandate/ Power of Attorney	100	54	88	92	67	79	61	27	112	71	79	76	906
Bought Movements	514	472	483	494	643	604	636	494	259	498	480	500	6077
Sold movements	514	472	483	494	643	604	636	494	259	498	480	500	6077
Release Of Estates	91	36	105	74	89	80	117	113	77	75	82	37	976
Off market transfers	18	23	50	8	5	27	9	6	16	19	11	7	199
Pledge Insert	36	57	32	89	57	53	70	50	45	47	72	66	674
Pledge release	38	34	24	42	40	47	43	13	59	39	35	41	455
Total	1440	1345	1417	1438	1711	1589	1683	1250	872	1374	1413	1381	16913

Compliance

One very important function of the Exchange is its regulatory role. The Compliance Office which was specifically set up to carry out this function, ensures that the surveillance functions of the Exchange are carried out regularly. The Compliance Office generally concentrates on the following three main areas:

- (a) the monitoring of the market;
- (b) surveillance of the Members' Stockbroking Firms to ensure that they conduct their operations in a manner that is consistent with the proper functioning of the Exchange; and
- (c) the assurance that companies admitted to the Official List meet their Continuing Listing Obligations as laid down in the Bye-laws.

The Compliance Office is also particularly involved in the listing procedure at the time an application for listing is being processed so as to ensure that all information and documentation presented is in accordance with requirements as laid down in the Bye-laws.

In order to carry out its surveillance function, the Compliance Office relies on different sources of information. As regards market monitoring, the Exchange, through its integrated trading, clearing, settlement and registration systems, provides sufficient information for the Compliance Office to carry out full audit trails. Detailed reports are also produced through the trading system immediately post – trading which make it possible to ensure that trading is being conducted in a transparent, fair and orderly manner.

Licensed stockbrokers are required to submit quarterly reporting statement to the Exchange contain sufficient information to permit the compliance officer to monitor the financial of each firm. The Council agrees that on – site surveillance should be carried out on a regular and formal basis. A programme of audits covering a twelve – month period is undertaken each year and the Senior Manager reports to the Deputy General Manager, who in turn, reports to the Council. These visits are designed to ensure that the interests of investors are adequately protected and that Members are complying with the "Code of Conduct" forming part of the Bye-laws.

During 1997 the Compliance Office carried out two "surprise" visits and twenty – two on – site regular visits to the stockbroking firms with each firm being visited at least twice.

Following the publication of the

"Guidelines to Members on Money Laundering" in June 1997, the Compliance Office, as part of its procedures during surveillance visits, also ensures that such Guidelines are being adhered to by stockbroking firms.

One other important aspect of the surveillance function of the Compliance Office is the monitoring of listed companies to ensure that these honour their continuing listing obligations. Company Secretaries are duty bound to ensure that their company does not fail to make announcements to the market with respect to items of information considered necessary to maintain a fair market. In this respect the Exchange relies also on the sponsoring stockbroker to advise the Company Secretary so that all price – sensitive information reaches the general body of investors. The Compliance Office also ensures that the required Company Reports are prepared and submitted in terms of the Bye – laws. Sixty – three Company Announcements were issued throughout 1997.

The regulatory function of the Exchange is given priority by the Council and a formal liaison has been established between the Compliance Office and the Council. The Council is, therefore, formally made aware of the outcome of the surveillance exercises on a regular basis through monthly reports and the Council intervenes if any of the reports suggests that remedial action is necessary.

Public Relations



A survey commissioned by the Malta Stock Exchange towards the end of 1996 regarding the general public's perception of the Exchange and the extent of their knowledge about its operations and procedures gave indications that the general public, even holders of listed securities, lacked sufficient knowledge about the functions of the Exchange and its importance within the local economic environment. The survey results also showed that the general public was not sufficiently informed regarding the operations of the Exchange that directly concern investors.

Following the evaluation of this survey, the Council felt it necessary to address at the earliest opportunity the question of marketing and educating the public in greater depth.

The Council, therefore, set up a "Promotion of Exchange Business



Committee" to examine the best way of approaching the problem. The Committee, which includes also a representative from the stockbroking community, drew up a marketing strategy for the Exchange spanning eighteen months. This marketing strategy was basically developed to address two very different target audiences, namely, prospective listed companies and the general public.

With regard to the former, the Exchange opted for a direct approach where Exchange officials could explain to the company concerned the benefits of listing, as well as the responsibilities and obligations of listed companies visa versa the Exchange and investors generally. The Council believes that companies with a potential to go public followed by a listing do not fully understand the benefits that this alternative source of raising capital can bring.



The role of the sponsoring stockbroker is very important and the Council deemed it necessary to remind the sponsoring stockbrokers of their responsibilities in terms of the Bye – laws. It is important that Members should fully comprehend their role as sponsors of companies applying for a listing as this could go a long way towards facilitating the listing process. The Exchange organised a half – day Workshop in October for the stockbroking community to consider these issues.

Early on during the Summer months, the Exchange scripted and, together with the assistance of its PR Agents, produced a series of 10 half – hour programmes for TV in Maltese in time for transmission during Autumn dealing with all the aspects regarding the operations and functions of the Exchange. The scope of these programmes was to explain in laymen's terms the various functions and operations of the Exchange ranging from an explanation of the Act setting up the Exchange to its regulatory function. All the senior officials of the Exchange were involved in these pro-grammes and co – operation was also forthcoming from the stockbroking community, the Treasury, the Central Bank, Fund Managers and the Malta Financial Services Centre. The feedback received by the Exchange following the transmission of these programmes has been very positive and educational institutions in particular have shown great interest in utilising these TV programmes as teaching aids. The Exchange is pleased to note the interest expressed by the Education Authorities and during 1997 welcomed students from the upper forms of secondary schools and university to view trading and to get a better idea of the functions of the Exchange. Some twenty visits were organised and almost 600 students visited the Exchange during 1997.



In its efforts to maintain the public's awareness of the Exchange and its operations, the Exchange continued to issue to all the Media the weekly Official List, Market Report and Prices and Yields, as well as various press releases, articles and other reports of interest to the general public. Furthermore, during 1997 the Exchange also changed the format of its weekly report to a tabular form which made it possible to give more details of the day's trading session. During the year the Exchange also started to issue a Monthly Market Report giving details of the performance of the market during the month under review, new listings, redemption and other matters which could have a bearing on the market.

Amongst the several important local and overseas personalities who visited the Exchange during the year was the Minister of Finance and Commerce, Mr Leo Brincat FCIB MP who paid a visit to the Exchange soon after his appointment . The Minister met the Council, officials and staff of the Exchange, as well as licensed Members and discussed matters of mutual interest.

Members' Activities

The Malta Stock Exchange Committee

The new Malta Stock Exchange Committee was elected from among the Members of the Exchange in terms of Section 6 of the Statute forming part of the Malta Stock Exchange Act (Cap. 345) with effect from 1 April 1997, for a period of one year. Following this election, Mr Karol F Farrugia was nominated to act as Chairman while Mr Alfred Calamatta was appointed to act as Deputy Chairman. The other two Broker Members are Mr Neville A Curmi and Mr Wilfred Mallia, while Mr Mark A Guillaumier, Deputy General Manager continued to represent the Malta Stock Exchange on the Committee. The Committee met 12 times during 1997 and also had regular meetings with the Council, making several recommendations particularly with regards to trading matters.



The Committee also held meetings with the Minister of Finance and the Governor of the Central Bank in order to discuss matters of mutual interest in the development of the capital market.

Accredited Representatives

Two new accredited representatives were appointed by the Exchange during 1997 following the appropriate training period and the successful completion of the relevant test paper set by the Exchange early in December. The eight-stockbroking firms and the Central Bank of Malta now have 19 accredited representatives between them

Financial Intermediaries

Tri-Med Fund Management Ltd commenced operations during 1997 as a Financial Intermediary following approval by the Council. This is the second Fund Management company to be licensed by the Exchange to act as a Financial Intermediary. At the end of 1997 there were eight institutions operating as Financial Intermediaries on the Exchange, five commercial banks and three other financial institutions.

Following the licensing of the second Fund Management company as a Financial Intermediary, Bye – law 3.25 which laid down that non – bank companies acting as Financial Intermediaries were entitled to 25% of the total commission, was amended in the sense that such companies would now be entitled to 50% of the total commission. This rate was previously restricted to banks.

Paul v Azzopardi Azzopardi Stockbrokers Ltd II-Piazzetta, Fourth Floor, Tower Road, Sliema SLM 16 Tel: 313100, 337403, 320272, 320191 Fax: 318897

Joseph G P Bonello Financial Planning Stockbrokers Ltd 4 Marina Court, G Cali' Street, Ta' Xbiex MSD 14 Tel: 344243/4, 344255 Fax: 341202

Ivan J Burrige Stockbroking Ltd 1 Britannia House, 9 Old Bakery Street, Valletta VLT 09 Tel: 231492, 250345 Fax: 239279

Alfred Calamatta Calamatta Stockbrokers Ltd 3rd Floor, Valletta Buildings, South Street, Valletta ULT 11 Tel: 237858, 239192 Fax: 2205093 Gelmus Court, Pope John Paul II Street, Vitoria, Gozo Tel: 564291 Fax: 564292

Neville A Curmi Curmi Cc Mallia (Stockbrokers) Ltd 25/ 26 St Barbara Bastion, Valletta VLT 06 Tel: 246939, 221730 Fax: 247032

Karol F Farrugia Rizzo, Farrugia & Co. (Stockbrokers) Ltd Airways House, Third Floor, High Street, Sliema SLM 15 Tel: 333125, 314038 Fax: 310671

Mark r Hogg

Hogg Capital Stockbroking Ltd 66/3 Tower Road, Sliema SLM 15 Tel: 322872/3 Fax: 342760

Christopher Pace

Globe Financial (Stockbrokers) Ltd 114/4 The Strand, Gzira GZR 03 Tel: 310088/92 Fax: 3100931 Bastion Court, Wied is-Seqer Street, Victoria, Gozo VCT 108 Tel: 562228 Fax: 564418

Vincent J Rizzo

Rizzo, Farrugia Sc Co, (Stockbrokers) Ltd Airways House, Third Floor, High Street, Shiva 5 Tel: 333125, 314038 Fax: 310671

APS bank Ltd	APS House 24 St Anne Square, Floriana VLT 16 Tel: 226644 Fax: 226202
Bank Of Valletta Plc	Head Office 5th Floor, BOV Centre, High Street, Sliema SLM 15 Tel: 333229 Fax: 333278
Lombard Bank (M) plc	67, Republic Street, Valletta CMR 03 Tel: 248411/8, 232631, 240632 Fax: 246600
Mid-Med Bank plc	Head Office Centru Ruzar Briffa, Mill Street, Qormi Tel: 4810-4315/4503/4244, 442972 Fax: 489405
Valletta Inv. Bank Ltd	144, St Christopher Street , Valletta ULT 03 Tel: 2352441/1/6 Fax: 234419
Finco Treasury Ltd	113, St Francis Street, Floriana VLT 15 Tel: 233041, 237640 Fax: 243280
Valletta fund management Ltd	Ground Floor Development House, St Anne Street, Floriana VLT 01 Tel: 234580, 234618, 234698 Fax: 234565
Tri Med Fund man Ltd.	Level 5 Suite 7, The Plaza Commercial Centre, Bisazza Street, Sliema SLM 15 Tel: 338839, 338846 Fax: 338796

Brokerage

The following brokerage rates apply both to the buyers and to the sellers of securities. In those transactions where a broker acts both for the seller as well as for the buyer, both parties are

(i) Malta Government Securities, Loan Stocks and Bonds

(Other than Convertible Bonds) charged commission as stated hereunder.

Contract Value (Lm)	Brokerage
On the first Lm1,000	0.3% (Min Lm2.00)
On the next Lm4,000	0.275%
On the next Lm45,000	0.250%
On the next Lm50,000	0.225%
On the next Lm900,000	0.200%
On the excess over Lm1,000,000	0.175%

(ii) All Other Stocks and Shares

Contract Value (Lm)	Fees
On the first Lm1,000	1.250%
On the next Lm4,000	1.000%
On the next Lm45,000	0.750%
On the next Lm50,000	0.500%
On the next Lm900,000	0.375%
On the excess over Lm1,000,000	0.250%

Note:

- a. Except where financial intermediaries are involved in a deal, sharing or rebating of brokerage by any device is entirely prohibited. Financial intermediaries are registered with the Exchange to act in an intermediary capacity between the client and the stockbroker. The Central Bank Stock-broker may at his discretion waive the charge or allow rebate when acting on behalf of the Government.
- (b) The brokerage charged must be shown on every contract between broker and client
- (c) No stamp duty whatsoever is payable on transactions carried out in the Exchange.

Consumer Protection in the Malta Stock Exchange

I think most of us would agree that the idea of consumer protection is still very much in the process of taking root here in Malta. This is, of course, not simply a matter of introducing legislation; what we are talking about here is a culture change and that is never easy. At the same time, it seems to me that consumer protection in the financial services sector has developed along a more structured pattern and I believe this is due to the fact that financial services are *regulated*.

Since the early 1980's, the world has witnessed a growing trend of economic liberalisation and rapid transformation from central planning to free market economies, a trend which accelerated with the collapse of the Eastern Bloc. Countries are gradually abolishing restrictions on entry, ownership and trade, relaxing credit and interest rate controls and increasingly relying on financial markets rather than on the state for efficient resources. The most capitalistic of all institutions, the stock exchange, is thriving in Moscow, Shanghai and Warsaw, not to mention the African and South American continents. *Deregulation* has become the buzzword.

But is there something wrong here? Do we want to deregulate

or do we want to regulate? Do we want to open or do we want to close the gates?

The fact is that, as we deregulate, we must increase the standards of regulation. Why? Because the process of economic deregulation in no way implies a simple removal of regulations. It means rather that restrictions on entry and exit from the industry as well as on its operations are being relaxed in order to allow a wider and more flexible market participation. Rules defining the structure of the market and its operations are nevertheless still needed, maybe even more so, precisely because of the wider all-round participation made possible by the combined process of deregulation and liberalisation. *So we do want to open the gates but we also want to increase the number of guards.*

But why should the need for regulation in the financial markets increase with liberalisation? And the answer is, of course, *consumer protection*.

But is there any real difference between consumers of financial services and consumers in other markets?

To answer this question we must establish the main characteristics which are specific to financial

markets. One such characteristic is the importance of up to date *information*. Well-functioning financial markets require large quantities of updated information in order to provide the so-called "level playing field" to all market participants. Regulation in the form of appropriate disclosure requirements for listed companies ensures that such information is, in fact, produced and disseminated to the general public.

It is also a fact, however, that information on financial products can be complicated with features that the general public, the users, may find difficult to understand. The suppliers of such products i.e. the issuers, on the other hand, are usually professionals who have detailed knowledge of the products they are selling. It is, therefore, a task of financial regulation to prevent this *imbalance of information* from being exploited by any one party. Although taking advantage of this situation may prove rational, and may be even profitable in the short-term, the resulting negative long-term effects can dramatically reduce the number of investors willing to participate in the market, seriously hampering its continued development and reducing the credibility of the securities' industry as a whole.

Another important characteristic of financial markets is the existence of *externalities*. Financial systems, in fact, are characterised by what is known as systemic risk—that is, the risk of contamination for the entire system from insolvency or collapse of any of its component institutions. Regulation guarding against such risk by ensuring the safety and soundness of market participants is, therefore, in the interest of the entire industry.

The relationship between the consumer and the provider of financial services does not terminate once the financial product has been bought. If an investor has invested funds he depends on the issuer to keep his side of the bargain. The issuer, therefore, has a *fiduciary responsibility* and regulation must ensure that he fully discharges his duties to the benefit of investors.

A further consideration is that failures in financial markets are also different because they can result in losses that may involve *a large number of individual investors' savings*. Regulation is, therefore, essential to protect these investors.

What are then the main objectives of regulation in the financial sector?

The primary purpose of regulation must be to create an appropriate degree of *efficiency* both for the

benefit of the consumer as well as for the providers of financial services. In this regard, the investor and his advisor should both be provided with the degree of information necessary to make a discerning investment decision or to give appropriate advice in arriving at such a decision.

It is equally important to the user of a financial service as it is to its provider to know that business is being conducted within a system which is properly monitored, where fraudulent or dishonest practices are prohibited and where high standards are expected and achievable.

The *primary objectives* of regulation can, therefore, be summarised, under the following headings:

Efficiency

Efficiency is vital if the financial sector is to perform its principal function of pooling and allocating financial resources to economically viable enterprises. The aim of efficiency depends on a mechanism whereby the forces of supply and demand interact with the publication of the latest information at the disposal of participants. Such a mechanism would then encourage the judicious and prudent appropriation of capital among the various growth sectors in the economy competing for priority.

It clearly follows, then, that an investor should be able to convert available funds from one form of investment to another with the fewest limitations and the lowest minimum cost and this is, of course, the main function of a stock exchange.

Stability

The stability of the financial system is an important aim of financial regulation. The collapse of one financial institution, particularly one of considerable importance in the economy, could cause ripple effects resulting in a possible threat to the existence of other institutions, possibly leading to a general crisis or loss of investor confidence in the entire system.

Confidence

The regulatory system of the financial services industry should, by promoting fairness and market integrity, instil confidence both in the provider of a financial service as well as in the end user. For instance, measures demanding high standards in the running of a business concern, can serve to inspire outside confidence in that business.

Flexibility

Whilst providing clear guidance, regulations for the financial sector should, however, not inhibit constant change and healthy renewal. An environment should be created in which providers of financial services can develop the initiative to meet the requirements of a rapidly changing economy.

Competition

The control of unreasonable trade practices not only directly protects the investor, but also benefits honest concerns in the same industry in that they are not forced to adhere to the same practices in order to retain their market share.

To sum up in a few words, we can say that protection of investors can be achieved by:

- 1. assuring adequate disclosure of information so that informed investment decisions can be made;*
- 2. assuring that securities' intermediaries are licensed and qualified to act as such;*

and

3. prohibiting improper activities in the market.

At the same time, it must be said that the objectives of regulation are not always easy to reconcile. The problem facing any regulator is to obtain a balance between the need for investor protection on the one hand and intervening on what is supposed to be a free market on the other.

We at the Stock Exchange fully recognise our responsibilities vis – a – vis our customers, by which we mean both the issuers of listed securities as well as the institutional and individual investors. We also recognise, however, that issuers and institutional investors have the resources to employ a host of lawyers and accountants to look after their interests, whilst the little old lady who has invested her lifetime savings in listed securities does not have access to the same resources. Not exactly the level playing field we would want and for which the little old lady has a right! And this, I believe, is one of the main functions of the Exchange – some would even say, the primary function – i.e. providing a level playing field for all market participants and being the voice of the people who do not have a voice.

How does the Exchange do this?

Primarily by ensuring the dissemination of all the information necessary for the investor or his advisor to make an informed assessment of an investment decision. Even prior to listing a

security, the Exchange ensures that the Prospectus is in conformity with its Bye – laws, which in turn are designed to ensure that all the information which should be made available to a prospective investor is, in fact, contained in this document. After listing, the Exchange ensures that all information about the company which could have a bearing on the market price of the security is, in fact, made available to all market participants. This aspect would also cover the problem of insider dealing, which essentially, is nothing more than an act which makes the playing field conveniently lopsided for some people!

It is worthwhile to point out here that it is not the function of the Exchange even to try to remove all risks for the investor. This is not only impossible – because no investment is completely without risk – but also entirely undesirable because it would put investment on the same level as saving, removing as it were, what is the very essence of investment, that is, the direct relationship between profits and risk.

On its part, the Exchange provides a market for securities' trading, clearing and settlement facilities as well as a Central Securities Depository for securities' registration. As a result it has the responsibility to ensure that transparency is maintained at all times, all the way from the first client order to

trading, settlement and final registration.

The Exchange also has set up a Compensation Fund as well as a number of indemnity insurance programs designed to protect the individual investor's accounts in the event of the financial failure of a licensed broker. The Stock Exchange Act also provides for the setting up of a Stock Exchange Tribunal whose primary function it is to deal "*as expeditiously as possible*" and to give "*its decisions without delay*" on "*alleged or suspected irregular practices in Exchange dealings*" which may be raised by anybody who has an interest in such dealings.

Conclusion

The main function of the Exchange, then, is to manage risks by making investors constantly aware of what they are at any point in time, and to provide them with the facilities which would enable them to act on their decisions.

These facilities would not only include the trading mechanism on the Exchange Floor – which should provide liquidity and transparency to the market – but also the provision of services by the licensed stockbrokers to the investing public.

The Exchange in fact also has the responsibility to ensure that

people who act as advisers for the investing public must meet set standards of integrity and competence. For this reason, only those people who are licensed by the Exchange to act as brokers can carry out client business on the market floor.

These brokers, of course, have certain ethical responsibilities both towards the Exchange as well as towards their clients and these are clearly laid out in the Bye – laws of the Exchange particularly in the Code of Conduct for Members which forms part of these Bye – laws.

The purpose of the Code of Conduct for Members is primarily to protect the interests of investors and to ensure that brokers conduct their business in a manner which contributes to the maintenance of a fair and orderly market in securities. This Code, which is based on the requirements of IOSCO – the world body of securities regulators of which the Exchange is a full member – lays down the main principles which must be followed by brokers when dealing with their clients, including acting with honesty and fairness at all times, providing all the necessary information and advice to their clients and observing confidentiality and professional secrecy requirements in all their business activities.

During this talk, I have tried to give an idea of why the primary objective of any regulatory authority in the financial services sector must be the protection of the consumer and what the Malta Stock Exchange is doing to achieve this objective.

Speech delivered by Mr. Mark A Guillaumier, Deputy General Manager at the Malta Chamber of Commerce, on 30 October 1997 during a Seminar organised by the Financial Services Trade Section of the Chamber of Commerce.

Financial Report

for the year ended 31 December 1997

Market turnover during 1997 was undoubtedly the highest recorded since trading commenced on the Malta Stock Exchange six years ago. The aggregate secondary market trading volumes amounted to Lm114 million. This was significant especially when compared to the previous highest of Lm47 million in 1995 and the Lm25 million registered in 1996. Meanwhile, the year under review also reflected a surge in the listings of collective investment schemes. When one considers that during the year primary issues net of conversions amounted to Lm167 million compared to Lm77 million for the previous year, while in the shorter term sector of the market there was an increase in treasury bill activity from Lm268 million in 1996 to over Lm468 million in 1997, this level of activity is particularly noteworthy. The Council aims to continue focusing on the development of all the necessary ingredients to sustain this growth in trading volumes and to attract more business.

The Council and senior management's efforts were successful in maintaining the day to day running expenses of the Exchange well within budget. Savings were also achieved as a result of the delay in recruiting staff to bring the staff complement to a more adequate number required to cope with the increased level of activity

being experienced by the Exchange. However, this was mostly offset as a result of higher costs than those predicted relating to the trading system and the initial preparation for the rehabilitation of the new headquarters in Castille Square. The Council's endeavours to move towards more frequent trading sessions or possibly to remote trading resulted in increased expenditure in consultancy and maintenance costs.

The above, together with a revised agreement relating to the listing fees payable by Government led to a post-tax surplus of Lm109,000. This compares favourably with the revised forecast of Lm43,000 and with a surplus of Lm23,000 actually achieved in 1996.

Income

The gross operating income of the Exchange registered in 1997 was Lm641,000 (1996 - Lm466,000). The increase in income was more or less evenly spread when compared both to last year's figures and to the budget. This reflected the high level of activity registered in all directions. Market turnover and the listing fees arising from the Government stock funding programme during the year, as well as the fees associated with the listing of forty-four collective investment scheme

funds were the major contributors to the increase in income. The listing of these collective investment schemes broke new ground and was a welcome positive development in line with the Council's objective to develop this area.

Expenditure

The operating expenditure of Lm470,000 was less than the budgeted figure of Lm485,000 but was 9% higher than that of the previous year. The recruitment exercise planned for 1997 was delayed and eventually postponed to 1998. Consequently, the figures reflect savings of 17% of the budgeted figure for personnel costs. Meanwhile, overseas training and repairs and maintenance were also lower than originally envisaged.

During the later part of 1997, the Council embarked on the implementation of a marketing strategy plan. A series of ten programmes were produced for TV and were transmitted on local TV Channels. This resulted in an increase in promotional costs but the public relations campaign was considered necessary following the results of a survey commissioned by the Exchange and is expected to continue during 1998 together with various other initiatives. As pointed out already, professional expenses connected with the new permanent location for the Exchange and the review of the trading system resulted in increasing expenditure by Lm42,000, including additional depreciation of Lm22,000. The major cost components, however, remained personnel expenses amounting to 39% (1996 - 40%) of total expenditure and establishment costs (rent, repairs and maintenance and depreciation) which amounted to 27% (1996 - 25%) of total operating expenditure.

Balance Sheet and Cash Flow

Net cash inflow before interest and tax and after capital expenditure for the year was a healthy Lm192,000. This reversed the decreases which the Exchange experienced during the last two years and is vital for the further investment in upgrading the present trading and depository software. The introduction of more frequent trading sessions, possibly on a remote basis, and the advancement of technology requires the continued evaluation of the existing systems with those current on the market. The end-of-year debtors and prepayments mainly represent annual registration fees in connection with the maintenance of the securities registers of listed companies and of the Treasury by the CSD. The amounts are computed on the last day of the year in relation to the number of holders on the registers and are perforce received during 1998.

Outlook for 1998

The outlook for 1998 is good and a surplus of Lm60,000 is envisaged. The projected drop from the 1997 surplus reflects the increase in personnel costs postponed from the previous year. The engagement of personnel is necessary if the level of activity recorded during 1997 is to be sustained, to enable the Exchange to fulfil its ever increasing obligations and in order to maintain high standards in carrying out its regulatory function. Increased costs are also expected in promotional activities as well as in the depreciation and maintenance costs in view of the envisaged investment in computer hardware and software systems necessary to introduce remote trading.

P J Spiteri

General Manager

27 Pietro Floriani Street

Floriana

Malta

13 March 1998

Report of the council

for the year ended 31 December 1997

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

R G Saliba

(appointed on 13 October 1997)

G Wells

J V Laspina

(termination of appointment on 30

June 1997)

The Council submits herewith its annual report together with the audited financial statements for the year ended 31 December 1997.

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 (VI).

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 1 April 1997 in terms of Article 6 (iv) of the Statute, Messrs A Calamatta and N Curmi were elected as new members replacing Messrs I J Burrige and C J Pace. Consequently the Stock Exchange Committee is composed as follows:-

Committee:

K Farrugia (Chairman)

A Calamatta (Deputy Chairman)

N Curmi

W Mallia

M A Guillaumier

Auditors

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

By order of the Council

P J Spiteri Secretary

27 Pietro Floriani Street,

Floriana

Malta

13 March 1998

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 of the Exchange 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.

Report of the Auditors

We have audited the financial statements set out on pages (IX) to (XIII).

Respective Responsibilities of Council Members and Auditors

As described on page (IV), the Council Members are responsible for the preparation of the 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

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 1997 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

13 March 1998

Income and Expenditure Account

for the year ended 31 December 1997

	Notes	1997 Lm	1996 Lm
Operating income	3	624,012	447,033
Operating expenditure:			
Administrative expenses	4	(383,590)	(365,889)
Depreciation	5	(86,179)	(64,958)
		(469,769)	(430,847)
Operating surplus for the year		154,243	18 186
Interest receivable		16,921	17,054
Surplus before taxation	6	171,164	35,240
Taxation	7	(61,696)	(12,642)
Surplus for the year		109,468	22,598

Statement of accumulated surplus

Surplus for the year	109,468	22,598
Accumulated surplus at the beginning of the year	27,952	5,354
Accumulated surplus at the end of the year	137,420	27,952

Balance Sheet

at 31 December 1997

	Notes	1997 Lm	1996 Lm
Fixed assets			
Tangible assets	8	94,725	168,682
Current assets			
Debtors	9	245,070	187,301
Investments	10	372,854	178,000
Cash at bank and in hand		57,943	46,741
		675,867	412,042
Creditors: amounts falling due within one year	11	133,172	41,431
Net current assets		542,695	370,611
Total assets less current liabilities		637,420	539,293
Provisions for liabilities and charges	12		11,341
Net assets		637,420	527,952
Capital and reserves			
Capital	13	500,000	500,000
Accumulated surplus		137,420	27,952
		637,420	527,952

The financial statements on pages (IX) to (XIII) were approved by the Council on 13 March 1998 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 1997

	Notes	1997 Lm	1996Lm
Operating activities			
Net cash inflow before interest and tax	14(a)	203,842	39,831
Interest received		16,921	17,054
Tax paid		(2,485)	(13,195)
		218,278	43,690
Investing activities			
Purchase of tangible fixed assets		(12,222)	(145,968)
Purchase and disposal of investments		(194,854)	49,455
		(207,076)	(96,513)
Increase/(decrease) in cash and cash equivalents	14(b)	11,202	(52,823)

Notes to the financial Statements

for the year ended 31 December 1997

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 the year of acquisition. The principal annual rates used for this purpose are:

Investments

Investments held for short term investment purposes are classified as current assets and are included in the balance sheet at the lower of cost and market value.

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

Full provision is made on the liability method for all deferred tax liabilities arising on fixed assets and other timing differences. Timing differences giving rise to deferred tax debit balances are recognised only to the extent to which they are considered as reversible in the foreseeable future.

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 ensuring the security of Exchange transactions in the event of financial difficulties of any member to meet his obligations towards the investing public.

The Fund is administered by the Council of the Malta Stock Exchange in terms of Bye-laws issued by the 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.

3 Operating income

Operating income comprises membership and other fees receivable from stockbrokers and financial intermediaries together with fees receivable in respect of the listing, clearing, registration and trading of quoted securities and related services. The income from the main activities was as follows:

	1997 Lm	1996 Lm
Fees payable by stockbrokers and financial intermediaries	36,965	23,063
Listing fees	356,004	205,400
Central clearing, settlement and depository fees and other income	231,043	220,570
	624,012	449,033

4 Administrative expenses

Staff costs		1997 Lm	1996 Lm
Other administrative expenses	165,283	155,754	
	218,307	210,135	
	383,590	365,889	

The average weekly number of persons employed by the Exchange during 1997 was 21 (1996: 20 persons). Staff costs for the year comprised:-

		1997 Lm	1996 Lm
Wages and salaries	135,945	129,812	
Social security costs	11,027	10,541	
Recruitment, uniforms and other staff welfare costs	18,311	15,401	
	165,283	155,754	

5 Depreciation

During the year, the Council reassessed the estimated useful life of the Automated Trading System operated by the Exchange, and its related software and hardware. This was done in the light of technological developments and the envisaged introduction of remote trading in the foreseeable future. As a result, the depreciation charge for the year has increased by Lm22,420.

6 Surplus before taxation

	1997 Lm	1996 Lm
The surplus before taxation is stated after charging:		
Emoluments of Council Members and Chairman	15,011	14,770
inclusive of allowances, honoraria and remuneration for services given		
Auditors' remuneration	1,050	1,050

7 Taxation

	1997 Lm	1996 Lm
On taxable profit subject to income tax at 35%:		
Current	70,552	
Deferred (see note 12)	(11,341)	11,341
On investment income subject to 15% final withholding tax	2,485	1,301
	61,696	12,642

The effective income tax rate for the year ended 31 December 1997 was 36% (1996: 36%).

8 Tangible fixed assets

Cost	Office furniture, Computer systems Lm	Fixtures & equipment Lm	Motor vehicles Lm	1997. Total Lm	1996 Total Lm

At 1 January	252,193	55,994	25,004	333,191	187,223
Additions	8,505	3,717		12,222	145,968
At 31 December	260,698	59,711	25,004	345,413	333,191
Depreciation					
At 1 January	113,015	33,521	17,973	164,509	99,551
Charge for the year	73,994	8,830	3,355	86,179	64,958
At 31 December	187,009	42,351	21,328	250,688	164,509
Net Book Value					
At 31 December 1997	73,689	17,360	3,676	94,725	168,682
Net Book Value					
At 31 December 1996	139,178	22,473	7,031	168,682	87,672

9 Debtors

	1997 Lm	1996 Lm
Fees receivable	217,575	171,542
Taxation recoverable		1,076
Prepayments and accrued income	27,495	14,683
	245,070	187,301

10 Investments

current asset investments, which are stated at the lower of cost and market value, represent holdings of short term Malta government Stock and treasury Bills.

11. Creditors

	1997 Lm	1996 Lm
Taxation	69,476	
Prepaid listing fees	19,512	11,617
Compensation Fund	9,000	8,000
Accruals	35,184	21,814
	133,172	41,431

12 Provision for liabilities and charges

Deferred taxation provided in the financial statements is as follows:

	1997 Lm	1996 Lm
Balance at 1 January	11,341	
(Credit)/debit to income and expenditure account during the year	(11,341)	11,341
Balance at 31 December		11,341

The deferred taxation balance is in respect of timing differences which are expected to reverse in the foreseeable future and comprises:-

1997 Lm	1996 Lm
	11,341

Excess of tax allowances over depreciation

13 Capital

This represents the initial capital contribution by the Government of Malta as specified by Section 27 of the . Malta Stock Exchange Act (Cap. 345).

14 Notes to the cash flow statement

a. Reconciliation of operating surplus to net cash inflow before interest and tax

		1997 Lm	1996 Lm
Operating surplus for the year	154,243	18,186	
Depreciation	86,179	64,958	
Movement in working capital:			
Debtors		(58,845)	(9,126)
Creditors		22,265	(34,187)
Net cash inflow before interest and tax	203,842	39,831	

(b) Analysis of changes in cash and cash equivalents during the year

	1997 Lm	1996 Lm
Balance at 1 January	46,741	99,564
Net cash inflow/(outflow)	11,202	(52,823)
Balance at 31 December	57,943	46,741

(c) Analysis of the balance of cash and cash equivalents as shown in the balance sheet

	1997 Lm	1996 Lm
Cash at bank and in hand	57,943	46,741

Report of the Auditors

We have audited the financial statements set out on pages (II) to (V).

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

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 1997 and of the surplus for the year then ended.

Coopers 8 Lybrand

Certified Public Accountants and Auditors

167 Merchants Street

Valletta

Malta

13 March 1998

Income and Expenditure Account and Other Movements

	1997 Lm	1996 Lm
Income		
Investment income	2,993	1,829
Taxation deducted at source	(411)	(274)
Operating surplus for the year	2,582	1,555
Accumulated fund at 1 January	54,855	37,300
Contributions due in terms of Chapter 7 of the Malta Stock Exchange Byelaws		
Stock Exchange contribution	9,000	8,000
Stockbrokers' contribution	9,000	8,000
Accumulated fund at 31 December	75,437	54,855

		Note	1997 Lm	1996 Lm
Assets	3	56,300		37,000
Investments			18,287	16,000
Debtors				
Cash at bank and in hand			850	1 855
			75,437	54,855
Accumulated fund (page II)		75,437		54,855

The financial statements on pages (II) to (V) were approved by the Council of the Malta Stock Exchange on 13 March 1998 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 1997

	Note	1997 Lm	1996 Lm
Operating activities			
Interest received		2,295	1,555
Investing activities			
Purchase of investments		(19,300)	(15,000)
Net cash outflow before financing		(17,005)	(13,445)
Financing			
Contributions received in terms of Chapter 7 of the Malta Stock Exchange Bye-laws		16,000	14,000
Decrease)/increase in cash and cash equivalents	4(a)	(1,005)	555

Notes to the financial statements

for the year ended 31 December 1997

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 ensuring the security of Exchange transactions in the event of financial difficulties of any member to meet his obligations towards the investing public.

The Fund is administered by the Council of the Malta Stock Exchange in terms of Bye-laws issued by the 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, represent holdings of short and medium term Malta Government Stocks.

4 Notes to the cash flow statement

a. Analysis of changes in cash and cash equivalents during the year

	1997 Lm	1996 Lm
Balance at 1 January	1,855	1,300
Net cash (outflow) /inflow	(1,005)	555
Balance at 31 December	850	1,855

b. Analysis of the balance of cash and cash equivalents as shown in the balance sheet

	1997 Lm	1996 Lm
Cash at bank and in hand	850	1,855