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malta stock exchange annual report



malta stock exchange annual report

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THE

MALTA
STOCK EXCHANGE

as at 31 December 2002

THE COUNCIL

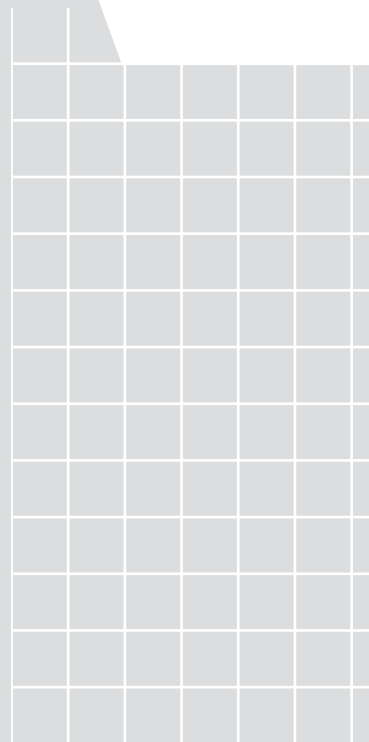
Alfred Mallia	Chairman
Arthur Galea Salomone	Deputy Chairman
Alexander Agius	Council Member
Saviour Briffa	Council Member
Marco Sammut	Council Member
Eileen V Muscat	Secretary to Council

AUDIT COMMITTEE

Alfred Mallia	Chairman
Alexander Agius	Member
Saviour Briffa	Member
Mark A Guillaumier	Member
Marie Cordina	Secretary

IT COMMITTEE

Alfred Mallia	Chairman
Marco Sammut	Member
Mark A Guillaumier	Member
Simon Zammit	Member
Marie Cordina	Secretary



LETTER
OF
TRANSMITTAL

The Chairman
Malta Stock Exchange
Garrison Chapel
Castille Place
Valletta

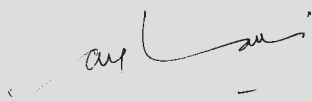
28 March 2003

The Chairman
Malta Financial Services Authority
Attard

Dear Sir

In accordance with Section 31 (1) of the Financial Markets Act [Cap. 345], I have the honour to transmit the Audited Financial Statements and Report on the activities of the Malta Stock Exchange for the Financial Year ended 31 December 2002.

Yours faithfully



Alf Mallia
Chairman

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Compared with the major upheavals that the Exchange had gone through in 2001, particularly the move to the new premises in Valletta and the introduction of on-screen remote trading facilities to replace the trading floor, one might easily conclude that the past twelve months passed by quietly and uneventfully. Yet, this could not be further from the truth. Last year has seen what, in all probability, are the most important structural changes to affect the workings of the Exchange since it commenced operations in 1991. In fact, on 1 October 2002, the Financial Markets Act effectively replaced the Malta Stock Exchange Act of 1990 as the law regulating the operations and setup of the Malta Stock Exchange.

The main purpose of this new legislation is to divest the Exchange of most of its regulatory functions and to transfer these functions to the Malta Financial Services Authority (MFSA). The Financial Markets Act also sets up a Listing Authority which will be responsible for granting *Admissibility to Listing* to companies seeking to have their securities traded on the Exchange. Amongst the functions transferred to the Authority there is the licensing and supervision of stockbrokers which, until now, was the responsibility of the Exchange. Furthermore, the new law establishes the Exchange as a *Recognised Investment Exchange* licensed and regulated by the MFSA. In practice this means that, by allowing for the possibility of a multiplicity of ex-

changes, the new Act has removed the status of the Exchange as the “*exclusive*” place for the trading of listed securities previously provided for under the Malta Stock Exchange Act. With the removal of its regulatory responsibilities, the Exchange has now become an “operator” in the market place, functioning in a fully competitive environment. The Exchange views these changes as a challenge and an opportunity to be more pro-active in widening the range of services it provides and in bringing new instruments and listings to the market.

The Exchange is not only looking for new opportunities to diversify and expand on the local scene, but, as it has always done throughout its years of operation, also continues to look for business beyond our shores. The Exchange is taking a number of initiatives aimed at maximising the potential synergies that can be gained from the international recognition of its operational standards and from Malta's strategic geographical position.

During 2002, the Exchange embarked on a project aimed at setting up BorzaMed. This Project has, as its ultimate objective, the setting up of a Mediterranean Stock Exchange. This initiative, launched in October 2002, envisages as a first stage, the drawing up of a Protocol, whereby a number of countries in the Mediterranean Region, as signatories to the Protocol, undertake to study the feasibility of setting up a common trading platform between participating exchanges. The envis-



aged platform will be based on mutual recognition of the regulatory requirements of each signatory to the Protocol rather than on the harmonisation of legislation in the different participating jurisdictions. The Protocol was signed by the Stock Exchanges of Malta, Tunis and Egypt in September 2002 and since then, a number of co-ordinated studies involving experts from each participating exchange have been carried out in order to determine the IT systems setup, trading platforms and administration procedures in respect of each jurisdiction. These preliminary studies indicate that the setting up of a common trading platform is a feasible proposition and this augurs well for the continuation and implementation of the Project. Other Mediterranean Rim countries have expressed interest in the Project and it is hoped that they will be taken on board as the Project gathers momentum. The feasibility study

should be concluded by the end of October, 2003 when, based on the findings of the preliminary studies, a decision will be taken on how to proceed with the first phase of the Project.

Good Corporate Governance remained very much in the forefront of the Exchange's list of priorities during 2002. In April 2001 the Exchange published the "Principles of Good Corporate Governance" for adoption by companies whose securities are quoted either on the Official List or on the Alternative Companies List. The Code was designed, in the words of the Working Group set up for the purpose by the Exchange to "provide all those involved in Corporate Governance with a concise Guide on the obligations of Directors and how they may be performed". The Principles were to be seen as a "benchmark of best practice" and companies listed on the Exchange were to be "encouraged to adopt them". The Principles became part of the Bye-laws of the Exchange in November 2001 and companies were asked to include a "Statement of Compliance" in their Annual Report. At the same time, company auditors were also required to make a report on this Statement of Compliance and to include this report in the company's Annual Report. The year 2002 will be the first year in which listed companies will be including the Statement of Compliance in their Annual Reports. The Exchange will be looking closely at the Statements of Compliance issued by the companies as well as at the Reports of the Auditors and, after consultation with all interested parties, will be issuing "guidance notes" for use by officers of listed companies and auditors reporting on compliance with Corporate Governance principles to be

included in next year's Annual Reports.

The importance that the Exchange attaches to the promulgation of Good Corporate Governance principles can also be gauged from the initiatives it has taken even in the international field. After becoming a founder member of the European Corporate Governance Institute [ECGI] in January 2002, the Exchange hosted a one day conference on Corporate Governance in April with the participation of a number of both local and foreign speakers, all experts in their respective fields.

The Exchange's efforts in this field also included having a pivotal role in the setting up of the Mediterranean Corporate Governance Roundtable [MCGRT], set up to discuss and promote corporate governance issues in Mediterranean countries. An Executive Committee composed of members from Malta, Greece, Cyprus, Egypt and Turkey has been set up, as provided for in the MCGRT Statute. It is envisaged that the MCGRT will host its first major international event in Malta late in 2003.

The different market sectors have showed mixed performance during the past twelve months. Thus, whilst the equity market continued slow throughout the year both in terms of market turnover as well as in the number of new listings, the bond market was more active as a number of new corporate debt instruments came to the market. The clear preference shift from equity holdings to fixed income securities was particularly obvious in the primary issue stage with most bond issues being substantially oversubscribed. These high levels of activity, however, were not carried

forward to the secondary market and this is, of course, understandable since fixed income securities are usually bought to hold and not for capital appreciation purposes.

The market performance in the first few weeks of 2003 is encouraging but are certainly no excuse for complacency. The Exchange is, in fact, making great efforts to deepen the market. It is being more pro-active in talking to prospective listed companies and industry organisations to explain the meaning of listing securities on the Exchange. The Exchange is currently in the process of setting up an independent Committee made up of experts in this field in order to review the current situation in the market and to come up with ideas that can contribute to stimulate market activity.

In the meantime, the Exchange stepped up its efforts in the area of investor education because we believe that the best form of investor protection is awareness and knowledge. Thus apart from the ongoing programme of school visits, the Exchange is also holding weekly lunchtime presentations on its premises aimed at providing basic information about financial matters to members of the public. I am glad to say that these talks have generated a good deal of interest and have been very well attended. It is planned that such presentations will continue throughout this year except for the summer months.


In an effort to continue to improve and diversify its services, the Exchange embarked on a comprehensive exercise during 2002 designed to make a critical analysis of the back office services it provides, particularly those offered by the Central Securities

Depository and the Clearing and Settlement system. Such exercises are essential to the proper functioning of the Exchange and warrant continued development. Indeed, the introduction of a modern "Delivery versus Payment" procedure and the introduction of specific legislation regulating the operations of the Central Securities Depository are both targeted to be implemented by the end of this year.

Challenging times lie ahead for the Exchange, both in the local and in the international field. As in the past though, I am sure that I can rely on my fellow Council Members, the management team and staff of the Exchange as well as on all the market practitioners to ensure that the Malta Stock Exchange continues to play an important role in the development of the financial sector in Malta. Here I would like to express my gratitude to three former Council Members of the Exchange, namely Mr Joseph Laspina, Mr Edward Cachia Caruana and Mr Michael Sciortino who relinquished their seat on the Council during 2002. All of these gentlemen made an important contribution to the deliberations of the Council during their term of office and for this I heartily thank them. At the same time, I must welcome three new members to the Council, namely Dr Arthur Galea Salomone, Dr Mark Sammut and Mr Alex Agius. I am sure that I can count on their support and commitment as well as on their expertise as the Exchange takes on future challenges.

I would like to end on a personal note of appreciation to Mr Paul J Spiteri, who retired from the Exchange early in 2003. Mr Spiteri has been involved with the Exchange in one way or the other for the past 15 years – right from

the drafting of the legislation setting up the Exchange way back in 1987 up to his retirement. Throughout these years Mr Spiteri showed a great sense of commitment and professionalism in the various posts he held first as a Council member then as General Manager and later on as Chief Executive. I wish Mr Spiteri luck in his new post on the Listing Committee.



Alfred Mallia
Chairman





**ADMINISTRATION
REPORT**

ADMINISTRATION

REPORT



THE COUNCIL

Alfred Mallia
Chairman

Arthur Galea Salomone
Deputy Chairman

Alexander Agius
Council Member

Saviour Briffa
Council Member

Marco Sammut
Council Member

Eileen V Muscat
Secretary to Council

The Council

Upon the coming into force of the Financial Markets Act [Cap. 345] in October 2002, all the Members of Council of the Malta Stock Exchange tendered their resignation from office in line with normal practice.

The new Council of the Exchange was subsequently appointed by the Minister of Finance in terms of Article 25 of the Financial Markets Act [Cap. 345] and Article 8 of the Schedule annexed thereto for a period of two years with effect from 1 October 2002. The new Council is composed of Mr Alfred Mallia as Chairman, Dr Arthur Galea Salomone as Deputy Chairman and Mr Alexander Agius, Mr Saviour Briffa and Dr Marco Sammut as Council Members. Ms Eileen V Muscat is Secretary to Council.

The Council met fifteen [15] times during the year, including a number of Ad Hoc meetings convened mainly to discuss and review listing applications.

During these deliberations, the Council was assisted by the Executive Committee composed of the senior management of the Exchange. The composition and role of the Executive Committee is currently being reviewed in the light of the provisions of the Financial Markets Act. At the same time, the Listing Committee of the Exchange, set up in terms of the Malta Stock Exchange Act to vet listing applications and to report to Council accordingly, ceased to function by the end of the year, its role having been taken over by the Listing Committee set up by the MFSA as Listing Authority.

In October 2002 the Council also appointed two further committees made up of members of the Council

and executives of the Exchange with specific terms of reference designed to assist the Council in its policy decisions. The IT Committee is charged with the oversight and development of all the Exchange's IT systems, particularly those which affect its core operations. The Committee is responsible for developing, implementing and monitoring policies in the area of Information Technology as well as for ensuring the legal compliance of Exchange systems particularly when new projects are undertaken or when new legislation is enacted. The Audit Committee, on the other hand, was set up mainly to assist the Council in fulfilling its responsibilities over the financial reporting process and to develop, implement and monitor financial policies and internal control structures in the Exchange. The Committee will also be monitoring compliance with the financial reporting requirements of the MFSA in line with



the new status of the Exchange as a Recognised Investment Exchange. Both Committees meet on a regular basis and report to Council accordingly.

The Annual Special Meeting for licensed Members of the Exchange was convened on 18 March 2002 in terms of Article (iv)(a) of the Schedule annexed to the Malta Stock Exchange Act [Cap. 345]. During this meeting, the Chairman presented his report for 2001 on the activities of the Exchange during that year. The Audited Financial Statements and the Audited Financial Statements of the Compensation Fund for the year ended 31 December 2001 were also presented. In his address, the Chairman spoke of the two main events which characterized 2001, namely, the introduction of remote trading and the move to the new premises. He also referred to the initiatives being undertaken by the Exchange in the field of investor education and Corporate Governance. In respect of the latter the Chairman spoke about the Exchange being invited by the Federation of European Stock Exchanges [FESE] to become a founder member of the European Corporate Governance Institute [ECGI], in recognition of its efforts in the field of Corporate Governance. Mr Mallia concluded by referring to the legislative changes due to be introduced and the



changes and challenges these would bring with them.

Financial Markets Act

The enactment of the Financial Markets Act which came into effect on 1 October 2002 had profound effects on the workings of the Exchange.

As a result of these amendments, the Exchange has shed most of its regulatory functions and is now an operator regulated by the Malta Financial Services Authority [MFSA] as the Competent Authority. The removal of these regulatory functions has made it possible for other recognised investment exchanges [RIE] to be set up. Thus, whereas the "Borza" was the focus of the Malta Stock Exchange Act, the new Financial Markets Act [FMA] has provided for the concept of Recognised Investment Exchanges.

The transfer of regulatory powers formerly exercised by the Exchange

mainly includes the licensing of stockbrokers and admission of securities to listing. The MFSA has immediately assumed regulatory competence for stockbrokers, who are now licensed under the Investment Services Act. In January 2003 the

MFSA was designated as the Listing Authority as established in terms of the FMA. The Listing Authority is charged with the function of "passporting" the relevant security as "admissible to listing". The Exchange will retain the function of authorising "admission" of securities to its Official List or Alternative Companies List and to the trading of these securities on its trading system.

The Exchange will also retain responsibility for market surveillance and monitoring of all matters ancillary to trading. Continuing obligations in respect of listed companies will also remain the responsibility of the Exchange insofar as such obligations may, in any way, affect the orderliness of the market.

The amended legislation has also provided for the abolition of the Malta Stock Exchange Tribunal and for the convergence of the jurisdiction of such tribunal with that of the Financial Services Tribunal.

Finally, the FMA provides for a greater degree of co-operation between the Exchange and the Competent Authority as well as for co-operation with other regulatory authorities, both locally and overseas.

The FMA is also supported by Recognition Requirements in respect of Recognised Investment Exchanges, issued in January 2003 in the form of secondary legislation. Directives applicable to Recognised Investment Exchanges are to be issued early in 2003.

As a result of these changes in the legislation, there will be a substantial review of the Bye-laws of the Exchange, particularly those bye-laws relating to the administration of the Exchange, the licensing of stockbrokers and the listing requirements.

Human Resources

During 2002 there were a number of significant changes in the organizational structure of the Exchange. These movements occurred partly in the normal course of business development of the Exchange but also reflected the implementation of the new legislative requirements which will necessitate diversification and strengthening of particular skills. The organizational setup of the Exchange is, therefore, being reviewed not only in the light of the removal of its regulatory functions but also to lay down the infrastructure necessary to support the shift towards a more commercial and competitive role for the Exchange.

Besides the appointment of the new Council and Committees, the senior management structure is being

strengthened with the appointment of a Deputy General Manager to assist in the management of the day to day operations of the Exchange. The new DGM will have direct responsibility for the development of the Central Securities Depository. Two new offices have also been set up, namely the Internal Compliance Office and the Special Assignments Office. The Internal Compliance Office was set up to monitor and verify office procedures in respect of all the operations of the Exchange. In the course of its duties, this Office will also be extensively reviewing and updating the Office Procedures Manuals relating to the various operational centres of the Exchange.

Immediately upon being set up during the latter half of 2002, in fact, the Internal Compliance Office commenced work on the Business Documentation Project which is envisaged to be completed by mid-

2003. The Internal Compliance Office will also be reporting directly to Council and to the MFSA in terms of the provisions in the FMA which relate to the reporting requirements of Recognised Investment Exchanges.

The Special Assignment Office was set up to deal with specific issues as directed by the Executive Committee. Such assignments may cover all the spectrum of operations of the Exchange particularly in the area of public relations, both locally and internationally.

This re-organisation exercise required a number of internal movements and

promotions during 2002. During this period there were two resignations from the staff complement. In July the Exchange recruited a total of six junior staff bringing the staff complement to 43 at the end of the year.

Mr Paul J Spiteri, who since September 2001 had held the post of Consultant to the Chairman, retired from the Exchange early in 2003. Mr Spiteri had been involved with the Exchange since 1987 when he was appointed to serve on the committee advising the Government on the setting up of a stock exchange for Malta. During his time on the Committee, Mr Spiteri, was directly involved in the drafting of the



legislation setting up the Exchange. Mr Spiteri was subsequently also a key figure in the drafting of the Bye-laws regulating the functions and operations of the Exchange. Since 1991, Mr Spiteri held various posts in the Exchange, first as Council Member, then as General Manager and later still as the Chief Executive. Mr Spiteri's leadership qualities and commitment to the institution were an example to all those who worked with him. We wish Mr Spiteri well in his new appointment as a member of the Listing Committee.

Staff Development

During the year under review, the Exchange continued in its policy of appointing members of staff to



participate in seminars and conferences, both locally and overseas. The Exchange believes that participation in such events serves not only to broaden the knowledge and experience of participants in the workings of the capital markets, but is also essential if one is to keep abreast of the latest developments in this field. Events attended by Exchange officials during 2002 included discussions related to a number of relevant topics such as

- Corporate Governance
- Capital Markets in Developing European Countries
- Straight Through Processing
- European Central Counterparties
- Harmonisation of Cross Border Clearing and Settlement

In view of envisaged upgrades in the Depository system, a number of IT staff attended a training course at the suppliers' offices in Estonia towards the middle of the year. Earlier on, two senior Exchange officials had also traveled to Estonia to negotiate new

contracts with the supplier. The Exchange also organised a number of training courses primarily aimed at new recruits relating to the workings of the trading system. At the

economies, the domestic growth potential of the Exchange is limited by a number of factors, both cultural and physical. Therefore, any strategy aimed at the future growth of the Exchange must necessarily contemplate the issue of international diversification.

The Exchange has been working for some time now on the idea of setting up an Exchange for the Mediterranean Region. The BorzaMed Project, as this venture has come to be called, appears to hold a high potential of growth both for the Malta Stock Exchange as well as for future participating markets. The geographical

position of the Island and the technical excellence of its systems provide the Exchange with an opportunity to explore this possibility of diversification. Developing a cross border facility for the trading of financial products in the Mediterranean Region offers companies listed on each of the individual markets with the potential to have much easier access to a pool of capital that is far bigger than their domestic one. At the same time, the system will also benefit investors who

same time a number of talks were also held by senior staff of the Exchange regarding the effects of the new legislation on the Exchange.

International Relations

The BorzaMed Project

As is the case for many financial markets operating in relatively small

position of the Island and the technical excellence of its systems provide the Exchange with an opportunity to explore this possibility of diversification. Developing a cross border facility for the trading of financial products in the Mediterranean Region offers companies listed on each of the individual markets with the potential to have much easier access to a pool of capital that is far bigger than their domestic one. At the same time, the system will also benefit investors who



will be able to invest cross border with a high transaction completion ratio.

The Exchange sought the advice of Mr Gerrit de Marez Oyens [former Secretary General of FIBV, now the World Federation of Exchanges] to see how best to proceed in order to achieve these aims. Mr de Marez Oyens expressed his confidence that the goals set for this project were ambitious but attainable. Discussions were also held with Exchanges from prospective participating jurisdictions and the feedback received was very positive.

Following these discussions with Mr Marez de Oyens, a Blue Print setting out the future strategy for this Project was drawn up. The Blue Print divides the Project in two parts. The first part looks at the Project from a market perspective whilst the second part deals with regulatory issues.

Briefly the Blue Print sets out a strategy for

- a multi-market trading platform, and
- mutual recognition of regulatory issues

Once the Blue Print was finalized on this basis, the Exchange approached prospective participating countries to seek agreement in principle on the proposals set out in the Blue Print. Indeed, on 14 September 2002, a document entitled *“Protocol for Considering the Feasibility of an Alliance of Mediterranean Exchanges”* was signed between the stock exchanges of Malta, Tunisia and Egypt. The Protocol will remain in force for a period of one year and a joint Working Group was set up to oversee the development of the

Project. In the meantime, the participating Exchanges have prepared studies and undertaken familiarisation visits in order to examine the trading, clearing and settlement systems of other participating exchanges and how these systems can be integrated.

The Working Group will be reporting to the Plenary Meeting of participating countries which is due to be held in 2003. The results of preliminary studies are very encouraging and augur well for the setting up of the regional Exchange.

European Corporate Governance Institute [ECGI]

Following the introduction of the *“Code of Principles of Good Corporate Governance”* in 2001, the Malta Stock Exchange was invited to become a founder member of the

individual and institutional members. The ECGI provides a forum for debate and dialogue between academics, legislators and practitioners aimed at supporting scientific research on major corporate governance issues and thereby promoting best practice.

Mediterranean Corporate Governance Round Table

In view of the fact that the Mediterranean Region offers certain special features particular to this region, the Exchange, with the backing of ECGI, took up the initiative to propose the setting up of the Mediterranean Corporate Governance Roundtable [MCGRT].

The MCGRT has been set up to undertake the objectives of the ECGI and to promote and improve corporate governance principles in emerging markets in the Mediterranean region.



European Corporate Governance Institute [ECGI]. This organization was established to improve corporate governance in European jurisdictions by fostering independent scientific research and by promoting debate based on the collective expertise of its

MCGRT will try to achieve these objectives by undertaking a number of initiatives including the commissioning of independent studies on corporate governance and by organising international conferences in order to bring together academics and practi-

tioners from various countries who are active in this field.

A Council has been set up as follows:

- Mr Alfred Mallia, Chairman of the Malta Stock Exchange as Chairman
- Dr Shahira Abdel Shahid, Director of Research and Markets Development at the Cairo & Alexandria Stock Exchanges as Deputy Chairman
- Dr Melsa Ararat, Network Faculty Member, Sabanci University, Istanbul
- Prof Lena Tspouri from the University of Athens
- Mr P Barrett, a Director of ODLHK, a Hong Kong company dealing with Corporate Governance
- Dr Donattiene Gatt from the Legal Studio of Camilleri Preziosi, Malta, with
- Mr Paul J Spiteri, formerly of the Malta Stock Exchange, acting as Secretary.

Membership of MCGRT is open both to individuals and corporate bodies. In terms of the Statute of MCGRT, an Executive Committee chaired by Mr Mallia was set up with all the powers necessary to pursue the objectives of MCGRT.

In December 2002, MCGRT held its first public discussion, which was very well attended. In this event, Dr Donattienne Gatt chaired a discussion on “**Should codes of Corporate Governance be Mandatory?**”. The Executive Council also took the opportunity of this meeting to explain the scope and objectives of MCGRT.

Memorandum of Understanding

On 1 March 2002 the Malta Stock Exchange signed a Memorandum of

Understanding with the Polish Securities Commission. The Memorandum of Understanding encourages and fosters enhanced collaboration between the two institutions particularly in the areas of communication, exchange of information, investor education and regulation.

Meetings

During the year under review, senior officials from the Exchange attended a number of meetings of the international organisations where the Exchange is a member, namely the International Organisation of Securities Commissions [IOSCO], the World Federation of Stock Exchanges [WFE], the Federation of European Securities Exchanges [FESE], the European Corporate Governance Institute [ECGI], the Capital Markets Regulatory and Supervisory Consultative Group and the European Capital Markets Institute [ECMI]. The Exchange was also represented at meetings of both the Economics and Statistics Sub-Committee and the Legal and Regulatory Sub-Committee of FESE.

Following the transfer of regulatory powers to the MFSA, Ordinary Membership of IOSCO has now transferred to the Authority, with the Exchange retaining Affiliate Membership. Membership of the Capital Markets Regulatory and Supervisory Consultative Group will similarly be transferred from the Exchange to the MFSA.

EU Peer Review

In May 2003, the European Union sent a Peer Review team to Malta, as one of the ten accession countries, to

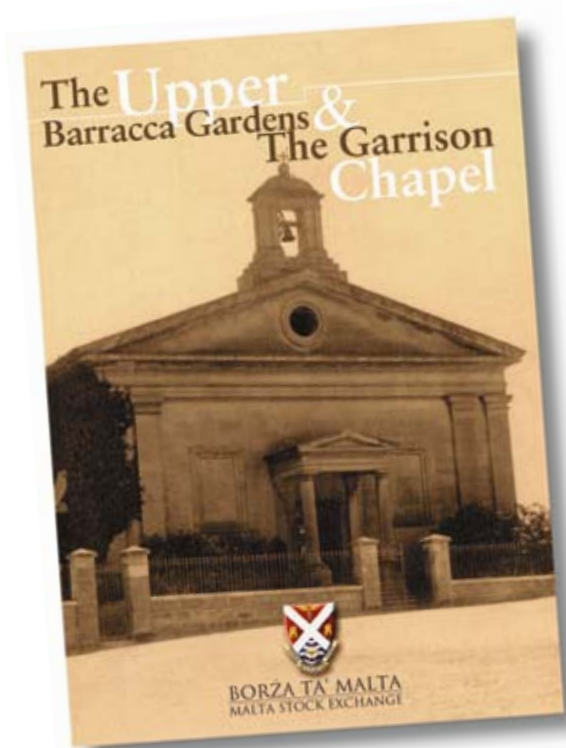
conduct a review of the domestic financial sector. The operations of the local securities market was one of the main areas covered by the EU team. In this context the team, which was made up of a number of European experts in the field, carried out a number of meetings with the Exchange. During these meetings the team examined the various areas of operations of the Exchange, including trading, clearing and settlement and securities registration procedures as well as the Exchange’s regulatory and compliance functions.

IMF/World Bank FSAP Mission

Later on in the year, in October, the Exchange was also involved in an IMF/World Bank Financial Services Assessment Programme [FSAP] Mission to Malta. During the course of their Assessment, the Mission concentrated on the Exchange’s trading, depository and clearing and settlement operations. In particular, the Mission assessed the Exchange against the 19 IOSCO Recommendations relating to Securities Settlement Systems which represent the international standard for exchanges. The Mission followed up this visit with another visit in January 2003 before the presentation of their final report.

Publication – The Upper Barracca Gardens and the Garrison Chapel

The restoration of the Main Gate of the Upper Barracca Gardens, which the Exchange had undertaken as part of the refurbishment programme of the Garrison Chapel, was completed in July 2002.



be exhibited at the Museum of Fine Arts in Valletta.

The Exchange had expressed to the Authorities its willingness to commit itself to the maintenance of the area surrounding its new premises at the Garrison Chapel in Valletta, including the Upper Barracca Gardens. In line with this commitment, the Exchange commissioned research on the subject and subsequently published a booklet entitled "***The Upper Barracca Gardens and the Garrison Chapel***".

Extensive restoration works were carried out to the entrance and to the surrounding area, particularly to the timber gate spanning the main archway.

This booklet provides a brief history of the Gardens and the Chapel and should serve as a guide not only to foreign visitors but also to all those who are interested in the history of Valletta.

The restoration works were carried out by the Italian firm, Peter Cox Interventi, the same firm which carried out the restoration works on the façade and timber truss ceiling of the Garrison Chapel housing the Malta Stock Exchange. The firm adopted the latest restoration techniques which also involved the replacement of badly damaged masonry.

The Malta Stock Exchange is also sponsoring the manufacture of a bronze copy of "Les Gavroches", one of the best works of Antonio Sciortino, the original of which stood in the Upper Barracca Gardens. As the original sculpture is considered to be too valuable to leave exposed to the elements, the bronze copy sponsored by the Exchange will be on display in the Gardens instead. The original will



**EXCHANGE
OPERATIONS
AND OTHER
ACTIVITIES**

EXCHANGE OPERATIONS AND OTHER ACTIVITIES

Market Operations During 2002

Market turnover on the Malta Stock Exchange reached a value of just under Lm76 million during 2002, a

sharp drop compared to the Lm 170 million of the previous year. The performance of the bond and equity

Comparative Trading Figures

Security	Number of Deals		Volume/No. of Shares		Market Turnover (Lm)	
	2002	2001	2002	2001	2002	2001
Equities						
Bank of Valletta plc Ord Lm0.25	1,181	1,398	926,104	1,278,095	2,664,309	4,692,306
HSBC Bank Malta plc Ord Lm0.25	487	350	585,221	611,389	2,266,326	3,153,463
Lombard Bank (Malta) plc Ord Lm0.50	127	122	1,251,230	392,222	4,936,661	1,593,859
Middle Sea Insurance plc Ord LM0.50	159	382	804,846	969,713	1,865,971	2,453,307
SFC plc Ordinary Lm0.125	91	111	147,837	223,100	99,698	207,415
6% SFC (net) Pref Lm10 - 2001/03	20	42	1,584	4,752	15,847	47,407
Suncrest Hotels plc Ord Lm0.10	6	14	2,205	70,030	1,351	33,262
Maltacom plc Ord Lm0.25	1,401	2,752	2,083,202	3,720,138	2,463,287	6,577,588
Int. Hotels Investments Plc Ord Lm1	265	456	1,924,330	924,332	1,867,682	825,559
Plaza Centres plc Ord Shares Lm0.20	103	87	1,015,271	935,442	635,474	696,778
GloBAI Financial Srv Grp Plc Ord Lm0.025	197	158	13,899,277	1,179,560	3,498,309	326,840
First Int Merchant Bank Plc Ord USD 0.50	15	7	277,075	263,280	151,865	150,979
Malta Int Airport Ord A Shares Lm0.20	4	N/A	4,700	N/A	3,431	N/A
Datatrak Holdings Plc Ord Lm0.10	135	181	388,784	224,399	229,682	189,895
Total Equity	4,191	6,060	23,311,666	10,796,452	20,699,893	20,948,658
Corp. Bonds						
6.15% BOV Plc Sbrdnt Bonds 2010	192	198	971,800	5,679,600	991,810	5,558,074
8% BOV Plc US\$ Bonds	313	209	4,880,500	1,998,500	2,341,040	931,078
7.25% HSBC Sbrdnt Unsec Loan Stock 2005	101	216	298,300	3,376,700	314,210	3,489,882
6.15% Gasan Finance Company plc 2003/4	24	24	121,300	252,000	121,453	249,572
6.5% Gasan Finance Company plc 2006/9	84	40	329,200	829,000	335,107	818,401
6.25% SFC plc Bonds 2006/08	15	N/A	6,600	N/A	6,688	N/A
6.6% SFC plc Bonds 2010/12	32	N/A	30,700	N/A	31,356	N/A
8.25% Suncrest Bonds 2005/07	26	86	87,600	307,800	89,345	302,321
6.7% Corinthia Finance plc Bonds 2009	84	117	845,700	1,140,100	867,008	1,119,732
6.75% Corinthia Finance plc Bonds 2012	88	N/A	392,500	N/A	395,255	N/A
6.5% Corinthia Finance plc Bonds 2010	150	N/A	2,485,900	N/A	1,012,300	N/A
5% IHI Plc Conv Bond 2010	15	7	553,100	124,100	549,174	121,572
6.75% United Finance Plc Bonds 2008	37	60	590,500	801,100	603,780	800,243
6.7% Eden Finance plc Bonds 2010	100	32	579,700	1,382,500	577,110	1,373,246
Malta Government Privatisation Bonds plc	82	23	474,700	165,500	474,315	159,171
6.5% CC Car Parks Plc Bonds 2006	27	27	78,700	96,800	80,528	97,166
6.7% Mizzi Org Finance plc Bonds 2009/12	157	N/A	824,000	N/A	845,338	N/A
6.7% Tumas Investments plc Bonds 2010/12	104	N/A	281,800	N/A	283,024	N/A
6.7% Tumas Investments plc Secured Notes	9	N/A	66,200	N/A	68,438	N/A
6.5% CareMalta Finance plc Bonds 2008-11	33	N/A	189,900	N/A	190,345	N/A
7.5% Hotel San Antonio plc Bonds 2012	28	N/A	44,800	N/A	43,835	N/A
8% Bay Street Finance plc bonds 2012	12	N/A	32,500	N/A	32,382	N/A
7% Big Bon Finance Plc Sec Bonds 2010/12	10	N/A	25,100	N/A	25,590	N/A
Total Corp. Bonds	1,723	1,039	14,191,100	16,153,700	10,279,431	15,020,458
MALTA Government Stocks						
Total MGS's	1,860	2,427	40,885,700	124,862,500	44,830,554	133,524,369

Comparative Holdings

	Holdings in Lm Millions		Change in Lm Millions	% of Total	
	Dec-02	Dec-01		Dec-02	Dec-01
Central Bank	1.96	9.70	-7.74	0.24	1.19
Commercial Banks	386.27	399.70	-13.43	47.51	49.18
Non-Bank Sector*	424.79	403.30	21.49	52.25	49.62
TOTAL	813.02	812.70		100.00	100.00

* Including Collective Investment Schemes

markets was somewhat mixed during the year under review. Although the number of shares changing hands in 2002 was more than twice that of the previous year, the number of deals in the equity market decreased from over 6,000 to just over 4,000. At the same time, equity market turnover remained virtually unchanged at just under Lm21 million. Whilst shares in the banking and insurance sectors continued to be the most active during the year, shares in companies operating in the tourism sector showed a significant increase in activity.

Compared with the sluggish movements of the equity market, the corporate bond sector was more active as a number of new corporate debt instruments came to the market. Although there was an increase of over 65% in the number of deals effected in this sector of the market, turnover value fell from around Lm15 million to slightly over Lm10 million. Whilst a good number of new corporate bonds came to the market during 2002, most were listed towards the end of year, too late to make a significant impact on trading figures for 2002. As in the equity market, Corporate Bonds issued by companies from within the banking sector continued to perform well as did corporate bonds issued by tourism sector companies. Although not as buoyant as in 2001, the Corporate Bond market continued to perform well, benefiting from a clear market shift from equity holdings to fixed

Government Stock Movements in 2002

Isin No:	Security:	Deals	Volume	% Volume
MT0000010406	7.75% MGS 2002	10	20,900	0.051%
MT0000010596	6.9% MGS 2002 (II)	6	9,500	0.023%
MT0000010620	6.9% MGS 2002 (III)	10	25,000	0.061%
MT0000010760	6.9% MGS 2002 (IV)	6	140,100	0.343%
MT0000010448	7% MGS 2003	11	7,559,600	18.490%
MT0000010463	7% MGS 2003 (II)	83	1,082,000	2.646%
MT0000010489	6.7% MGS 2004	46	182,300	0.446%
MT0000010802	6.8% MGS 2004 (II)	24	125,500	0.307%
MT0000010737	7.25% MGS 2005	27	186,000	0.455%
MT0000010877	5.6% MGS 2005 (II)	14	21,400	0.052%
MT0000010562	7% MGS 2006	34	97,800	0.239%
MT0000010653	7.25% MGS 2006 (II)	38	344,800	0.843%
MT0000010687	7.25% MGS 2006 (III)	19	141,800	0.347%
MT0000010695	7% MGS 2006 (IV)	N/A	N/A	N/A
MT0000010778	7.35% MGS 2007	22	1,223,300	2.992%
MT0000010851	5.9% MGS 2007 (II)	5	38,900	0.095%
MT0000010935	5.6% MGS 2007 (III)	133	738,700	1.807%
MT0000011057	5.6% MGS 2007 (III) Fung.	N/A	N/A	N/A
MT0000010794	7.2% MGS 2008	7	104,100	0.255%
MT0000010810	7.2% MGS 2008 (II)	16	151,100	0.370%
MT0000010869	7% MGS 2009	N/A	N/A	N/A
MT0000010893	5.9% MGS 2009 (II)	26	667,300	1.632%
MT0000010968	5.9% MGS 2009 (III)	18	227,000	0.555%
MT0000011024	5.9% MGS (fung.) 2009 (III)	6	350,000	0.856%
MT0000010919	5.9% MGS 2010	43	809,600	1.980%
MT0000010927	5.75% MGS 2010 (II)	11	71,800	0.176%
MT0000010950	7% MGS 2010 (III)	N/A	N/A	N/A
MT0000010711	7.5% MGS 2011	26	382,200	0.935%
MT0000011008	6.25% MGS 2011 (II)	82	751,200	1.837%
MT0000011032	7% MGS 2011 (III)	N/A	N/A	N/A
MT0000010745	7.8% MGS 2012	53	1,217,800	2.979%
MT0000011065	7% MGS 2012 (II)	N/A	N/A	N/A
MT0000011081	5.7% MGS 2012 (III)	83	553,900	1.355%
MT0000010786	7.8% MGS 2013	50	1,818,800	4.448%
MT0000011016	6.35% MGS 2013 (II)	140	1,186,300	2.902%
MT0000010976	6.6% MGS 2014	43	372,900	0.912%
MT0000010992	6.45% MGS 2014 (II)	74	360,900	0.883%
MT0000010943	6.1% MGS 2015	210	8,637,600	21.126%
MT0000011040	5.9% MGS 2015 (II)	135	522,500	1.278%
MT0000010984	6.65% MGS 2016	100	408,300	0.999%
MT0000010828	7.8% MGS 2018	125	9,410,500	23.017%
MT0000010901	6.6% MGS 2019	124	944,300	2.310%
Totals: (2002)		1,860	40,885,700	100%
Totals: (2001)		2,435	124,881,400	100%

income securities. This shift was particularly obvious in the primary issue stage with most bond issues, whether corporate bonds or government stocks, being generally oversubscribed. These brisk levels of activity in the primary bond market, however, were not reflected in the secondary market, since fixed income securities are usually bought to hold and not for capital appreciation purposes.

The performance of the Government Stock market in 2002 resulted in a market turnover of almost Lm45 million, just over one third of the previous year's figure. Long-term Stocks continued to be the most heavily dealt in, with the 6.1% MGS 2015 and the 7.8% MGS 2018 between them accounting for over 44% of the aggregate turnover in this market.

2002. This pattern was reflected in the value of the Malta Stock Exchange Share Index which ended 2002 at a value of 1870.91, a decrease of 15% on the value of the Index registered at the close of 2001, i.e 2200.13.

Following the removal of the trade weighted average moving price [TWAMP] and the re-introduction of the trade weighted average price [TWAP] as the basis for the calculation of trade ranges, it was decided that the Index would be calculated on the daily closing price of each equity. This new calculation procedure was introduced around mid-year. During the year other mathematical adjustments were made to the calculation of the Index to take into consideration the impact of new listings and the effects of company actions, such as the issue of bonus shares etc.

Exchange, stood at just under Lm1.6 billion, virtually unchanged on the comparable figure for the previous year. However, market capitalization changed significantly in the different market sectors. Thus, reflecting the sustained slide in equity prices, market capitalization in the equity sector fell from Lm610 million at the end of 2001 to Lm551 million. This contraction was offset by the number of new listings of corporate bonds which pushed up market capitalization in this sector by some Lm51 to Lm159 million at the end of the year under review. Market capitalization of Government Stocks also increased slightly over the last 12 months from Lm853 million to Lm876 million.

As at end of December 2002, fifty six [56] local Collective Investment Schemes had been granted a listing on the Malta Stock Exchange having a market capitalization of just over Lm1 billion up from Lm249 million last year.

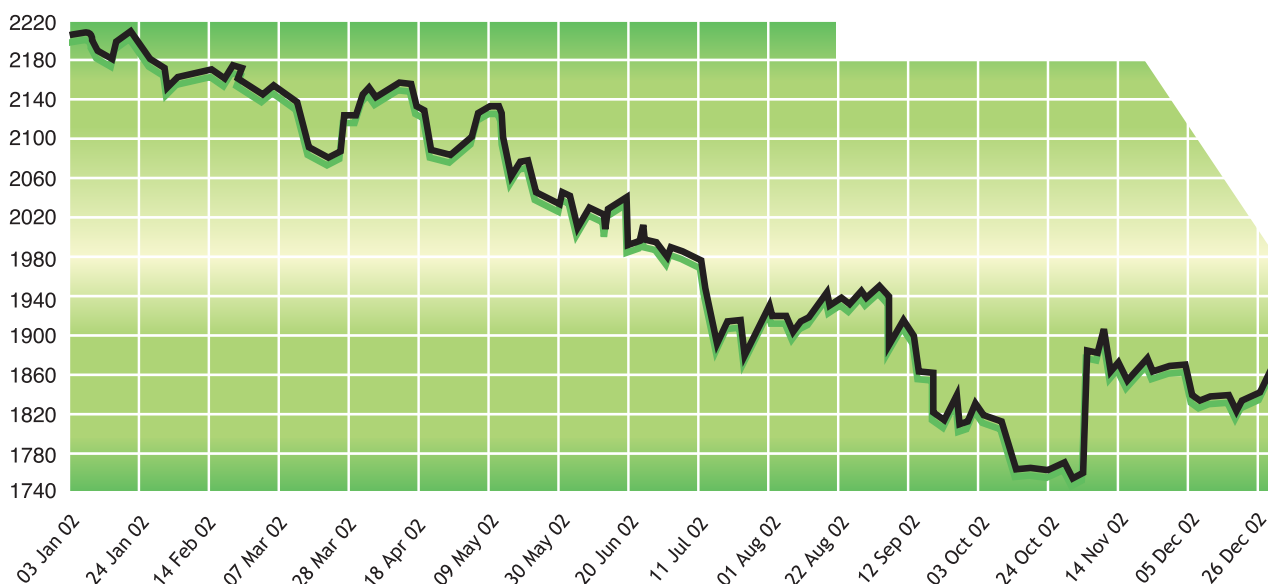
Malta Stock Exchange Share Index

The steady decline in equity prices which commenced in 2001 persisted in

Market Capitalisation

At the end of December 2002, the total market capitalization of securities [excluding Collective Investment Schemes] listed on the Malta Stock

Malta Stock Exchange Share Index for the Year 2002



Market Capitalisation

No of Shares	Name of Security December 2002	Closing Prices	Lm	%	Lm
Equities					
46,180,218	Bank of Valletta (LM)	2.810	129,766,412.580	23.535	
36,480,000	HSBC Bank Malta (LM)	3.850	140,448,000.000	25.472	
3,959,465	Lombard Bank (LM)	3.650	14,452,047.250	2.621	
12,500,000	Middle Sea Insurance (LM)	2.000	25,000,000.000	4.534	
25,714,286	Simonds Farsons Cisk (LM)	0.670	17,228,571.620	3.125	
10,000,000	Suncrest Hotels (LM)	0.600	6,000,000.000	1.088	
101,310,488	Maltacom (LM)	0.985	99,790,830.680	18.098	
48,000,000	Int. Hotel Invest. (LM)	0.900	43,200,000.000	7.835	
9,414,000	Plaza Centres Plc (LM)	0.700	6,589,800.000	1.195	
35,000,000	GloBAL Financial Srv Grp Plc Ord (Lm)	0.200	7,000,000.000	1.270	
46,000,000	First International Merchant Bank (US\$)	1.250	23,024,866.856	4.176	
40,589,995	Malta International Airport plc (Lm)	0.730	29,630,696.350	5.374	
Alternative Companies List (ACL)					
15,949,500	Datatrak plc (Lm)	0.580	9,250,710.000	1.678	
					551,381,935

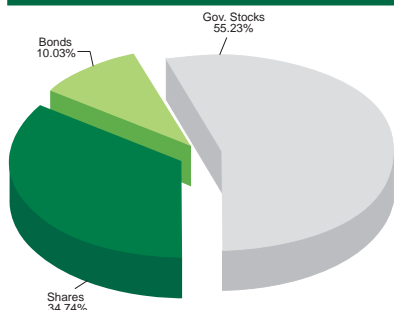
Corporate Bonds					
20,000,000	7.25% HSBC 2005 (LM)	105.000	21,000,000.000	13.187	
2,992,500	8.25% Suncrest 2005/7(LM)	100.250	2,999,981.250	1.884	
3,500,000	6.15% Gasan Fin. 2003/4 (LM)	101.200	3,542,000.000	2.224	
3,500,000	6.5% Gasan Fin. 2006/9 (LM)	102.250	3,578,750.000	2.247	
10,000,000	6.7% Corinthia Fin. 2009 (LM)	102.500	10,250,000.000	6.436	
19,990,600	6.15% BOV 2010 (LM)	103.000	20,590,318.000	12.930	
5,000,000	5% Int. Hotel Invest. 2010 (LM)	100.000	5,000,000.000	3.140	
4,000,000	6.75% United Fin. 2008 (LM)	102.850	4,114,000.000	2.583	
36,543,500	8% BOV 2010 (US\$) *	112.250	16,425,771.333	10.315	
7,272,400	MG Privatisation plc Bonds 2005 (LM)	100.000	7,272,400.000	4.567	
10,000,000	6.7% Eden Fin. 2010 (LM)	99.250	9,925,000.000	6.232	
1,500,000	6.5% CC Car Parks 2006	102.510	1,537,650.000	0.966	
14,273,700	6.5% Corinthia Fin. plc 2010 (EUR)	100.500	5,996,851.511	3.766	
6,289,900	6.75% Corinthia Fin. 2012 (LM)	102.000	6,415,698.000	4.029	
10,000,000	6.7% Mizzi Org. plc 2009/12 (LM)	103.000	10,300,000.000	6.468	
7,000,000	6.7% Tumas Invest plc Bonds 2010/12 (LM)	102.450	7,171,500.000	4.503	
4,200,000	6.7% Tumas Invest plc Secured Notes 2006	103.200	4,334,400.000	2.722	
2,000,000	6.25% Simonds Farsons Cisk Bonds 2006/8	102.000	2,040,000.000	1.281	
4,000,000	6.6% Simonds Farsons Cisk Bonds 2010/12	104.000	4,160,000.000	2.612	
3,800,000	6.5% Care Malta Finance plc Bonds 2008/11	103.000	3,914,000.000	2.458	
Alternative Companies List (ACL)					
2,500,000	7.5% Hotel San Antonio plc 2012 (LM)	97.000	2,425,000.000	1.523	
3,263,800	8% Bay Street Fin. plc 2012	96.990	3,165,559.620	1.988	
3,000,000	7% Big Bon Finance plc 2010/12	103.000	3,090,000.000	1.940	
					159,248,880

Malta Government Stocks					
813,029,727	Various	Various	876,494,368	100.000	
					876,494,368
Total in Lm					1,587,125,183
Exchange Rates		2.3921	Total in Euros		3,796,562,150
		2.4973	Total in US\$		3,963,527,720
		1.5560	Total in Stg		2,469,566,785

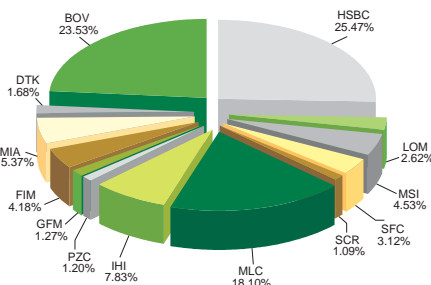
Market Capitalisation - Local Collective Schemes (Primary Listed)

Name of Fund: 31 December 2002	Currency	Rate	Closing Price	Market Capitalisation (in funds' currencies)	Market Capitalisation (in Lm)
La Valette Global Fund	Stg	1.5560	0.834	838,791	539,069
La Valette Capital Growth Fund	Stg	1.5560	0.918	6,944,315	4,462,927
La Valette Malta Fund	Lm	1.0000	1.686	16,300,540	16,300,540
La Valette Malta Bond Fund	Lm	1.0000	148.428	24,581,912	24,581,912
La Valette European Bond Fund	Euro	2.3921	1.1286	1,486,966	621,616
La Valette European Opportunities Fund	Euro	2.3921	0.6232	10,703,284	4,474,430
La Valette International Equity Fund	US\$	2.4973	0.5365	2,788,972	1,116,795
La Valette Far East Opportunities Fund	US\$	2.4973	0.5952	1,753,418	702,125
La Valette Euro Money Fund	Euro	2.3921	1.0721	672,644	281,194
La Valette Sterling Money Fund	Stg	1.5560	1.0887	768,876	494,136
La Valette United States Dollar Money Fund	US\$	2.4973	1.0419	490,502	196,413
La Valette Sterling Income Fund	Stg	1.5560	1.0504	21,265,436	13,666,732
La Valette Maltese Lira Money Fund	Lm	1.0000	1.0195	259,470	259,470
La Valette Euro Income Fund	Euro	2.3921	1.0393	5,797,269	2,423,506
La Valette Mediterranean Rim Fund	US\$	2.4973	1.1625	1,344,132	538,234
Amalgamated Growth & Income Fund	Lm	1.0000	0.504	10,430,659	10,430,659
Wignacourt Malta Fund	Lm	1.0000	0.663	10,571,118	10,571,118
Vilhena Malta Fund	Lm	1.0000	142.24	7,721,345	7,721,345
Vilhena Malta Government Bond Fund	Lm	1.0000	137.132	29,462,528	29,462,528
Vilhena Top 100 Fund	US\$	2.4973	0.7015	4,412,612	1,766,953
Global Bond Fund Plus	Lm	1.0000	0.9512	7,508,871	7,508,871
Malta Privatisation & Equity Fund	Lm	1.0000	0.5962	7,266,731	7,266,731
HSBC Malta Funds SICAV plc Malta Bond Fund	Lm	1.0000	153.21	40,375,429	40,375,429
HSBC No Load - Malta Government Bond Fund	Lm	1.0000	121.8	32,392,613	32,392,613
HSBC No Load - Maltese Assets Fund	Lm	1.0000	113.5	18,363,803	18,363,803
HSBC International - Universal Fund	US\$	2.4973	70.36	1,701,463	681,321
HSBC International - Far East Equity Fund	US\$	2.4973	47.38	664,507	266,090
HSBC International - Pan American General Fund	US\$	2.4973	69.46	910,599	364,634
HSBC International - European Equity Fund	Euro	2.3921	71.19	4,085,967	1,708,109
HSBC International - UK General Fund	Stg	1.5560	82.34	807,568	519,002
Turkish Garanti Capital Growth Fund	Euro	2.3921	731.29	454,022	189,801
Melita International Fund Sicav plc Aberdeen (Malta) Technology (USD) Fund	US\$	2.4973	0.1773	493,657	197,676
Melita International Fund Sicav plc Aberdeen (Malta) Technology Lm Fund	Lm	1.0000	0.1668	132,563	132,563
Melita International - Equity Fund	US\$	2.4973	0.536	773,169	309,602
Melita International - LM Equity Fund	Lm	1.0000	0.486	102,514	102,514
Melita International Fund Sicav plc Aberdeen (Malta) China Opportunities (US\$) Fund	US\$	2.4973	0.9579	174,381	69,828
Melita International - US\$ Bond Fund	US\$	2.4973	0.9586	460,426	184,370
Melita International - LM Bond Fund	Lm	1.0000	0.8498	84,057	84,057
Five Arrows Int Mng Port Fd- Int Cap Growth Port	Stg	1.5560	9.676	5,441,307	3,496,984
Five Arrows Int Mng Port Fd- Int Cap Growth Port	US\$	2.4973	10.241	5,925,340	2,372,698
Five Arrows Int Mng Port Fd- Bal Income & Growth Port	US\$	2.4973	11.954	15,956,941	6,389,677
Five Arrows Int Mng Port Fd- Bal Income & Growth Port	Stg	1.5560	12.07	5,879,323	3,778,485
Five Arrows Int Mng Port Fd- UK Cap Growth Port	Stg	1.5560	10.67	5,708,054	3,668,415
Five Arrows Int Mng Port Fd- Asian Capital Growth	US\$	2.4973	9.251	1,754,073	702,388
Five Arrows Int Mng Port Fd- European Capital Growth	CHF	3.4760	12.008	15,049,264	4,329,478
Five Arrows Int Mng Port Fd- Eur Bal Income & Growth	CHF	3.4760	12.387	4,348,410	1,250,981
Five Arrows Int Mng Port Fd- European Capital Growth	Euro	2.3921	6.087	2,641,869	1,104,414
Five Arrows Int Mng Port Fd- Eur Bal Income & Growth	Euro	2.3921	7.641	7,824,627	3,271,029
Gasans Funds Sicav PLC - Enterprise Fund	Lm	1.0000	0.9783	128,072	128,072
Gasans Funds Sicav PLC - Int. Equity Growth Fund	Euro	2.3921	0.6253	162,787	68,052
Gasans Funds Sicav PLC - Int. Diversified Growth Fund	Euro	2.3921	0.634	171,484	71,688
Gasans Funds Sicav PLC - Int. Lower Risk Fund	Euro	2.3921	0.7861	216,530	90,519
Gasans Funds Sicav PLC - Int. High Yield Bond Fund	Euro	2.3921	0.8958	2,613,576	1,092,587
Barclays Sterling Bond Fund	Stg	1.5560	0.4519	985,645,927	633,448,539
Edinburgh Managed Growth Portfolio - Class A & B	Stg	1.5560	A 99.45 - B 99.21	160,660,879	103,252,493
Ashmore Russian Debt Portfolio	US\$	2.4973	38.5961	60,658,788	24,289,748
Total in Lm					1,034,134,961
CBM Exchange Rates Lm1:	Euro	2.3921			
	CHF	3.4760			
	Stg	1.5560			
	US\$	2.4973			

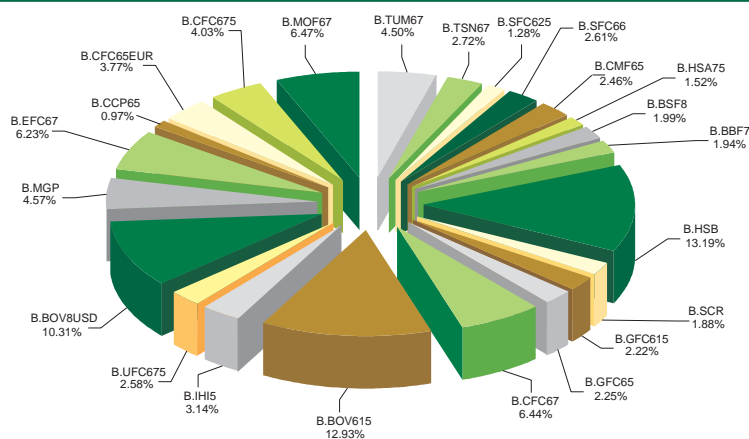
Market Capitalisation by Instrument



Market Capitalisation Equities



Market Capitalisation - Corporate Bonds



Trade Weighted Average Price

In February 2001 the Exchange had introduced a trade weighted average moving price [TWAMP] which was based on the aggregate volume and value registered during the latest five trading sessions in which a particular equity was traded in. As a result the average price of an equity would be based on at least 5 market transactions. Trade ranges [the percentage band up or down from the average price in which an equity may be traded], the Index and Market Capitalisation were also worked out on the basis of the TWAMP. The introduction of TWAMP was accompanied by the introduction of "stalemate" procedures; i.e. procedures for unlocking a market situation where orders in a particular equity happen to fall outside the

designated trade ranges with the result that the equity is inhibited from trading.

After a number of months of operating under this system, it was however noted that in certain circumstances, the Index and the average price were not reflecting the market trend in a particular equity because the average price was for the large part based on "historical" data and thus could not respond to the price movements in the market as fast as was desirable. It was therefore, agreed, after discussions with the stockbrokers, that the calculation of the average price should revert back to the original method of calculation taking into consideration only the trades taking place during the last day a particular equity was traded in or, in other words, the daily average price. At the same time "stalemate"

procedures were removed but new procedures were introduced to allow for the temporary removal of trade ranges in those cases where an equity has not traded for a given period of time and where outstanding orders are outside the last calculated trade range. In this way, it was felt that unwarranted price fluctuations could still be prevented yet at the same time sufficient leeway was given so as not to inhibit trading. These new provisions were introduced in May 2002. At the same time it was also decided that the average price would be used merely as a tool to calculate trade ranges. The quoted price and the price used to calculate the Index and market capitalization would henceforth be the closing price for each equity.

Admission to Listing

The following securities were admitted to the Official List and the Alternative Companies List during 2002 :

Government Stocks :

- Lm125,000 7% MGS 2011 [III]
- Lm20,200,000 5.9% MGS 2015 [II]
- Lm10,000,000 5.6% MGS 2007 [III]
- Lm176,200 7% MGS 2012 [II]
- Lm15,250,000 5.6% MGS 2007 [III] – Fungibility Issue
- Lm21,000,000 5.7% MGS 2012 [III]

Equities :

- 6,582,793 International Hotel Investments plc Ordinary Shares Nominal Lm1 [Rights issue]
- 54,414 Lombard Bank [Malta] plc Ordinary Shares Nominal Lm0.50 [Bonus Issue]
- 1,417,207 International Hotel Investments plc Ordinary Shares Nominal Lm1 [Unallocated balance of new share issued subsequent to Rights Issue]

Equities (Continued):

- 1,714,286 Simonds Farsons Cisk plc ordinary Shares Nominal Lm0.12,5 [Rights Issue]
- 40,589,995 Malta International Airport plc Ordinary "A" Shares Nominal Lm0.20

Corporate Bonds [Official List]:

- Euro 14,273,700 6.5% Corinthia Finance plc Bonds 2010
- Lm 6,289,900 6.75% Corinthia Finance plc Bonds 2012
- Lm10,000,000 6.7% Mizzi Organisation Finance plc Bonds 2009/2012
- Lm7,000,000 6.7% Tumas Investments plc Bonds 2010/2012
- Lm 4,200,000 6.7% Tumas Investments plc Secured Notes 2006
- Lm 2,000,000 6.25% Simonds Farsons Cisk plc Bonds 2006/2008
- Lm 4,000,000 6.6% Simonds Farsons Cisk plc Bonds 2010/2012
- Lm 3,800,000 6.5% CareMalta Finance plc Bonds 2008/2011

Corporate Bonds

[Alternative Companies List]:

- Lm 2,500,000 7.5% Hotel San Antonio plc Bonds 2012
- Lm 3,263,800 8% Bay Street Finance plc Bonds 2012
- Lm 3,000,000 7% Big Bon Finance Secured Bonds 2010/2012

Collective Investment Schemes & Overseas Companies:

Primary Listing :

- 1 share class of Vilhena Funds SICAV plc
- 3 share classes of Aberdeen Global SICAV
- 1 share class of Gasan funds SICAV
- 4 share classes of La Valette Funds SICAV plc

Secondary Listing :

- GBP 1,937,000 SGA Societe General Acceptance N.V. Malta Notes 2005
- 3 share classes of UBS [Lux] Equity Fund
- 1 share class of Aberdeen International Fund plc
- 9 share classes of Bank of Ireland Global Funds Ltd
- 25 share classes of HSBC International Capital Secured Growth Funds plc
- 5 share classes of Fidelity Funds SICAV
- 3 share classes of Aberdeen Global SICAV
- 1 share class of Royal & Sun Alliance Global Investment Portfolio SICAV
- 6 share classes of Tames River Traditional Funds plc
- 4 share classes of Lazard Global Active Funds plc
- 1 share class of Privilege Portfolio SICAV

Listed securities

Equities:

13 Ordinary Shares

Corporate Bonds:

23 Bonds

Government Stocks:

36 Stocks

Collective Investment Schemes:

56 Funds - Primary Listed

321 Funds - Secondary Listed

Delisting of Collective Investment Schemes

The following Collective Investment Schemes have been delisted from the Official List of the Malta Stock Exchange during 2002. These funds were delisted due to cost cutting exercises on the part of the SICAVs and not as a result of any regulatory shortcomings.

- 5 share classes of Lazard Global Bond fund plc
- 3 share classes of Lloyds TSB Money Fund Ltd
- 1 share class of Fidelity Funds SICAV
- 1 share class of La Valette Funds SICAV

Redemptions

The following securities were redeemed during 2002 :

- 6% Simonds Farsons Cisk [net] Preference Shares Nominal Lm10 - 2001/2003
- 7.75% MGS 2002
- 6.9% MGS 2002 [II]
- 6.9% MGS 2002 [III]
- 6.9% MGS 2002 [IV]

Central Securities Depository

During 2002, the number of accounts registered within the Central Securities Depository [CSD] increased from 125,000 at the end of 2001 to over 143,000 a year later. This expansion reflected the higher number of listed securities, primarily in the corporate bond sector.

These accounts represent almost 60,000 individual holders, an increase of almost 4,000 from the end of the previous year. Looking at securities by sector and comparing with end 2001 figures, a contraction emerged in the number of equity holders which was more than offset by a higher number of Corporate Bond holders. Notwithstanding this latest contraction, equity holders still account for the largest category on the CSD registers, at 29,214. The number of Government

Dividend Payment Report for the year 2002

	Gross Amount (in Lm)	No of Warrants
January	4,881,873	7,598
February	4,892,158	8,689
March	8,149,846	17,934
April	3,958,091	11,582
May	5,032,875	10,996
June	3,184,053	13,036
July	4,881,873	7,569
August	4,892,158	8,686
September	7,001,850	14,386
October	8,296,142	17,540
November	5,064,275	13,512
December	3,129,595	13,906
Total	63,364,789	145,434

Stock holders remained practically unchanged at 25,803 while Corporate Bond holders rose from 16,000 at the end of 2001 to almost 21,500 at the end of 2002.

The number of amendments effected by the CSD across all registers increased from just under 25,000 in 2001 to over 26,500 in 2002. There was a significant decline in the number of amendments effected as a result of market transactions, a reflection of the marked decrease in secondary market trading. On the other hand, other amendments such as *causa mortis* etc. increased considerably during the year due to the increased number of

registers opened within the CSD in line with the number of new listings coming on stream.

During 2002 the CSD also registered an increase in the number of dividend cheques processed – up from 132,000 in 2001 to 145,000, equivalent to total payments of over Lm63 million. During the year four Government Stock issues and one Preference Share issue were redeemed with the redemption proceeds being processed by the CSD.

During the year the CSD processed applications and undertook all primary issue procedures for new Government Stock issues. The CSD also undertook

similar procedures for a number of other securities issued on the primary market.

During 2002, primary issue procedures were reviewed and upgraded in order to lessen, as far as possible, the time lag between closure of an issue and commencement of trading.

A new fee structure has also been introduced in respect of services offered by the CSD in respect of primary issues [such as use of manned/unmanned terminals; supervision, etc.]. These fees have been kept as low as possible so as to remain competitive with other managers and not to make the listing exercise expensive for prospective listed companies.

As a start to the Business Documentation Project, the CSD procedures manual was re-drafted and implemented at the beginning of the fourth quarter of 2002. Whilst re-drafting the Procedures Manual the opportunity was taken to evaluate the procedures being undertaken by the CSD and the services being offered together with the documentation being requested thereby tightening procedures to ensure that all legal and regulatory requirements were being adhered to

CSD Register Amendments for 2002

Amendment Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Causa Mortis	112	58	62	57	104	109	178	158	133	128	156	92	1,347
Garnishee Insert	2	7	12	10	3	1	4	17	0	5	4	4	69
Garnishee Release	2	4	6	3	3	2	1	1	0	5	7	7	41
Holder Amendment	189	98	71	55	119	103	119	119	151	144	106	88	1,362
Mandate/Power of Attorney	118	111	230	602	289	216	252	393	220	386	330	464	3,611
Bought Movements	647	645	662	531	610	597	657	542	711	660	866	798	7,926
Sold Movements	647	645	662	531	610	597	657	542	711	660	866	798	7,926
Release of Estates	166	104	155	123	130	224	200	140	206	227	222	188	2,085
Off-Market Transfers	63	47	37	13	43	45	63	19	8	55	58	143	594
Pledge Insert	103	72	46	93	116	75	69	110	37	105	84	64	974
Pledge Release	41	64	69	55	65	48	37	49	69	45	41	23	606
Total	2,090	1,855	2,012	2,073	2,092	2,017	2,237	2,090	2,246	2,420	2,740	2,669	26,541

and adequately provided for. In particular, the pledging procedure was significantly overhauled both as a result of the above mentioned exercise but also to reflect new internal procedures in this area being implemented by the banks.

New procedures have also been introduced regarding communication between the CSD and stockbroking firms which is now carried out electronically through a specially set up e-mail address.

Compliance

During 2002, Compliance Office continued with its programme of visits to stockbroking firms which was concluded in June. During 2001 all the stockbroking firms had been visited and inspected, therefore, the programme of compliance visits during 2002 only covered follow up and overview visits to new firms.

Following the introduction of the Financial Markets Act in October 2002 stockbrokers licensed by the Exchange were issued with a one-year transitory license, providing such license holders sufficient time to come into line with the provisions of new Act. In fact, stockbrokers, previously licensed by the Exchange will henceforth be licensed by the Malta Financial Services Authority under the Investments Services Act. The Exchange is currently liaising with the Authority regarding the regulation of stockbroking services. Compliance visits will form part of this regulation and it is envisaged that the Exchange will continue to carry out such visits to stockbroking firms though only on matters connected to their activities on the market.

Under the new Act, market monitoring remains the responsibility of the Exchange and therefore, an important function of Compliance Office, not only in respect of trading to ensure an orderly, transparent and equitable securities market but also in respect of the supervision of stockbrokers and the supervision of listed companies vis-à-vis their adherence to continuing obligations. In this respect the Exchange has adopted new procedures for the receipt and transmission of company announcements. An amendment to the bye-laws provides for company announcements to be received directly from the listed company by Compliance Office through a secure e-mail. This procedure ensures that Company Announcements are received legibly by the Exchange and distributed concurrently to all appropriate recipients as quickly and securely as possible. Following the introduction of these new procedures, the Exchange issued further instructions to listed companies regarding electronic signatures and legal responsibilities attached thereto.

During 2002 Compliance Office issued a total of 179 Company Announcements in terms of the Bye-laws as follows :

January	13
February	18
March	22
April	17
May	16
June	11
July	17
August	9
September	26
October	8
November	6
December	16

During the course of the year Compliance Office was also involved in the preparation and delivery of the training programme for prospective stockbrokers and accredited representatives. This training programme was also attended by new Compliance staff and also by members of staff from the MFSA, as part of their training programme as the Competent Authority .

Internal Compliance Office

In June 2002 the Exchange embarked on a Business Documentation Project intended to standardize and update all existing procedure manuals of the Exchange. Two members of staff from Compliance Office were designated to work on this Project with the initial assistance of CMA Percival AB [suppliers of the depository system and management consultants]. The Project commenced with the documentation of the registry and depository functions which documentation was implemented in October 2002. The Project continued with the IT section and will carry on well into 2003 when all such documentation will be finalised.

With the coming into force of the FMA on 1 October 2002 the Exchange has been designated with the new status of a Recognised Investment Exchange [RIE] licensed by the MFSA. As a result of this new status the Exchange has new reporting requirements vis-à-vis the Regulator. In effect, new regulations pertaining to RIE's provide for the setting up of an "internal audit" function reporting directly to the Council and Regulator.

In line with these new regulations, therefore, the Exchange has set up the Internal Compliance Office, which has as its core staff those officials already working on the Business Documentation Project. One of the functions of the Internal Compliance Office, in fact, will be the verification of all procedures and functions of the Exchange. The Internal Compliance Office has now expanded to a staff of four, with its Manager also acting as Secretary to the Audit and IT Committees set up by the Exchange.

Besides reporting to Council and eventually also to the Regulator, the Internal Compliance Office is mainly responsible for the Business Process Documentation Project which primarily involves :

- drawing up of documentation and eventual updating of documentation covering all the procedures and functions performed by the Exchange; and
- verification of such procedures.

Concurrently, with the Business Documentation Project which is still underway, verification procedures have commenced, for the time being mainly concentrated on the functions of the CSD. Procedures have also been set up where Internal Compliance Office and the office concerned liaise on a regular basis to discuss any issues that might have arisen following verification procedures. All changes in procedures are also being channelled through and tested by Internal Compliance Office before being implemented.

Amendments to the Bye-laws

During 2002, three separate amendments were issued to the Bye-

laws of the Malta Stock Exchange, all concerning listing requirements and continuing obligations.

At the beginning of April, the Council approved new bye-laws [included as Chapter 11 of the Bye-laws] with regard to listing requirements for overseas companies. Later on in the year a further amendment was issued with respect to the contents of the "Listing Agreement" entered into between the Exchange and companies coming to listing. The third amendment concerned the transmission of company announcements. As proposed by FESE during their validation of the Exchange, it was agreed that company announcements should no longer be channelled through the Corporate Broker but should be the responsibility of the listed company directly. This would ensure more timely distribution of relevant information and would eliminate the situation that a corporate broker is privy to price sensitive information before the rest of the market.

The coming into force of the FMA, has resulted in considerable changes having to be made to the bye-laws to reflect the new provisions of the legislation and regulations. These amendments centre mainly around membership requirements and listing requirements and also foresee the abolition of the Compensation Fund. Such amendments are currently being discussed with the Competent Authority. It is envisaged that a new set of bye-laws will be issued during the first half of 2003.

Membership

During 2002 two new members were licensed by the Council as

stockbrokers. Three further accredited representatives were also approved by the Council after having successfully completed the requisite training and written test. Another licensed stockbroker requested a voluntary surrender of his license after he ceased operations as a stockbroker. Towards the beginning of the year three brokers operating through the same firm, split their operations and commenced operations through two separate firms.

Currently, following the coming into force of the FMA, licensed stockbrokers have been issued with a transitory license for a period of one year during which time they will be able to make the necessary changes to the set up of their stockbroking companies as well as any other legislative and regulatory changes needed to come into line with the provisions of the new Act.

College of Stockbroking Firms

Mr Wilfred Mallia and Mr David Curmi were appointed to represent their firms on the College with effect from January 2002. Mr David Curmi replaced Mr Neville Curmi while Mr Mallia started to represent his stockbroking firm, following his departure from another stockbroking firm. Mr Ivan Burrige, Mr Neil Crossey and Mr Jean P Gaffiero served as Chairman, Deputy Chairman and Secretary respectively of the College up to mid-October 2002. Following the introduction of the FMA new officials of the College were appointed, namely, Mr Wilfred Mallia as Chairman, Mr David Curmi as Deputy Chairman, while Mr Jean P Gaffiero continued to serve as Secretary. Following their appoint-

ment, the Officials of the College met the new Council of the Exchange were they discussed matters of mutual interest.

Other Activities

Second Chairman's Annual Seminar

During the last few years Corporate Governance has become very much the issue of the moment throughout the globe, Malta included. Indeed, the setting up of the European Corporate Governance Institute [ECGI] of which the Malta Stock Exchange is a founder Member is as a direct result of the need that has been felt to further discussions and studies on this issue. Following the issue of its own Princi-

the debate. The Chairman's Annual Conference was thought to be an ideal event to start such debate and in fact the theme chosen for the Second Annual Chairman's Conference held on 5 April 2002 was **"Corporate Governance, Why?"**

The Conference was split into three Panels, each dealing with a specific aspect of Corporate Governance. The first Panel dealt with "Corporate Governance – Why?", the second Panel debated "Corporate Governance as a tool for development, while the final Panel looked to the future in "Corporate Governance – What Next?"



speakers included Mr Richard T Meier from the Swiss Stock Exchange; Ms Carolyn K Brancato from the Conference Board, New York; Dr Shahira Abdel Shahid from the Cairo & Alexandria Stock Exchanges and Stephan Follender Grossfeld from the Amsterdam Exchanges NV who all spoke about different aspects of Corporate Governance and how these effected their organisations in their particular country.



Professor Colin Mayer, Professor of Management Studies at the Said Business School, Oxford University and a member of the Board of ECGI, gave the opening Keynote Speech where he gave an overview of Corporate Governance in Europe in a presentation entitled "Corporate Governance in Europe – Who controls corporate Europe". Mr Paul Arlman, Secretary General of FESE, concluded the Seminar by bringing together all the different points raised in the various presentations.



The Panels were composed of both local and foreign speakers, who are all involved with Corporate Governance. Maltese speakers included practitioners in the

stockbroking, legal and insurance field as well as a representative of the Malta Institute of Directors. Foreign

ples of Corporate Governance for Listed Companies in October 2001, the Exchange wished to continue

In his Opening Address, the Chairman spoke about the increasing pressures that public companies are under calling for greater accountability and transparency and that such pressures, now also being felt in Malta, have lead to the increased importance being given to Corporate Governance principles. Mr Mallia also spoke about the Corporate Governance Principles

introduced by the Exchange, the questions these have raised and how these should continue to be developed.

The Minister of Finance, in his Welcome Address spoke about the culture change that is taking place in Malta with regard to its economy and financial sector, how the umbrella of protectionism is being removed from the financial sector, a move which brings with it a greater need for transparency, efficiency and must ensure a level playing field. Mr Dalli said that the introduction of the Principles of Good Corporate Governance by the Exchange was a step in the right direction for investors to have confidence in the capital market in this era of liberalisation and it was important that Malta be committed to on going consolidation, modernisation and reforms in order to ensure that international standards that have been achieved are maintained.

The Conference, which was attended by well over 300 participants, precipitated a lively debate on the issues discussed, which is still being continued today with various interested parties such as the Institute of Accountants regarding proposed Guidelines for Reporting by Listed Companies.

Meeting with Company Secretaries

In July 2002 the Exchange held a meeting with the Company Secretaries of all the listed companies as given all the developments that were taking place in the capital market, it was felt the opportune time to discuss matters of mutual interest. The two principal matters discussed were the changing regulatory environment and how these would directly, or indirectly, effect the

listed companies and corporate governance reporting which was due as from the annual reports for 2002. Other issues discussed were the services offered by the CSD and compliance matters.

Information Meetings by Listed Companies

When evaluating the Exchange for Associate Membership, FESE had recommended that listed companies should endeavour to have regular meetings not only with their shareholders, but also with the investing public

A number of listed companies took up this invitation and held such public meetings. They spoke about the performance of their companies and projects for the future.

All the meetings were very well attended and the Exchange notes with satisfaction the appreciation expressed by the members of the general public present who commended the Exchange on the initiative taken in this regard.



in general to keep them informed of developments within the company.

The Exchange took up this recommendation and invited all listed companies to participate in public meetings so that closer contact with the investing public is maintained. The scope is to provide companies whose securities are listed on the Exchange with the opportunity to keep the general body of investors informed of the company's current position and possible future strategies.

STOCKBROKERS

as at March 2003

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Ms Elaine Bonello

Mr Matthew Bonello

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FINANCIAL REPORT

FINANCIAL REPORT

The year was characterised by an increase of nine bond listings on the Official List, three on the Alternative Companies List and the privatisation and listing of the Malta International Airport p.l.c.

A surplus before taxation of Lm 71,000

The surplus before taxation for the year has decreased by 22% from *Lm91,000 to Lm71,000*. This is mainly a result of increases in the interest payable on the loans from the Ministry of Finance and APS Bank. The Exchange in fact had an increase in its operating surplus for the year from *Lm84,000* in 2001 to *Lm119,000* in 2002.

Note 4 to the audited financial statements broadly splits up the Exchange's income for the year 2002 between fees payable by stockbrokers and financial intermediaries, *Lm64,000, (2001 – Lm120,000)*, listing fees *Lm684,000, (2001–Lm619,000)* and income generated from services offered by the Central Securities Depository *Lm399,000, (2001–Lm319,000)*. A lower traded turnover during 2002, generated less business for licensed stockbrokers resulting in a significant decrease in fees charged on traded turnover. The increase in listing fees is related to nine bond listings, one equity listing and the listing of sixty seven new investment funds during the year. Increased listings also generated further income for the Central Securities Depository.

On the expenditure side, staff costs increased by 7% to *Lm442,000 (2001 – Lm413,000)* mainly due to the recruitment of six new members of staff during the year and annual increments given to staff. All new recruits entered at a clerical level.

At the beginning of the financial year ending 31st December, 2002 the Exchange revised the estimated useful life of some of its tangible assets. Had this revision not taken place the depreciation charge for the year would have been *Lm138,000* instead of *Lm92,000*.

Increase in fixed assets during 2002

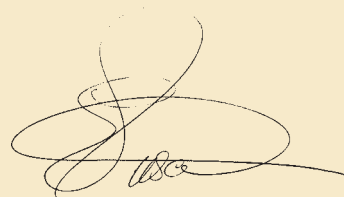
In contrast with the last two years, when the cost of the premises increased the Exchange's fixed assets to a net value of *Lm2.3 million* by the end of 2001, the increase in fixed assets this year was of *Lm159,000*. Half of this amount related to remaining additions to the premises, including the purchase of air-conditioning units and other equipment.

Cash flows during the year

As can be seen in the cash flow statement on page (VII), the net movement in cash and cash equivalents amounted to *Lm23,000* in 2002 (*2001 – Lm180,000, negative movement*). During 2002, a short-term loan of *Lm 400,000* was taken from APS Bank. This loan is guaranteed by the Government of Malta.

Expectations for 2003

An expenditure reduction exercise within the Exchange is aimed at decreasing the Exchange's administrative costs and improving its profitability. It is expected that the year ahead will prove to be another challenging year for the Malta Stock Exchange.



Eileen V. Muscat
General Manager

Malta Stock Exchange,
Garrison Chapel,
Castille Place,
Valletta,
Malta.

14th March, 2003

REPORT OF THE COUNCIL

Year ended 31st December, 2002

The Council members present their report and the audited financial statements of the Exchange for the year ended 31st December, 2002.

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 ended 31st December, 2002 are shown in the income and expenditure account on page (IV). The surplus for the year after taxation was *Lm*43,791.

Council members

The Council, appointed in terms of Article 8 of the Statute is made up as follows:

Alfred Mallia (*Chairman*)
*Resigned 30th September, 2002,
re-appointed 1st October, 2002*

Arthur Galea Salomone
(Deputy Chairman)
Appointed 1st October, 2002

Alex Agius
Appointed 1st October, 2002

Marco Sammut
Appointed 1st October, 2002

Saviour Briffa
*Resigned 30th September, 2002,
re-appointed 1st October, 2002.*

Joseph V. Laspina
(Deputy Chairman)
Resigned 30th September, 2002

Edward Cachia Caruana
Resigned 30th September, 2002

Michael Sciortino
Resigned 30th September, 2002

College of Stockbroking Firms

The stockbroking firms have appointed the following members to represent them on the College:

Ivan J. Burridge
(Chairman until 14th October, 2002)

Wilfred Mallia
(appointed to the College in January 2002; appointed Chairman 14th October, 2002)

Neil Crossey
(Deputy Chairman until 14th October, 2002)

David A. Curmi
*(replaced N.A. Curmi, January 2002;
appointed Deputy Chairman 14th October, 2002)*

Jean P. Gaffiero
(Secretary)

Paul V. Azzopardi

Joseph G.P. Bonello

Alfred Calamatta

Carmel J. Farrugia

Karol Farrugia

Mark R. Hogg

Christopher J. Pace

Franco Xuereb

Council members' responsibility

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 its surplus for the year then ended. In preparing the financial statements, the Council members should:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material

departures disclosed and explained in the financial statements; and

- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Exchange will continue in business.

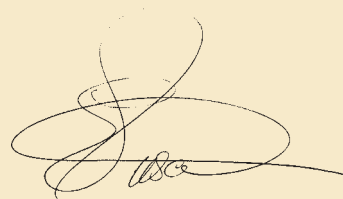
The Council members are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Exchange and which enable them to ensure that the financial statements comply with the Financial Markets Act (Cap. 345).

They are also responsible for safeguarding the assets of the Exchange and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors Deloitte & Touche have intimated their willingness to continue in office.

By order of the Council:



Eileen V. Muscat
Secretary

Garrison Chapel,
Castille Place,
Valletta.

14th March, 2003

AUDITORS' REPORT

We have audited the financial statements of the Malta Stock Exchange on pages (IV) to (XVI) for the year ended 31st December, 2002. These financial statements are the responsibility of the Council. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material mis-statement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Council members, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Exchange as of 31st December, 2002 and of its surplus, changes in equity and cash

flows for the year then ended, have been properly prepared in accordance with International Financial Reporting Standards and comply with the Financial Markets Act (Cap. 345).



Stephen Paris

DELOITTE & TOUCHE
Certified Public Accountants
and Auditors

14th March, 2003

INCOME AND EXPENDITURE

ACCOUNT

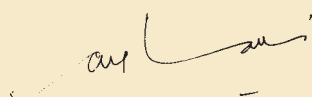
Year ended 31st December, 2002

	<i>Note</i>	2002 Lm	2001 Lm
Operating income	<i>4</i>	1,147,547	1,058,128
Operating expenditure			
Administrative expenses	<i>5</i>	936,003	870,223
Depreciation		92,139	103,919
		1,028,142	974,142
Operating surplus for the year		119,405	83,986
Income from financial assets		17,939	-
Profit on disposal of investments		1,125	1,011
Interest receivable		13,013	27,094
Interest payable and similar charges	<i>6</i>	(80,381)	(20,750)
Surplus before taxation	<i>7</i>	71,101	91,341
Taxation	<i>8</i>	(27,310)	(34,804)
Surplus for the year		43,791	56,537

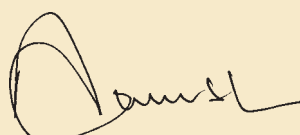
BALANCE SHEET

	<i>Note</i>	2002 Lm	2001 Lm
Fixed assets			
Tangible assets	<i>9</i>	2,352,867	2,286,479
Financial assets	<i>10</i>	175,250	175,625
		2,528,117	2,462,104
Non-current asset			
Deferred taxation	<i>11</i>	-	7,078
Current assets			
Debtors	<i>12</i>	460,934	379,329
Cash at bank and in hand		14,416	11,429
		475,350	390,758
Creditors: amounts falling due within one year	<i>13</i>	(864,580)	(778,104)
Net current liabilities		(389,230)	(387,346)
Total assets less current liabilities		2,138,887	2,081,836
Creditors: amounts falling due after more than one year	<i>14</i>	(1,000,000)	(1,000,000)
Provision for liabilities and charges	<i>11</i>	(13,260)	-
		1,125,627	1,081,836
Capital and reserves			
Capital	<i>15</i>	500,000	500,000
Accumulated surplus		625,627	581,836
		1,125,627	1,081,836

Approved by the Council and signed on its behalf on 14th March, 2003 by:



Alfred Mallia
Chairman



Arthur Galea Salomone
Deputy Chairman

STATEMENT OF CHANGES

IN EQUITY

Year ended 31st December, 2002

	Capital	Accumulated surplus	Total
	Lm	Lm	Lm
Balance at 31st December, 2000	500,000	525,299	1,025,299
Surplus for the year	-	56,537	56,537
Balance at 31st December, 2001	500,000	581,836	1,081,836
Surplus for the year	-	43,791	43,791
Balance at 31st December, 2002	500,000	625,627	1,125,627

CASH FLOW STATEMENT

	<i>Note</i>	2002 Lm	2001 Lm
Cash flows from operating activities			
Surplus before taxation		71,101	91,341
<i>Adjustments for:</i>			
Depreciation		92,139	103,919
Interest receivable		(13,013)	(27,094)
Interest payable		80,381	20,750
Profit on disposal of investments		(1,125)	(1,011)
Income from financial assets		(17,939)	-
<hr/>			
Operating profit before working capital movement		211,544	187,905
Movement in debtors		(40,027)	117,666
Movement in creditors		(294,088)	70,744
<hr/>			
Cash flows from operations		(122,571)	376,315
Taxation paid		(36,225)	(52,013)
Tax credit received in respect of year of assessment 1994		5,529	-
<hr/>			
Net cash flows from operating activities		(153,267)	324,302
<hr/>			
Cash flows from investing activities			
Payments to acquire tangible assets		(158,527)	(1,474,635)
Payments to acquire financial assets		-	(35,250)
Proceeds from disposal of financial assets		-	178,000
Proceeds from disposal of tangible assets		-	343
Interest received		12,976	29,685
Interest paid		(79,686)	(2,000)
Dividends received		1,622	-
<hr/>			
Net cash flows from investing activities		(223,615)	(1,303,857)
<hr/>			
Cash flows from financing activities			
Drawdown of short-term loan		400,000	
Drawdown of long-term loan		-	800,000
<hr/>			
Net cash flows from financing activities		400,000	800,000
<hr/>			
Net movement in cash and cash equivalents		23,118	(179,555)
<hr/>			
Cash and cash equivalents at the beginning of the year		(109,033)	70,522
<hr/>			
Cash and cash equivalents at the end of the year	<i>16</i>	(85,915)	(109,033)

NOTES TO THE FINANCIAL STATEMENTS

31st December, 2002

1. Basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with International Financial Reporting Standards. The more important accounting policies are set out below.

2. Principal accounting policies

Tangible assets

Tangible assets are stated at cost less accumulated depreciation.

Depreciation

Depreciation is charged so as to write off the cost of the assets over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold premises	over the remaining term of the lease
General electrical equipment	6.67%
Computer systems	20%
Office furniture, fittings and other equipment	10 – 16.67%
Motor vehicles	20%

Depreciation is not charged on tangible fixed assets which have not yet been brought into use.

Financial instruments

Financial assets and liabilities are recognised on the Exchange's balance sheet when the Exchange has become party to the contractual provisions of the instrument.

Trade debtors

Trade debtors are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial assets

Financial assets are initially measured at cost.

At subsequent reporting dates investments in securities that have been purchased at original issuance are measured at cost, less any impairment losses which may arise.

Available-for-sale investments, which are investments other than those held for trading purposes, originated loans or those where the Exchange has the positive intent and ability to hold to maturity, are remeasured to fair value, unless this cannot be reliably measured.

Borrowings

Interest-bearing loans and overdrafts are recorded at the proceeds received.

Creditors

Creditors are stated at their nominal value.

Impairment

At each balance sheet date, the Exchange reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount, as calculated. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment losses/reversals are recognised in the income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss/reversal is treated as a revaluation movement.

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.

Revenue recognition

(i) Turnover

Listing and registration fees are recognised on an accrual basis.

(ii) Interest receivable

Interest is recognised on an accrual basis.

(iii) Investment income

Investment income is accounted for when it is probable that the economic benefits associated with the transaction will flow to the Exchange and these can be measured.

Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profits. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the Exchange intends to settle its current tax assets and liabilities on a net basis.

2. Principal accounting policies *(continued)*

Retirement benefit costs

The Exchange contributes towards the government pension scheme in accordance with prevailing legislation, on an accrual basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand, less bank advances repayable within three months of the date of the advance.

3. Compensation Fund

The Malta Stock Exchange maintains a Compensation Fund established in terms of Section 14 of the Statute contained in the Schedule to the Financial Markets 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 the Bye-laws issued by the Council on 24th 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.

The Bye-laws are currently being amended and negotiations for the establishment of a new kind of investor compensation scheme are underway with the regulator. In view of the new scheme being set up, no accrual for contributions in respect of 2002 has been made in these financial statements after the necessary approval was obtained from the regulator.

4. 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:

	2002	2001
	Lm	Lm
Fees payable by stockbrokers and financial intermediaries	64,435	120,271
Listing fees	683,704	619,033
Central clearing, settlement and depository fees and other income	399,408	318,824
	1,147,547	1,058,128

5. Administrative expenses

	2002 Lm	2001 Lm
Staff costs	441,855	413,414
Other administrative expenses	494,148	456,809
	936,003	870,223

The average number of persons employed by the Exchange during the year was forty two (2001 – thirty nine). Staff costs for the year comprised:

	2002 Lm	2001 Lm
Wages and salaries	376,060	342,906
Social security costs	49,251	45,495
Recruitment, uniforms and other staff welfare costs	16,544	25,013
	441,855	413,414

6. Interest payable and similar charges

	2002 Lm	2001 Lm
<i>This is charged on:</i>		
Bank loans and overdraft	30,381	2,000
Other loan	50,000	18,750
	80,381	20,750

7. Surplus before taxation

	2002 Lm	2001 Lm
<i>This is stated after charging:</i>		
Emoluments of the Chairman and Council members inclusive of allowances, honoraria and remuneration for services given	14,875	14,309
Depreciation	92,139	103,919
Auditors' remuneration	2,875	2,875

8. Taxation

(a) Current taxation

	2002 Lm	2001 Lm
Balance brought forward	(26,277)	304
<i>Tax charge for the year:</i>		
Malta tax at 35%	4,276	21,821
Tax credit in respect of year of assessment 1994	(5,529)	-
Final withholding tax at 15%	1,946	3,611
Tax at source at 35%	6,279	-
Deferred taxation (note 11)	20,338	9,372
	27,310	34,804
Sub-total	1,033	35,108
<i>Tax paid/received:</i>		
Settlement tax	-	(304)
Provisional tax	(28,000)	(48,098)
Tax credit in respect of year of assessment 1994	5,529	
Withholding tax on interest received	(1,946)	(3,611)
Tax at source on dividend income	(6,279)	-
Transfer from deferred taxation (note 11)	(20,338)	(9,372)
Balance carried forward (note 12)	(50,001)	(26,277)

(b) The tax charge for the year and the tax charge applying the statutory domestic income tax rate are reconciled as follows:

	2002 Lm	2001 Lm
Surplus for the year	71,101	91,341
Tax at the applicable rate of 35%	24,885	31,969
<i>Tax effect of:</i>		
Tax credit in respect of year of assessment 1994	(5,529)	
Depreciation charges not deductible by way of capital allowances in determining taxable income	5,654	5,307
15% withholding tax on investment income	(2,595)	(4,815)
Exempt interest income	-	(1,411)
Disallowable expenses	4,895	4,684
Other permanent differences	-	(930)
Tax charge for the year	27,310	34,804

9. Tangible assets

	Leasehold premises Lm	General electrical equipment Lm	Computer systems Lm	Office furniture, fixtures and other equipment Lm	Motor vehicles Lm	Total Lm
Cost						
At 01.01.2002	1,693,907	398,248	503,728	226,811	9,195	2,831,889
Additions	73,755	15,231	49,911	19,630	-	158,527
At 31.12.2002	1,767,662	413,479	553,639	246,441	9,195	2,990,416
Depreciation						
At 01.01.2002	6,770	11,066	436,259	82,120	9,195	545,410
Provision for the year	17,278	27,565	28,584	18,712	-	92,139
At 31.12.2002	24,048	38,631	464,843	100,832	9,195	637,549
Net book value						
At 31.12.2001	1,687,137	387,182	67,469	144,691	-	2,286,479
At 31.12.2002	1,743,614	374,848	88,796	145,609	-	2,352,867

At the beginning of the financial year ending 31st December, 2002 the Exchange revised the estimated useful life of some of its tangible assets. Had this revision not taken place the depreciation charge for the year would have been *Lm138,641* instead of *Lm92,139*.

10. Financial assets

	2002 Lm	2001 Lm
Listed originated loans	168,000	168,000
Other unlisted available-for-sale investments	7,250	7,250
Shares in associated undertakings	-	375
	175,250	175,625

Listed originated loans

This represents the Exchange's investments in Malta Government Stocks which have been classified as originated loans, since these were purchased on original issuance, and are measured at cost.

The market value of the listed investments held at 31st December, 2002 was *Lm174,160* (2001 - *Lm169,232*).

10. Financial assets (continued)

Other unlisted available-for-sale investments

This represents the Exchange's 10% interest in the equity of Malta International Training Centre Limited, which is registered in Malta. Since the fair value of this investment cannot be reliably measured, it is measured at cost.

Shares in associated undertakings:

This represented the Exchange's 30% share in Bell Med Limited which was sold during the year.

11. Deferred taxation

	2001 Lm	Movement for the year Lm	2002 Lm
<i>Arising on:</i>			
Fixed assets	7,078	(20,338)	(13,260)

12. Debtors

	2002 Lm	2001 Lm
Fees receivable	377,620	284,521
Prepayments and accrued income	33,313	68,531
Taxation (note 8)	50,001	26,277
	460,934	379,329

13. Creditors: amounts falling due within one year

	2002 Lm	2001 Lm
Bank overdraft (secured)	100,331	120,462
Bank loan (secured)	400,000	-
Prepaid listing fees	164,022	156,806
Compensation fund	10,902	20,000
Accruals	56,094	61,685
Other creditors	133,231	419,151
	864,580	778,104

The bank overdraft bears interest at the rate of 7.5% (2001 – 7%) and is secured by a pledge on listed securities with a nominal value of *Lm168,000*.

The bank loan bears interest at the rate of 6.5% and is repayable on demand at the discretion of the bank, and is secured by a Government Guarantee which expires on 14th June, 2003.

The Exchange also has an unsecured overdraft facility of *Lm800,000* to cover any shortfall in the Securities Settlement Account operated by the Exchange with Central Bank of Malta. The balance on this account was nil at 31st December, 2002.

14. Creditors: amounts falling due after more than one year

	2002	2001
	Lm	Lm
<i>Amounts repayable within five years:</i>		
Unsecured loan	1,000,000	1,000,000

At 31st December, 2002 the Exchange had a loan facility of *Lm1 million* from the Ministry of Finance. This loan is unsecured and bears interest at 5% per annum. The loan repayments may commence by not later than January 2004 and the balance is to be fully repaid by not later than 30th June, 2006.

15. 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).

16. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2002	2001
	Lm	Lm
Cash at bank and in hand	14,416	11,429
Bank overdraft	(100,331)	(120,462)
Net balance	(85,915)	(109,033)

17. Contingent liability

At 31st December, 2002 the Exchange had a contingent liability amounting to *Lm4,514* in respect of amounts due to a creditor which are in dispute.

18. Financial instruments

Financial assets of the Exchange include cash classified as current assets in the balance sheet, as well as debtors. Financial liabilities of the Exchange include, loans, borrowings and creditors. The accounting policies for these assets and liabilities are set out in note 2 to the financial statements and those policies are directed towards the establishment of fair values for these assets and liabilities.

18. Financial instruments (*continued*)

Fair values

At 31st December, 2002 and 2001 the carrying amounts of creditors, debtors and short borrowings approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of long-term borrowings are not materially different from the carrying amounts.

19. Financial risk management

Credit risk

Financial assets which potentially subject the Exchange to concentrations of credit risk, consist principally of debtors and investments. Trade debtors are presented net of the allowance for doubtful debts. Credit risk with respect to debtors is limited due to credit control procedures.

Interest rate risk

The Exchange has taken out facilities to finance its operations as disclosed in notes 13 and 14. The interest rates thereon and the terms of such borrowings are disclosed accordingly.

20. Comparative figures

Certain comparative figures have been reclassified in order to comply with the current year's presentation of the financial statements.



The image features a complex abstract design. A light tan background is overlaid with several geometric shapes. A large, dark tan trapezoidal shape is positioned in the upper right. Below it, a horizontal band of medium tan color spans across the middle. A dark brown, angular shape is located in the lower middle. A dark grey grid pattern is visible in the top right corner. A thick black horizontal line runs across the middle, partially overlapping the dark brown shape. A thin black line starts from the top left, runs vertically down, then horizontally right, then diagonally down-right, and finally vertically down to the bottom right corner.

**COMPENSATION
FUND**

AUDITORS'

REPORT

to the Council of Malta Stock Exchange

We have audited the financial statements of the Malta Stock Exchange - Compensation Fund on pages (II) to (VI) for the year ended 31st December, 2002. These financial statements are the responsibility of the Council. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Council members, as well as an evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as of 31st December, 2002 and of its surplus, changes in equity and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards.



Stephen Paris

DELOITTE & TOUCHE
Certified Public Accountants
and Auditors

14th March, 2003

INCOME AND EXPENDITURE ACCOUNT & OTHER MOVEMENTS

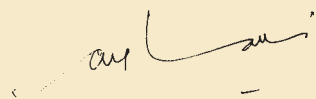
Year ended 31st December, 2002

	2002 Lm	2001 Lm
Income		
Investment income	10,627	9,456
Taxation deducted at source	(1,594)	(1,417)
Operating surplus for the year	9,033	8,039
Accumulated fund at 1st January	191,561	157,522
Contribution due in terms of chapter 7 of the Bye-laws (note 1)		
Stock Exchange contribution	-	10,000
Stockbrokers contribution	-	16,000
	-	26,000
Accumulated Fund at 31st December	200,594	191,561

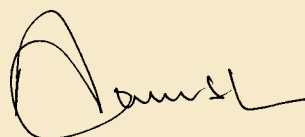
BALANCE SHEET

	<i>Note</i>	2002 Lm	2001 Lm
Fixed assets			
Financial assets	4	147,800	147,800
Current assets			
Debtors	5	13,391	38,394
Cash at bank		39,403	5,367
		52,794	43,761
		200,594	191,561
Accumulated Fund		200,594	191,561

Approved by the Council and signed on its behalf on 14th March, 2003 by:



Alfred Mallia
Chairman



Arthur Galea Salomone
Deputy Chairman

CASH FLOW STATEMENT

Year ended 31st December, 2002

	<i>Note</i>	2002 Lm	2001 Lm
Cash flows from operating activities			
Interest received		10,627	9,456
Movement in debtors		25,003	120
Cash flows from operations		35,630	9,576
Taxation paid		(1,594)	(1,417)
Net cash flows from operating activities		34,036	8,159
Cash flows from investing activities			
Payments to acquire financial assets		-	(44,000)
Proceeds on redemption of investments		-	22,000
		-	(22,000)
Cash flows from financing activities			
Contributions received in terms of Chapter 7 of the Bye-laws		-	14,000
Net movement in cash and cash equivalents		34,036	159
Cash and cash equivalents at the beginning of the year		5,367	5,208
Cash and cash equivalents at the end of the year	<i>6</i>	39,403	5,367

NOTES TO THE FINANCIAL STATEMENTS

31st December, 2002

1. The Compensation Fund

The Malta Stock Exchange maintains a Compensation Fund established in terms of Section 14 of the Statute contained in the Schedule to Financial Markets 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 the Bye-laws issued by the Council on 24th 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.

The Bye-laws are currently being amended and negotiations for the establishment of a new kind of investor compensation scheme are underway with the regulator. In view of the new scheme being set up, no accrual for contributions in respect of 2002 has been made in these financial statements after the necessary approval was obtained from the regulator.

2. Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards. The more important accounting policies are set out below.

3. Principal accounting policies

Financial instruments

Financial assets are recognised on the Fund's balance sheet when the Fund has become party to the contractual provisions of the instrument.

Debtors

Debtors are presented at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial assets

Financial assets are initially measured at cost.

At subsequent reporting dates, investments in securities that have been purchased at original issuance, are measured at cost, less any impairment losses which may arise.

Revenue recognition

(i) Contributions

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

(ii) Investment income

Investment income is recognised on an accrual basis.

3. Principal accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand less bank advances repayable within three months of the date of the advance.

4. Financial assets

	2002 Lm	2001 Lm
Listed originated loans	147,800	147,800

Listed originated loans

This represents the Fund's investments in Malta Government Stocks which have been classified as originated loans, since these were purchased on original issuance, and are measured at cost.

The market value of the listed investments held at 31st December, 2002 was *Lm158,980* (2001 – *Lm154,914*).

5. Debtors

	2002 Lm	2001 Lm
Other debtors	10,903	36,000
Accrued income	2,488	2,394
	13,391	38,394

6. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2002 Lm	2001 Lm
Cash at bank	39,403	5,367



1996 1997 1998 1999 2000

malta stock exchange annual report

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