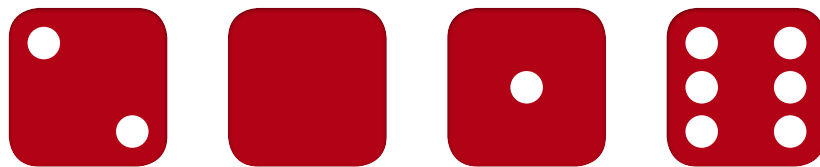


THE MALTA GAMING AUTHORITY



ANNUAL REPORT 2016

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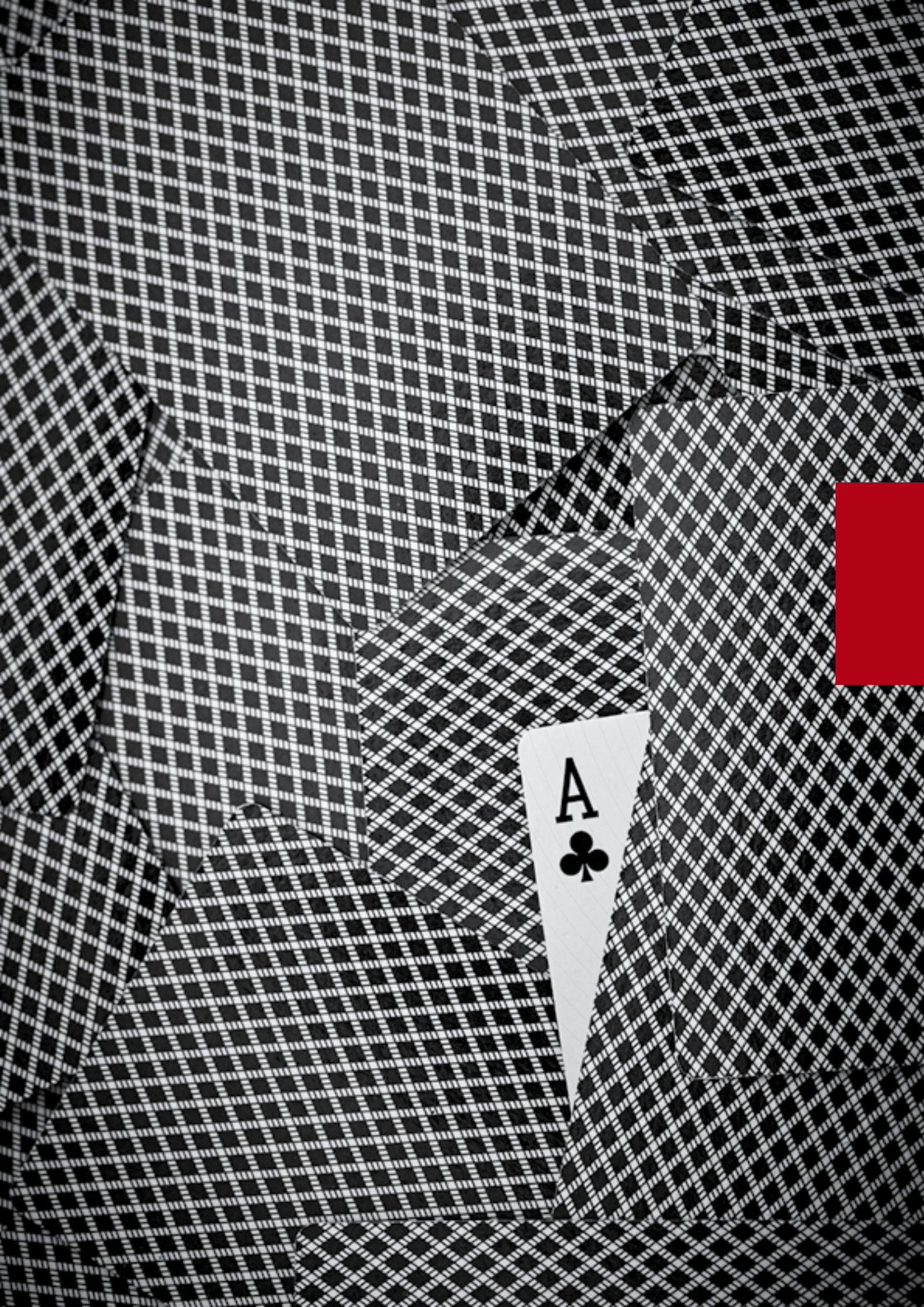
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FUTURE-PROOFING FOR SUSTAINABILITY





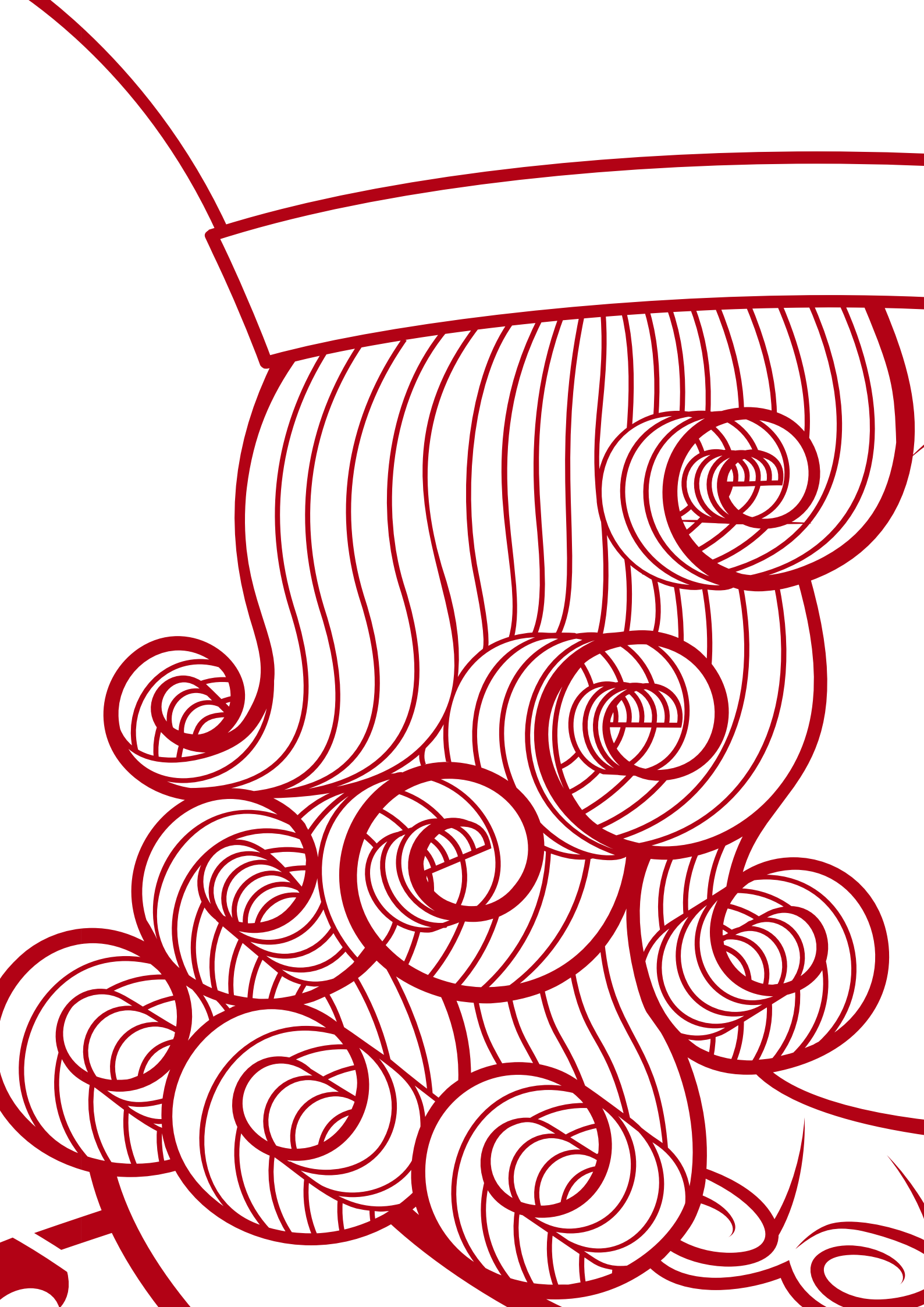
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Transformation
isn't about improving.
It's about rethinking. ”

MALCOLM GLADWELL





Introduction	09
Executive Chairman's Statement	11
2016 In Review	16
Outlook for 2017	28
MGA Structure	30
Corporate Governance	38
Gaming Industry Focus	40
The Maltese Gaming Industry in 2016	51
Financial Statements	81



INTRODUCTION

THE AUTHORITY

The Malta Gaming Authority (MGA) is the regulatory body responsible for the governance and supervision of all gaming activities in and from Malta. Malta's gaming regime is based on fair, responsible, safe and secure provision of gaming services and seeks to ensure that the three main pillars of gaming, namely (i) **the fairness of games**, (ii) **the protection of minors and vulnerable persons** and (iii) **the prevention of crime, fraud and money laundering**, are safeguarded as much as possible.

The Authority's functions include:

- regulating gaming;
- issuing licences and enquiring into suitability of licensees;
- supervising licensees and overseeing gaming operations;
- supporting and investigating player complaints;
- advising the Government on new developments and risks in the sector; and
- submitting legislative proposals to address changes within the sector.

The Authority's vision is to:

- make Malta the primary jurisdiction of choice for the international gaming industry;
- render Malta's gaming regulatory framework responsive to evolving market needs;
- deliver a year-on-year sustainable growth within a robust framework that manages innovation and embraces technological advances; and
- explore potential options and initiatives for growth, leveraging existing assets and capabilities.

The 2016 Annual Report describes the continued work done throughout the year by the Authority in achieving its vision, mainly by means of the repositioning strategy and a general overhaul of the regulatory regime, coupled with various other activities aimed at improving the regulatory integrity and reputation, increasing MGA's reach and effectiveness, strengthening the internal functions and future-proofing the MGA's scope and relevance. The Authority has embarked on this voyage keeping its core values of **TRANSPARENCY**, **INTEGRITY** and **RESPECT** at the centre of all its activities.

The Report also looks at 2017 and beyond, being a year of transition for the Authority and for the Maltese gaming sector, whereby all the work done in the strategic repositioning will come to fruition through the promulgation of the upcoming gaming legislative framework for gaming activity in Malta. ↵



JOSEPH CUSCHIERI
EXECUTIVE CHAIRMAN

EXECUTIVE CHAIRMAN'S

STATEMENT AND OVERVIEW

2016 IN REVIEW

In presenting this Annual Report for the year ending 31 December 2016, I cannot help feeling proud of the achievements attained by the gaming industry in Malta during the year and of the contribution which the Malta Gaming Authority made to such achievements. The industry has grown to account for almost one-eighth of the economy in a manner which is increasingly focused on quality, integrity and compliant service delivery. This engenders a strong sense of responsibility for the Authority to ensure a continued and sustainable growth of the industry, in a global environment which is not devoid of risks and threats, and where the protection of consumers and the nurturing of a leading-edge jurisdictional reputation are the cornerstone of success. The progress achieved by the Authority in 2016 in delivering upon a number of key projects and programmes - not least in the strategic repositioning of the Maltese regulatory environment - gives me well-founded confidence and optimism regarding the future of the gaming industry in our country. ►

The direct contribution of the gaming industry to the Maltese economy was valued at over €1 billion in 2016, with around 9,000 jobs within firms in the sector and associated businesses. The industry also generated €56.3 million in gaming taxes towards the Government budget. Although the attractiveness of the Maltese jurisdiction to offer access to EU markets was eroded in past years, Malta's competitiveness was sustained by its reputation and by a number of inherent business advantages. In 2016, remote gaming activity in Malta benefited from business consolidation and investment programmes which confirmed the global standing of Malta as a jurisdiction. In the land-based segment, the gaming industry continued to grow in line with the disposable income of the population, while serving to enhance and diversify the service offering to a burgeoning tourism market.

current and future dynamics with respect to technological developments, consumer protection standards and market demands. From a compliance perspective, the regulatory repositioning process will achieve a high level of integrity consistent with ongoing and future global requirements. The streamlining of the legal gaming framework on various levels, coupled with the overhaul of the gaming tax and licensing systems, are key elements of the process, which will, above all, enhance the international reputation of the Maltese jurisdiction.

During 2016, the Authority was engaged in a number of parallel initiatives of a priority and quick-dividend nature which will be complementing the regulatory repositioning exercise. A key example was the enhancing of compliance systems in view of the increased global focus on the gaming industry in this regard. This involved stepping up

THE NEED TO SUSTAIN THIS PERFORMANCE WITHIN THE CONTEXT OF THE OPPORTUNITIES AND THREATS FACING THE INDUSTRY WARRANT A FORWARD-LOOKING REPOSITIONING OF MALTA'S LICENSING ACTIVITIES AND ATTENDANT GOVERNANCE OF THE SECTOR. DURING 2016, THE AUTHORITY PROCEEDED WITH THE WORK ON THE OVERHAUL OF ITS REGULATORY FRAMEWORK WHICH WAS STARTED IN EARLY 2015 AND WHICH WILL COME INTO FORCE IN 2018.

The need to sustain this performance within the context of the opportunities and threats facing the industry warrant a forward-looking repositioning of Malta's licensing activities and attendant governance of the sector. During 2016, the Authority proceeded with the work on the overhaul of its regulatory framework which was started in early 2015 and which will come into force in 2018. This strategic exercise should develop new business areas and enhance regulatory efficiency and efficacy while improving compliance systems and player protection mechanisms to meet the best global regulatory standards of practice.

The new licensing framework will, from a business perspective, target more effectively the development of business-to-business activities, enhance the efficiency of regulatory processes across all areas of activity, and introduce the flexibility needed to meet

collaboration with the Financial Intelligence Analysis Unit with respect to anti-money laundering initiatives amongst other tasks. The MGA also engineered regulatory and legal amendments to strengthen consumer protection at various levels. From a business development perspective, the Authority launched a framework for the regulation of games of skill with prize, which followed upon the position paper on the subject published in December 2015.

The Authority also enhanced its focus on key success factors for Malta as a jurisdiction over the medium term by undertaking relevant studies in line with its vision to become an increasingly knowledge-driven organisation. Among the areas investigated by the Authority during 2016 were the availability of human resources and skills to sustain the operations of the industry, the threats and opportunities associated with



the acquisition of gaming services by the Maltese population, and the role of crypto-currencies in gaming activities.

I believe that the question of human resources in the context of the gaming industry is one which deserves close and immediate attention, and is indeed one on which the Authority will be increasingly engaging with other relevant stakeholders in the coming months. Addressing this issue will require a combination of education and training efforts while rendering Malta an even more attractive location for global talent from the fiscal and lifestyle perspectives. ►

THE GAMING INDUSTRY IN MALTA IS EXPECTED TO CONTINUE TO GROW STEADILY IN 2017 AND 2018. THIS WILL BE UNDERPINNED BY THE ORGANIC EXPANSION OF EXISTING OPERATORS, BUT IT IS ALSO EXPECTED TO BE COMPOUNDED BY NEW INVESTMENT, ATTRACTED ESPECIALLY BY THE REVAMPED REGULATORY ENVIRONMENT.



MEDIUM TERM OUTLOOK

The gaming industry in Malta is expected to continue to grow steadily in 2017 and 2018. This will be underpinned by the organic expansion of existing operators, but it is also expected to be compounded by new investment, attracted especially by the revamped regulatory environment. Expectations with respect to land-based operators are also positive. While it is recognised that the high and broad-based rates of growth registered in recent years may be challenging to sustain, the industry will most likely consolidate and perhaps continue to increase its contribution to the Maltese economy over the medium term.

DURING 2017, THE AUTHORITY WILL IMPLEMENT THE 4TH ANTI-MONEY LAUNDERING DIRECTIVE AS IT AFFECTS THE GAMING INDUSTRY, IN CLOSE COLLABORATION WITH THE FINANCIAL INTELLIGENCE ANALYSIS UNIT AND OTHER STAKEHOLDERS. A SPECIFIC UNIT WILL BE ADDED WITHIN THE ORGANISATIONAL STRUCTURE OF THE AUTHORITY TO SUPERVISE LICENSEES IN RELATION TO ANTI-MONEY LAUNDERING AND COUNTER FINANCING OF TERRORISM.

Within this context, the main priority for the Authority in 2017 is to finalise the regulatory overhaul through the enactment of the required legislation. In the same vein, the Authority will restructure its operations so that its efforts will be more focused, clinical and dependent on the risk profile of licensees, types of gaming products and operators' business models. Processes will be rendered more effective and efficient, covering the entire licensee base. The internal structure of the Authority will be consolidated in order to accommodate a shift from vertically - to horizontally - focused legislation.

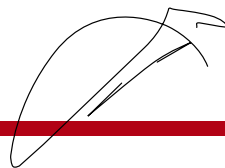
During 2017, the Authority will implement the 4th Anti-Money Laundering Directive as it affects the gaming industry, in close collaboration with the Financial Intelligence Analysis Unit and other stakeholders. A specific unit will be added within the organisational structure of the Authority to supervise licensees in relation to Anti-Money Laundering and Counter Financing of Terrorism. I consider this work as an effective and critical contribution to a better and safer global society, while enabling the Authority and the Maltese jurisdiction to better manage external risks.

In order to carry out these tasks effectively, the Authority will step up its investments in ICT and automation with emphasis on information security, robustness and efficiency. It will also re-orientate its Information Management function towards a more analytics and evidence based approach. In line with its commitment to build success on the engagement and dedication of its human resources, the Authority will enhance staff training and development within the context of a renewed emphasis on quality and effective implementation.

On a final note, the Authority will be investing its energy, time and commitment towards achieving the following key priorities in the short to medium term:

- enhance consumer protection mechanisms and empowerment;
- raise quality and standards across all gaming sectors - the "Silicon Valley" concept;
- improve the overall governance and supervision of the gaming sector;
- engage and build partnerships with other jurisdictions, key stakeholders and regulators; and
- explore new growth areas including niche gaming sectors and innovations.

In conclusion, my gratitude goes to my fellow Board members and all members of staff at the Malta Gaming Authority for their dedication, application of professional abilities and upholding of core values to bring to fruition the ambitious journey we have all embarked upon. I need to likewise thank the industry stakeholders for their support and trust in the Maltese jurisdiction, which is key to our success. An exciting period of change implementation is ahead of us, one which will reaffirm Malta's standing as a global gaming jurisdiction of choice. ✎



JOSEPH CUSCHIERI

FIA, CPA, MBA (Henley UK), CIMA Adv. Dip MA
EXECUTIVE CHAIRMAN

2016

IN REVIEW



REGULATORY OVERHAUL

The MGA was strongly focused on the development of an extensive regulatory overhaul process in 2016. This exercise is expected to be concluded in 2017, culminating in a series of meetings to begin the process of adoption by the Maltese Government of the new legislation following a public consultation process.

The overhaul exercise is intended to develop legislation involving a host of improvements to the regulation of gaming in the Maltese jurisdiction. Key among these is a more efficient licensing process within the context of a stronger and more effective framework involving the continuation of a risk-based approach to regulation, objective-based obligations, higher consumer protection standards and suitable technical and non-technical requirements. Conscious of the constant development facing the industry, the MGA has tried to create an enabling environment for innovative business models and novel products while ensuring that gaming is conducted in a legal and safe manner.

The main objective behind the proposed overhaul is to repeal all the existing legislation and replace it with a singular primary act entitled the Gaming Act, together with subsidiary legislation covering horizontally the main areas of regulation as well as including a series of directives, codes and guidelines. The general approach is a principle-based one that focuses on regulatory outcomes where possible. The need for this is attributed to the compliance experience



and evidence collated by the MGA over the years, and the need to remain outcome-driven rather than be governed by prescribed rules that often meant that operators had to fit their diverse business models to the regulatory 'square'. This, together with the single licence and two-tier approach, will offer more flexibility to both the industry and the regulator.

This approach will also allow for simplification, and reduction of regulatory intervention from the current processes. The first tier, or single licence, is more corporate in nature and will differentiate only between Business-to-Business (B2B) activities and Business-to-Consumer (B2C) activities. The second tier is more of an approval type of authorisation and will address the systems and the different types of games that can be multiple under one corporate licence. The Authority is also considering different procedural options for handling new applications and renewals with the aim of facilitating and considerably improving the time to market from application to approval.

A number of separate initiatives undertaken during 2016 are intended to complement and future-proof the new regulatory framework. These include the public consultation on commercial communications, collaboration with the Financial Intelligence Analysis Unit (FIAU) on the implementation of the 4th Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT) Directive, research into the risks pertaining to the industry and into the role of cryptocurrencies, and the continued contributions to the national Anti-Corruption & Transparency Experts' Task Force (against match-fixing).

In order to reap early dividends from these efforts, the Government of Malta notified and published amendments to the Remote Gaming Regulations to ascertain better consumer protection safeguards for players of licensed operators, following advice provided by the MGA. Further amendments also introduced a heightened monitoring obligation on the MGA, which shall be made possible following the implementation of more advanced systems during 2017.

CONTROLLED SKILL GAMES

Another important milestone reached by the MGA during 2016 concerned the development of regulations for games of skill, which followed the position paper on the subject published in December 2015. Games played for money or money's worth, and where the winning outcome is determined through the skill, knowledge and/or dexterity of the player, may fall under the skill games regime, even if slight elements of chance are evident. Following its consultative work, the MGA found that such games require different regulatory intervention to games which are entirely based on chance. The new law shall also grant the MGA the necessary legal power to assess any particular game and, based on a number of identified considerations, determine to what extent regulatory intervention may be required to limit risks to consumers. However, not all games of skill need to be licensed. The law empowers the MGA to issue rulings requiring operators of "controlled skill games" to apply for a licence, depending on the risk posed by such games.

DEVELOPMENTS AT EU LEVEL

The MGA continued to participate in two expert groups on gambling services and match-fixing at EU level. The Expert Group on Gambling Services was mainly concerned with the draft proposal to the European Committee of Standardisation about the possibility of achieving minimal technical reporting standards for the remote gaming industry among the various EU jurisdictions. These reporting standards could serve as a benchmark for all EU regulators and pave the way for more ambitious agreements whilst respecting the national regulatory regimes which have been set up all over Europe. This area of interest was supported by a study, financed by the European Commission, to create a database of all the existent technical requirements throughout the Member States. The contractors presented their database during the last meeting of 2016. Other topics of interest included an exchange of views on the supranational risk assessment being conducted by the European Commission in preparation for the implementation of the 4th AML/CFT Directive, taking into consideration also the initiation of discussions on the 5th AML/CFT Directive as well as the developments on the Digital Single Market initiatives.

The achievements of this Expert Group over the years prompted the MGA to invite the European Commission to host the first Expert Group for 2017 in Malta, on the occasion of Malta's Presidency of the Council of the European Union. This invitation was accepted by the Commission, which also agreed to attend a conference, organised by the MGA the following day, open to all members of the Expert Group as well as regulated operators and other stakeholders, to discuss various issues dominating the sector.

The MGA also continued to participate in the Expert Group on Match-Fixing. The Group held its final meeting in June 2016 in Helsinki, Finland and in accordance with its mandate, concluded a report of its work, entitled the "State of Play on the Fight Against Match-fixing". This report, which was later presented to the Sports Working Party, presented the views of the various participants and observers with regard to the action that ought to be taken to strengthen the fight by betting regulators, sports organisations and governments alike against match-fixing and other fraud in sports. While the coming into force of the Council of Europe Convention on the Manipulation of Sports Competitions is viewed by many as an essential requisite to successfully fight this phenomenon, Malta, represented by the MGA, reminded the Group of the problematic wording of the Convention which has prevented Malta from signing the Convention. Malta reiterated the view that it is not against the Convention per se, and is, in fact, working on a number of efforts to prevent, detect and improve enforcement in this regard.

In 2016, the MGA also followed EU-level discussions on initiatives forming part of the Digital Single Market proposals. These proposals may affect the gaming industry throughout, as the sector is dependent on a favourable European approach in many respects. The MGA is ensuring that initiatives in this regard do not prejudice the interests of the industry. In line with this objective, Malta issued comments on draft amendments to laws published by Slovenia and Sweden in terms of Directive 2015/1535 as well as two detailed opinions on draft laws published by Poland and Slovakia respectively.





REGULATORY - AUTHORISATIONS

The Authorisations Directorate is responsible for the issuance of all approvals granted by the MGA, be it for the Remote sector as well as the Land-Based sector. All types of applications submitted to the Regulator are duly vetted and processed by this team, who is responsible for the licensing process in its entirety, until an Operator goes live.

At onboarding, the MGA's application process focuses on four main areas, in order to assess whether a licence should be issued:

1. Fit and Proper

This is the initial stage of the application process, during which shareholders, Ultimate Beneficial Owners (UBOs), and persons in key positions who are directly involved in running the business, are thoroughly assessed. Probity investigations with national and international regulatory bodies and law enforcement agencies are conducted by the MGA, so as to determine whether the applicant is fit and proper to conduct gaming business.

2. Business Planning

During this stage the MGA conducts an in-depth financial analysis of the applicant's business plan, which is expected to include a detailed forecast of the applicant's operation, together with an overview of the costs related to sales and marketing, HR plans and projected growth targets.

3. Operational and Statutory Requirements

This process includes examining incorporation documents, policies and procedures, games and their control systems, the technical set-up including the system, network and application architecture and the rules of the game, together with their respective terms and conditions.

Furthermore, a remote gaming licence is subject to minimum issued and paid-up share capital requirements. Class 1 and Class 2 licence holders are required to retain a minimum share capital of €100,000 whilst Class 3 and Class 4 licensees are required to retain a minimum share capital of €40,000. Companies with multiple licences are required to meet the above share capital requirements cumulatively up to a minimum capping of €240,000.

These three stages of the application process constitute the desk-based audit of the application requirements, and successful completion of all three is required prior to proceeding with the last and final stage of the application process.

4. System Review

This final stage of the application is very critical, as applicants are required to implement everything onto a technical environment prior to actually going live with their operation. An applicant is required to complete this stage within a maximum period of 60 days, during which a System Review, performed by an approved and independent third party contracted by the MGA, must be performed. This System Review will audit the live environment against the proposed application, making sure that systems approved at application are implemented correctly on the live environment.

On successful completion of this stage, the Authority issues a five year licence to the applicant.

In the first months of 2016, in the spirit of the increased efficiencies advocated by the ongoing regulatory overhaul, the Authorisations Directorate re-organised its activities. This led to the introduction of Account Management teams acting as Single Points of Contact for licensed companies. Any approval request, be it a new licence application, a share transfer, an approval of key personnel or other similar requests, which are handled by the Authorisations Directorate, started being channelled through the same Account Management teams. This led to higher efficiencies in the application process and ensured consistency in the handling of applications and other queries from licensees.

REGULATORY - COMPLIANCE

The Compliance Directorate is committed to ensure that licensed entities operate in accordance with the applicable obligations mandated by law and the relevant licence conditions, with a specific focus on encouraging a compliance culture amongst its licensees. During 2016, the Directorate undertook reviews and ad hoc checks among licensees in line with its monitoring programme, and sought to continue to improve the efficiency and effectiveness of its procedures.

The undertaking of reviews on licensed entities is a key function of the Compliance Directorate. A compliance review may be carried out at various stages throughout the validity of a licence, with checks ranging from the adherence to player protection measures to the verification of the approved technical infrastructure and gaming system, and is vital for the Authority to verify whether a licensee is operating in line with its licence. A total of 123 compliance reviews were conducted in 2016. A number of investigations were also carried out on reported or identified gaming operations considered suspicious or in breach of the applicable laws and requirements. Most commonly, investigations related to unlicensed online gaming operations.

In line with the MGA's focus on the protection of players, the Compliance Directorate hosts a Regulatory Supervision function, which is responsible for the monitoring and verification of player liabilities reports, through which the Authority confirms, on a monthly basis, that licensees are safeguarding player funds. In 2016, the Directorate implemented two new roles within the Regulatory Supervision function, namely the supervisory and financial compliance roles.

Through the supervisory role, the function set out to perform thematic reviews on the Authority's licensees, mainly relating to their obligations regarding player protection, the operation of approved systems, as well as policies and procedures as approved by the Authority. These reviews served to provide an update on licensees' compliance status, and were primarily used to enable licensees to come in line with the applicable requirements.

The financial compliance role has been extended to include the analysis of audited financial statements and management accounts, submitted on an annual basis by licensees. This provides a more in-depth understanding of the financial stability of licensees and related parties, and helps to identify potential risks. It enables the Directorate to liaise with licensees, as may be required, to ensure the existence of effective measures for business recovery and protection of players' funds. Policy and procedural improvements in this regard were ongoing in 2016, and further progress is expected in 2017, within the overall context of the regulatory overhaul being implemented by the MGA.

REGULATORY - PLAYER SUPPORT

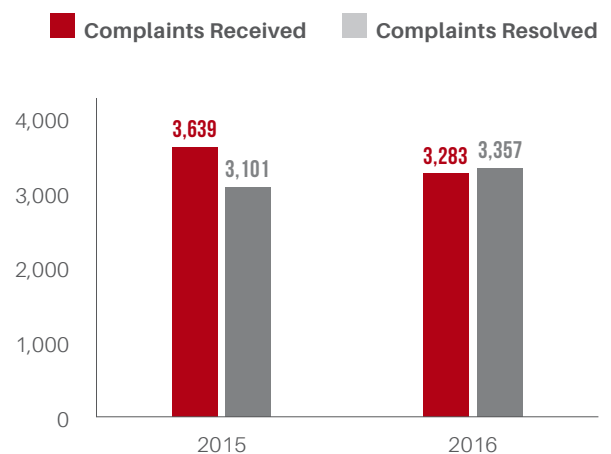
Player support and consumer protection are at the core of the regulatory functions of the MGA. In 2016, the Player Support function was assigned to the Regulatory Department in order to ensure better synergies in the day-to-day work of the Authority.

The MGA ensures that each licensee gives players the possibility of seeking support and filing complaints. Players can reach out to the MGA's Player Support to report any problems they might be experiencing with any remote or land-based operator licensed by the MGA. When the Authority receives a complaint from a player, it either investigates the complaint directly or refers such complaint to the relevant licensee for feedback and mediation. Depending on the nature of the complaint, the latter could also lead to an operator check or enhanced review of any disputed terms being presented by the licensee.

In 2016, the MGA received 3,283 complaints from players and resolved 3,357 complaints (due to a spillover from previous year).

In addition, 774 chat interactions were dealt with by the Player Support team, with an average chat duration of 5m17s.

CHART 1: COMPLAINTS RECEIVED VS COMPLAINTS RESOLVED



ENFORCEMENT - LAND-BASED INSPECTIONS

The Inspectorate Unit of the MGA carries out inspections in all licensed gaming establishments, namely casinos, gaming parlours, National Lottery Operator's Points of Sale (POS) and commercial bingo halls, as well as during non-profit tombola events. In addition, the team oversees the National Lottery draws of Lotto, Grand Lottery and Super 5 games.

In 2016, the Unit conducted 11,759 inspections, representing an increase of 44% from 2015. The highest growth in absolute terms of 2,337 was recorded for inspections carried out at casinos, reflecting an increase in the number of operators from three to four. Casinos are subject to daily inspections by the Authority.

TABLE 1: LAND-BASED INSPECTIONS

Land-based Inspections	2014	2015	2016
Casinos	5,571	6,118	8,455
Commercial Bingo Halls	829	639	617
Non-profit Tombola	130	226	446
National Lottery operator's Point of Sales	128	317	637
Super 5	51	50	51
Lotto/Grand Lottery	104	105	106
Gaming Parlours	183	655	1,382
Court Duties	19	11	19
Duties Paid Lotteries	25	29	46
Total	7,040	8,150	11,759

ENFORCEMENT - ILLEGAL GAMBLING

During the period January to December 2016, the Inspectorate team, in conjunction with the Malta Police Force, carried out 15 inspections related to illegal gambling machines and internet gambling in various bars and clubs, out of which four were in breach of the law. The MGA's Inspectorate Unit assists Police in gathering intelligence on illegal gambling machines and seizing of illegal apparatus when required. The MGA requires the full support of the Malta Police Force that is empowered to confiscate illegal gambling machines and enter establishments not authorised or licensed by the Authority to offer gaming activities.

In addition, the Authority undertook 12 inspections in connection with illegal bingos for which no MGA permit was issued. These operations were effectively stopped.

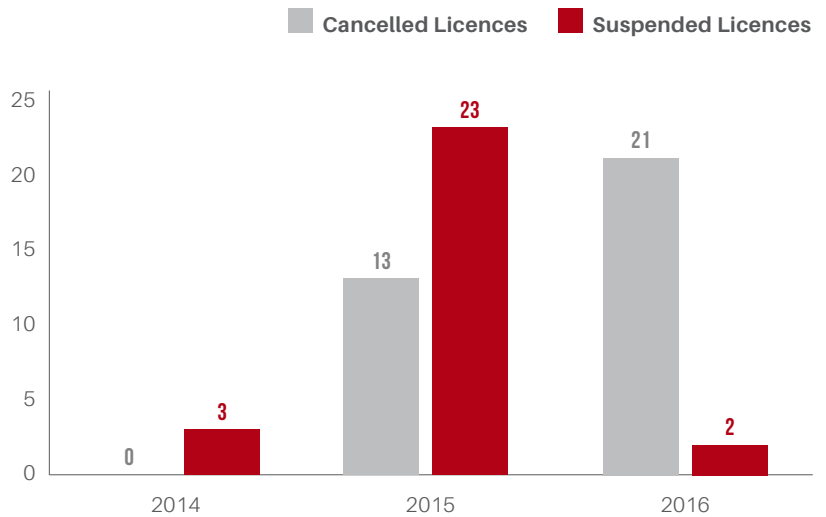




ENFORCEMENT- SANCTIONS AND MEASURES

The MGA places a strong focus on effective enforcement. In 2016, 21 licences were cancelled by the Enforcement Unit due to regulatory breaches by the respective gaming operators. In addition, two licences were suspended. There were various reasons for cancellation and suspension of licences, but they are mostly related to the non-submission of the required documents (Player Liability Reports, Interim Financial Statements and Audited Financial Statements) and to the failure by operators to pay gaming tax or licence fee due.

CHART 2: ENFORCEMENT ACTIONS



EFFECTIVE DUE DILIGENCE PROCESS

During 2016, the MGA made substantial investments in its internal processes and systems in order to strengthen its due diligence function. Prior to issuing, renewing or approving of a licence, the Authority ensures that Malta-based operators, both remote and land-based, are fit and proper to conduct gaming operations in and from Malta and that such operations are not used as a façade for money laundering or terrorist financing, amongst other objectives. A purposely set-up Fit & Proper Committee within the Authority takes due diligence decisions, ensuring consistency and transparency.

This Committee is composed of representatives from the Authorisations and Enforcement Directorates and occasionally also from the Compliance Unit.

In 2016, the Authority conducted a total of 3,285 due diligence tests. In order to enhance efficiency and effectiveness in processes, the Authority in 2016 decided to do away with a due diligence process associated with the approval of each and every employee in licensed companies.

FUTURE-PROOFING THE FINANCE FUNCTION

The MGA continued strengthening the finance function throughout 2016 with the consolidation of the revenue assurance function within the remit of the Finance Directorate. The revenue assurance function is gearing up for the changes in the tax and licensing regime which will result from the regulatory overhaul. In view of this, the Authority is in the process of implementing an Enhanced Automated Reporting Platform (EARP) which will assist and facilitate verification reviews and reconciliation of financial data.

In 2016, the MGA introduced a fully-fledged procurement system, with the appropriate authority levels and separation of duties. This has resulted in increased operational team effectiveness and efficiency.

PROGRAMME MANAGEMENT AND INFORMATION SYSTEMS

Throughout the year, the MGA consolidated its programme management and information systems functions by combining them into one single Directorate tasked with:

- planning, coordinating and executing the Authority's strategy and agenda, by focusing on the effective execution of projects;
- maintaining the Authority's ICT infrastructure while ensuring a secure, modern and efficient ICT environment for users;
- planning systematic data collection from internal and external sources, data analysis and presenting results internally and to the general public;
- developing and maintaining a risk-based framework for the Authority;
- developing a quality charter for the Authority; and
- retaining an effective registry function.

THE AUTHORITY'S STRATEGIC AGENDA

Throughout the year, key competencies and skills were acquired via the onboarding of experienced officers within the fields of programme execution and project management. The Programme Management section is now an established function within the Authority and has put in place clear and efficient processes for the effective management of projects. In addition, a prioritisation mechanism has been introduced to reflect the Authority's objectives and strategy in the execution of projects.

The reinvigorated processes aim at facilitating the execution of projects by ensuring that the pertaining scope is clear and achievable, required resources are available and engaged, while the prioritisation of outcomes is specified. The processes promote a risk-based approach for the daily management of projects. All initiatives undertaken are benefit-driven, thus allowing the Authority to measure the successful delivery of outcomes, baselined against the scoped delivery as defined at the outset.

Some of the change initiatives embarked on in 2016, with a view of maintaining the momentum into 2017, include:

- the implementation of a Customer Relationship Management (CRM) system which will empower the organisation to handle operator requests effectively, and will allow more efficient interaction between operators and the Authority;
- the laying of foundations for the legislative overhaul, which will be coming to fruition later in 2018, aiming at strengthening the gaming eco-system already established in Malta;
- the implementation ramifications of the 4th AML/CFT, which will allow the Authority to intensify the risk-based approach of its regulatory function. These initiatives will enhance the reputation of the Maltese jurisdiction internationally, while strengthening customer protection;
- the launching of a study on the acceptance of cryptocurrencies, with the aim of being at the forefront in exploring innovative platforms for the benefit of the gaming industry.



STAYING ON TOP OF THE TECHNOLOGY CHALLENGE

The Authority continued to improve its ICT facilities in 2016, when it completed the virtualisation of its servers. The MGA is now investigating the potential of achieving high-availability on its most critical systems, by replicating its servers over multiple data-centres.

The increase in digital systems deployed at the Authority has brought a renewed focus on the importance of protecting the Authority's information assets. The ever-growing threat landscape of cyberspace means that information security can no longer be treated as an afterthought, but has to be integrated within the software development lifecycle and the network fabric itself. This has led the Authority to design, implement and maintain an information security programme that protects the Authority's systems, services and data against unauthorized use, disclosure, modification, damage and loss.

The MGA is building this programme through investment in technology as well as various initiatives that include regular penetration testing, regular security awareness training and ISO27001-compliant policies and procedures. Through technology partners that have a well-established reputation in the information security field, the MGA has built a multi-layered security platform that can provide protection from threats originating at the network edge or from within. The efficacy of this platform is further augmented via bi-annual penetration tests. Furthermore, a tailor-made information security awareness programme has been developed with the aim of reducing information security risk stemming from human error. This programme, together with newly-designed policies and procedures based on the ISO27001 information security standard, shall raise the Authority's information security profile to meet modern threats faced by technology-driven organisations.

VALUE ADDING INFORMATION

The Authority's Information function has the objective of collecting and analysing various data sets from its licensed operators in order to support a risk-based regulatory approach as well as other reporting requirements. Data is collected from both remote and land-based operators through various reports submitted to the MGA on a monthly and half-yearly basis. These reports, in particular the Industry Performance Returns, are an important mechanism by which the Authority monitors key market developments.

During 2016, the Authority reviewed its policies and procedures with respect to its data collection process to ensure greater data integrity. In order to further support the information function and keep abreast of developments in the gaming market, the MGA involved leading economists in various research projects during the year.

Particular focus in 2017 will be placed on enhancing the Information team's competency in order to redefine the main objective of this unit, shifting from statistical reporting to more analytical reporting. Furthermore, the MGA will further develop its data capture mechanisms by starting the implementation of an EARP for its operators in 2017.

SPECIFIC TRAINING UNDERTAKEN DURING 2016

Significant investment continued to be expended by the MGA in training and human capital development. Staff from all functions of the Authority participated in courses and seminars in 2016, notably:

- Gaming Industry eLearning modules (AML, Anti-Bribery Corruption, Data Protection, Information Security, Regulating the Advertising of Gambling, Responsible Gambling);
- Strengthening of the Regulatory areas;
- The Prevention of Money Laundering and Financing of Terrorism;
- The 4th AML/CFT Directive;
- Senior Leadership training.

STRATEGIC RECORD KEEPING

Another area within the Authority is the Registry function. The Registry is proceeding with the reorganization of hard and soft copy files to meet the requirements of the AML/CFT risk-based approach by 2017 and the new regulations on Data Protection by 2018.

STRENGTHENING ORGANISATION AND CULTURE

In early 2013, the MGA was operating with a critically low level of internal resources which were, by far, insufficient to effectively supervise and monitor such an important sector. The MGA Board felt there was a need to "right size" and strengthen the Authority's organisational capacity, resulting in a 28% increase in the number of employees between 2013 and 2014 and further increase of 12% between 2015 and 2016.

FIGURE 1: EMPLOYMENT STATISTICS
AS AT 31 DECEMBER

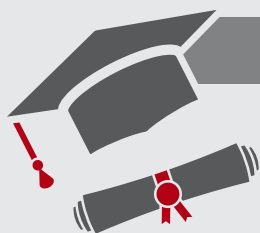
DIVERSITY - GENDER (2016)



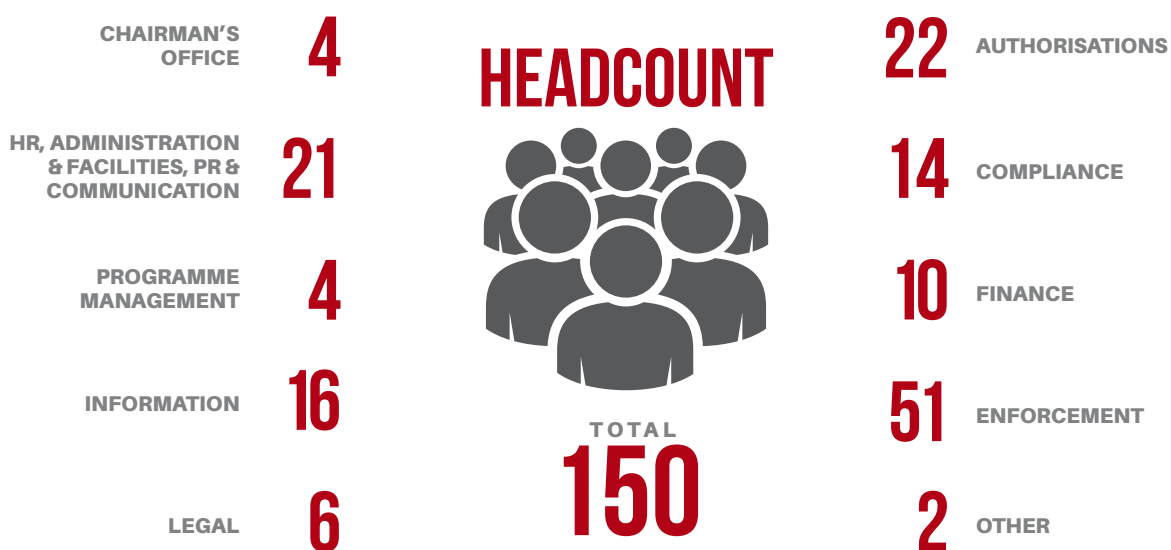
DIVERSITY - AGE (2016)

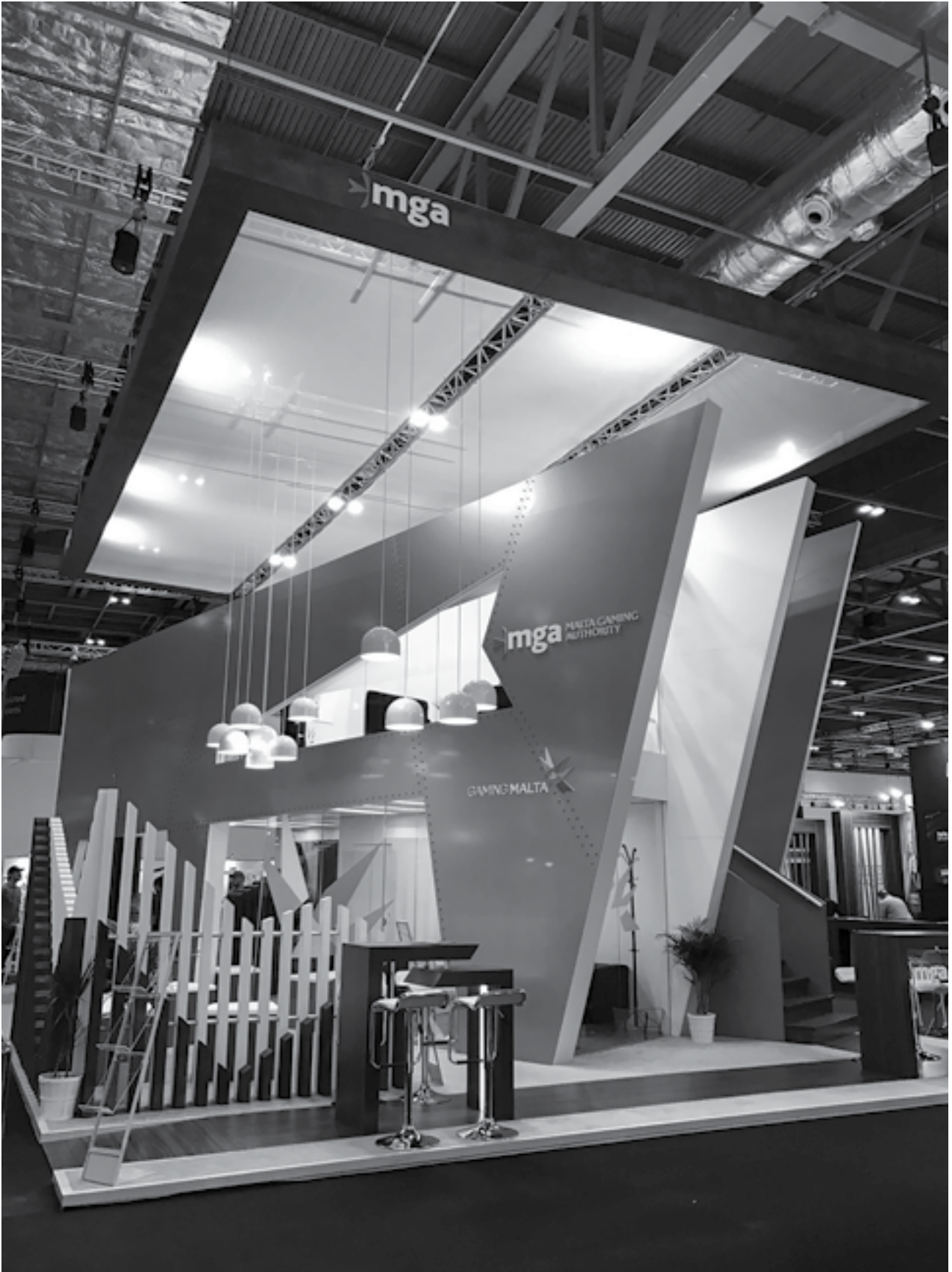
Under 20	20 to 30	31 to 40	41 to 50	51 to 60	60+
1%	24%	48%	20%	6%	1%

DIVERSITY - EDUCATION



Year	Degree, Post Grad Degree or equivalent	Diploma	Total
2014	35	12	47
2015	43	29	72
2016	48	43	91





The MGA's stand at ICE Gaming Expo, London, UK, February 2017

INTERNATIONAL AND LOCAL EXPOSURE

During 2016, the MGA took part in several international and local conferences in order to strengthen its relationship with the industry and main stakeholders.

- **ICE GAMING EXPO 2016**, London, UK (February)
- **ENADA SPRING 2016** (INTERNATIONAL AMUSEMENT AND GAMING MACHINE SHOW), Rimini, Italy (March)
- **JOINT 2016 CONFERENCE FOR THE GAMING REGULATORS EUROPEAN FORUM (GREF) AND THE INTERNATIONAL ASSOCIATION OF GAMING ADVISORS (IAGA)**, hosted by the MGA, St. Julian's, Malta (May-June)
- **WORLD GAMING EXECUTIVE SUMMIT (WGES) 2016**, Barcelona, Spain (July)
- **EIG (EXCELLENCE IN IGAMING) GAMING EXPO 2016**, Berlin, Germany (October)
- **INTERNATIONAL MASTERS OF GAMING LAW (IMGL) CONFERENCE 2016**, Dublin, Ireland (October)
- **EAST MEETS WEST REGULATORS SUMMIT**, El Nido, Pangulasian Island, Philippines (October)
- **INTERNATIONAL ASSOCIATION OF GAMING REGULATORS (IAGR) CONFERENCE 2016**, Sydney, Australia (November)
- **THE MALTA IGAMING SEMINAR (MIGS) 2016**, St. Julian's, Malta (November)
- **THE SUMMIT OF IGAMING MALTA (SIGMA) 2016**, St. Julian's, Malta (November)

Responsibilities of a promotional nature have been taken over by Gaming Malta, which was tasked with the remit of promoting Malta as a centre of excellence in the remote gaming sector globally. ↵



The MGA's stand at SIGMA, St. Julian's, Malta, November 2016



OUTLOOK FOR 2017

Going forward, the key priorities for the Authority in 2017 are:

- enhancing consumer protection mechanisms and empowerment;
- raising quality and standards across all gaming sectors – the “Silicon Valley” concept;
- improving overall governance and supervision of the gaming sector;
- engaging and building partnerships with other jurisdictions, key stakeholders and regulators; and
- exploring new growth areas, including niche sectors and innovations.

PROMULGATION OF A NEW LEGAL REGIME

The main contributor to these key priorities will be to bring the regulatory overhaul to a successful conclusion through the enactment of the new legislation. In line with the regulatory overhaul, the MGA will restructure its operations so that its efforts will be more focused and dependent on the risk profile of licensees, types of gaming products and operators’ business models. The new legislation and the restructuring of the Authority’s operations will ensure that processes will be rendered more effective and efficient. A lot of effort will be made in ensuring that the transition will be implemented smoothly and without undue disruption to the supervision of existing operators. Within the context of the regulatory overhaul, the Authority will also be reviewing and updating its policies and procedures accordingly, aiming towards more simplification and non-duplication of regulatory requirements, as well as recognition of other testing documents where possible.

4TH AML/CFT

Throughout the year the MGA will work on the implementation of the 4th AML/CFT Directive as it expressly affects the gaming industry. The MGA has been collaborating closely with the FIAU on this front, as well as with other stakeholders. It is projected that during the first half of the year, the industry shall be formally consulted on the proposed method of implementation, which shall be reflective of the main implementing legislation to come into force by mid-2017. The Directive presents new obligations on remote gaming companies, that will now be considered as subject persons, with respect to more robust due diligence processes, appropriate record keeping and reporting procedures, and more onerous obligations to prevent money laundering, in addition to introducing a risk-based approach as underpinning its implementation.

MGA RESTRUCTURING

The Authority will further consolidate its internal structure, as is reflected in the MGA Structure section of this annual report. The main objective behind this restructuring is to align the MGA's operations with the shift from a vertically-focused legislation to a horizontally-focused legislation. Furthermore, the supervisory role of the Authority will be strengthened with the addition of the AML function, which will supervise licensed operations in relation to anti-money laundering and counter financing of terrorism. It will be tasked with reporting suspicious money laundering activities to the Authority's Money Laundering Reporting Officer (MLRO) and the FIAU.

SKILLS GAP

The MGA is also focused on contributing to address the digital skills gaps, which were manifestly identified following a study commissioned by the Authority in 2016. This assessment outlined a number of initiatives which could be taken by various players within the wider digital economy and the MGA has taken it upon itself to ensure that each of these initiatives is acted upon in an organised manner during the coming year. In this context, work on the enactment of the European Gaming Institute of Malta (EGIM) will continue throughout 2017.

IT SYSTEMS AND ADVANCEMENTS

Past and future success of the Authority and the iGaming industry in Malta depends on being and staying at the forefront of innovation and striving to be a leader in the market. At the same time, sustainability depends on retaining the reputation of a well-regulated jurisdiction. Keeping these at the forefront, the MGA has commissioned a study on virtual currencies with the aim of publishing an official position on their acceptance within a controlled framework in 2017. The position will seek to provide clear guidelines to the industry on the acceptance of virtual currencies within a controlled framework that limits risk and eliminates the possibility for misuse.

Information Technology will continue to be regarded as a key driver for excellence and in 2017 the Authority will be consolidating the good work done so far in this sphere. The CRM system launched in 2016 will be enhanced through the implementation of additional modules aimed at automating processes within the Authority. An Online Portal for licensed operators will be launched in 2017 that will enable operators to interact and submit eForms to the Authority. The MGA will also be conducting various tests and reviews of its ICT infrastructure to ensure data and information are protected from potential cyber-attacks. A project will be launched in 2017 aimed at preparing the organisation for the eventual enactment of the General Data Protection Regulations which will come into force throughout 2018.

COLLABORATION

It is recognized that the Authority does not operate in isolation. Consequently, the MGA shall invest more time and energy in the development and fostering of better collaboration and more structured working relationships with other local, European and global stakeholders. The Authority shall continue developing closer relationships with such stakeholders with the aim of better understanding each other's processes, concerns and perceived risks. In this regard, throughout 2017 the MGA will encourage the exchange of relevant information and the identification of areas of cooperation with such entities or institutions. The Authority shall continue to attend conferences and participate in panel discussions so as to reach out with its regulatory philosophy, values and vision both locally as well as internationally.

PROJECT MANAGEMENT AND EFFICIENCY

In 2016 the Authority further consolidated its Programme Management unit, through which all MGA projects are effectively delivered, internal resources are efficiently utilized and project outcomes and benefits are attained. In 2017, an emphasis shall be placed on improving the quality of deliverables at all levels within the Authority. This will be achieved through the setting up of a quality function within the Programme Management unit that will ensure all MGA deliverables are appropriate and reach and exceed desired quality levels.

Finally, a skilled and motivated workforce is seen as an essential element towards the attainment of the Authority's objectives. Hence, while acknowledging that the Authority has reached a workforce complement that can guarantee efficient and effective operations, investment in training and team building is essential. The Authority shall therefore embark on a Training Needs Analysis (TNA) to identify the learning needs of the organisation. The TNA exercise will help in identifying strengths within MGA's staff complement, bring skill gaps to the attention of the Authority's HR function and ensure that the MGA invests in training and team building programmes which are right for the organisation and its staff. ←

MGA STRUCTURE

The Board of the MGA oversees the setting of policy and the attainment of strategic objectives. It is primarily responsible for the overall strategic direction and development of the Authority, as well as for the overall risk management. Members of the Board are appointed for a maximum period of three years by the Minister for Competitiveness and Digital, Maritime and Services Economy (MCDMS).



BOARD MEMBERS



Joseph Cuschieri
Executive Chairman



Chris Cilia
Deputy Chairman



Ruth Trapani Galea Feriol
Board Member



Caesar Grech
Board Member



Juliana Scerri Ferrante
Board Member



Matthew Bondin
Board Secretary



EXECUTIVE MANAGEMENT COMMITTEE



Edwina Licari
Chief Officer Legal
& International Affairs



Heathcliff Farrugia
Chief Officer
Regulatory



Dominic Micallef
Chief Officer
Enforcement

The Executive Management Committee, chaired by the Executive Chairman, is responsible for the overall execution of the Authority's mandate. It is responsible for the implementation of the strategic plans, programmes and policies of the Authority, and oversees day-to-day operations and management functions.



Andrew Naudi
Chief Officer
Programme Management
& Information Systems



Peter Spiteri
Chief Officer
Finance



Christopher Formosa
Head - Human Resources
& Corporate Affairs

SUPERVISORY COUNCIL

The Supervisory Council, set up by the Board of the MGA through a resolution, ensures the integrity, consistency and continuous development of the regulatory functions of the Authority. It is also tasked with providing oversight and guidance in relation to ongoing regulatory issues and strategic regulation. The Council serves as an advisory body to the MGA Board with regard to complex and sensitive regulatory issues, the development of the regulatory functions, strategic and risk-based regulations, as well as the implementation of best practices.

The Supervisory Council is composed of the following members:

- **Edwina Licari**, Chief Officer - Legal & International Affairs, Chairperson
- **Michele Magro**, Senior Legal Advisor, Council Secretary
- **Heathcliff Farrugia**, Chief Officer - Regulatory
- **Antiopi Vogiatzi**, Head of Investigations
- **Dominic Micallef**, Chief Officer - Enforcement
- **Claudio Spiteri**, Head of Enforcement
- **Karl Brincat Peplow**, Head of Authorisations
- **Rebekah Duca**, Head of Compliance



FIT AND PROPER COMMITTEE

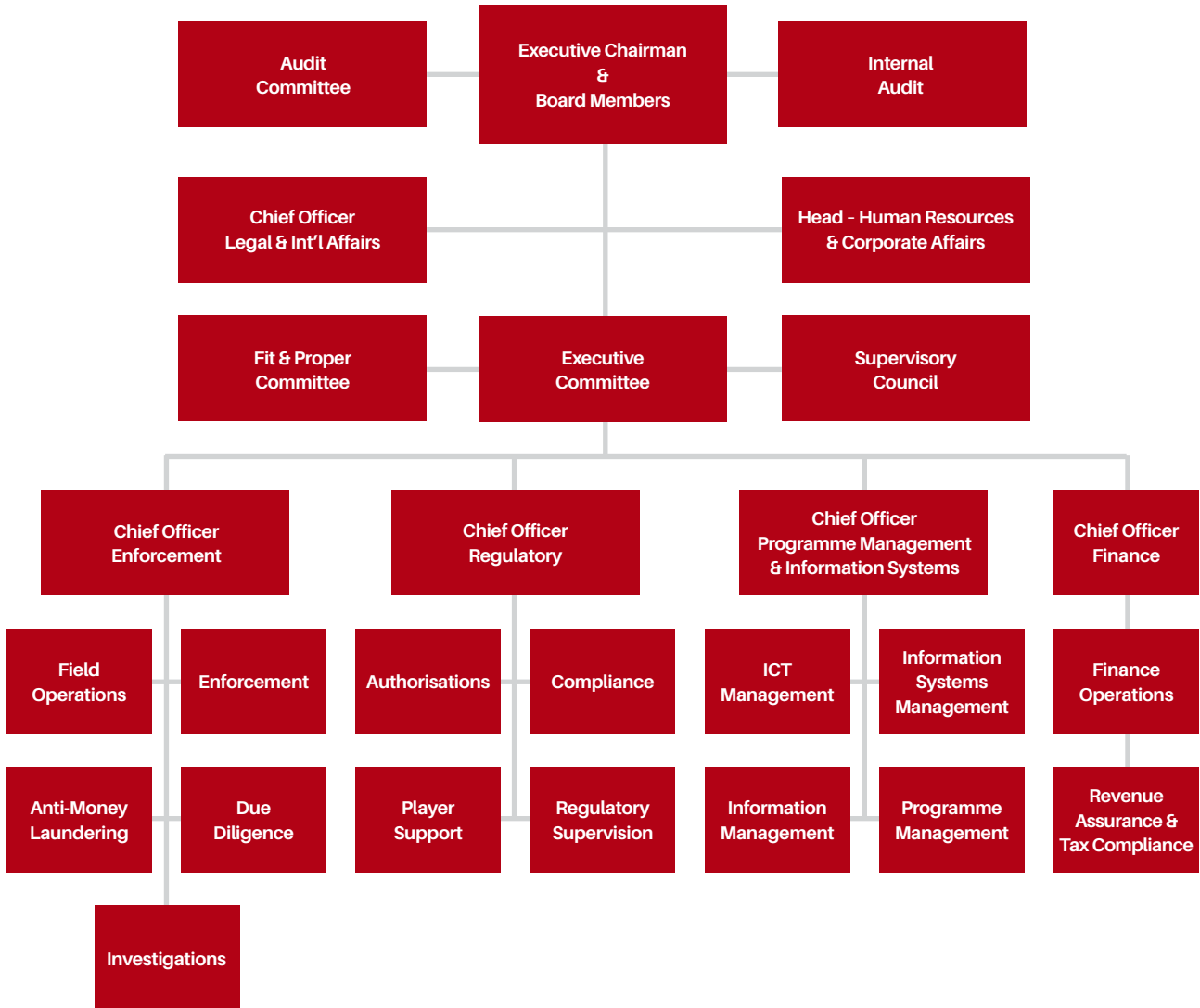
The Fit and Proper Committee, set up by the Board of the MGA through a resolution, is responsible for ensuring the integrity and consistency in the decisions related to the “fit and properness” of the companies and individuals requesting any type of approval from the Authority, both at onboarding stage but also throughout their lifecycle as MGA licensees.

The Fit and Proper Committee is composed of the following members: (Chairperson(s) on a six-month rotational basis):

- **Heathcliff Farrugia**, Chief Officer - Regulatory, Chairperson
- **Dominic Micallef**, Chief Officer - Enforcement, Chairperson
- **Antonio Zerafa**, Due Diligence Officer, Committee Secretary
- **Karl Brincat Peplow**, Head of Authorisations
- **Rebekah Duca**, Head of Compliance
- **Helen Borg Muscat**, Due Diligence Manager
- **Jeanette Abela**, Due Diligence Officer
- **Michaela Mizzi**, Due Diligence Officer

MGA KEY FUNCTIONS & RESPONSIBILITIES

A summary of the key functions within the organisational structure of the MGA follows:



EXECUTIVE CHAIRMAN'S OFFICE

Human Resources & Corporate Affairs

- Training and Development
- Recruitment
- Talent management
- Succession planning
- Internal and External Communications
- Public and Media Relations
- Facilities management
- Health and safety
- Security

Strategic Planning & Performance

- Setting out the long term vision of the MGA
- Strategic communications
- Key Performance Indicators (KPIs) and strategic planning
- Stakeholder management
- Political engagement
- MGA's overall regulatory and corporate performance



LEGAL & INTERNATIONAL AFFAIRS

Legal Affairs

- Review and drafting of contracts (internal and external)
- Provision of legal advice to the Authority
- Court cases
- Liaison with Office of the Attorney General
- Review of legislation and liaison with Ministries and Departments
- Legal analysis and research
- Public consultations
- Policy implementation and development

Policy & International Affairs

- Preparation of briefing notes and position papers
- Bilateral relationships – Memorandums of Understanding (MOU) and Letters of Intent (LOI), with other regulators and entities
- Liaison with Gaming Representative Bodies e.g. Malta Remote Gaming Council (MRGC), Malta Chamber of Commerce, Enterprise and Industry, the European Gaming and Betting Association (EGBA), Remote Gambling Association (RGA)
- Comparative assessments and research on EU and international developments
- Participation in international fora, for example, Expert Group on Gambling Services (EGGS), Gaming Regulators European Forum (GREF), International Association of Gaming Advisors (IAGA) and International Association of Gaming Regulators (IAGR)

ENFORCEMENT

Field Operations

- Inspections in casinos, gaming parlours and other licensed gaming establishments
- Gaming device inspections
- Overseeing of national lottery draws
- Investigations related to illegal gaming activities in conjunction with the Malta Police Force

Enforcement

- Enforcement action to ensure compliance with licence conditions and regulatory obligations
- Liaison with local and international law enforcement agencies, for example: FIAU, Attorney General (AG), Interpol, Police, etc.
- Participation in the Task Force on Match Fixing and related policy development and review

AML

- Single point of contact for AML procedures, both locally and internationally
- Review of licensee AML procedures and controls
- Conducting on-site visits on locally based operators when the need arises
- AML policy development and review

Investigations

- Responsible for conducting investigations, both on land-based and online operators

Due Diligence

- Conducting Due Diligence assessments in liaison with the Regulatory directorate
- Issuing of regular Due Diligence or Enhanced Due Diligence reports with the relevant recommendations



REGULATORY

Authorisations

- Management and processing of new applications
- Onboarding of new operators and renewals
- Processing of surrender, termination or expiration of licences
- Approval of share transfers, licence transfers, intermediaries, shared conducts
- Management of the MGA's "Fit and Proper" process
- Approval of key persons, employees and issuing of Highly Qualified Persons (HQP)
- Approval of premises and changes in floor plans for land-based operators
- Approval and certification of new machines

Regulatory Supervision

- Regulatory Financial Supervision (for example, Player Liability Reports, Financial Accounts)
- Thematic reviews based on risk

Compliance

- Development and implementation of an annual compliance review plan for both online and land-based operators
- Compliance audits review
- Internal compliance reviews (operator checks) on an ongoing basis
- Ensure adherence to licence conditions (follow-up and review)
- Review of games and control systems including policies
- Design and development of the relevant policies and procedures
- Liaise with land-based Inspectorate Unit for the performance of offsite compliance checks

Player Support Unit

- Player complaints management
- Dispute resolution

FINANCE

Revenue Assurance & Tax Compliance

- Collection and follow up on gaming taxes due, licence fees and other administrative fees charged to licensees
- Gaming tax compliance and enforcement
- Gaming tax audits
- Review of licensee gaming tax submissions

Finance Operations

- Corporate finance
- Cash flow management
- Financial planning and control
- Budgeting and forecasting
- Financial accounting
- Management accounts & reporting
- Procurement
- Audit
- Liaison with National Audit Office (NAO), Internal Audit and Investigations Department (IAID), Ministry for Finance (MFIN) & Audit Committee



PROGRAMME MANAGEMENT & INFORMATION SYSTEMS

Programme Management

- Planning and co-ordination of the MGA's agenda and relative follow-ups on all actions and projects
- Leading the strategic and business planning process
- Developing and implementing a project management structure
- Effective coordination of technical and professional engagements
- Establishment and review of Quality Assurance standards across the MGA
- Special projects
- Coordinate the implementation of recommended corrective actions derived from quality audits/reviews and other audits performed by the MGA's internal auditor, external auditors and NAO and IAID
- Ensure MGA data, systems, processes and deliverables comply with internal policies and procedures and quality standards
- Conduct and/or review quality audits including reporting and deliverables
- Risk analysis and management

ICT Management

- IT administration
- Systems maintenance and ongoing development
- Technology and infrastructure planning
- IT Security

Information Systems Management

- New projects and project implementation
- CRM systems
- Management Information Systems
- Archives, scanning and registry
- Document management

Information Management

- Research, statistics and information management
- Industry performance reporting
- Surveys and questionnaires
- Liaison with National Statistics Office (NSO) and Malta Statistics Authority (MSA)

HUMAN RESOURCES & CORPORATE AFFAIRS

Human Resources

- Training and Development
- Recruitment
- Talent management
- Succession planning

Corporate Affairs

- Internal and External Communications
- Public and Media Relations

Administration

- Facilities management
- Health and safety
- Security

CORPORATE GOVERNANCE



AUDIT COMMITTEE

The Audit Committee constitutes an important element of the governance process for the Authority and was established with agreed reporting procedures and a clear scope definition. The Audit Committee is responsible for the management and supervision of the Internal Audit function. Furthermore, it supports and assists the MGA Board in its governance oversight function and is authorised to conduct investigations into any matters falling within the scope of its responsibility.



Chris Cilia
Chairperson



Ruth Trapani Galea Feriol
Audit Committee Member



Renato Vella
Audit Committee Member



Maria Cardona
Audit Committee Member



Dean Hili
Audit Committee Member



James Grech
Audit Committee Secretary



A representative of the external auditors of the Authority attends the Audit Committee meetings.

In the course of eight meetings held during 2016, the Audit Committee discussed a number of reports prepared by the internal auditor, as well as the statutory financial audit reports prepared by the external auditors. The Committee's recommendations are followed up with management through the Internal Audit and the Risk Management functions. This corporate structure provides the Authority with a sound and robust control framework.

INTERNAL AUDIT

The Internal Audit function reports to the Audit Committee. It provides assurance and advice in an independent and objective manner on the way the MGA is operating and achieving its objectives, so as to ensure good corporate governance, effective risk management and adequate control processes are in place and functioning.

EVOLVING RISK CULTURE

The MGA is repositioning the focus of its regulatory approach away from a prescriptive stance to one which is risk-based. In this regard, the MGA has developed a risk-based strategy to enhance the efficacy of its regulatory functions while remaining in line with its risk appetite.

The risk appetite of the MGA sets a balance between prudence, innovation and industry dynamism through regulatory approaches which foster safe, secure, crime-free and fair gaming environments while enabling business development and growth.

The risk framework of the Authority sets out the processes for identifying, evaluating and recording risks and their ownership, thus enabling effective risk monitoring, reporting and response determination. An integral element of the risk framework is a risk-based approach towards assessing and monitoring gaming operators holding one or more Maltese gaming licence.

To this effect, clearly-defined risk criteria have been identified with the intention of adopting a uniform approach towards the processing and monitoring of gaming operator licences. This approach provides the Authority with the opportunity to better understand the risks that the jurisdiction is facing and to determine the required compliance plans on a case by case basis. Consequently, such an approach will allow the Authority to focus its regulatory resources more efficiently and effectively, within a framework which enables a proactive identification of risks and the implementation of risk-mitigating measures and controls. ↵



GAMING INDUSTRY FOCUS

HUMAN RESOURCES IN THE GAMING INDUSTRY IN MALTA

Human resources are key to the size, quality, resilience and growth of the gaming industry. This issue is a critical consideration for Malta, where gaming activities directly contributed one-eighth of Malta's economic value added in 2016. The availability of human resources in the right quantity and the possession of the required skills are fundamental determinants of competitiveness for the industry and will be likely to shape its future growth.

The skills and professional backgrounds required by the industry are intensive and span a number of areas, including ICT, statistics and mathematics, law, finance and others. These areas of specialisation are furthermore experiencing strong demand by other growth sectors of the domestic economy and internationally. For this reason, the demand for human resources cannot be satisfied exclusively through home-grown talent but also requires the attraction of human capital from abroad. This is, in itself, a positive factor, contributing to the internationalisation of the labour market and a potential transfer of skills. It also entails challenges for the industry and the country as a whole to provide the right working and living environment to attract talent of the required calibre.

ESTIMATES OF EMPLOYMENT IN THE GAMING INDUSTRY IN MALTA

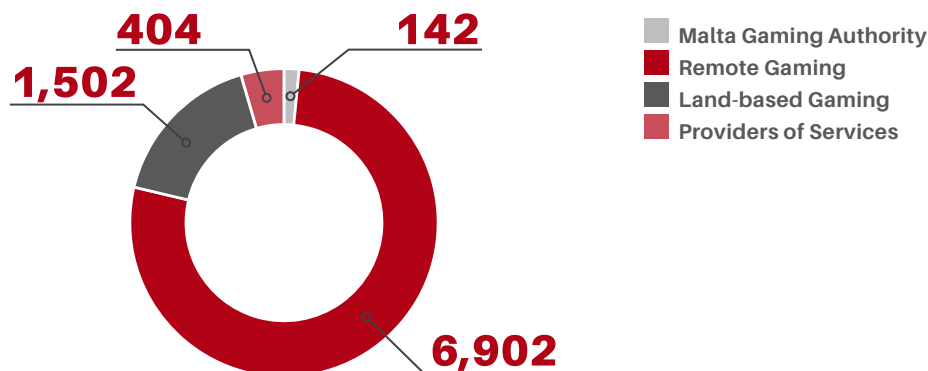
A study conducted by the MGA¹, which included survey work to collect primary data, estimated the total employment in the gaming industry at 8,950 full-time equivalent (FTE) jobs in June 2016. This amounted to approximately 4.4% of the economy total.

For the purposes of deriving this estimate, the gaming industry was defined to include: firms offering gaming services from Malta, licensed by the MGA or under another jurisdiction; and firms and self-employed persons providing services to gaming firms. Services provided to gaming firms cover a wide range of activities including: law; general consultancy; audit/accounting; data centres/hosting providers/ICT support services; translators; software providers; gaming platforms control systems providers; real estate; bank; recruitment and similar services; transport services and cleaning services. MGA employees are also included within this estimate. This employment figure does not include jobs arising from the second-round expenditures of service providers and of employees themselves.

The distribution of FTE employment as at June 2016 is illustrated in Chart 3. Over three quarters of employees are located within the activities of firms in the remote gaming sector operating in Malta, including those licensed by the MGA, and whether in employment or in self-employment. Around one-sixth are estimated to be employed in land-based gaming activities, including lotteries, casinos, gaming parlours, etc. Employment with service providers is close to 5% of the total, calculated on the basis of full-time equivalent hours of employee time dedicated to servicing client firms in the gaming sector. This value, derived from a survey approach, may possibly under-represent the impact on employment as it may largely exclude engagement on a one-off basis, while the sample of interviewed firms may not be necessarily representative of the total employment in the population.

¹ Malta Gaming Authority, Gaming Employment Report, December 2016.

CHART 3: EMPLOYMENT IN THE GAMING INDUSTRY (JUNE 2016)
 SOURCE: MGA, Gaming Employment Report, December 2016



It is to be highlighted that the rate of employment in the gaming industry is increasing rapidly. A time-series data perspective is available for employment in firms licensed by the MGA (Table 2), which typically accounts for around two-thirds of total employment. This subset of employment grew by 57% during the 12 months through the first half of 2016, driven in the main by remote gaming firms. It is likely that this growth would have spilled over to businesses providing services to these firms.

TABLE 2: EMPLOYMENT IN THE FIRMS LICENSED BY THE MGA
 SOURCE: MGA

Employment (FTE jobs)	DEC 2014	JUN 2015	DEC 2015	JUN 2016	DEC 2016
Total	3,724	3,915	4,707	6,150	6,193
Remote	3,102	3,318	3,908	5,295	5,327
Land-based	622	597	799	855	866

CHART 4: ACTIVITIES PROVIDED BY SERVICE FIRMS
 SOURCE: MGA

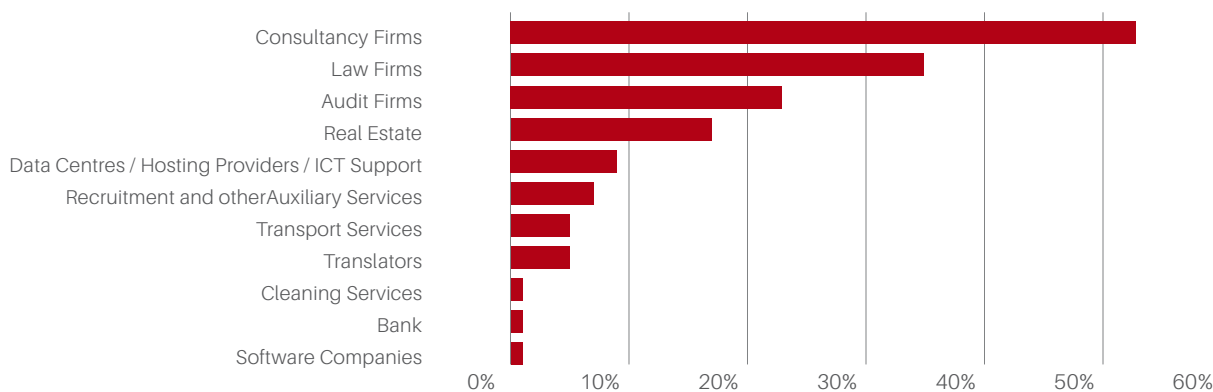


Chart 4 provides an indication of the nature of activities provided by service firms, who are estimated to be offering over 400 full-time equivalent jobs devoted to the gaming industry as at June 2016. Primarily, these consisted of general consultancy, law and audit services, followed by real estate firms.

Another interesting trend is the dependency of remote gaming firms on non-Maltese employees. Estimates derived from surveys undertaken by the MGA indicate that non-Maltese

employees amount to 67% of the total. The segment of non-Maltese employees tends to increase proportionately with the level of skill, estimated at 55% of technical jobs, rising to 61% for professional posts and 70% for senior management (also known as C-Suite) roles. The requirements for C-Suite roles in gaming firms are compounded by their relatively large size as compared to other businesses in Malta. By contrast, the vast majority of employees in land-based activities are Maltese.

CONSIDERATIONS WITH RESPECT TO SKILLS AVAILABILITY

These observations point to potential issues with respect to the availability of sufficient skills to sustain the growth of remote gaming sector. To obtain a better understanding of these issues, the MGA commissioned a study on the availability of human resources in Malta with a specific focus on digital and ICT skills². The availability of these skills are key to develop the gaming industry, to sustain the activities of firms providing these services directly, and to provide for the ICT needs of business in Malta across a wide spectrum of activities. It is estimated that, in 2015, the gaming industry accounted for 30% of all digital economy jobs in Malta.

There are very strong indications of demand for ICT skills outstripping supply in Malta, driven in good part by the requirements of the gaming industry. Over the past five years, only 10% of new graduates in Malta were in the field of Computing/ICT, necessitating an increase of new skills supply in a bracket of between 300 and 400 persons. This is but a fraction, estimated at around one-fourth, of the potential requirement of such skills in the economy. As non-Maltese workers are attracted to provide such skills, the salary levels associated with these posts are considerably high, ranging between €30,000 to €50,000 per annum as compared to average salary levels in Malta of €16,800 in 2016. While higher value added enterprises, including those in the gaming industry, can afford relatively high salary levels to attract talent, other firms are experiencing competitiveness difficulties which are leading some to relocate their business due to the skills shortages in ICT.

The most significant skills gaps are in the technical or specialist arena, especially with respect to front- and back-end software development and in business intelligence and analysis. There are also shortcomings in the mix of soft and hard skills, whereby industry is expecting a more sophisticated and adaptable work force with the right mix of technical abilities, while also possessing strong communication, project

management, collaboration, problem solving and business skills. The supply of skills also appears to be not sufficiently dynamic to meet the frequent changes in technology. While considerable effort is being made by public and private institutions, the end product is still not meeting industry requirements to a sufficient degree.

These considerations call for a number of policy initiatives so as to allow the economy and the Maltese labour force to reap the opportunities provided by the digital economy in general and the gaming industry in particular. These include:

- redoubling the impetus of the educational system to provide the skills in the required numbers and quality, and ensuring sufficient dynamism in meeting the rapidly changing technologies and skills set requirements;
- extending the HQP programme to attract technically-qualified people in critical areas, also with a potential view to facilitate the transfer of knowledge;
- incentivising, through fiscal and other measures, training and continuous professional development activities, also through collaboration with academic institutions locally and abroad;
- facilitating the attraction of international talent, also by providing lifestyle amenities for families.

While these measures would be conducive to improving skills within the digital economy, they would require interventions by various public and private sector entities, apart from actions falling under the direct purview of the MGA. Interventions would ideally be comprehensive and complementary, and implemented through active collaboration of all stakeholders involved. It is also highly probable that, in view of the small scale of the Maltese economy and the rapid technological advances globally, the sourcing of talent from the international pool would not only be necessary, but also desirable to sustain an orderly growth of digital economy activities in Malta. ↩

² The Digital Economy Skills Gap Analysis, Report prepared by Deloitte Services Limited for the Malta Gaming Authority, August 2016.



GAMING INDUSTRY FOCUS

AN INQUIRY INTO THE CONSUMPTION OF GAMING SERVICES BY MALTESE RESIDENTS: **ECONOMIC AND SOCIAL CONSIDERATIONS**

The MGA commissioned a survey to analyse trends and attitudes of the Maltese resident population with respect to gaming activities³. The exercise aimed to analyse the economic and social dimensions of expenditure by the Maltese population on gaming services, thereby contributing to an informed discussion regarding consumer protection and player responsibility across the spectrum of stakeholders.

The survey exercise was conducted during the course of January 2016 and the questionnaire covered consumer behaviour over the previous 12-month period. A total of 1,000 valid responses from persons aged 18 years and over were collected in a manner which best ensures representativeness of the Maltese population in terms of place of residence, gender and age.

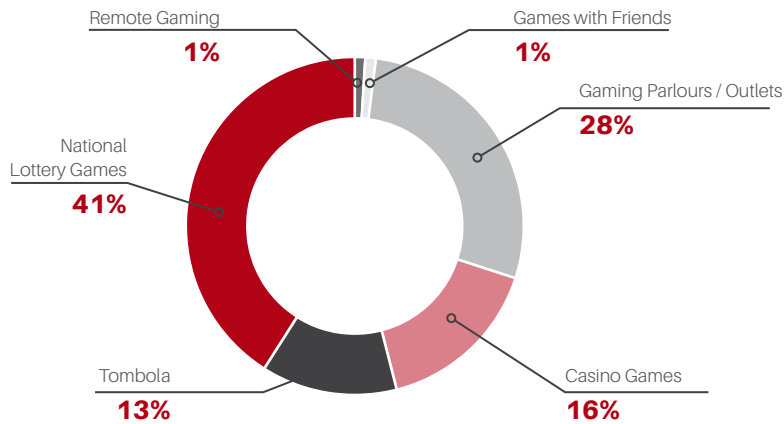
GAMING RECREATIONAL SERVICES IN RELATION TO CONSUMER EXPENDITURE AND HOUSEHOLD INCOME

The Maltese population is estimated to have spent €125 million in gaming services during 2015. This represented 2.8% of total household consumption expenditure, and around one fourth of the expenditure on recreational and cultural activities⁴. The main part of expenditure on gaming is taken up by National Lottery games, as shown in Chart 5. This is closely followed by expenditure related to gaming parlours and outlets.

³ Malta Gaming Authority, A Study on the Gambling Behaviours Among the Maltese Population, 2016.

⁴ NSO, News Release 041/2017.

CHART 5: DISTRIBUTION OF €125 MILLION OUTLAY ON GAMING IN 2015

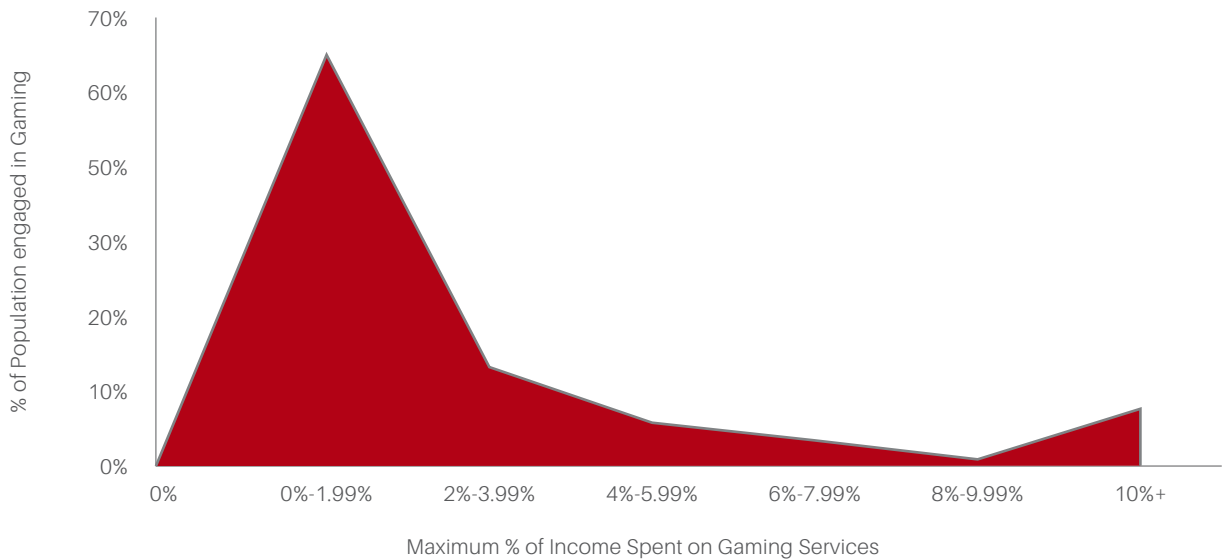


NB: A portion of expenditure shown with National Lottery Games would be undertaken in Gaming Parlours/Outlets.

Around 195,300 persons are estimated to have spent money on some form of gaming activity in 2015. This amounts to close to 56% of the population aged 18 and over. The average weekly expenditure by these persons is estimated at €12.30. It is to be further noted that over 71% of the players play in only one of the game categories. Around 23% are involved in two categories, while around 6% are involved in three categories or more.

Chart 6 indicates the maximum amount of income spent on such activities for the population which acquires gaming services. It shows that 65% of players spend no more than 2% of their income on gaming services. This analysis furthermore shows that while the vast majority of players appear to maintain an affordable level of spending on gaming services, 9% of players spend in excess of one-tenth of their income on gaming. The overall average spending is 3.1% of income.

CHART 6: PROPORTION OF INCOME SPENT ON GAMING



Furthermore, it is noted that gaming provides opportunities for recreation which do not involve the spending of money, and these are typically enjoyed by 46% of the adult population. Survey results indicate that such games are popular with the Maltese population, with free computer games being played by 71% of the free-to-play player population, free internet games played by 73% of the player population while other games being played by 76% of the player population in 2015. This is within the context of official statistics which show that 81.2% of the population had access to the internet during that year, of which 76.2% were regular users⁵. These behavioural patterns are also subject to changes over time as the population gains increased and diverse access to computer and internet devices.

⁵ NSO, News Release 030/2016.

GAMING RECREATIONAL SERVICES IN RELATION TO HOUSEHOLD TIME BUDGETING

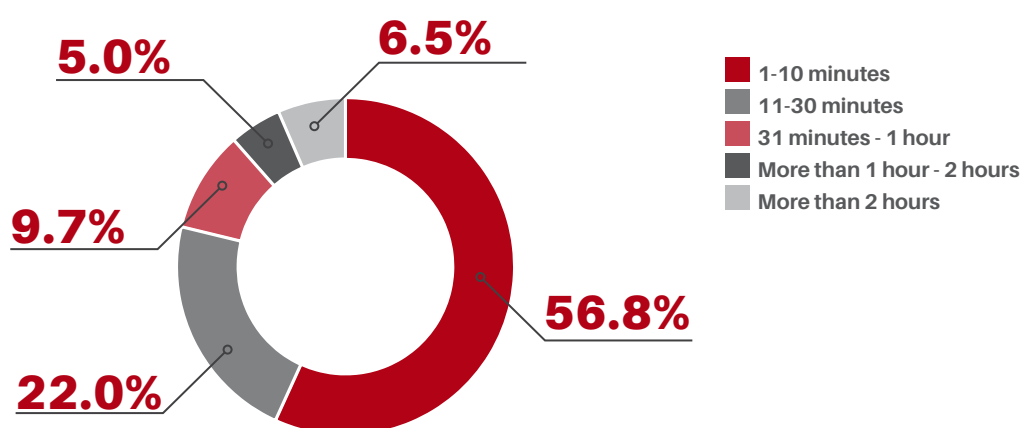
Players spent an average of just over half an hour per week across all types of gaming services acquired against payment in 2015, as shown in Table 3. In terms of the 195,300 individual players estimated among the Maltese population, who may have engaged in more than one type of game, the average time spent is estimated to be around 40 minutes per week. The game with the highest allocation of time among the population is Tombola, in good part reflecting the fact that, on average, almost 42,000 players each play for 70 minutes per week.

TABLE 3: HOURS SPENT ON PAID GAMING ACTIVITY (2015)⁶

Type of Game	Individuals Playing Each Game	Total time spent per week (hrs)	Average time per player per week (minutes)
Remote Gaming	4,197	3,457	49
Games with Friends	9,443	17,661	112
Gambling Parlours/Outlets	70,994	32,181	27
Casino Games	13,989	14,231	61
Tombola	40,918	47,973	70
National Lottery Games	126,250	16,097	8
Total	265,790	131,600	30

Chart 7 presents a distribution of players in the Maltese population by the time spent on gaming services acquired against payment every week. Well over half of the players spend no more than 10 minutes playing each week, reflecting the strong element of players involved in National Lottery games. The involvement of players diminishes progressively with higher time allocation brackets. It is however worthwhile to note that around 6.5% of players are estimated to spend more than two hours per week in gaming services acquired against payment. These players would typically be involved in more than one type of gaming activity.

CHART 7: TIME SPENT PLAYING PER WEEK



⁶ The total of 265,790 shown in Table 3 does not relate to individual persons but the individuals playing each type of game, whereby any one of the 195,300 players within the adult population may engage in more than one gaming activity.

DEMOGRAPHIC ASPECTS OF THE CONSUMPTION OF GAMING RECREATIONAL SERVICES

This section reviews the principal demographic characteristics associated with the acquisition of gaming services for money in the Maltese population. Chart 8 identifies the main characteristics of persons who acquire gaming services within the Maltese population, focusing on age cohorts, family types, highest educational attainment and employment status.

While 56% of the Maltese adult population was found to have acquired gaming services in 2015, the persons who engage in such activities are most likely to be those who are aged 45 and over, who have an educational attainment up to secondary level and who are not active in the labour market. In terms of family type, the persons who engage in paid gaming services are equally likely to be married, living with a partner, or single parents, and less likely to be living alone, with parents, or friends. There is therefore a tendency for players to be of middle or senior age, having a low educational attainment, perhaps less restricted than others in terms of time constraints, and earning relatively low albeit stable levels of income.

CHART 8: LIKELIHOOD OF SPENDING ON GAMING SERVICES BY DIFFERENT SOCIAL COHORTS (DATA RELATES TO INDIVIDUAL PLAYERS)



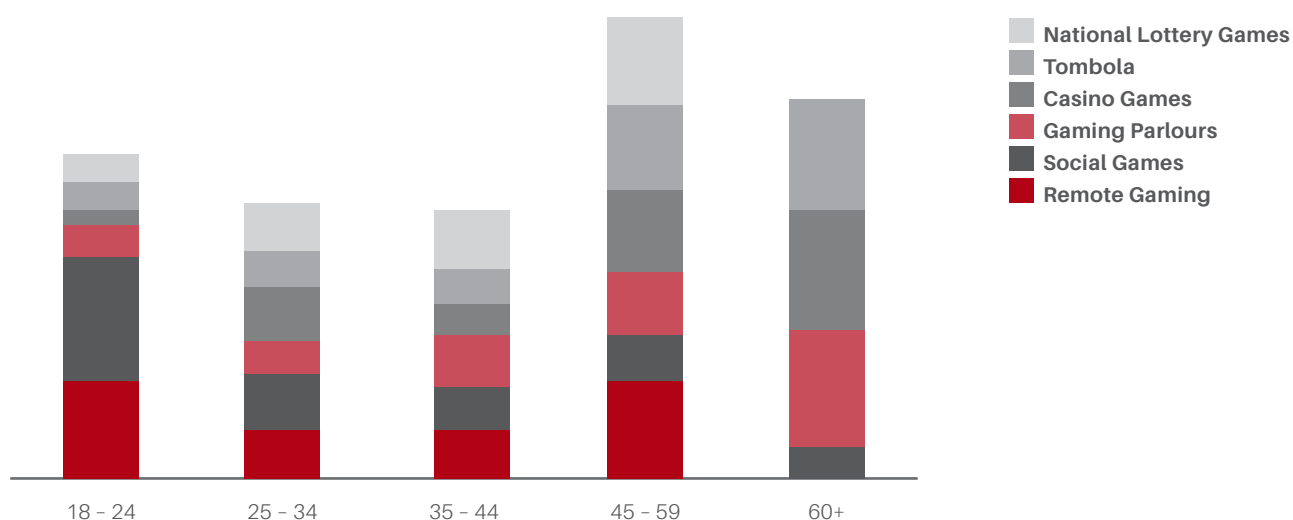
These observations are to be interpreted as defining a general profile of persons who are more likely than others to engage in paid gaming activities, and should not be construed to constitute precisely defining characteristics. Moreover, there is not necessarily any causal relationship between each of the variables and the propensity of individuals to buy gaming services.



It is also interesting to analyse the type of gaming preferences by different age cohort. This is presented in Chart 9, which indicates that whereas younger adult players are more likely to engage in remote gaming and social games - reflecting preferences towards technological devices and socialisation - senior citizens mostly acquire gaming services from gaming parlours, casinos and tombola, which may require relatively more time commitment. Players in intermediate age brackets exhibit more balanced preferences between the different types of games, with the more time-consuming games being less popular in the 35 - 44 age bracket.

A comparison of the results presented in Chart 8 and Chart 9 indicates that the participation of persons aged 45 and over extends to their engaging in more than one gaming type.

CHART 9: GAMING PREFERENCES BY DIFFERENT AGE COHORTS (DATA RELATES TO PLAYERS PARTICIPATING IN ONE OR MORE TYPES OF GAMES)



GAMING RECREATIONAL SERVICES, SOCIAL INTERACTION AND POTENTIAL IMPLICATIONS FOR SUSTAINABLE LIFESTYLES

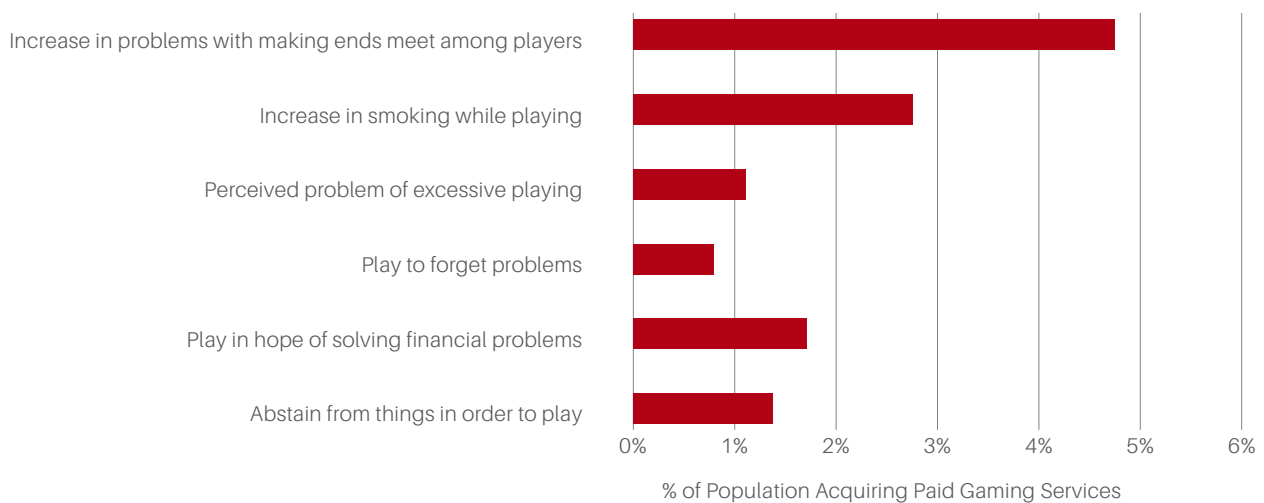
This section delves into the implications of gaming behaviour for individuals to develop positive social interactions. At the other spectrum of argumentation, it assesses potential implications of gaming activity for sustainable lifestyles.

Whereas, in general, around 46% of the population engages in some form of free gaming activity, the proportion which does so with friends stood at just under 20% in 2015. Those who played such games in village clubs were merely 2% of the population. Online games were the most preferred type of games played socially for free, followed by card and board games.

Games played for money within the context of socialisation with friends is an even more limited phenomenon. While around 56% of the population played games for money in 2015, the proportion of those who did so with friends is estimated at under 3%.

Gaming activity may entail implications for sustainable lifestyles. Around 1% to 2% of the population which acquires gaming services against payment reports some type of adverse effect between gaming activity and lifestyle, ranging from abstaining from other consumption in order to play to actually recognising that gaming is being perceived as a lifestyle problem, as shown in Chart 10. Survey responses also indicate that 3% of the population smokes more while playing, and a 5% difference in the population which has problems in making ends meet between those who play and those who do not. These responses, however, are not to be necessarily attributable to gaming, but may be due to other influences on the lifestyles of the population purchasing gaming services.

CHART 10: INDICATORS OF IMPLICATIONS FOR SUSTAINABLE LIFESTYLES



The findings of the statistical study point to a situation where, while the opportunities for socialising which may present themselves through gaming are not reaped, problems with maintaining sustainable lifestyles are not significantly pronounced either. This conclusion is subject to two important caveats. The first is that there is a small portion of the population, which, on the basis of this study, allocates a significant part of its financial and time resources to gaming. Secondly, it is to be considered that the study contemplates only gaming undertaken in accordance with established rules and regulations, and it ignores the dimension of gaming through illegal activities, which could be more prone to causing social problems. The conclusions of this study appear to point to the fact that, more likely than not, the major problems would be emanating primarily through illegal gaming activities. At the same time, the identified issues for social sustainability with respect to gaming undertaken under established rules and regulations should be studied further and potentially be subject to more intensive policy engagement.

These considerations, in good part, mirror the feedback received from social NGOs. Through their feedback in the process of consultation on the findings of the study, these organisations highlighted the need to address problems related to illegal gambling activity, to focus more on the needs of vulnerable persons even when these are engaged in gaming through legal channels, and to curtail situations of credit being taken in order to engage in gaming services. They advocate further studies of a qualitative nature to better understand problems of addiction, including through a gender mainstreaming approach. The NGOs also emphasise the need of devising multi-dimensional solutions to support affected individuals, particularly when they come from socially vulnerable backgrounds.



REGULATORY MEASURES TO PROTECT THE CONSUMER AND PROMOTE RESPONSIBILITY ATTITUDES IN GAMING BEHAVIOUR

Responsible gaming is one of the paramount objectives which guide the MGA's regulatory ethos. Land-based gaming operators are connected to a unified self-exclusion database hosted by the MGA, whereby players may exclude themselves from gaming for a definite or indefinite time. Remote gaming operators are required to offer the possibility of self-exclusion as well. They must also offer players means to limit their spending, among other safeguards.

Advertising of gaming services is also subjected to conditions to ensure that it does not give the impression that gaming is an investment or can otherwise function as a means to attaining lifestyle success. Moreover, players who have expressed the desire to be excluded from gaming cannot be contacted with offers.

The MGA will also be implementing provisions for increased player protection and responsibility awareness in the context of a regulatory overhaul to be launched in 2018.

CONCLUSION

Gaming is an essential component of the consumption activity of the Maltese population. Over one half of the adult population acquires such services for money, and close to 46% engages in non-paid gaming activities. There is a tendency for players to be of middle or senior age, have a low educational attainment, are perhaps less restricted than other persons in terms of time constraints, and earn relatively low albeit stable levels of income.

National lottery games are the predominant type of gaming activity, as measured in terms of number of players and money spent, closely followed by gaming parlours and outlets. The average spend by players across all types of games is estimated at €12.30 per week for 2015, with the vast majority of players spending no more than 2% of their income on gaming services.

While problems associated with gaming through regular activities are contained within a relatively minor section of player population, the MGA is committed to safeguard vulnerable consumers through self-exclusion arrangements, controls on advertising and funding of programmes aimed at consumer protection. The MGA will be further increasing its engagement in this regard through a wide-ranging regulatory overhaul which it will be implementing in 2018. ↵



THE MALTESE GAMING INDUSTRY IN 2016

AN OVERVIEW OF PERFORMANCE AND MEDIUM-TERM OUTLOOK

The gaming industry in Malta has grown markedly over the past five years and, by 2016, was contributing almost 12% of the economic value added. Remote gaming business licensed by the MGA generated around 90% of this activity. Growth in remote gaming activity was sustained by Malta's reputation as a leading licensing jurisdiction and by its inherent business advantages, which offset potentially adverse developments. In the land-based segment, gaming activity benefited from improvements in household income and developed the opportunities arising from enhancing the service offering to a growing tourism market. These conditions are providing an ideal opportunity for a far-reaching repositioning of Malta's licensing activities to diversify into new business areas and enhance regulatory efficiency while improving compliance systems and player protection to meet the best global standards of practice.

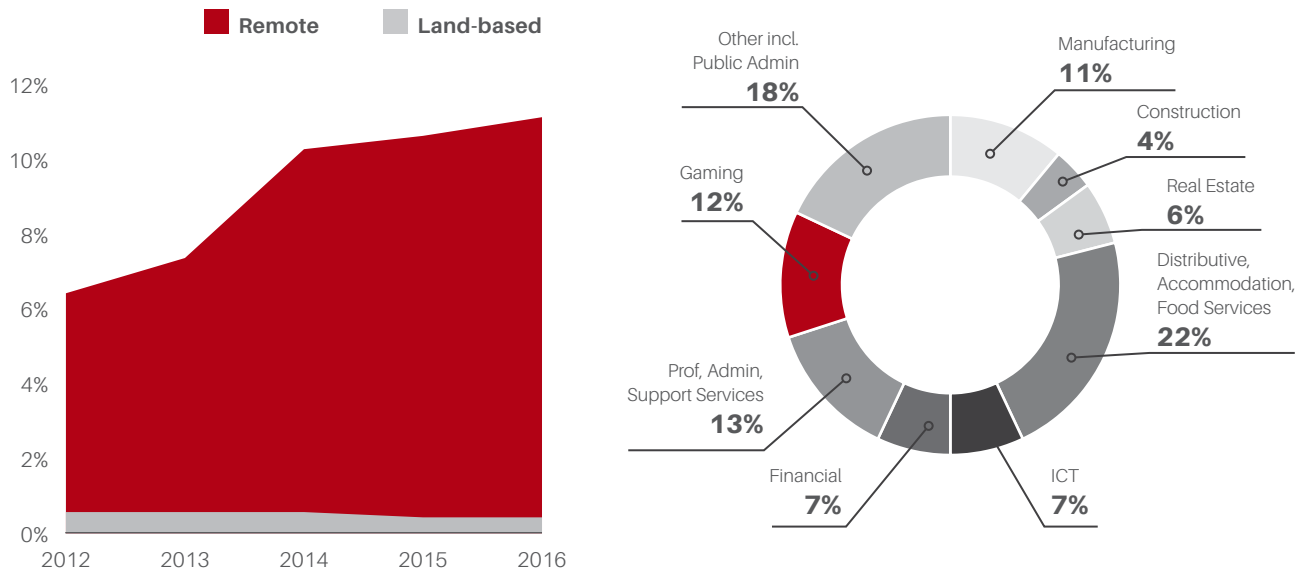
HEADLINE INDICATORS

The gaming industry is estimated to have generated just over €1 billion in terms of gross value added in 2016, as shown in Table 4. This represented a 12% growth over 2015, when the industry had already increased its gross value added by a similar amount. As a result of these developments, the gaming industry increased its share in economic activity over past years to around 11.6% by 2016, as shown in Chart 11. Excluding public administration, the gaming industry has become the third-largest sector in the economy, exceeding in terms of size of value added other sectors which were traditionally major economic pillars. It is also to be considered that gaming contributes to the generation of value added in other major sectors, including professional services, financial and ICT activities, distributive trades⁷ and real estate.

TABLE 4: HEADLINE INDICATORS OF GAMING INDUSTRY

Headline Indicators	2014	2015	2016
Number of Licences in Issue (Remote)	469	490	513
Number of Companies in Operation	289	276	266
Gross Value Added (€m)	795.2	901.6	1,011
Employment - Full-Time Equivalent (FTE) jobs	3,724	4,707	6,193
Remote	3,102	3,908	5,327
Land-based	622	799	866
Gaming Tax Revenue (€m)	52.6	55.2	56.3

CHART 11: CONTRIBUTION OF THE GAMING INDUSTRY TO GROSS VALUE ADDED



⁷ Wholesale, retail, and food and accommodation service activities.



The gaming industry directly accounted for almost 6,200 jobs in full-time equivalent terms by the end of 2016. This represented an increase of almost 1,500 jobs over 2015, with the industry thus accounting for 14% of the entire increase in employment in Malta during the year. It is estimated that the expenditure by gaming firms in Malta generates the equivalent of an additional 2,800 full-time equivalent jobs in other economic sectors with high value added.

The growth in gaming industry activity in Malta registered in 2016, which followed a similarly strong performance in 2015 and 2014, can be viewed to be extraordinary, both in terms of performance in earlier years as well as in the context of the development of gaming activity globally. These developments were driven by business investment in the sector, partly on account of relocation of businesses to Malta, but also due to mergers and take-overs taking place internationally. Several firms experienced an organic growth in revenue which served as a base for an expansion of the services offered in a dynamic market environment.

Employment growth in part reflected these developments. However, it also mirrored changes in the nature of the gaming business towards consolidation of service delivery robustness, quality and consumer satisfaction. These were, in good part, driven by regulatory requirements. Business, in general, also sought to acquire professional skills to enhance marketing activities. Indeed, the growth in employment in the industry in 2015 and 2016 was more than twice that in gross value added. This places the sector in Malta on a stronger footing in terms of quality of service provision and compliance, which is conducive to enhancing the reputation of the industry.

The consolidation taking place within the industry is evident in the development of the number of companies and licences issued within the context of the strong growth in economic value added. As Table 4 shows, the number of companies licensed in the Maltese jurisdiction actually declined in 2016, with the number of licences increasing only marginally.

GAMING INDUSTRY OUTLOOK

The gaming industry in Malta is expected to continue to grow markedly in 2017 and 2018. This will, in part, be underpinned by the industry outlook at a global level, which according to most sources, is a positive one. More importantly, this outlook reflects business developments within the Maltese jurisdiction itself. Results of surveys undertaken by the MGA indicate an expected growth in revenue and employment, ranging between 5% and 15% in 2017 and 2018 respectively, for existing remote gaming operators. This will, most likely, be compounded by new investors in Malta, attracted especially by the revamped regulatory environment. Expectations of land-based operators are also positive but somewhat less upbeat than those of remote gaming firms.

While it is acknowledged that the high and widespread rates of growth registered in 2015 and 2016 may be difficult to sustain over a prolonged period of time, the performance for 2017 and 2018 is, at this stage, prudently expected to be broadly positive, where the industry will, most likely, sustain and perhaps continue to increase the share of its contribution to the Maltese economy.

LAND-BASED SECTOR

The land-based gaming sector in Malta is composed of four main activities, namely: casinos, gaming parlours, commercial bingo halls and national lottery games. During 2016, the land-based sector experienced a notable increase in activity, reflected primarily in an 8% growth in both Gross Gaming Revenue (GGR) and employment. This was, in part, the result of the first full year of operation of a new casino operator.



PLAYERS' VISITS

Players' visits to casinos, gaming parlours and commercial bingo halls amounted to almost 1.5 million in 2016, up by 19% over the previous year. The total visits are inclusive of both Maltese nationals and foreign nationals living in Malta as well as tourists visiting the Maltese Islands. While casinos continued to account for the largest share of the visits, gaming parlours saw the strongest rate of growth, at 39%, in 2016, as shown in Chart 12. This reflected an increasing range of service offering by gaming parlours. Casinos and commercial bingo halls experienced more moderate increases in players' visits, at 16% and 5% respectively.

The substantial increase in visits to gaming parlours in 2016 was, in part, contrasted by a 12.3% drop in average GGR per visit, as shown in Chart 13. This reflected the changing nature of the services provided, with a diversification into higher-frequency, lower-spending visit profile. The average spend per visit to gaming parlours in 2016 is estimated at €17 on just over 390,000 visits.

Casinos experienced a moderate drop of 4.2% in GGR per visit in 2016, to stand at €44 spread over more than 900,000 player visits. Reflecting the growth in visitor numbers, total GGR is estimated to have increased by 11%.

Activity in bingo is viewed to have remained flat to moderately declining in 2016 as growth in players' visits was more than offset by a decline in spending per visit. A similar tendency was noted in 2015.

CHART 12: VISITS TO LAND-BASED OUTLETS

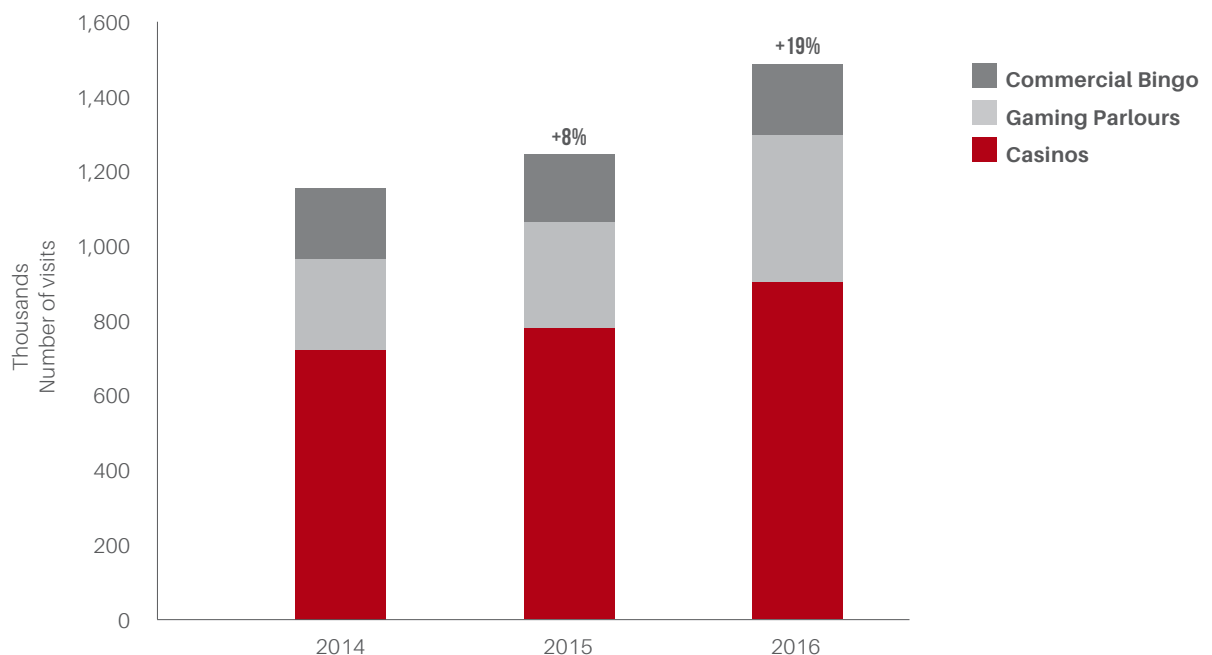
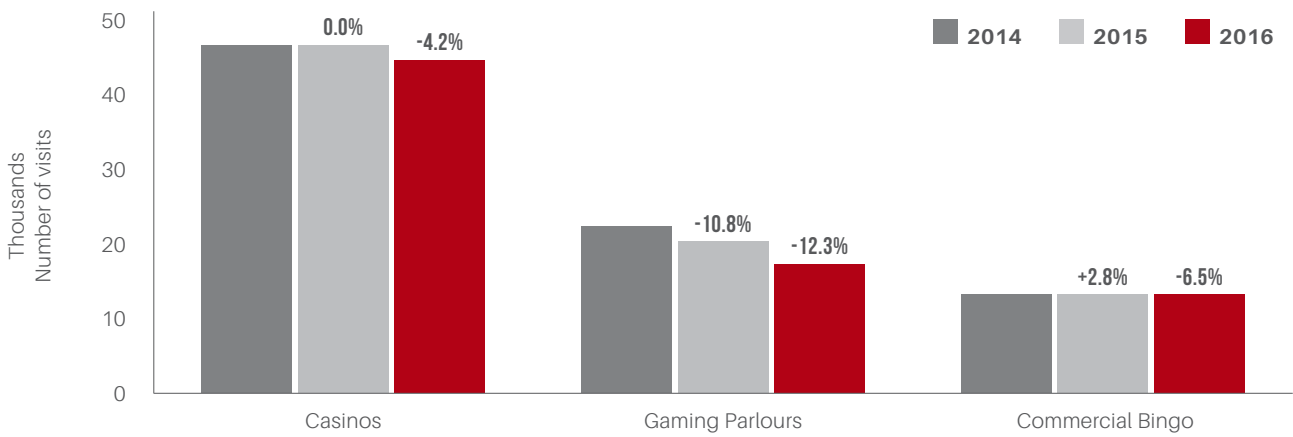




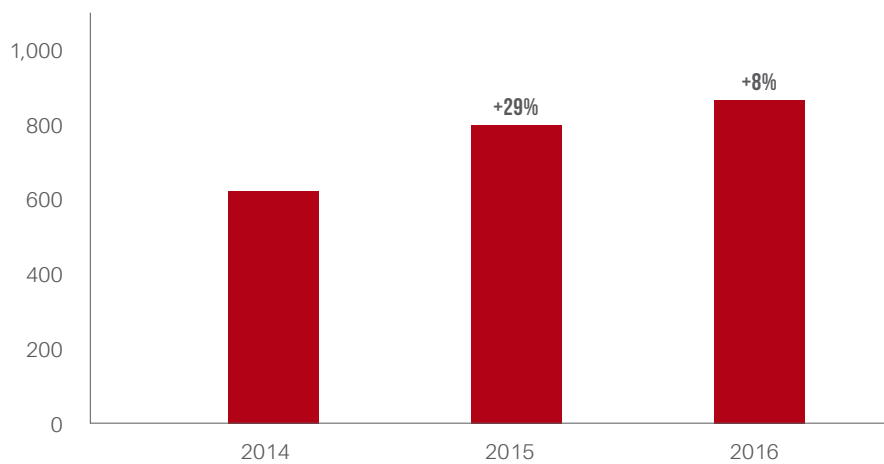
CHART 13: AVERAGE GGR PER VISIT



EMPLOYMENT

The land-based gaming sector continued to offer employment opportunities for both Maltese and other nationals, and, by the end of the year under review, the number of people working directly in this industry went up to 866. This represented an increase of 8% over the previous year.

CHART 14: LAND-BASED EMPLOYMENT





I. LAND-BASED CASINOS

During the year under review, there were four licensed casinos operating in Malta. Three casinos, Dragonara Casino, the Casino at Portomaso and Casino Malta, are located in the central part of the Maltese Islands whilst Oracle Casino is located in the north of Malta.

The year 2016 has seen a full year of Casino Malta’s operation that opened its doors in the last quarter of 2015.

1. CASINO PLAYERS’ VISITS

The total number of visits to local casinos stood at 904,412 for the year 2016, an increase of 16% when compared with the year 2015. This increase was mainly attributed to a 20% growth in visits by non-Maltese players. During the year under review, the highest number of visits of 101,694 was reported in August, when tourism figures peak in Malta. In October 2016, the casino sector also registered a substantial number of visits of 96,769 due to a high number of non-Maltese and Maltese players competing in a poker tournament that was organised during that month.

Apart from visits reported for regular customers, casinos also offer their facilities to junket players. Junket is an arrangement whereby a person or a group of persons is introduced to a casino by a junket promoter to play in a licensed casino, pursuant to which costs of transportation, food, lodging and entertainment might be directly or indirectly paid by the casino licensee. Over the last few years, the number of junkets has been on the increase, reaching 959 players during the year 2016, 400 players more when compared with the year 2015.

CHART 15: LAND-BASED CASINOS - NUMBER OF VISITS

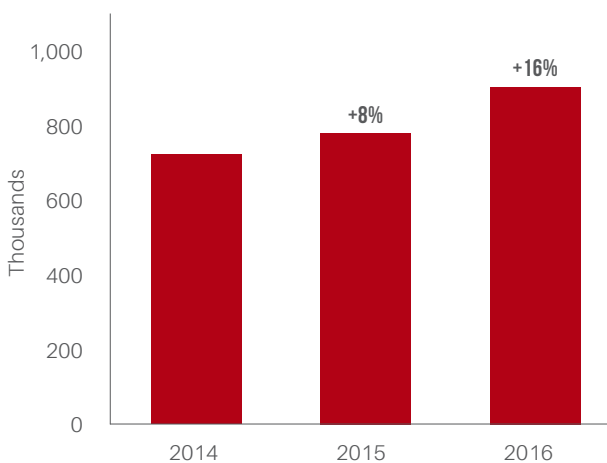
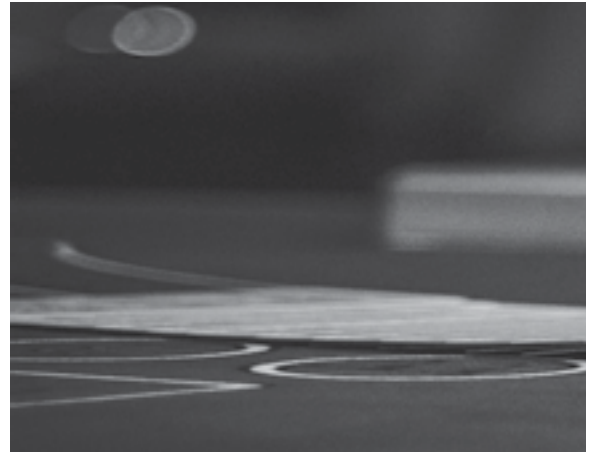


TABLE 5: LAND-BASED CASINOS - NUMBER OF PLAYERS (JUNKETS)

Junket Players	2014	2015	2016
Total	594	559	959





2. CASINOS: NEW PLAYERS' REGISTRATIONS

Casino operators, as described in the Registration of Players Directive 2011⁸, are required to register each player entering their premises. During 2016, 136,856 new registrations were reported by casino operators, part of which would represent multiple registrations by a single player in more than one casino.

3. CASINOS: NUMBER OF TABLES⁹ AND SLOTS

As at end 2016, there were 93 gaming tables and a total of 934 slots in casinos in Malta. The highest number of tables was reported for Texas Hold'em and Roulette, with 29 and 27 tables respectively.

TABLE 6: LAND-BASED CASINOS - NUMBER OF TABLES

No. of Tables	end - 2016
Texas Hold'em	29
Roulette	27
Blackjack	18
Casino Poker	8
Punto Banco	6
Other	5
Total	93

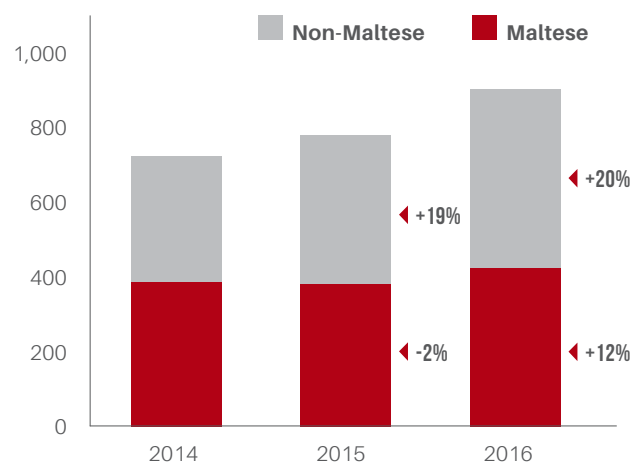
4. PROFILE OF THE CASINOS' PLAYERS

Nationality

During 2016, non-Maltese players accounted for 53% of casino visits, an increase of two percentage points over the previous year. The number of casino visits by non-Maltese players amounted to 3.2% of tourist bed-nights spent in Malta during the year, up from 2.8% in the previous year. Casinos thus appear to be gaining an increasing share of Malta's growing tourism market, which, in 2016, saw the number of bed-nights rising by 5.7%¹⁰.

The visits by Maltese players rose by 12% whilst those by other visitors increased even faster, by 20%. Interestingly, the number of Maltese visitors in 2016 returned to a level comparable to that registered in 2013, reversing a downward trend seen over the past five years. While visits by Maltese residents tend to be stable over the year, those by non-Maltese players show a marked peak in August, which in 2016 accounted for around one-eighth of total number of visitors.

CHART 16: LAND-BASED CASINOS - PLAYERS' PROFILE (BY NATIONALITY)



⁸ This Directive refers also to commercial bingo halls and gaming parlours' operators.

⁹ Total number of tables for casinos' games as at 31 December 2016.

¹⁰ NSO, News Release (020/2017)

Gender

During the year under review, 62% of the total visits were registered for male players with 38% representing visits by female players.

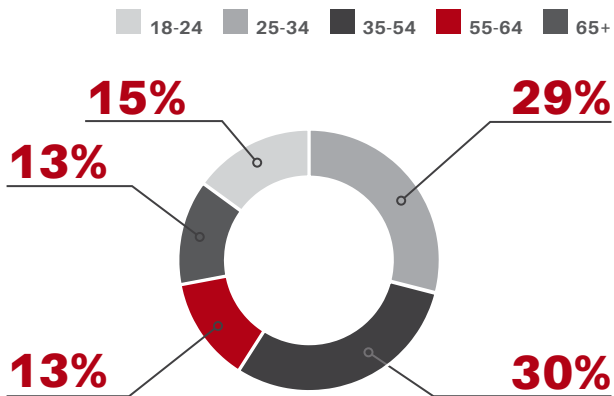
FIGURE 2: LAND-BASED CASINOS - PLAYERS' PROFILE (BY GENDER)



Age Group

In 2016, nearly two-thirds (59%) of all visits to the local casinos was reported collectively for players between 25 – 34 and 35 – 54 age brackets. Visits to casinos by players between 55 - 64 years and 65+ constituted 13% each of the total visits for the sector. Casinos reported that the visits of the youngest age group, that is, between 18 to 24 years represented 15% of all visits during the period January to December 2016.

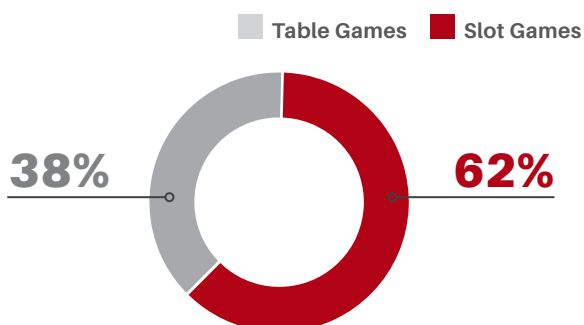
CHART 17: LAND-BASED CASINOS - PLAYERS' PROFILE (AGE GROUP DISTRIBUTION)



5. CASINOS' GGR

Out of the total GGR produced by casinos during 2016, 62% was generated through slot games whereas 38% was generated through table games. The share of GGR from table games rose by 5 percentage points during the year, reflecting a 29% growth in this category.

CHART 18: LAND-BASED CASINOS - GGR DISTRIBUTION



Junkets accounted for 8% of the total GGR reported by the local casinos in 2016. This represented a significant increase over the trend of the past five years, when GGR generated from junkets was, at most, 4% of the total.

Average GGR per Visit

While the number of visits to casinos increased significantly in 2016, GGR grew but at a slower pace. This resulted in a drop of €2 in the average GGR per visit, from €46 in 2015 to €44 in 2016.

TABLE 7: LAND-BASED CASINOS - AVERAGE GGR PER VISIT

Average GGR per Visit	2014	2015	2016
Total (€)	45.9	45.9	43.9

6. CASINOS: GAMING TAX

The gaming tax payable by the casino sector increased by 5% in 2016, to stand at €14.4 million. This amounted to over one quarter of the total gaming tax revenue generated under the Maltese jurisdiction during the year.

TABLE 8: LAND-BASED CASINOS - GAMING TAX

Gaming Tax	2014	2015	2016
Total (€)	12,514,316	13,719,674	14,421,187

7. CASINOS' EMPLOYMENT

Full-time equivalent jobs in casinos rose from 574 to 648 throughout 2016. A large proportion of this increase was due to the opening of a new casino that provided additional employment opportunities within the sector.

TABLE 9: LAND-BASED CASINOS - EMPLOYMENT

Employment	2014	2015	2016
Total (FTEs)	417	574	648

The gender balance remained comparable to that in 2015, as 46% of employees were female. The share of non-Maltese employees rose by 10 percentage points to 54%.



II. GAMING PARLOURS

1. APPROVED GAMING PARLOURS

As at end 2016, the number of approved gaming parlours in Malta amounted to 48, up by 2 from the previous year. The outlets were distributed across 28 different localities.

The highest number of gaming parlours were located in Hamrun, Paola and Valletta, with four outlets each. Although there are no specific limits of gaming outlets per locality, the Authority ensures that approvals of licences are in line with legal restrictions to safeguard and protect minors and the general public.

TABLE 10: APPROVED GAMING PARLOURS

Approved Gaming Parlours	2014	2015	2016
Izibet	23	24	27
Bestplay Gaming	6	6	6
Media Games	5	7	5
Fairbet	5	6	7
Bingo	3	3	3
Total	42	46	48

2. GAMING DEVICES

The number of licensed gaming devices has increased by 12%, from 343 as at December 2015 to 384 as at December 2016. This implied an average of eight gaming devices per outlet, and is to be viewed in the context of regulations, limiting the number of devices per outlet to no more than 10.

TABLE 11: DISTRIBUTION OF GAMING DEVICES PER LICENSED OPERATOR

Total Gaming Devices per Operator	2014	2015	2016
Izibet	150	178	214
Bestplay Gaming	41	43	48
Media Games	29	49	40
Fairbet	23	43	52
Bingo	30	30	30
Total	273	343	384

3. GAMING PARLOUR VISITS

In 2016, gaming parlours in Malta reported 391,564 player visits, up by 39% from 2015. This growth was driven largely by the increased number of new gaming devices and by the introduction of new types of devices in the gaming outlets.

Number of visits by locality

For statistical purposes, the Maltese Islands are divided into six districts namely: Southern Harbour; Northern; South Eastern; Western; Northern; and Gozo & Comino (see Appendix 2).

In 2016, visits to gaming parlours increased in each district, with the largest rise, of 42,850, in absolute terms, reported for the Southern Harbour District. This is a result of the increase in the number of outlets in this district, from 18 to 20 during the period under review.

CHART 19: GAMING PARLOURS - NUMBER OF VISITS BY DISTRICT

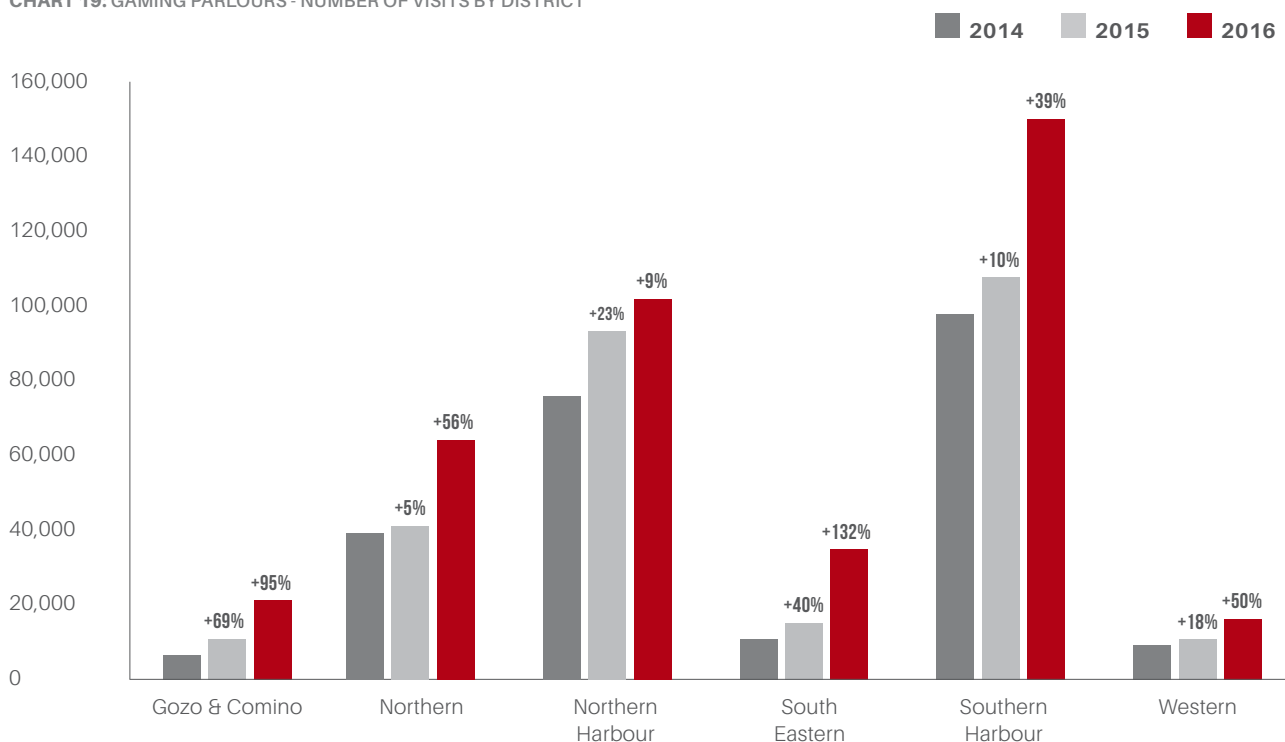


TABLE 12: GAMING PARLOURS - NUMBER OF VISITS BY DISTRICT

District	Number of Visits				Number of Outlets		
	2014	2015	2016	% change 2015 vs 2016	2014	2015	2016
Gozo and Comino	6,506	10,958	21,412	95%	2	2	2
Northern	39,441	41,440	64,597	56%	5	5	5
Northern Harbour	76,453	94,068	102,792	9%	12	15	15
South Eastern	10,806	15,112	35,084	132%	5	4	4
Southern Harbour	98,590	108,489	151,339	39%	16	18	20
Western	9,190	10,861	16,340	50%	2	2	2
Total	240,986	280,928¹¹	391,564	39%	42	46	48

¹¹ The figure for 2015 does not include 662 visits which were marked as "no site", and therefore could not be allocated to the particular district.

CHART 20: GAMING PARLOURS - VISITOR INTENSITY BY DISTRICT

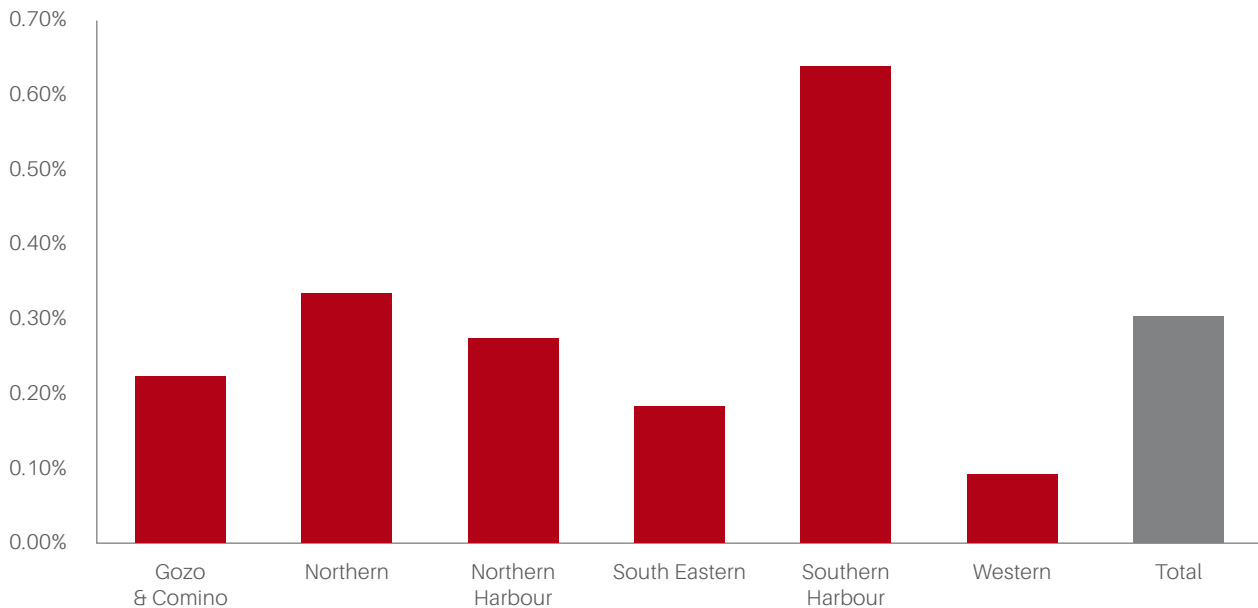


Chart 20 presents a measure of the intensity of gaming parlour activity in the six districts, which expresses the number of visitors as a percentage of the potential visits during the year based on the size of the population aged 18 and over within the districts. The analysis provides an interesting insight into the prevalence of gaming across statistical districts, where it is to be appreciated that gaming provides an element of affordable recreational services, which, within the context of formal and well-regulated activities that offer adequate safeguards for consumer protection, is consistent with individual choices towards sustainable lifestyles.

4. GAMING PARLOURS' NEW REGISTRATIONS

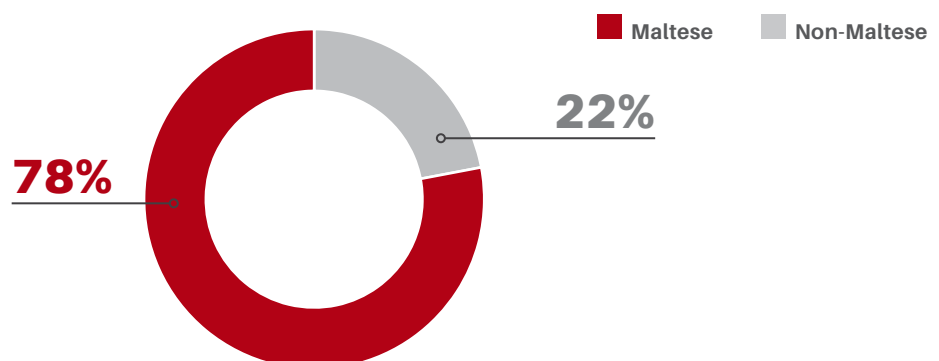
During the period under review, the gaming parlour sector reported 10,875 new registrations. On average, operators registered 2,175 new players each during the period January to December 2016.

5. PROFILE OF GAMING PARLOURS' PLAYERS

Nationality

During the first six months of 2016, the gaming parlours outlets were mostly popular amongst local players, with 78% of total visits reported for Maltese nationals and 22% reported for non-Maltese players.

CHART 21: GAMING PARLOURS PLAYERS' PROFILE (BY NATIONALITY)



Gender

During the period January to December 2016, 69% of all visits to the gaming parlours' establishments were registered for male players. Visits by female players constituted 31% of the overall number of visits to gaming outlets.

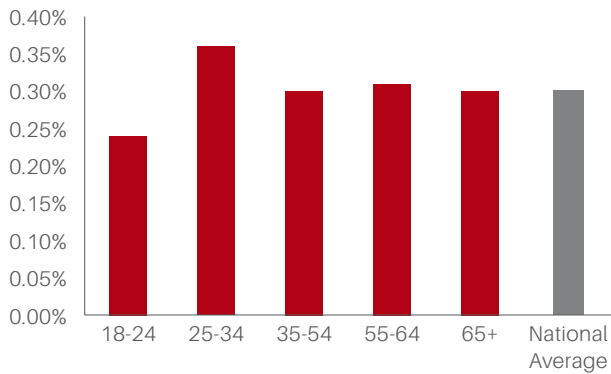
FIGURE 3: GAMING PARLOURS - PLAYERS' PROFILE (BY GENDER)



Age Group

In terms of the intensity of player activity by age group, measured in terms of player visits as compared to the population potential, the most prevalent activity in gaming parlours is registered in the 25-34 age group, as shown in Chart 22. The least extent of activity is estimated to take place in the 18 to 24 age group. Other age groups show a level of activity which is similar to the national average.

CHART 22: GAMING PARLOURS - PLAYERS' PROFILE (AGE GROUP DISTRIBUTION)



6. GAMING PARLOURS' GGR

Between 2014 and 2015, the GGR of the gaming parlour sector rose by 3.5%. A further increase of 22% was registered between 2015 and 2016.

Average GGR per visit

Over the last three years, the average GGR per visit to gaming parlours has been decreasing as shown in the table below. Between 2014 and 2015, it went down from €22.1 to €19.8. In 2016, it fell by 12% reflecting the changing nature of the services offered in these outlets.

TABLE 13: GAMING PARLOURS - AVERAGE GGR PER VISIT

Average GGR per visit	2014	2015	2016
Total [€]	22.1	19.8	17.3

7. GAMING PARLOURS: PAYOUT RATIO

During this reporting period, the payout ratio averaged at 89%. The minimum payout ratio required by Gaming Devices Regulations SL.438.07 is 85%.

TABLE 14: GAMING PARLOURS - PAYOUT RATIO

Payout Ratio	2014	2015	2016
Total [€]	91%	91%	89%

8. GAMING PARLOURS: GAMING TAX

The gaming tax payable by the gaming parlour operators has increased by 42%, from €1.1 million in 2015 to €1.6 million in 2016. This substantial growth was mainly driven by the additional gaming devices that were licensed during the period January to December 2016, as well as a result of the growth in GGR during the reporting period.

The amount of tax due by gaming parlour operators is calculated on their GGR, as well as on the number of devices held by operators as stipulated in the Regulations.

TABLE 15: GAMING PARLOURS - GAMING TAX

Gaming Tax	2014	2015	2016
Total [€]	1,063,982	1,141,235	1,617,012

9. EMPLOYMENT IN GAMING PARLOURS

As at end 2016, the number of full-time equivalent direct employees working in the gaming parlours licensed by the MGA went down from 115 in 2015 to 107.

TABLE 16: GAMING PARLOURS - EMPLOYMENT

Employment	2014	2015	2016
Total FTEs	96	115	107

Three quarters of all gaming parlours' employees were male as at end 2016, with Maltese nationals constituting the vast majority (97%) of the labour force.



III. COMMERCIAL BINGO

1. APPROVED COMMERCIAL BINGO HALLS

The number of commercial bingo hall licences stood at four in 2016, with one establishment each in Buġibba, Paola, Sliema and Valletta.

Permits for Non-profit tombola

Permits for non-profit games are issued by the MGA in accordance with the Public Lotto Ordinance (Chapter 70 of the Laws of Malta). During 2016, the Authority issued 2,096 permits for non-profit tombola. These activities have been growing at around 5% each year since 2014.

TABLE 17: COMMERCIAL BINGO - NON-PROFIT TOMBOLA - NUMBER OF PERMITS

Non-profit tombola	2014	2015	2016
Total	1,916	2,000	2,096

2. COMMERCIAL BINGO VISITS

Visits to commercial bingo halls for the period under review amounted to 189,159, an increase of 5% when compared to the same period of 2015. The highest number of visits was reported in October, amounting to 17,326.

TABLE 18: COMMERCIAL BINGO - NUMBER OF VISITS

Players' Visits	2014	2015	2016
Total	191,113	180,977	189,159

3. PROFILE OF COMMERCIAL BINGO PLAYERS

Visitors to commercial bingo halls were predominantly Maltese residents as shown in Chart 23, and females, as depicted in Figure 4.

CHART 23: COMMERCIAL BINGO - PLAYERS' PROFILE (BY NATIONALITY)

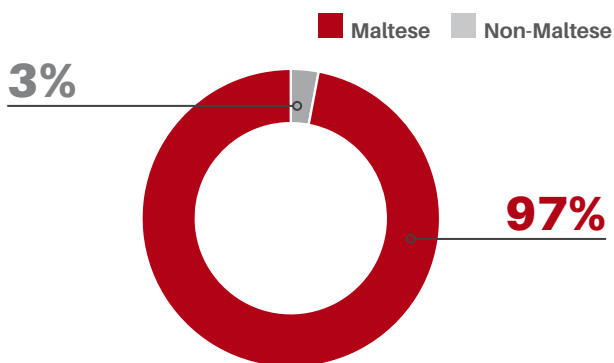
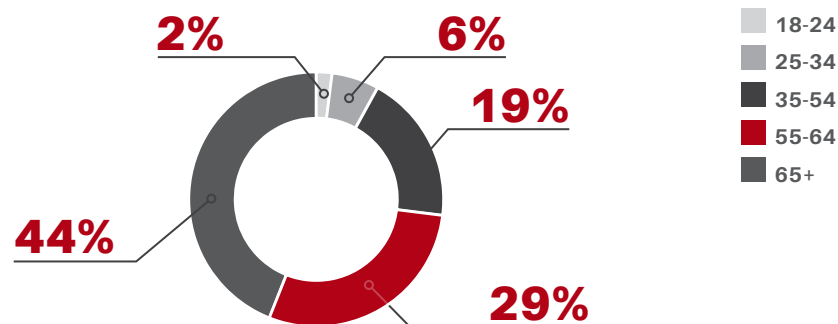


FIGURE 4: COMMERCIAL BINGO - PLAYERS' PROFILE (BY GENDER)



This type of gaming activity is also primarily enjoyed by persons within the older age brackets, as shown in Chart 24.

CHART 24: COMMERCIAL BINGO - PLAYERS' PROFILE
(AGE GROUP DISTRIBUTION)



4. COMMERCIAL BINGO GGR

The GGR of commercial bingo sector fell by 2% in 2016 when compared with the previous year, despite the increase in the number of players' visits. This took place as the average GGR per visit declined by 6% to stand at €12.6 in 2016.

TABLE 19: COMMERCIAL BINGO - AVERAGE GGR PER VISIT

Average GGR per Visit	2014	2015	2016
Total [€]	13.1	13.5	12.6

5. COMMERCIAL BINGO: PAYOUT RATIO

The average payout ratio of the bingo sector for the year 2016 stood at 60% as established by the Commercial Bingo (Tombola) Regulations SL.438.05.

6. COMMERCIAL BINGO: GAMING TAX

The gaming tax payable by the commercial bingo sector has increased slightly by 1%, from €600,692 in 2015 to €608,502 in 2016.

TABLE 20: COMMERCIAL BINGO - GAMING TAX

Gaming Tax	2014	2015	2016
Total [€]	625,666	600,692	608,502

7. COMMERCIAL BINGO EMPLOYMENT

As at end 2016, the commercial bingo sector directly employed 46 full-time equivalent employees. The number of employees was nearly unchanged when compared with the previous reporting period.

TABLE 21: COMMERCIAL BINGO - EMPLOYMENT

Employment	2014	2015	2016
Total FTEs	40	43	46

Three quarters of all commercial bingo halls' employees were female as at end 2016, with Maltese nationals constituting the vast majority (89%) of the labour force.



IV. NATIONAL LOTTERY

1. TURNOVER BY GAME CATEGORY

During the period January to December 2016, the total activity of the National Lottery operator, Maltco Lotteries Limited (Maltco), as measured in sales across the three game categories (draw-based games, instant games and sports games) was €91.9 million. This represented an increase of 10% over the corresponding period of 2015.

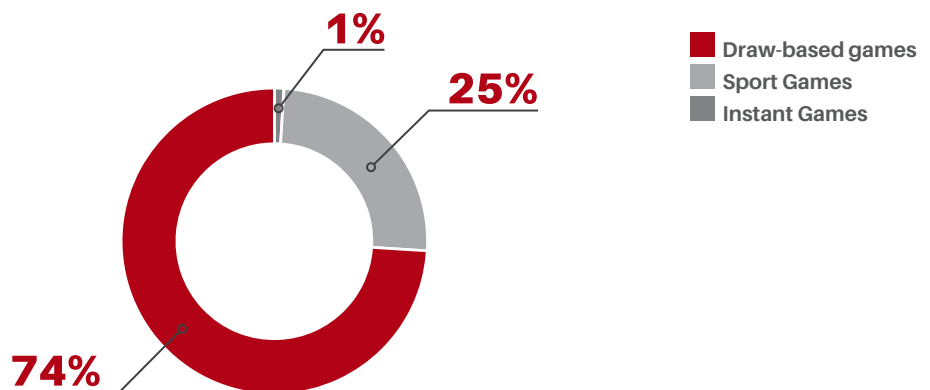
The growth in turnover reported in 2016 was mainly driven by a strong performance in sports games and draw-based games, which rose by 14% and 9% respectively, when compared with the previous year. The European Football Championship (UEFA EURO 2016) was a key determinant of the high growth in turnover generated from sports games.

TABLE 22: NATIONAL LOTTERY OPERATOR - PRODUCT SALE BY GAME CATEGORY
SOURCE: MALTCO LOTTERIES LIMITED

Product Sale by Game Category	2014	2015	2016
Draw-based games	65,451,795	62,062,980	67,780,437
Instant games	1,632,148	1,523,500	1,458,903
Sports games	20,443,376	19,973,949	22,701,970
Total [€]	87,527,319	83,560,428	91,941,310

In 2016, sales of draw-based games accounted for 74% of total Maltco’s sales of €91.9 million. Sports games accounted for 25% of sales whilst instant games represented 1% of sales.

CHART 25: NATIONAL LOTTERY OPERATOR - TURNOVER BY GAME
SOURCE: MALTCO LOTTERIES LIMITED





2. NATIONAL LOTTERY: GAMING TAX

During the year under review, total gaming tax payable by the National Lottery operator stood at €12.4 million, an increase of 7% when compared with 2015.

TABLE 23: NATIONAL LOTTERY OPERATOR - GAMING TAX

Gaming Tax	2014	2015	2016
Total [€]	12,576,035	11,534,302	12,375,624

Maltco's Contribution to the Good Causes Fund

In addition to gaming tax, according to law and concession conditions, Maltco contributes to the National Lotteries Good Causes Fund. During 2016, Maltco passed on €651,018 to this Fund.

TABLE 24: NATIONAL LOTTERY OPERATOR - CONTRIBUTION TO THE NATIONAL LOTTERY GOOD CAUSES FUND

Contribution to the Good Causes Fund	2014	2015	2016
Unclaimed Funds [€]	650,688	649,043	651,018

3. POINTS OF SALE

Maltco Lotteries Limited offers its services through an extensive network of Lotto Booths (Points of Sales) where one can participate in games. By the end of 2016, the number of Points of Sale reached 235 outlets spread across the Maltese Islands.

TABLE 25: NATIONAL LOTTERY OPERATOR - POINTS OF SALE
SOURCE: MALTCO LOTTERIES LIMITED

Points of Sale	2014	2015	2016
No.	225	246	235

V. RESPONSIBLE GAMING MEASURES: SELF-BARRING

As stipulated in the Self-Barring Directive of 2011, a gambler can voluntarily request to be denied access to all land-based gaming facilities for a set length of time. If players choose to bar themselves, they will be refused services in all licensed premises be it casinos, commercial bingo halls or gaming parlours. The self-barring programme is confidential and, once they are registered, players cannot withdraw from the programme until the period of exclusion elapses. By law, the self-barring facility needs to be provided as an option by all gaming operators licensed by the MGA.

The self-barring programme plays an important role in the recovery process as it prevents gamblers from playing while seeking treatment for problematic gambling behaviour. It also helps players recover from financial losses. In 2016, the number of self-exclusion requests has risen by 10%, from 1,159 in 2015 to 1,277. Out of all requests processed during the period under review, 49% were received for a period of six months, while 51% were received for one year. During this reporting period, there were three gamblers who chose to bar themselves for an indefinite period.

CHART 26: LAND-BASED - SELF-BARRING

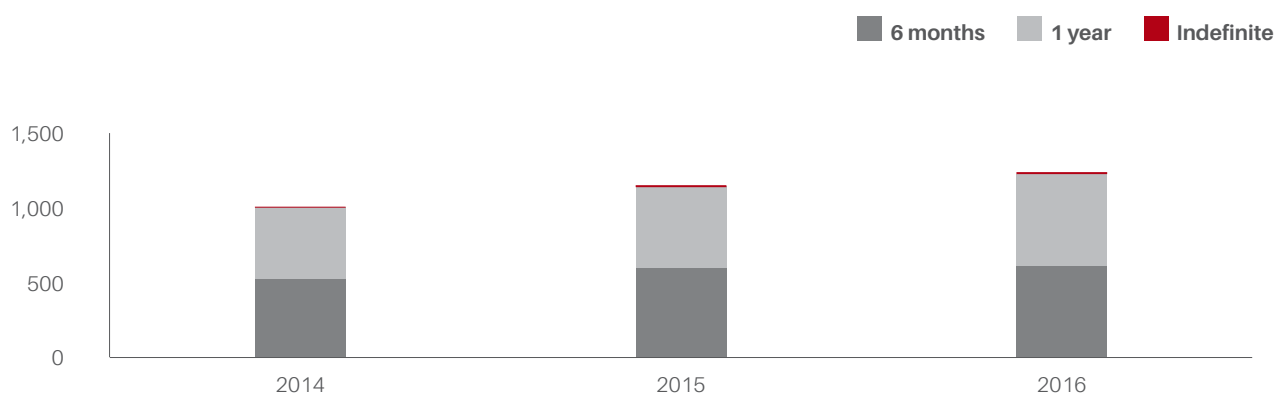


TABLE 26: LAND-BASED - SELF-BARRING

Self-barring Requests	2014	2015	2016
6 months	532	604	620
1 year	484	552	654
Indefinite	1	3	3
Total	1,017	1,159	1,277



REMOTE GAMING SECTOR

The remote gaming sector experienced significant growth in activity and employment during 2016, and maintained its role as a primary contributor to economic activity in Malta, generating 13% of gross value added. The MGA is striving to consolidate and future-proof this performance through a repositioning exercise to create a cutting-edge regulatory environment which will streamline operations, increase player protection, enable business innovation and diversification so as to further enhance Malta's global reputation as a gaming jurisdiction.

1. REMOTE GAMING LICENCES

A total of 128 applications for remote gaming licences were received by the MGA during 2016, 29% more when compared with the year 2015. In total, 91 licences were issued during this reporting period. The Authority terminated 39 licences at the operators' requests whilst 21 licences were cancelled due to regulatory breaches by the respective remote gaming operators. In addition, the MGA's Enforcement Unit suspended two remote gaming licences during the year.

TABLE 27: REMOTE GAMING - REMOTE GAMING LICENCES

Remote Gaming Licences	2014	2015	2016
New Applications	120	99	128
Licences Issued	126	88	91
Voluntary Terminations	40	35	39
Cancelled Licences	0	13	21
Suspended Licences	3	23	2

2. NUMBER OF REMOTE GAMING COMPANIES

The number of remote gaming companies licensed by the MGA stood at 259 at the end of 2016, a decrease of 10 compared to the end of 2015. This drop, in the main, reflected the accelerating pace of market consolidation in the remote gaming industry, resulting in a decrease in the number of companies at the same time that activity is undergoing rapid growth. This trend appears to be continuing in the coming months.

TABLE 28: REMOTE GAMING - NUMBER OF COMPANIES

Number of Companies	2014	2015	2016
Total	283	269	259

3. DISTRIBUTION OF LICENCES BY CLASS TYPE¹²

There were 513 active remote gaming licences by end 2016, a 5% increase over the year 2015, as shown in Table 29. This continued on the growth trend over recent years, reflecting the overall expansion of business.

TABLE 29: DISTRIBUTION OF LICENCES BY CLASS TYPE¹³

Remote Gaming Licences	2014	2015	2016
Class 1	25	21	16
Class 1 on 4	222	246	277
Class 2	91	88	89
Class 2 on 4	9	12	14
Class 3	37	31	28
Class 3 on 4	32	30	30
Class 4	53	62	59
Total	469	490	513

The Class 1 group of licences (including Class 1 and Class 1 on 4) continued to represent the highest share of total remote gaming licences in issue and accounted for 57% of the total licence base at the end of 2016. Class 1 licences grew by 10% to stand at 293 by year end. This development reflected an increase in demand for the casino-type games and online lotteries.

The Class 2 group of licences (including Class 2 and Class 2 on 4 licences) has the second highest share of the total number of licences, constituting 20% of the total licence base. The number of these licences tended to remain stable since 2014.

The Class 3 group of licences (including Class 3 and Class 3 on 4) represented 11% of the MGA's total licence base. The number of licences within this class has been decreasing since 2014 as a result of a general slowdown in the popularity of poker and other peer-to-peer games.

The Class 4 group of licences constituted 12% of the total licence base as registered as at December 2016, declining marginally from the figures reported as of December 2015.

¹² The number of licences analysed in the section relates to the stock as at end December.

¹³ The Remote Gaming Regulations established four (4) Classes of Remote Gaming Licences, as follows: (1) Class 1 - a remote gaming licence whereby operators manage their own risk on repetitive games. It is also possible to have a Class 1 on 4 licence whereby the Class 1 licensee operates its games on the software and in certain cases through the equipment of a Class 4 licensee. Examples of Class 1 licences would include casino-type games and online lotteries; (2) Class 2 - a remote betting licence whereby operators manage their own risk on events based on a matchbook. It is possible to have a Class 2 on 4 licence whereby the Class 2 licensee operates its games on the software and in certain cases through the equipment of a Class 4 licensee. An example of Class 2 licence would include fixed-odds betting; (3) Class 3 - a licence to promote and/or abet remote gaming in or from Malta. It is possible to have a Class 3 on 4 licence whereby the Class 3 licensee operates its games on the software and in certain cases through the equipment of a Class 4 licensee. An example of Class 3 licence would include poker networks, peer-to-peer (P2P) gaming and game portals; (4) Class 4 - a licence to host and manage remote gaming operators, excluding the licensee itself, whereby software vendors provide management and hosting facilities on their platform. In essence, this is a business to business (B2B) gaming licence.

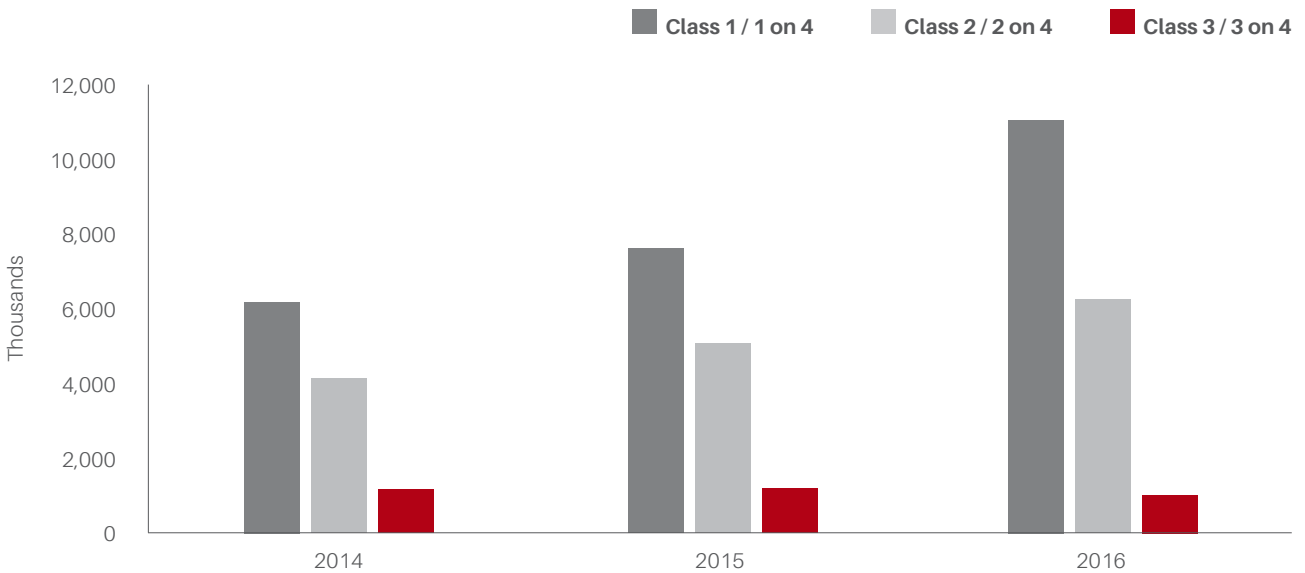


4. CUSTOMER ACCOUNTS

Active Customer Accounts¹⁴

Over the past three years, the number of active customer accounts on Class 1 and Class 2 licensed activity was on the rise, as presented in Chart 27. As at the end of 2016, the estimated number of active accounts on Class 1 licensed business amounted to 11.1 million, 45% more when compared with 2015. Likewise, the number of active accounts on Class 2 licensed activity rose by 23% between 2015 and 2016. Customer accounts on Class 3 activity decreased by 14%, reflecting the decline in the popularity of poker and other peer-to-peer games referred to earlier on.

CHART 27: REMOTE GAMING - ACTIVE CUSTOMER ACCOUNTS

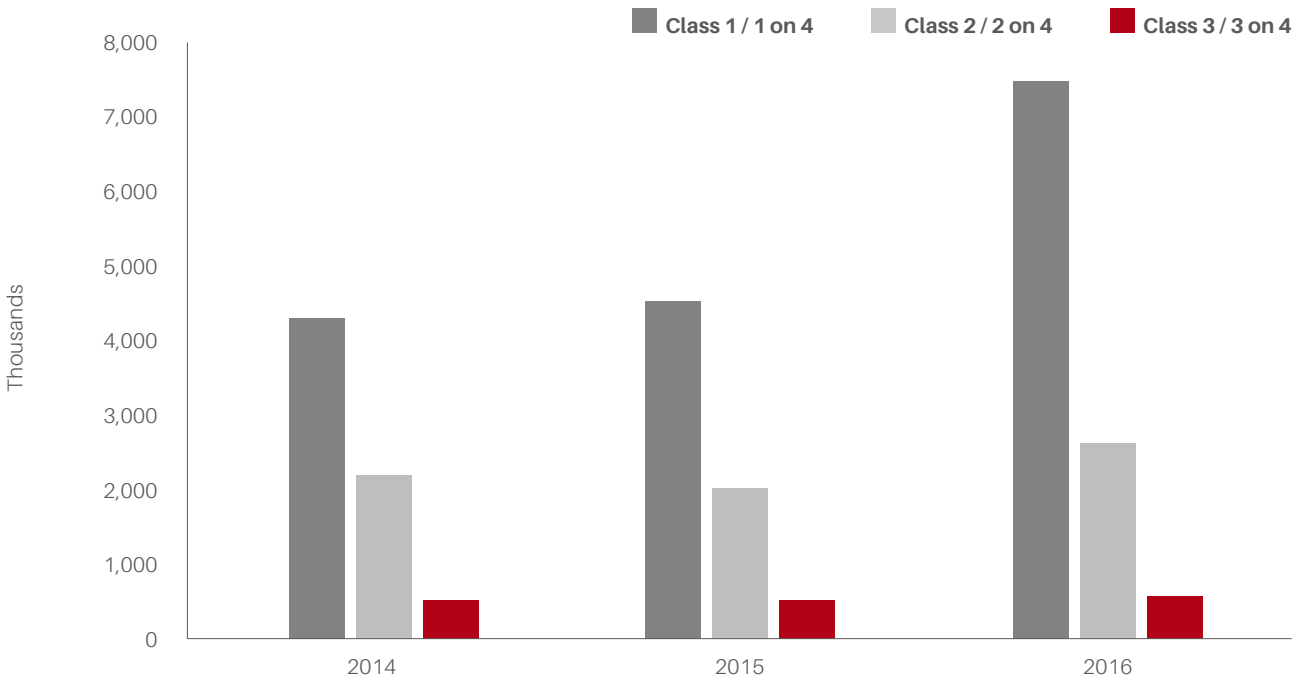


¹⁴ Active accounts are defined as those on which customers played at least once during the reporting period. The number of active customer accounts for Class 1, Class 2 and Class 3 licensed activity needs to be treated separately as these are not the unique number of accounts for the sector.

New Active Customer Accounts

These developments reflected an acceleration in new customer accounts in Class 1 licensed business, as shown in Chart 28. This contrasted with the relatively flat performance of new account openings relating to other class licences.

CHART 28: REMOTE GAMING - NEW ACTIVE CUSTOMER ACCOUNTS

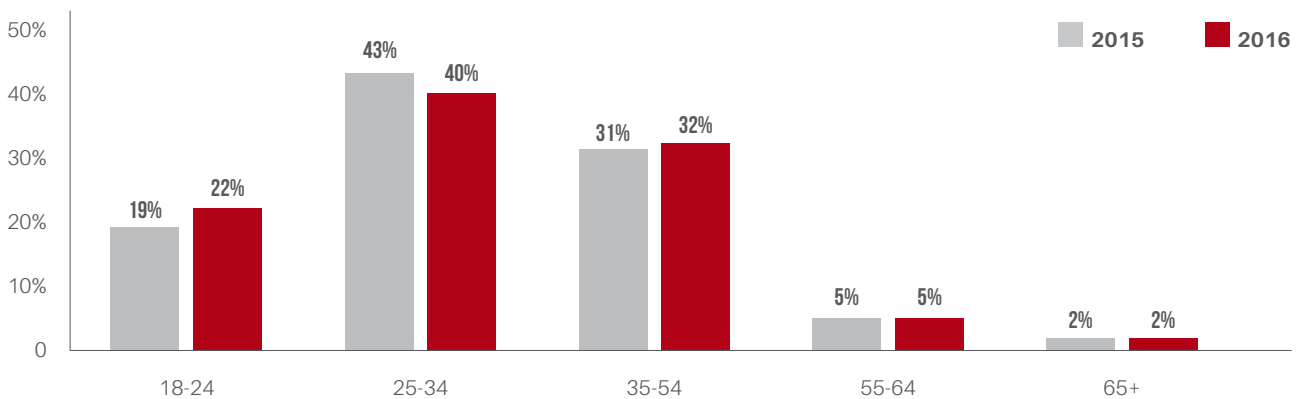


5. PROFILE OF THE REMOTE GAMING PLAYERS

Age Group

The age distribution of remote gaming players, in 2016, was similar to that reported for the year 2015. Players in the 25- to 34-year age bracket continued to represent the highest share, namely 40%, of all customers playing on websites operating under the MGA licence. However, there seems to be a tendency for growth in the player base to be fuelled, in good part, by the 18 to 24 year age bracket. Players aged 55 and over continued to account for a minimal share of remote gaming activity licensed under the Malta jurisdiction. These tendencies and trends reflect the characteristics of the remote gaming industry at a global level.

CHART 29: REMOTE GAMING PLAYERS - AGE GROUP DISTRIBUTION



Gender

The gender distribution of players continued to reflect a strong bias in favour of males, which in 2015 and 2016, amounted to just under 80% of the total player activity.

FIGURE 5: REMOTE GAMING - GENDER DISTRIBUTION OF REMOTE GAMING PLAYERS 2015



FIGURE 6: REMOTE GAMING - GENDER DISTRIBUTION OF REMOTE GAMING PLAYERS 2016



Self-exclusion¹⁵

The MGA's commitment to player protection includes an obligation to put in place safeguards to ensure responsible gaming. The remote gaming operators under the MGA licence are required to provide self-exclusion facilities to all their customers.

During 2016, the total number of self-exclusion requests for gaming websites licensed by the MGA amounted to just under 750,000, up by almost 55% when compared with 2015. This, in part, reflects the increase in activity within the Maltese jurisdiction, as well as the effectiveness of the player protection mechanisms in place.

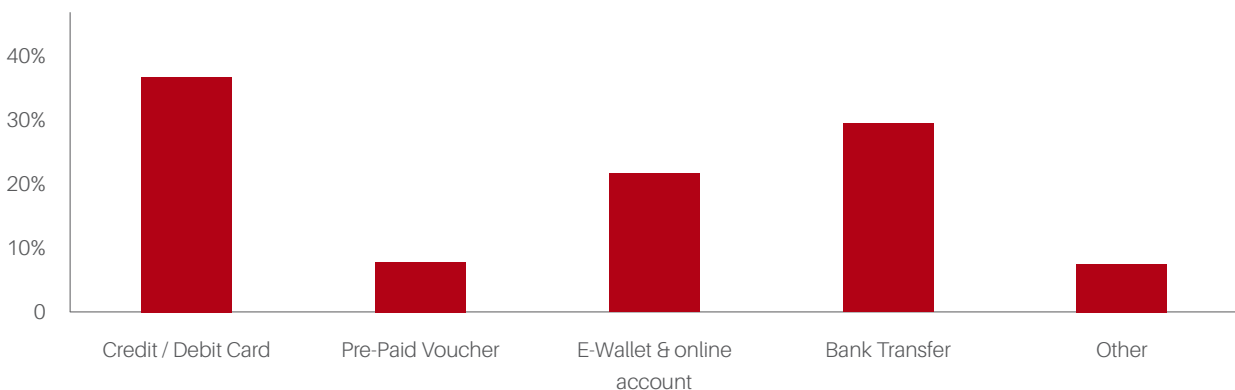
TABLE 30: REMOTE GAMING - SELF-EXCLUSION

Self-Excluded Clients	2015	2016
Total	483,983	749,637

Deposits as a Method of Payment¹⁶

In 2016, the most popular method of deposits amongst customers of the MGA's licensed companies were credit/debit cards, which accounted for nearly 36% of all deposit methods. Nearly one-third (29%) of deposits were made through bank transfers whilst 21% through e-wallet and online accounts. The remaining 15% of all deposit payments were made by other payment methods (for example, mobile payment methods, pre-paid vouchers and other methods).

CHART 30: REMOTE GAMING - METHOD OF PAYMENT (DEPOSITS)



¹⁵ For the scope of this analysis, companies with Class 4 licence were not considered as these are business to business (B2B) companies.

¹⁶ The MGA requested a split between withdrawals and deposits for the first time for the period January to June 2016. Therefore, no comparable data set for the previous years for the period January to December is available.

Withdrawals as a Method of Payment

During 2016, close to one-half (47%) of all withdrawals were made through bank transfer. Remote gaming operators indicated that e-wallet and online accounts, and credit/debit cards, were the chosen method for 24% and 21% of the withdrawals respectively. The remaining 8% of the withdrawals were made through other methods (pre-paid vouchers, mobile payments).

CHART 31: REMOTE GAMING - METHOD OF PAYMENT (WITHDRAWALS)

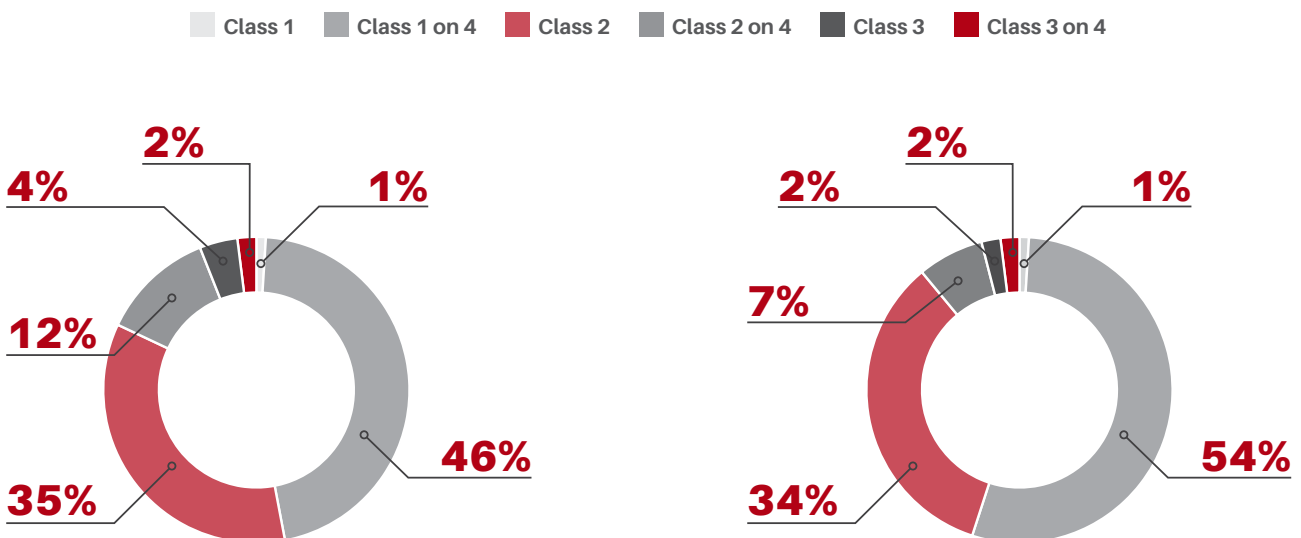


6. GGR DISTRIBUTION¹⁷

Business activity licensed as Class 1 on 4 is estimated to have generated 54% of GGR in the Maltese jurisdiction in 2016. This is an increase of 8% when compared with the figures reported at December 2016, and is partly attributable to the 10% growth in the number of Class 1 licences reported between 2015 and 2016. The GGR of Class 2 operators constituted 41% of the total GGR for the remote gaming sector (Class 2 - 34%, Class 2 on 4 - 7%) while the GGR of Class 3 operators accounted for 4% of the GGR (Class 3 - 2%, Class 3 on 4 - 2%).

CHART 32: REMOTE GAMING - GGR DISTRIBUTION 2015

CHART 33: REMOTE GAMING - GGR DISTRIBUTION 2016



¹⁷ The business model of Class 4 operation is different from Classes 1, 2 and 3. Consequently, it is not possible to compute the GGR since Class 4 operators do not deal with any aspects of the game or players' winnings, but offer platform services for other operators (B2B).

Class 1 / Class 1 on 4

The GGR generated by Class 1 group of licences constituted more than half (54%) of the total GGR for the remote gaming sector. During this reporting period, 69% of the GGR for Class 1 was generated through slot games whilst 16% was generated by table games. When compared with the figures reported for the year 2015, an 8% increase in GGR share for slot games was registered. The remaining 15% of the GGR for Class 1 group of licences was generated through other games, the most popular of which were video poker, scratch cards, Keno, live casino and other side/mini games.

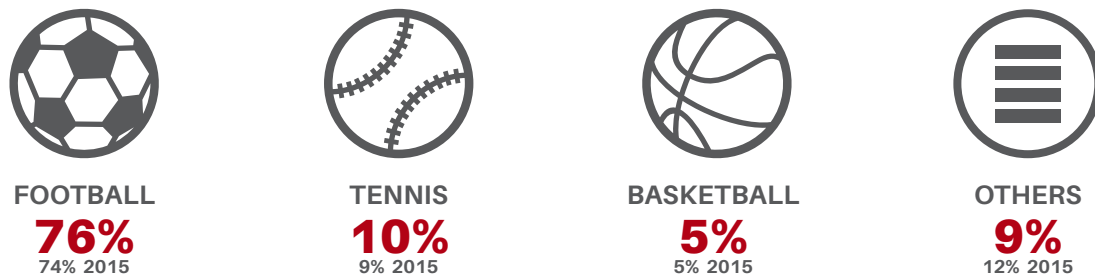
FIGURE 7: REMOTE GAMING - GGR - CLASS 1 DISTRIBUTION



Class 2 / Class 2 on 4

During the year under review, the GGR generated by Class 2 group of licences constituted 41% of the total GGR for the remote gaming sector. The GGR generated through football constituted 76% of GGR for Class 2 and Class 2 on 4 collectively. Betting on tennis accounted for 10% of the total GGR whilst bets on basketball accounted for 5%. The remaining 9% of GGR was generated through other bets (for example, betting on horses, cricket, motor sports, golf, volleyball, ice hockey and handball).

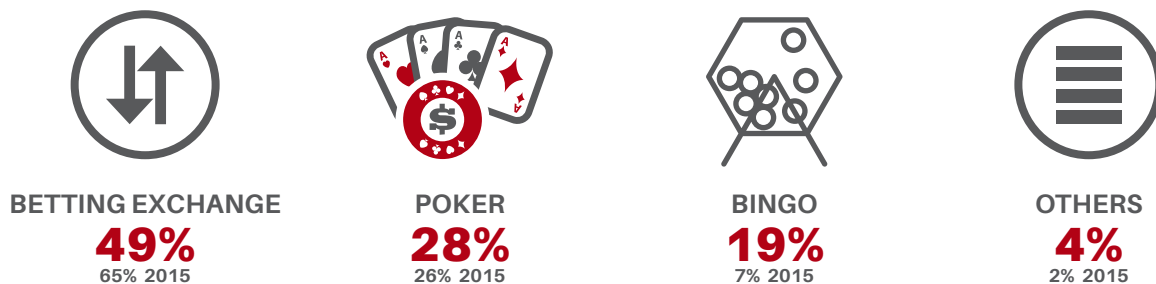
FIGURE 8: REMOTE GAMING - GGR - CLASS 2 DISTRIBUTION



Class 3 / Class 3 on 4

Between 2015 and 2016, the portion of GGR generated by Class 3 operators decreased further from 6% to 4% of the total GGR for the remote gaming sector. In 2016, out of the total GGR for Class 3 group of licences, 49% was generated through betting exchanges whilst 28% by poker. The year 2016 brought a considerable increase in GGR generated by bingo games that accounted for 19% out of the total GGR for Class 3 licences. The remaining 4% of GGR was generated by other games offered though Class 3 licences (for example rummy and backgammon).

FIGURE 9: REMOTE GAMING - GGR - CLASS 3 DISTRIBUTION



7. REVENUE - CLASS 4¹⁸

It has been estimated that out of the total revenue generated by Class 4 operators during the twelve month-period ending December 2016, 86% was generated from Class 1 activities whilst 13% from Class 2s. The remaining 1% of the GGR for Class 4 operators was generated from Class 3 licences.

8. REMOTE GAMING TAX

The licensees of the MGA are subject to the payment of a remote gaming tax. The tax due depends on the type of licence held by the operator as set by the Remote Gaming Regulations (S.L. 438.04) issued under the Lotteries and Other Games Act (Cap. 438 of the Laws of Malta).

In 2016, the total gaming tax payable by the remote gaming operators stood at €27.3 million, marginally lower when compared to 2015. The gaming tax due from Class 2 licences accounted for 47% of the total remote gaming tax. Tax due from Class 1 on 4 represented 14% of the total tax whilst Class 4 licences (including tax paid by the European Economic Area (EEA) operators)) accounted for 13% of the total tax. Tax due by Class 2 on 4 accounted for 9% of the remote gaming tax, followed by Class 3 on 4 (7%), Class 3 (5%) and Class 1 (5%).

TABLE 31: REMOTE GAMING - GAMING TAX

Gaming Tax	2014	2015	2016
Class 1	1,682,140	1,543,280	1,295,753
Class 1 on 4	2,700,085	3,432,202	3,756,418
Class 2	13,251,208	13,217,847	12,781,031
Class 2 on 4	1,516,214	2,828,098	2,549,327
Class 3	1,688,901	1,572,252	1,429,860
Class 3 on 4	2,299,476	2,287,890	2,033,091
Class 4 ¹⁹	2,697,721	3,301,430	3,431,932
Total [€]	25,835,745	28,182,999	27,277,412

9. REMOTE GAMING EMPLOYMENT²⁰

Between 2014 and 2015, the number of full-time equivalent direct employees in the remote gaming segment rose by 36%, from 3,908 to 5,327.

TABLE 32: REMOTE GAMING - EMPLOYMENT

Employment	2014	2015	2016
Total FTEs	3,102	3,908	5,327

As at end December 2016, 65% of all employees within the remote gaming industry in Malta were male while the remaining 35% were female. These percentage figures hardly changed from those of the previous year.

The number of non-Maltese workers in the remote gaming industry constituted 68% of all employees in this sector, an increase of 4% when compared with the figures reported for the year 2015, showing the need of expatriate workers to sustain the growth of the industry.

¹⁸ The revenue of Class 4 operators is a commission/royalty which is being invoiced to the gaming operators for the usage of the platform (before expenses are subtracted to determine net income).

¹⁹ Class 4s category includes tax paid by the European Economic Area (EEA) operators working on Class 4.

²⁰ This number refers to direct employees working on the MGA licensed activity. Kindly refer to point 5 of the Methodology for more information.

METHODOLOGY

1. These statistics relate to the gaming industry in Malta and have been collated by the MGA. The sources are:
 - regulatory returns submitted by operators in terms of article 11(o) of the Lotteries and Other Games Act;
 - information provided by operators through specific questionnaires and correspondence with the MGA;
 - financial information provided by operators to the MGA.
2. Unless otherwise stated, figures are representative of the position as at the end of December 2016.
3. The data contained in this review covers both the Maltese land-based gaming sector (casinos, gaming parlours, commercial bingo halls, national lottery, betting and the suite numbers games provided by the National Lottery operator, Maltco) and the remote gaming sector, all regulated by the MGA.
4. In the section referring to remote gaming, the data collected is based on the Industry Performance Return disseminated amongst all companies within the gaming industry that are licensed by the MGA. In order to collect this data, licensed companies were asked to answer a set of questions for the Maltese licensed activity only. The response rate was 86%. The remaining missing data has been estimated by the Authority to provide a clear picture of the Maltese gaming industry.

One of the main aims of this research is to acquire an accurate snapshot of the activity being generated by all the companies that are licensed under the MGA. Hence, several imputation methodologies and weighting techniques were adopted to 'fill-in' the missing data. In order to ensure better data representation, companies were divided into two groups. The first group represented those companies with Class 1, Class 2 or Class 3 licences, and the second group represented those companies that have Class 4 activity only. Replies for these two groups of companies were analysed differently as most of the Industry Performance questions are not applicable to the same extent.

After performing data collection, data cleaning commenced to ensure consistency of results. In case of doubt, operators were contacted again to clarify their

responses. Subsequently, an imputation technique was applied to account for the missing data and thereafter questions were analysed thoroughly one by one. After obtaining the initial results, weighting techniques were applied to ensure that the results represented the whole population. Results were analysed in a way to obtain the total values amongst all Maltese-licensed activity.

New data has been added to this report (that is, new casinos registrations, industry table numbers and profile of the players). It is advisable that the accompanying notes and definitions are read carefully to ensure an accurate interpretation of data.

5. Employment figures reported in this document refer to full-time equivalent jobs as at the end of each reporting period provided by the gaming operators (both land-based and remote) in the Industry Performance Return conducted by the MGA. The remote gaming figures relate to direct employees working on the MGA-licensed activity. These estimates do not include employees hired by third party companies to service the gaming sector. Furthermore, the land-based figures exclude the employees working in Maltco's Points of Sale.
6. The contribution of the gaming industry to the Maltese economy relates solely to Gambling and Betting activities (Nace 92) in accordance with the European industrial activity classifications. At industry level, Gambling and Betting activities in Malta comprise land-based casinos, gaming parlours, lotto receivers, the National Lottery operator and remote gaming companies (excluding Class 4 operators).
7. Where possible, the MGA has provided comparable datasets.
8. The terminology used in this document is explained under Definitions.
9. Totals and percentages are calculated from unrounded figures.
10. The statistical figures reported for the previous periods have been revised to reflect any changes reported after their publication. ↩

APPENDIX 1 – DEFINITIONS

Gaming Tax

The tax imposed on the gross gaming revenue or turnover as stated in the regulations or the licence conditions. The applicable gaming tax and basis for computation differs by segment and class of licence.

Gross Gaming Revenue (GGR)

The amount retained by operators after payment of winnings and jackpot allocation but before the deduction of the cost of the operation. The GGR is the figure used to determine what a gaming operation earns before taxes, salaries and other expenses are paid.

Junket

Junket is an arrangement whereby a person or a group of persons is introduced to a casino operator by a junket promoter to play in a licensed casino, pursuant to which and as a consideration for which, any or all of the costs of transportation, food, lodging and entertainment for the said persons is directly or indirectly paid by the casino licensee. The junket receives a commission or other payment from the casino operator depending on the arrangement made.

Players' Visits

Represents the number of separate visits, rather than the number of unique customers. In cases of casino attendance, the total figure includes junket players.

Payout Ratio

The amount of money that is rewarded upon a win.

APPENDIX 2 – STATISTICAL REGIONS AND DISTRICTS OF MALTA

Local Administrative Units (LAUs)

Districts (LAU 1)

Locality (LAU 2)



Southern Harbour District

Cospicua	Haż-Żabbar	Santa Luċġja	Vittoriosa
Fgura	Kalkara	Senglea	Xgħajra
Floriana	Marsa	Hal Tarxien	
Hal Luqa	Paola	Valletta	



Northern Harbour District

Birkirkara	Msida	St Julian's	Tas-Sliema
Gżira	Pembroke	Swieqi	
Hal Qormi	San Ġwann	Ta' Xbiex	
Hamrun	Santa Venera	Tal-Pietà	



South Eastern District

Birżebbuġa	Hal Safi	Qrendi
Gudja	Marsaskala	Żejtun
Hal Ghaxaq	Marsaxlokk	Żurrieq
Hal Kirkop	Mqabba	



Western District

Had-Dingli	Haż-Żebbuġ	Rabat
Hal Balzan	Iklin	Siġġiewi
Hal Lija	Mdina	
H'Attard	Mtarfa	



Northern District

Hal Gharghur	Naxxar
Mellieħa	St Paul's Bay
Mġarr	
Mosta	



Gozo and Comino District

Fontana	Munxar	Ta' Kerċem	Xewkija
Għajnsielem	Nadur	Ta' Sannat	Żebbuġ
Għarb	Qala	Victoria	
Għasri	San Lawrenz	Xagħra	

LIST OF ABBREVIATIONS

AG	Attorney General
AML/CFT	Anti-Money Laundering / Combating the Financing of Terrorism
B2B	Business-to-Business
B2C	Business-to-Consumer
CRM	Customer Relationship Management
EARP	Enhanced Automated Reporting Platform
EGBA	European Gaming and Betting Association
EGGS	Expert Group on Gambling Services
EGIM	European Gaming Institute of Malta
FIAU	Financial Intelligence Analysis Unit
FTE	Full-Time Equivalent
GRAF	Gaming Regulators European Forum
HQP	Highly Qualified Person
IAGA	International Association of Gaming Advisors
IAGR	International Association of Gaming Regulators
IAID	Internal Audit and Investigations Department
ICT	Information and Communication Technology
KPI	Key Performance Indicator
MCDMS	Ministry for Competitiveness and Digital, Maritime and Services Economy
MFIN	Ministry for Finance
MGA	Malta Gaming Authority
MLRO	Money Laundering Reporting Officer
MOU	Memorandum of Understanding
MRGC	Malta Remote Gaming Council
MSA	Malta Statistics Authority
NAO	National Audit Office
NSO	National Statistics Office
RGA	Remote Gambling Association
UBO	Ultimate Beneficial Owner

Disclaimer

This document contains information and statistics that have been obtained from sources believed to be reliable in regard to the subject matter covered.

This document does not, however, constitute commercial, legal or other advice howsoever described. The Malta Gaming Authority (MGA) excludes any warranty and/or liability, expressed or implied, as to the quality, completeness, adequacy and accuracy of the information, statements and statistics contained within this document.

The MGA reserves the right to change and update the information, statements and statistics provided in the current and previous documents at its own discretion and without prior notifications as it may, in its discretion, deem necessary. The MGA assumes no responsibility for any consequences that may arise in the absence of such changes and/or updates.

FINANCIAL STATEMENTS





During the year under review, the MGA generated total revenue of €62.5m compared to €60.9m in 2015. This represents an increase in turnover amounting to €1.6m or a 2.6% increase year on year. Furthermore, contributions in gaming taxes made to Government in 2016 amounted to €56.2m compared to €55.8m in 2015. This represents an increase of €0.4m or a 0.7% increase year on year. It is estimated that by the end of financial year ending 2017, the MGA will contribute €51.4m in gaming taxes to Government which would represent a decrease of €4.8m over 2016.

This decrease in transfers to Government is attributable to the fact that over the last two years (financial years 2015 and 2016) the MGA transferred to Government a total of €7.4m in excess of net cash flow generated mainly due to the capital expenditure incurred as a result of the MGA's move to Smart City but also due to the fact that the MGA's operational expenditure exceeded the revenue from license fees. This situation will be rectified during the financial year ending 31 December 2017 when transfers to Government will be remitted once all operational and capital expenditure is deducted from total cash generated during the financial year.

The surplus for the year amounted to €55m compared to €52.3m in 2015. This represents an increase of €2.7m or a 5.2% year on year. The net increase in capital expenditure of the Authority between 2015 and 2016 amounting to €1.8m were attributable to the fit out project in relation to the MGA's move to new offices at Smart City which was completed on 16th November 2015 and investments in IT software enhancements which is in line with the Authority's vision for efficient practices. All dues on the fit out project have been settled by March 2016.

During 2015 and throughout 2016, the MGA continued on its broad transformation and regulatory reform programme which amongst other things included an organisational restructuring of its operations, strengthening of its core competences, policy updates, process reengineering, and most importantly the development of its capacity which included a targeted increase in human resources to cater for the organisational and industry challenges. As a result, the operating expenditure for the year amounted to €9.8m compared to €8.6m in 2015. This represents an increase of €1.2m when compared to 2015 of which €1m is related to an increase in payroll costs (as explained below) and €130K as contributions to other entities namely the Responsible Gaming Foundation and the Gaming Malta Foundation.

This increase in operational costs is mainly attributable to the following:

1. A progressive increase in head count so that the MGA is 'right sized' to achieve the desired service levels and capability to conduct all its functions at law and regulate effectively its portfolio of licences. It is estimated that the MGA's head count should settle in the region of 160 employees by the end of 2017. This assessment is based on the experience gained as a result of enhanced effective supervision and governance of the gaming sector, but also through the alignment of the MGA's work programme to cater for the new legislation which is currently at public consultation stage, the 4th AML/CFT Directive which will come into force on 26th June 2017 and the execution of the 3 year strategic plan;
2. A new 3-year strategic plan which envisages an innovation focused approach with a multitude of initiatives and actions all aimed at strengthening the governance of the gaming sector. The strategy is focused predominantly on innovation, integrity, quality, consumer protection, technological neutrality and the repositioning of Malta as a global jurisdiction of excellence;
3. Higher level of communications, business development and bilateral activities aimed at building strategic relationships with counterpart regulators. The MGA has also selectively increased its participation in conferences, international fora and gaming related expos;
4. MGA's financing of two related organisations namely the Responsible Gaming Foundation (RGF) and the Gaming Malta Foundation (GMF). Both organisations have specific and distinct roles from the MGA. The RGF is responsible for helping people with gambling addiction problems while the GMF is responsible for promoting Malta as an international gaming jurisdiction of excellence and;
5. A vast amount of technical and professional engagements initiated in 2015 and continued throughout last year ranging from assurance services, risk management, technical studies, engagement of specialists and other relevant advisory services covering a number of key operational and strategic areas of the MGA's business activity. This was critical in order to chart a long term strategy, address key priorities and potential risks facing Malta as a jurisdiction and the MGA. Furthermore, the Authority needed to address short term capacity and skill gaps across its functions, including the advisory capacity to Government. This was also due to the wide ranging transformation process the MGA is going through which is still work in progress and Malta's progressive repositioning as the jurisdiction of choice within the challenging regulatory environment in the industry's main markets and potential new markets afforded by new technologies.



The same positive trend is expected for the 2017 financial year where revenues are expected to increase by 0.8% year on year reaching €63m. Operating expenditure is expected to reach €10.2m and stabilise more or less at that level.

GENERAL INFORMATION

REGISTRATION

The Malta Gaming Authority (the 'Authority') was established by virtue of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta.

BOARD MEMBERS OF THE AUTHORITY

Joseph Cuschieri (Chairman)
Chris Cilia (Deputy Chairman)
Caesar Grech
Ruth Trapani Galea
Juliana Scerri Ferrante

CHIEF EXECUTIVE OFFICER

Joseph Cuschieri

SECRETARY OF THE BOARD OF THE AUTHORITY

Matthew Bondin

HEAD OFFICE

Malta Gaming Authority
Building SCM 02-03, Level 4
SmartCity Malta
Ricasoli SCM1001
MALTA

AUDITORS

Ernst & Young Malta Limited
Certified Public Accountants
Regional Business Centre
Achille Ferris Street
Msida MSD 1751
MALTA

REPORT OF THE BOARD MEMBERS OF THE AUTHORITY

The Board Members of the Authority submit their annual report and the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The Malta Gaming Authority was established by virtue of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta for the purposes of carrying out the functions defined in the said Act.

RESULTS

The total operating revenue generated by the Authority during the year amounted to EUR62,528,892 (2015: EUR60,894,130). After deducting all expenditure of EUR9,850,870 (2015: EUR8,634,566) the Authority registered a surplus for the year of EUR55,030,286 (2015: EUR52,302,088). The Authority transferred EUR56,203,726 (2015: EUR55,830,907) to the Government of Malta.

BOARD MEMBERS OF THE AUTHORITY

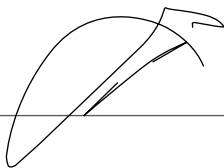
The Board Members of the Authority who served during the year under review are listed on page 84.

In accordance with Part IV, section 9 (2) of the Lotteries and Other Games Act, Cap. 438, the Chairman and other Board members of the Authority are appointed by the Minister for the Economy, Investment and Small Business for a maximum period of three years but may be reappointed on the expiration of their term of office.

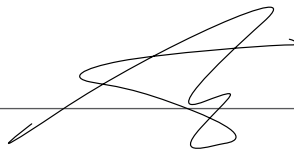
AUDITORS

Ernst & Young Malta Limited have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the next meeting of the Board Members of the Authority.

The Report of the Board Members of the Authority is signed on their behalf by:



JOSEPH CUSCHIERI
EXECUTIVE CHAIRMAN



CHRIS CILIA
DEPUTY CHAIRMAN

16 JUNE 2017

INDEPENDENT AUDITOR'S REPORT TO THE BOARD MEMBERS OF MALTA GAMING AUTHORITY

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of the Malta Gaming Authority ('the Authority'), which comprise the statement of financial position as at 31 December 2016 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Authority in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

EMPHASIS OF MATTER

We draw attention to Note 20 - Contingent Liabilities to the financial statements which describes the uncertainty related to claims made by the operators against the Authority. Our opinion is not modified in respect of this matter.

OTHER INFORMATION

The other information obtained at the date of the auditor's report is the 2016 Board Members Report. The Board Members are responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

BOARD MEMBERS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of Lotteries and Other Games Act, Cap. 438 of the Laws of Malta, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITOR'S REPORT TO THE BOARD MEMBERS OF MALTA GAMING AUTHORITY – CONTINUED

AUDITOR'S RESPONSIBILITY

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



The partner in charge of the audit resulting in this independent auditor's report is
Shawn Falzon for and on behalf of
ERNST & YOUNG MALTA LIMITED
Certified Public Accountants

16 JUNE 2017

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

		2016	2015
	NOTES	€	€
REVENUE	5	62,528,892	60,894,130
Administrative and other expenses	6	(9,850,870)	(8,634,566)
OPERATING SURPLUS		52,678,022	52,259,564
Reversal of provision for claims	14	2,350,000	-
Finance income	8	2,264	42,524
SURPLUS FOR THE YEAR		55,030,286	52,302,088

The accounting policies and explanatory notes on pages 91 to 102 form an integral part of the financial statements.

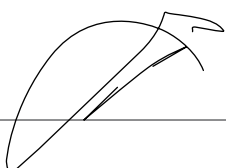
STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	NOTES	2016 €	2015 €
ASSETS			
Non-current assets			
Intangible assets	10	558,202	148,855
Property, plant and equipment	11	4,534,089	3,675,120
		5,101,291	3,823,975
CURRENT ASSETS			
Trade and other receivables	12	7,591,725	7,083,392
Cash at bank and in hand	16	1,743,765	4,756,308
		9,335,490	11,839,700
TOTAL ASSETS		14,436,781	15,663,675
EQUITY AND LIABILITIES			
Equity reserve	13	250,000	250,000
Reserve Fund	13	-	-
National Lottery Reserve Fund	13	-	-
		250,000	250,000
NON-CURRENT LIABILITIES			
Provisions for claims	14	950,000	3,300,000
CURRENT LIABILITIES			
Trade and other payables	15	13,236,781	12,113,675
TOTAL LIABILITIES		14,186,781	15,413,675
TOTAL EQUITY AND LIABILITIES		14,436,781	15,663,675

The accounting policies and explanatory notes on pages 91 to 102 form an integral part of the financial statements.

The financial statements on pages 88 to 102 have been authorised for issue by the Board Members of the Authority on 16 June 2017 and were signed on their behalf by:



JOSEPH CUSCHIERI
EXECUTIVE CHAIRMAN



CHRIS CILIA
DEPUTY CHAIRMAN

16 JUNE 2017

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	National Lottery Reserve Fund	Reserve Fund	Equity Reserve	Total
	€	€	€	€
At 1 January 2016	-	-	250,000	250,000
Appropriation from statement of comprehensive income	976,463	54,053,823	-	55,030,286
Unclaimed prizes transferred in terms of section 59 of the Lotteries and Other Games Act, Cap. 438	651,118	-	-	651,118
Payments made to/or on behalf of Government in terms of sections 50 of the Lotteries and Other Games Act, Cap. 438	(1,627,581)	(54,576,145)	-	(56,203,726)
Other payments from Government	-	522,322	-	522,322
AT 31 DECEMBER 2016	-	-	250,000	250,000
At 1 January 2015	-	-	250,000	250,000
Appropriation from statement of comprehensive income	955,899	51,346,189	-	52,302,088
Unclaimed prizes transferred in terms of section 59 of the Lotteries and Other Games Act, Cap. 438	649,042	-	-	649,042
Payments made to/or on behalf of Government in terms of sections 50 of the Lotteries and Other Games Act, Cap. 438	(1,604,941)	(54,225,966)	-	(55,830,907)
Other payments from Government	-	2,879,777	-	2,879,777
AT 31 DECEMBER 2015	-	-	250,000	250,000

The accounting policies and explanatory notes on pages 91 to 102 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 €	2015 €
OPERATING ACTIVITIES			
Surplus for the year		55,030,286	52,302,088
Adjustment to reconcile surplus for the year to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		457,467	254,295
Amortisation of intangible assets		92,071	50,123
Increase in provision for doubtful debts		45,311	337,459
Loss on disposal of property, plant and equipment		-	52,421
Reversal of provision for claims		(2,350,000)	-
Finance income		(2,264)	(42,524)
Working capital adjustments:			
Increase in trade and other receivables		(553,644)	(398,586)
Increase in trade and other payables		2,296,546	2,662,879
NET CASH FLOWS FROM OPERATING ACTIVITIES		55,015,773	55,218,155
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,325,436)	(3,763,448)
Purchase of intangible assets		(501,418)	(101,631)
Interest received		2,264	59,557
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(1,824,590)	(3,805,522)
FINANCING ACTIVITIES			
Payments made to Government		(56,203,726)	(55,830,907)
Net cash flows used in financing activities		(56,203,726)	(55,830,907)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		(3,012,543)	(4,418,274)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		4,756,308	9,174,582
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	16	1,743,765	4,756,308

The accounting policies and explanatory notes on pages 91 to 102 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Malta Gaming Authority ('the Authority') is a Government Authority established by virtue of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta. The principal activity of the Authority is to regulate lotteries and other gaming activities in Malta.

2.1 BASIS OF PREPARATION

These financial statements have been prepared on a historical cost basis and are presented in Euro.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by EU and comply with the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta.

Going Concern

These financial statements have been drawn up on a going concern basis, which assumes that the Authority will continue in operational existence in the foreseeable future. It is the policy of the Authority to continuously distribute its reserves to Government. The surplus for the year was of EUR55,030,286 and this has all been distributed. As a consequence, as at 31 December 2016, the current assets of the Authority amounted to EUR9,335,491 whilst its current liabilities amounted to EUR13,236,781. The current liabilities include an amount of EUR7,048,547 of unclaimed player deposits which is unlikely to generate an immediate cash outflow for the authority despite these being repayable on demand. Moreover, the Authority continues to forecast regular cash inflows from operating activities and may also manage its capital by adjusting the distribution from its reserves. The Board consider that no material uncertainty exists, and therefore it is appropriate to continue adopting the going concern basis in preparing the financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year

The accounting policies are consistent with those of the previous financial year, except for the following standards, interpretations and amendments effective as of 1 January 2016.

- Amendments to IAS 19: Defined Benefit Plans: Employee Contributions (effective for financial years beginning on or after 1 February 2015)
- Annual Improvements to IFRSs 2010-2012 Cycle (effective for financial years beginning on or after 1 February 2015)
- IAS 1 (Amendments) Disclosure Initiative (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 38 (Amendments) Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 41 (Amendments) Bearer Plants (effective for financial years beginning on or after 1 January 2016)
- IAS 27 (Amendments) Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016)
- IFRS 10, IFRS 12 and IAS 28 (Amendments) Investment Entities – Applying the Consolidation Exception (effective for financial years beginning on or after 1 January 2016)
- IFRS 11 (Amendments) Accounting for Acquisitions of Interests in Joint Operations (effective for financial years beginning on or after 1 January 2016)
- Annual Improvements to IFRS (2012 – 2014 Cycle) (effective for financial years beginning on or after 1 January 2016)

The adoption of these standards, interpretations and amendments did not have a significant impact on the financial statements of the Authority.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - CONTINUED

Standards, interpretations and amendments to published standards that are not yet effective

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which have not been adopted early. None of these standards, interpretations and amendments is expected to have an impact on the financial position or performance of the company.

- IFRS 9 - Financial instruments (effective for financial years beginning on or after 1 January 2018)
- IFRS 15 - Revenue from contracts with customers (effective for financial years beginning on or after 1 January 2018)

Standards, interpretations and amendments that are not yet endorsed by the European Union

- IFRS 14 - Regulatory deferral accounts (effective for financial years beginning on or after 1 January 2016)
- IFRS 16 - Leases (effective for financial years beginning on or after 1 January 2019)
- IAS 12 (Amendments) Recognition of Deferred Tax Assets on Unrealized Losses (effective for financial years beginning on or after 1 January 2017)
- IAS 7 (Amendments) Disclosure Initiative (effective for financial years beginning on or after 1 January 2017)
- Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018)
- IFRS 2 (Amendments) Classification and Measurement of Share-based Payment Transactions (effective for financial years beginning on or after 1 January 2018)
- IFRS 4 (Amendments) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial years beginning on or after 1 January 2018)
- IFRS 10 and IAS 28 (Amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements to IFRS Standards 2014-2016 Cycle (effective for financial years beginning on or after 1 January 2018)
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018)
- IAS 40 (Amendments) Transfers of Investment Property (effective for financial years beginning on or after 1 January 2018)

The Authority is still assessing the effect of these changes on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

3. SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are set out below:

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for licenses, duties and application fees in the normal course of business. All revenue is recognised on the accrual basis. The following specific recognition criteria must also be met before revenue is recognised:

Licences

Revenue is recognised when the licence becomes due. It is accounted for on a straight line basis over the term of the licence.

Application fees

Revenue is recognised upon receiving the consideration together with a valid application form.

Duties

Depending on the type of licence, revenue from duties is either charged on a fixed fee basis or is based on a percentage of the regulated companies' reported revenue, up to a capped amount for remote gaming companies.

Interest income

Interest income is recognised as the interest accrues, unless collectability is in doubt.

Trade and other receivables

Trade receivables are recognised and carried at original amount due less an allowance for any uncollectible amounts. An estimate for impairment is made when collection of the full amount is no longer probable. Impaired debts are derecognised when they are assessed as uncollectible.

Amounts due from related parties are recognised and carried at cost.

Cash and cash equivalents

Cash in hand and at banks and term deposits which are held to maturity are carried at cost.

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash in hand and deposits at banks, net of overdrawn bank balances.

Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Authority.

Amounts due to related parties are carried at cost.

Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets is recognised in the statement of comprehensive income. Amortisation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	%
Computer software	25

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Depreciation is calculated to write off the cost of the property, plant and equipment on a straight line basis over their expected useful life as follows:

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

3.2 SUMMARY OF ACCOUNTING POLICIES

- CONTINUED

	%
Leasehold improvements	6.67
Furniture and fittings	10-16.67
Office equipment	16.67-25
Motor vehicles	20
Computer equipment	25

Gains and losses arising on de-recognition upon disposal of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c) there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

Finance leases, which transfer to the Authority substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of comprehensive income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Authority will obtain ownership by the end of the lease term. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the financial statements, the Board is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted in the period the change becomes known.

Provisions for claims and contingent liabilities

Claims have been made against the Authority by third parties. Judgement is required to determine whether these claims will require an outflow of resources and whether these could be reliably estimated. The Authority quantifies the claims based on the damages and determines the probability of the outflow based on the advice provided by the legal counsel.

Where the Authority believes that the claims would probably result in an outflow of resources and can be reliably estimated, a provision is recognised. Where there is a possible obligation, but probably there will not be an outflow of resources, no provision is recognised whilst a contingent liability is disclosed.

In the opinion of the Board, the accounting estimates, assumptions and judgements other than those mentioned above, made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised) 'Presentation of financial statements'.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

5. REVENUE

Revenue comprises the following:

	2016	2015
	€	€
Licence fees	5,474,824	5,217,755
Application fees	337,885	233,204
Other	416,447	264,269
Total Authority fees	6,229,156	5,715,228
Duties	56,299,736	55,178,902
Total revenue	62,528,892	60,894,130

Number of licences in issue at end of year:

	2016	2015
	No.	No.
Commercial Bingo Houses	4	4
Casinos	4	4
Gaming Parlours	48	46
National Lotteries	1	1
Remote online gaming licences	513	490
Total number of licences at end of year	570	545

6. EXPENSES BY NATURE

	2016	2015
	€	€
Auditor's remuneration	17,700	14,160
Chairman's emoluments and Board honoraria (note 18)	31,910	32,710
Staff costs (note 7)	5,191,648	4,076,733
General administrative expenses	1,331,231	1,342,070
Professional fees	1,272,711	1,240,909
Promotional expenses	746,752	748,862
Depreciation on property, plant and equipment and intangible fixed assets (notes 10 & 11)	549,538	304,418
Provision for doubtful debts (note 12)	45,311	337,459
Contributions to other entities	664,069	537,245
Total administrative and other expenses (Statement I)	9,850,870	8,634,566

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

7. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

	2016	2015
	€	€
Salaries	4,498,305	3,626,937
Social Security costs	304,600	244,114
Fringe benefits	167,996	129,827
	4,970,901	4,000,878
Other related costs	331,882	190,210
	5,302,783	4,191,088
Recharged salaries to Responsible Gaming Foundation and Gaming Academy	(111,135)	(114,355)
	5,191,648	4,076,733

b. Staff numbers

The number of persons employed by the Authority as at 31 December 2016 and 31 December 2015 was as follows:

	2016		2015
	No.		No.
Finance	10	Finance	16
Legal affairs	6	Legal affairs	5
Enforcement	51	Enforcement	37
Authorisations	22	Regulatory	18
Compliance	14		
Other	2	Other	20
Information Systems	16	Information Systems	13
Human Resources & Administration	21	Operations	21
Programme Management & Strategy	4	Programme Management & Strategy	4
Chairman's Office	4	Chairman's Office	3
Total	150		137

8. FINANCE INCOME

	2016	2015
	€	€
Interests receivable on bank balances	2,264	42,524

9. TAXATION

No provision for Malta income tax has been made in these financial statements as the Authority's income is exempt from any liability to income tax.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

10. INTANGIBLE FIXED ASSETS

Intangible fixed assets pertain to software costs of the Authority. The movement in intangible fixed assets is as follows:

	Computer Software	€
COST		
At 1 January 2015		241,623
Additions		101,631
At 31 December 2015		343,254
Additions		501,418
At 31 December 2016		844,672
Amortisation		
At 1 January 2015		144,276
Amortisation for the year		50,123
At 31 December 2015		194,399
Amortisation for the year		92,071
At 31 December 2016		286,470
Net book value at 31 December 2016		558,202
At 31 December 2015		148,855

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements	Furniture and fittings	Office equipment	Motor vehicles	Computer equipment	Total
	€	€	€	€	€	€
COST						
At 1 January 2015	-	241,062	174,735	115,901	326,480	858,178
Additions	2,862,218	661,958	32,360	-	206,912	3,763,448
Disposals	-	(244,896)	-	-	-	(244,896)
At 31 December 2015	2,862,218	658,124	207,095	115,901	533,392	4,376,730
Additions	40,551	878,715	322,849	35,175	48,146	1,325,436
At 31 December 2016	2,902,769	1,536,839	529,944	151,076	581,538	5,702,166
Depreciation						
At 1 January 2015	-	167,968	154,725	49,526	267,571	639,790
Depreciation charge for the year	127,412	53,804	9,642	20,869	42,568	254,295
Depreciation released on disposals	-	(192,475)	-	-	-	(192,475)
At 31 December 2015	127,412	29,297	164,367	70,395	310,139	701,610
Depreciation charge for the year	149,134	147,041	73,779	24,973	62,540	457,467
At 31 December 2016	276,546	176,338	238,146	95,368	372,679	1,159,077
Net book value at 31 December 2016	2,626,223	1,360,501	291,798	55,708	208,859	4,543,089
At 31 December 2015	2,734,806	628,827	42,728	45,506	223,253	3,675,120

The Authority has moved into new premises during November 2015. The Authority has undertaken significant improvements to these new premises. Whilst most of the improvements have been in place as at year end, the project was fully completed in the first quarter of 2016.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

12. TRADE AND OTHER RECEIVABLES

	2016	2015
	€	€
Duties and licences receivable (note i)	7,184,060	6,695,475
Other receivables	1,871	34,548
Prepaid expenses	238,914	186,489
Deposits	166,880	166,880
	7,591,725	7,083,392

i. At 31 December 2016, duties and licenses receivable at nominal value of EUR1,034,096 (2015: EUR988,785) were impaired and fully provided for (Note 6).

Provision for doubtful debts	2016	2015
	€	€
Opening balance	988,785	651,326
Increase in provision for doubtful debts	45,311	337,459
Closing balance	1,034,096	988,785

As at the balance sheet date, the ageing analysis of duties and licences receivable is as follows:

	Total	Neither past due nor impaired	Past due but not impaired			
			<30 days	31-60 days	61-90 days	>90 days
	€	€	€	€	€	€
2016	7,184,060	4,708,313	1,121,507	610,263	472,843	271,134
2015	6,695,475	5,168,758	766,816	207,257	162,700	389,944

13. RESERVES

a. Equity reserve

Funds for the creation of the Reserve have been retained from the gaming taxes collected. This was transferred to Equity reserve with approval of the Ministry of Finance.

b. Reserve Fund

The Reserve Fund represents accumulated excess of revenue over expenditure.

c. National Lottery Reserve Fund

By virtue of section 59(1) of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta, the National Lottery Licensee is to pay funds standing in its Unclaimed Prizes Reserve to the Authority. All funds received are to be credited to the National Lottery Reserve Fund. In accordance with section 50(6) of the same Act, all funds credited to the latter reserve shall be paid, not later than six weeks after the financial year end, to the National Lotteries Good Causes Fund held by the Treasury Department.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

14. PROVISION FOR CLAIMS

During 2014, players of certain gaming operators have submitted claims that they were owed the amounts of EUR3,300,000 since they have not been paid these amounts by the gaming operators. They are also keeping the Authority responsible and liable for such amounts. During 2016, claims amounting to EUR2,400,000 (2015: EUR900,000) have not been pursued and from further analysis it is deemed remote that the Authority could be liable. The corresponding provision has been reversed.

Furthermore, during 2016 a gaming operator initiated court proceeding against the Authority claiming loss of profits from the Authority in the region of EUR800,000. The Authority with the assistance of legal counsel rebuts these claims. Further provisions estimated at EUR150,000 (2015: EUR100,000) have also been recognised as at 31 December 2016.

The Authority continues to monitor these claims following the advice from its legal counsel.

15. TRADE AND OTHER PAYABLES

	2016	2015
	€	€
Amounts due to government (note i)	1,135,659	1,657,981
Unclaimed deposits (note ii)	7,048,547	5,206,635
Other payables	1,522,671	1,735,065
Accruals	819,862	612,883
Deferred income	2,710,042	2,901,111
	13,236,781	12,113,675

- i. Amounts due to government are unsecured, interest free and have no fixed date of repayment. These amounts are payable to the Government of Malta under the provisions of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta.
- ii. Balance includes unclaimed player deposits and dormant accounts from Remote Gaming operators which are passed on to the Authority by the licensee when no transactions have been recorded on players' account for more than thirty months.

16. CASH AND CASH EQUIVALENTS

Cash and short-term deposits consist of cash in hand and balance with banks. Cash and cash equivalents included in the statement of cash flows reconcile to the statement of financial position amounts as follows:

	2016	2015
	€	€
Cash at bank and in hand	1,743,765	4,756,308

As at 31 December 2015, the amount of EUR1,462,738 was pledged against a letter of credit issued to third parties by a local bank. The pledge was released in 2016.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

17. COMMITMENTS

The future minimum rentals payable including VAT under these operating leases as at 31 December 2016 and 31 December 2015 are as follows:

	2016	2015
	€	€
Within one year	451,842	440,920
After one year but not more than five years	1,923,288	1,876,225
More than five years	4,828,568	5,327,473
	<u>7,203,698</u>	<u>7,644,618</u>

18. RELATED PARTY DISCLOSURES

Related Party	Year	Total transactions with related parties	Amounts owed to related parties at year end	Type of transaction
		€	€	
Government of Malta - The Treasury	2016	55,030,286	1,135,659	Surplus for the year
Government of Malta - The Treasury	2015	52,302,088	1,657,981	Surplus for the year

Key management personnel

The Chairman and the Board members are considered to be key management personnel. Included in 'Administrative and other expenses' (note 6) are salaries paid to the Chairman and Board members amounting to EUR31,910 (2015: EUR32,710).

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

At the year end, the Authority's main financial assets on the statement of financial position comprise trade and other receivables, and cash at bank and in hand. At the year end, there were no financial assets off the statement of financial position.

At the year end, the Authority's main financial liabilities on the statement of financial position consisted of amounts due to government, other payables, accruals and deferred income.

Contractual maturity profile of financial liabilities

The presentation of the financial assets and liabilities listed above under the current and non-current headings within the statement of financial position is intended to indicate the timing in which cash flows will arise. The maturity profile of the financial liabilities of the Authority as at year end is as disclosed in note 13.

Credit risk

The Authority trades only with licensed, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Authority's exposure to impaired debts is not significant. Carrying amounts for trade receivables are stated net of any impairment provisions, when necessary, which are prudently made against debts in respect of which management reasonably believes that recoverability is doubtful. Credit risk with respect to debts is limited due to the number of licensees comprising the Authority's debtors' base. The Authority's cash at bank is placed with quality financial institutions. The Authority has no significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk the Authority will not be able to meet its financial obligations as they fall due. The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal or stressed conditions, without incurring unacceptable losses or risking damage to the Authority's reputation.

Fair values

The carrying amounts of cash at bank and in hand, trade receivables, trade payables and accrued expenses approximated their fair values.

Interest rate risk

With the exception of cash and bank balances, the value of the Authority's assets and liabilities are not subject to interest-rate movements.

20. CONTINGENT LIABILITIES

During 2014, gaming operators have submitted claims amounting to circa EUR1,700,000 mainly in respect to overpayment of gaming taxes paid to the Authority due to wrongful classification of the games provided by the operator. The Authority is contesting these claims and continues to follow the advice of its legal counsel.

Furthermore, a request for damages by a gaming operator against the Authority during 2014 has been pursued during 2015 and 2016 and a provision for claims of EUR800,000 has been made (note 14).

Another operator initiated court proceedings against the Authority. The Authority is contesting these claims and continues to follow the advice of its legal counsel. Moreover, the damages, if any, cannot be reliably estimated. Accordingly, no provision for any liability has been made in these financial statements.

Up to the date of the authorisation of these financial statements, there were no other material claims made against the Authority.

SUPPLEMENTARY STATEMENT

Administrative and other expenses

Statement

|

ADMINISTRATIVE AND OTHER EXPENSES

	31 December 2016		31 December 2015	
	€	€	€	€
Salaries and national insurance	5,191,648		4,076,733	
Training	43,794		123,856	
Other staff costs	48,798		35,739	
STAFF COSTS		5,284,240		4,236,328
Chairman's emoluments and board honoraria	31,910		32,710	
Subcontracted services	118,965		74,849	
Telecommunications	99,692		89,933	
Water and electricity	47,634		43,005	
Rent	357,404		233,309	
Insurance and licences	33,977		9,901	
Postage, stationery and printing	63,445		73,131	
Office expenses	28,166		28,695	
Motor vehicle running expenses	58,259		77,617	
Bank charges	6,611		13,617	
Cleaning expenses	8,237		18,864	
Subscriptions	33,801		32,907	
Repairs and maintenance	189,899		191,444	
Business development expenses	17,058		17,550	
Overseas travelling	149,515		193,190	
Seminars and conferences	25,976		32,042	
GENERAL ADMINISTRATIVE EXPENSES		1,270,549		1,162,764
Professional fees	771,951		779,074	
Internal audit fees	100,064		119,786	
Auditors' remuneration	17,700		14,160	
Due Diligence consultancy fees	324,045		241,382	
IT consultancy fees	76,651		100,667	
PROFESSIONAL FEES		1,290,411		1,255,069
PROMOTIONAL EXPENSES		746,752		748,862
DEPRECIATION AND AMORTISATION		549,538		304,418
LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT		-		52,421
PROVISION FOR DOUBTFUL DEBTS		45,311		337,459
CONTRIBUTIONS TO OTHER ENTITIES		664,069		537,245
		9,850,870		8,634,566



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