



THE MALTA GAMING AUTHORITY ANNUAL REPORT 2017



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*“Innovation is change
that unlocks new value”*

~Jamie Notter



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1. EXECUTIVE CHAIRMAN'S FOREWORD

Joseph Cuschieri
Executive Chairman

Welcome to our 2017 Annual Report.

Whilst providing a synopsis of how the MGA has performed during the last financial year, this Annual Report also explains our governing remit in order for the MGA to reach its strategic objectives and ensure that our gaming market and the gaming services we regulate, in and from Malta, perform well and in line with international standards. Given the scale of this sector, with responsibility I can state that it is a role that we have to perform to the highest of standards. There is no room for complacency or haphazard thinking and decision-making. I have been in office for over four years in the role of Executive Chairman and have continued the

reforms throughout 2017. Looking back over the years since I took over, so much has changed, both at the MGA and also within the industry itself. There is more that can be done to continue improving the standard of governance and regulatory policy but also the need to drive out a small minority of people who constantly try to abuse the system, just as in other services sectors.

I remain a firm believer that prevention of crime should be at the top of our agenda and for this reason we continued to provide guidance and the necessary tools for our licensees to conform with the regulatory system, whilst taking due administrative action as and where required. ➤

I hasten to add that the single most important achievement during 2017 has been the conclusion of the new Gaming Act which was tabled in Parliament by the Parliamentary Secretary for Financial Services, Digital Economy and Innovation, the Hon. Silvio Schembri, earlier on this year. In fact, on the 8 May 2018, the Maltese Parliament approved the third and final reading of the new Gaming Act, which shall elevate the jurisdictional profile of Malta from a regulatory perspective by strengthening the MGA's supervisory role, specifically its compliance and enforcement functions to better achieve regulatory objectives in line with concurrent developments relating to anti-money laundering and combating the funding of terrorism.

This new framework shall also broaden the regulatory scope to increase the MGA's oversight and to allow, in a proportionate manner, intervention where necessary. The new Act shall also segment the role of a Key Official within a licensed entity into various key functions for direct scrutiny and targeted supervision controls, and shall strengthen the player protection framework by formalising the role of the MGA's Player Support Unit as a mediator between aggrieved players and operators. The new Act also envisages new and more effective processes for criminal and administrative justice. Other important areas of focus include consumer protection standards, responsible gaming measures, reporting of suspicious sports betting transactions in the fight against the manipulation of sports

competitions and objective-orientated standards to encourage innovation and development.

Going forward, the main challenge of the MGA is to remain focused on its mission in the current social climate and to ensure that, above all, complacency does not creep in. The key risks that predominate this sector have remained the same and shall remain so for the foreseeable future. I trust that the new regulatory framework will empower the MGA even further to deliver effective regulation in the public interest, and, above all, to mitigate the underlying risks, promoting responsibility and integrity. There remains more for the MGA to do to roll out and transit the industry under this new framework and there surely remains the drive to raise standards.

I believe that the MGA will continue to work with key stakeholders and thought leaders in this dynamic sector to continue developing objective measures and best practices. This is my last Annual Report after more than four years at the helm of the MGA. It has been a privilege for me to lead such an important regulatory authority and I am immensely proud of what has been achieved over these past years. I will now be moving on to the Financial Services Sector, at the helm of the Malta Financial Services Authority in the role of Chief Executive Officer and Deputy Chairman.

“The Maltese Parliament approved the third and final reading of the new Gaming Act, which shall elevate the jurisdictional profile of Malta from a regulatory perspective by strengthening the MGA’s supervisory role.”



In conclusion, I would like to thank all the MGA employees for their commitment, support, dedication and hard work. None of the achievements throughout these years would have been possible without them. Special thanks also go to all the licensees and service providers for their continued feedback and support. My appreciation also goes to the MGA Board members and the Government for their drive to change and reaffirm Malta's standing as a leading gaming jurisdiction.

A handwritten signature in black ink, consisting of a large, stylized 'J' and 'C' that are interconnected. The signature is written above a solid red horizontal line.

Joseph Cuschieri

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

"I believe that the MGA will continue to work with key stakeholders and thought leaders in this dynamic sector to continue developing objective measures and best practices."

2. THE MALTA GAMING AUTHORITY

INTRODUCTION

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 key 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 one of the most reputable jurisdictions of choice for the international gaming industry;
- render Malta's gaming regulatory framework responsive to evolving market needs aiming for excellence;
- raise standards within the gaming sector to make gaming fairer and safer so as to protect the interests of consumers of gaming services whilst ensuring that gaming is kept free from crime;
- 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 BOARD OF DIRECTORS

The Board of the MGA is primarily responsible for overseeing the setting of policy and ensuring that the Authority's strategic objectives are attained. It is responsible for the overall strategic direction and development of the Authority, as well as for the overall risk management. The Board is also consulted by Government on matters of policy.

The Board is composed of:

- Joseph Cuschieri - Executive Chairman
- Chris Cilia - Deputy Chairman
- Caesar Grech - Board Member
- Juliana Scerri Ferrante - Board Member
- Ruth Trapani Galea Feriol - Board Member
- Matthew Bondin - Board Secretary



Joseph Cuschieri
Executive Chairman



Chris Cilia
Deputy Chairman



Caesar Grech
Board Member



Juliana Scerri Ferrante
Board Member



Ruth Trapani Galea Feriol
Board Member



Matthew Bondin
Board Secretary

EXECUTIVE MANAGEMENT COMMITTEE

The Executive Management Committee, which is chaired by the Executive Chairman, is primarily responsible for the execution of the Authority's overall strategic agenda as directed by the Board of Directors. It is responsible for the day-to-day operation and management functions of the MGA as well as the implementation of the Authority's strategic plans, programmes and policies.





Heathcliff Farrugia
Chief Officer - Regulatory



Edwina Licari
General Counsel



Dominic Micallef
Chief Officer - Enforcement



Andrew Naudi
Chief Officer - Programme Management & Information Systems



Peter Spiteri
Chief Officer - Finance



Christopher Formosa
Head - Human Resources & Corporate Affairs

THE 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 oversight responsibilities over the Authority's governance, risk management and internal control mechanisms.

The Audit Committee is composed of the following members:



Chris Cilia
Chairperson



Maria Cardona
Audit Committee Member



Dean Hili
Audit Committee Member



Ruth Trapani Galea Feriol
Audit Committee Member



Renato Vella
Audit Committee Member



James Grech
Committee Secretary

In addition to the Committee members, a representative from the external auditors of the Authority also attends the Audit Committee meetings.

In the course of six meetings held during 2017, the Audit Committee discussed a number of reports prepared by the Internal Auditor, presentations made by the Risk Manager and other members of Management 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 Risk Management functions. This corporate structure provides the Authority with a sound and robust control framework. In 2017, the Internal Audit function conducted various assurance and advisory assignments in line with the annual internal audit plan, which was approved accordingly by the Audit Committee.

SUPERVISORY COUNCIL

In order to strengthen further its supervisory role, the Authority has a Supervisory Council, which ensures the integrity, consistency and development of the regulatory functions of the MGA. It is also tasked with providing oversight and guidance in relation to ongoing regulatory issues, strategic regulation and acts as an advisory committee to the Authority's Board and Management. The Council also oversees the licensing, regulatory and enforcement decisions in respect of all regulated activities falling under the Authority's responsibility.

The Supervisory Council is composed of the following members:

- Edwina Licari – General Counsel, Chairperson
- Heathcliff Farrugia – Chief Officer - Regulatory
- Dominic Micallef – Chief Officer - Enforcement
- Karl Brincat Peplow – Head of Authorisations
- Rebekah Duca – Head of Compliance
- Katrina Pace Bonici Mompalao – Regulatory Supervision Manager
- Michele Magro – Deputy General Counsel, Council's Secretary

Throughout 2017, the Supervisory Council was summoned nine times to discuss various policy developments, including outsourcing of critical activities, the protection of player funds and measures imposed on companies in dire financial standing. The Council also discussed numerous specific cases relating to existing licence holders, licence applicants and developments in ongoing investigations.

FIT AND PROPER COMMITTEE

The Fit and Proper Committee, set up by the MGA's Board 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 on-boarding stage as well as throughout their lifecycle as MGA licensees. The Fit and Proper Committee also evaluates and determines any changes in the risk assessment of licensed operators and may impose licence conditions at its own discretion. During the period January to December 2017, the Fit and Proper Committee was summoned 26 times, during which more than 200 decisions were taken.

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)
- Karl Brincat Peplow – Head of Authorisations
- Rebekah Duca – Head of Compliance
- Helen Borg Muscat – Due Diligence Manager
- Kevin O'Neill – Player Support Manager
- Jeanette Abela – Due Diligence Officer
- Antonio Zerafa – Due Diligence Officer, Committee's Secretary

THE STRUCTURE OF THE ORGANISATION



FUNCTIONS AND RESPONSIBILITIES

- Executive Chairman's Office - responsible for strategic planning and performance management of the Authority. As part of the Executive Chairman's Office, the Human Resources and Corporate Affairs function undertakes all activities related to training, development of personnel, succession planning and recruitment activities of the Authority with the aim of maximising the strategic use of human resources. It is also responsible for public and media relations as well as the internal and external communications.
- Legal, Policy & EU/International Affairs Directorate - responsible for legal affairs, policy, international relations, bilateral relationships with other gaming regulators and relevant entities worldwide relating to the gaming industry, together with the relevant EU institutions.
- Regulatory Directorate - responsible for all regulatory aspects of the Authority, split into four areas: authorisations, compliance, supervision and player support. This Directorate is responsible for activities related to operators' lifetime with the MGA, from on-boarding of new licensees to their supervision and compliance reviews. It also deals with players' queries and, in some cases, with dispute resolution.
- Enforcement Directorate - responsible for taking the appropriate enforcement actions against licensees that are in breach of the gaming laws, as well as Anti-Money Laundering (AML) compliance, due diligence assessments and investigations on all land-based and remote gaming licensees and other illegal activities. It is also tasked with carrying out inspections in the land-based outlets, overseeing the national lottery draws and assisting the police in any necessary inspections in relation to illegal gaming activities.
- Programme Management & Information Systems Directorate - responsible for risk management, strategic planning, programme delivery and special projects, as well as for the overall knowledge and strategic information management of the Authority.
- Finance Directorate - responsible for all finance functions of the Authority, namely, revenue assurance, tax compliance, corporate finance, treasury, financial planning and control, management accounts and reporting as well as procurement.
- Internal Audit Directorate - responsible for the development and implementation of the annual internal audits plans, audit reviews and ad hoc investigations. This Directorate provides assurance and advice in an independent manner on the way the Authority is operating and achieving its objectives, thus ensuring that good corporate governance, effective risk management and adequate control processes are in place and functioning.





3. AN OVERVIEW OF 2017

For the MGA, as the single governing body for the regulation of gaming in Malta, 2017 was intensive and rewarding on a number of fronts. During the year, the gaming sector in Malta continued to register positive performances in both land-based and remote gaming sectors. With the gaming industry positioning itself as the third-largest sector in the economy in terms of value added, the Authority carries a strong responsibility to ensure continued and sustainable growth of the industry while maintaining high focus on consumer protection and the consolidation of jurisdictional reputation.

In particular, during 2017, the MGA continued developing the new regulatory framework, which will repeal all the existing legislation and replace it with a singular primary act, entitled the Gaming Act. Through this regulatory overhaul, the licensing process will be rendered more efficient and effective.

Complementing the regulatory repositioning exercise, 2017 saw the enhancement of compliance systems, which are reflected in terms of stricter anti-money laundering laws and new data protection regulations. The Authority stepped up collaboration with the Financial Intelligence Analysis Unit (FIAU) and proceeded with the implementation and enforcement of the anti-money laundering rules and procedures, in line with the Fourth Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT) Directive.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

DEVELOPMENTS IN THE MALTESE LEGISLATIVE FRAMEWORK

The gaming industry legislative framework of Malta is undergoing a deep process of modernization, future-proofing and simplification through the enactment of dynamic, streamlined and technology neutral provisions to achieve better regulatory and policy objectives whilst mirroring European legislation and regulatory principles. The divide between advancements in technology and the law is being narrowed through, amongst other things, catering for convergence between land-based and online gaming. The changes to the legislative framework will bring about increased focus on consumer protection and on the prevention of financial crime, aiming at effectiveness while minimising regulatory burdens upon operators. The new legislative framework will thus consolidate Malta's reputation as a top global jurisdiction of choice for the licensing of gaming activities.

THE NEW GAMING FRAMEWORK

The legislative overhaul aims to repeal all existing legislation¹, for it to be replaced by a single Act of Parliament entitled the Gaming Act, together with subsidiary legislation covering horizontally the main areas of regulation. This will ensure coherence and consistency in the interpretation and application of the law.

The new legislative framework is a principle-based one that focuses on regulatory outcomes rather than being driven by a prescribed set of rules. This approach, developed through the extensive experience garnered by the MGA as a leading licensing jurisdiction, will accommodate the regulation of diverse business models more efficiently and flexibly. An operator-based licensing mechanism, which differentiates only between Business-to-Business (B2B) and Business-to-Consumer (B2C) activities, will enhance regulatory effectiveness within a simplified context. This will allow the inclusion of different types of games under one corporate licence, and will considerably improve the time to market from application to approval.

The proposed regulatory framework empowers the Authority to be more agile in its decision-making, to remove unnecessary regulatory burdens which are not conducive to the regulatory objectives, whilst concurrently strengthening supervision and focusing the regulator's efforts on the areas which present a higher risk profile. Furthermore, the reform enhances consumer protection standards and responsible gaming measures, while promoting a risk-based approach towards regulation. It provides the MGA with wider powers in the fields of compliance and enforcement. It also establishes objective-oriented standards to encourage innovation and development.

Throughout 2017, the MGA continued to lay the groundwork for the extensive legislative overhaul of all gaming activity in Malta. Following extensive discussions with many interested branches of the Government of Malta, in July 2017, the MGA published a 'White Paper to Future-Proof Malta's Gaming Legal Framework', delineating the rationale behind the proposed legislative overhaul as well as the full text of the draft Gaming Act and the relevant draft subsidiary legislation. The consultation was launched on the 12 July, for a total consultation period of 55 days. The MGA received a total of 52 submissions, with stakeholders ranging from locally established and foreign gambling operators, law firms and advisors, providers of services ancillary to gambling operators including compliance tool providers, data centres, marketeers, industry associations, students and members of the general public.

The feedback received was assessed and followed up. Overall, the feedback was positive, and concerns and suggestions were taken on board and changes to the proposed legal framework were effected where necessary. In this respect, the Authority held a number of meetings with interested stakeholders to discuss any concerns. In the meantime, the MGA has also been formulating transition plans, as well as more detailed directives, procedures and technical requirements on more specific areas, which will also be presented for consultation in 2018.

¹ This consists of the Public Lotto Ordinance, Chapter 70 of the Laws of Malta, the Gaming Act, Chapter 400 of the Laws of Malta and Lotteries and Other Games Act (LOGA), Chapter 438 of the Laws of Malta. Each one of these is complemented by sector-specific subsidiary legislation, as well as by instruments issued by the MGA.



Key highlights of the new framework include:

- replacing the current multi-licence system with a system in which a licensed entity would operate with a single licence, namely a B2C licence or a B2B licence, covering different types of activities across multiple distribution channels;
- moving towards an objective-based, rather than excessively prescriptive, regulatory approach, to allow for innovation whilst ensuring that the regulatory objectives are attained;
- broadening the regulatory scope to increase the MGA oversight and allow for intervention where necessary and in a proportionate manner;
- widening the MGA's powers under the compliance and enforcement functions to better achieve the regulatory objectives, in line with concurrent developments on anti-money laundering and combating the funding of terrorism obligations;
- segmenting the Key Official role into various functions within a licensed activity, requiring approval for direct scrutiny and targeted supervisory controls, thereby raising the bar for persons of responsibility within a gaming operation;
- strengthening the player protection framework by formalising the mediatory role of the MGA's Player Support Unit, enshrining segregation of player funds at law and moving towards a unified self-exclusion database across both remote and land-based delivery channels;
- introducing new and more effective processes for criminal and administrative justice, including the allocation of appeals from decisions of the Authority to the Administrative Review Tribunal and the introduction of a distinction between administrative and criminal offences;
- introducing the concept of administration to protect an operation in distress and, if necessary, to assist the winding down of an operation, thereby protecting jobs and player funds;
- moving towards automated reporting, facilitating adherence to regulatory obligations and strengthening the Authority's oversight;
- bolstering the Authority's role in the fight against manipulation of sports competitions by introducing new obligations on operators to monitor sports betting and report suspicious bets, in line with the efforts being made by the National Anti-Corruption Task Force in which the Authority also participates actively;
- streamlining taxation into one flow with two main layers; and
- exempting B2B licensees from gaming tax, thus increasing Malta's competitiveness as a hub for these services providers.

In anticipation of the new regulatory regime in 2018, the Authority formulated a new fiscal structure and late in December 2017 it published a new subsidiary legislation, the Gaming Licence Fees Regulations (S.L. 438.12), as per Appendix 1, which became effective as from the 1 January 2018.

CONTROLLED SKILL GAMES

During January 2017, the Skill Games Regulations (S.L. 438.11) were brought into force. Consequently, the MGA issued a ruling to classify fantasy sports games as requiring a controlled Skill Games licence. This can be of a B2C type, that is a service licence, or of a B2B type, a game supply licence. Fantasy sports games involve players competing against each other by committing money for it to be possible to win a prize.

As at the end of 2017, the Authority had issued 11 B2C licences and five B2B licences.

OVERVIEW OF EU DEVELOPMENTS

Throughout 2017, the MGA participated in three meetings of the Expert Group on Gambling Services hosted by the European Commission, involving the gambling regulators from across the European Economic Area (EEA). Amongst the items discussed were the implementation of the Fourth AML/CFT Directive, the fight against match-fixing, strengthening administrative cooperation amongst Member States, and the development of a CEN Standard on Reporting Standards for Online Gambling, amongst other pertinent areas of regulation.

For the first time, the Expert Group for 2017 was organised in Malta, on the occasion of Malta's Presidency of the Council of the European Union. Representatives from the European Commission also attended a conference organised by the MGA, which was open to all members of the Expert Group, as well as regulated operators and other stakeholders. During the last Expert Group of the year, the MGA's representatives presented the proposed changes to the regulatory framework on gaming in Malta.

In furtherance of the initiative of the European Commission to create a non-binding standard on 'Reporting in support of online gambling supervision', the European Committee for Standardisation created a new technical committee (CEN/TC 456) for the creation of this standard. The MGA cooperated with the designated national standardisation body, the Malta Competition and Consumer Affairs Authority, for the creation of a national committee with the aim of formulating Malta's position on the subject matter. The national committee held its first meeting, with participants from both regulators, as well as a number of gambling industry associations and technical representatives from commercial operators. Representatives of the national committee, including MGA personnel, attended the first CEN/TC 456 meeting in Paris in November 2017.

The MGA continued providing advice, where necessary, to the various entities of the Government of Malta in formulating a national position when it came to a number of other EU initiatives that may have an impact on the gambling and digital sectors. The MGA has followed discussions in relation to the fight against match-fixing, and the strengthening of cooperation between gambling regulators, sports associations, law enforcement agencies and governments, and has, in fact, started attending, and actively participating in, a number of meetings for betting regulators to tackle such issues. The MGA has also been following discussions at EU level on initiatives forming part of the Digital Single Market proposal, looking into any potential impact on the digital gaming industry, from a regulatory perspective.

The MGA reviewed 28 gambling laws notified by Member States of the European Economic Area (EEA) to the European Commission via the Technical Regulation Information System in line with Directive 2015/1535. In 2017, the MGA received 25 cooperation requests from international gambling regulators, the majority of which came through the Administrative Cooperation Arrangement that is in place between gambling regulatory authorities of EEA Member States and signed in 2016. The MGA sent two formal cooperation requests within the ambit of the Administrative Cooperation Arrangement.

The coming into force of the Fourth AML/CFT Directive on the 26 June 2017 and its transposition and implementation in practice has meant that anti-money laundering has been a key focus area for the MGA throughout 2017, whilst the MGA has also embarked on a project in preparation for the General Data Protection Regulation (GDPR), which will be implemented on the 25 of May 2018.

INNOVATIVE REGULATORY APPROACH

Innovation has always been at the heart of the MGA. The Authority is aware of the need to constantly reinvent itself to remain attractive to gaming operators, to regulate the industry in the best possible way, and, above all, to ensure player safety. In 2016, the MGA introduced regulations for controlled skill games and embraced growth opportunities in sectors such as eSports and Daily Fantasy Sports. In 2017, the Authority started licensing betting on lotteries as a gaming activity. Furthermore, in its upcoming new regulatory framework, the MGA included a number of forward-looking regulatory objectives seeking to encourage and protect the development of new potential gaming sectors whilst promoting the enhancement of (i) consumer protection standards, (ii) responsible gaming measures and (iii) a risk-based approach to render licensing and monitoring processes more effective and efficient.

In the quest to spearhead innovation, the Authority is continuously analysing ongoing developments in the fields of Distributed Ledger Technology (DLT) and cryptocurrencies including their application in various technology and innovation-driven industries.



CRYPTOCURRENCY SANDBOX

Cryptocurrencies and DLT are a new disruptive phenomenon in the digital currency and technology arena. The hype around their potential as a disrupter has been intense, with remote gaming being one of the sectors that may benefit from the use of cryptocurrencies and DLT technology. The MGA's strategy, to be at the forefront of remote gaming regulation while embracing innovation, is balanced with the recognition that a prudent approach in this area is sensible and needed.

The characteristics of cryptocurrencies, while often cited as drivers for their adoption, simultaneously pose a number of risks which need to be addressed in a well-thought-out manner. The MGA is mindful that these risks need to be addressed in order to ensure that the necessary safeguards are in place to:

- protect consumers;
- cater for the prevention of crime and money laundering or combating the funding of terrorism (with due regard to the Fourth AML/CFT Directive); and
- safeguard the reputation of the Maltese jurisdiction.

In 2017, the Authority conducted a thorough study, divided in two phases, in order to assess the potential acceptance of cryptocurrencies for the iGaming industry. It was acknowledged that this study had to take into consideration the viewpoints of various stakeholders and sectors of the economy.

The first phase of the study identified the risks as well as the most likely opportunities for cryptocurrencies in a rapidly evolving scenario. Cryptocurrencies have been in existence for several years and there are millions of users around the world. The study looked at what the Government needs to do, particularly from a regulatory perspective, to allow the opportunities presented by these concepts to flourish and stimulate economic development but without significant negative repercussions linked to the risks that are inherent in this emerging phenomena.

It also identified the iGaming sector as one where cryptocurrencies have visible opportunities and drivers. Having said that, the same characteristics of cryptocurrencies, cited as drivers for their adoption, have simultaneously posed the greatest challenge in their safe adoption. Failing to effectively mitigate the risks identified was shown to have implications on the wider Maltese economy. iGaming is considered to be a sector which requires a balanced regulatory framework before cryptocurrency can be allowed to be used. Similarly, foreign regulatory bodies recognised the potential for cryptocurrencies and are working on increasing their jurisdictions' attractiveness in the field.

With reference to the second phase of the study, the aim was to design and come up with possible scenarios engineered to encourage and pave a way forward for the acceptance of cryptocurrencies in Malta, the focus being on a sector, iGaming, that, beyond our shores, is already adopting cryptocurrencies to different degrees. In the process of assessing the approach taken by other jurisdictions, it became evident that the appetite for cryptocurrencies has not decreased. In fact, during the course of the study, a number of jurisdictions have taken action to regulate them in some form or another and in some instances, had also provided guidance, which was identified as a key driver for adoption by operators.





The scenarios designed thus aimed to present a balance of promoting innovation yet at the same time managing the risk exposure through a strong regulatory framework, allowing the MGA to move forward on a solid footing. More importantly, the Authority will be in a position to be amongst the first movers in setting the model for cryptocurrency acceptance. This reflects the strategy of making the regulation of online gaming in Malta supportive of innovation.

The designated way forward recognised the necessity to guide operators on the measures needed to accept cryptocurrencies in a controlled manner, mitigating the significant risks to both operators and players. In turn, consumer confidence is instilled and allows the Authority to be better recognised in this niche area. The formation of this framework involved the participation of fellow stakeholders and, through their participation, the suggested scenarios were revised to become an effective means of addressing the primary concerns raised in the first phase, which were primarily:

- the potential to move value in an anonymous way;
- the anonymity in which cryptocurrencies are transacted and held hinders the determination of the source of funds; and
- the non-face-to-face manner in which cryptocurrencies are transacted. The process to open a wallet and funding the purchase of cryptocurrency does not include verification methods, thus one cannot ascertain that the person purporting to hold the wallet actually funded the cryptocurrency in that wallet.

Through the study conducted and by consolidating perspectives of fellow stakeholders, the online gaming industry, financial services operators and key experts in these type of technologies, the MGA will, during 2018, be issuing a set of criteria for public consultation, for the establishment of a sandboxed (test and learn) live environment for cryptocurrency adoption within the online gaming sector, whilst also drafting guiding principles for the application of DLT and its various adaptations within the industry. The way forward being proposed signals the MGA's intention to go down the path of acceptance while being a guide in a yet to mature area. The Authority, together with its operators, will be testing and learning in this sandboxed environment, inevitably building up expertise and regulatory oversight in the process.

EFFECTIVE SUPERVISION, COMPLIANCE AND ENFORCEMENT

It is the Authority's primary objective to act as an effective regulator through its supervisory and compliance structures and processes, both at the on-boarding stage of new licensees as well as throughout their lifetime. These functions are served mainly through due diligence, monitoring and supervision of all MGA licensed operators and through effective enforcement involving investigations, implementation of sanctions and measures, field operations as well as the prevention of money laundering across the licensed gaming sector.

DUE DILIGENCE

One of the main processes for effective regulation is the due diligence function which assesses the probity of an operator.

During the year 2017, the MGA further invested in its internal procedures and systems so as to support and reinforce its due diligence function. The MGA undertakes thorough probity vetting prior to the issuing or approval of a licence, which is in line with the risk-based methodology adopted as well as upon renewal of a licence. In this context, the MGA liaises with both local and foreign intelligence service providers, together with other regulators and/or enforcement authorities. The MGA aims to ensure that Malta's gaming industry is free from crime, like money laundering and the financing of terrorism. In 2017, the Authority performed a total of 2,052 criminal probity assessments, focusing on individuals and companies in remote gaming and land-based activities, and also conducted enhanced due diligence reports in particular instances.

AUTHORISATIONS

The Authorisations Unit within the Regulatory Department is responsible for the processing of all applications submitted to the Authority. During 2017, the Authority received 220 applications and issued 165 remote gaming licences to 112 operators.

The MGA's pre-licence approval stage focuses on four critical areas which can determine the issuance or otherwise of a licence. The initial step, which is the most important and critical, focuses on the fit and properness of the applicants through a thorough assessment of the shareholders, Ultimate Beneficial Owners, and persons in key positions who are directly involved in running the business.

This assessment is subsequently discussed in the Fit and Proper Committee which, on its part, is responsible for safeguarding the veracity and uniformity of decisions that are related to the "fit and properness" of both individuals and companies that are applying for any form of approval from the MGA, not only at the on-boarding phase, but also during the course of their holding of an MGA licence. It primarily assesses the financial good standing of applicants through various processes including, but not limited to, analysis of the management accounts and audited financial accounts, as well as other ad hoc enhanced checks as required in every circumstance. As a result, the Fit and Proper Committee acts as a reliable instrument in maintaining the accountability of the regulator and the integrity of the gaming industry in Malta. Once an application makes it through the 'fit and proper' assessment, the Authorisation Unit also conducts in-depth financial analysis of the applicant's business plan, which would comprise a detailed forecast of the applicant's operations and plans. It also reviews other operational and statutory requirements that are requested by law.

The final stage of the application includes a System Review. This requires applicants to implement their operation onto a technical environment prior to actually going into a live business environment. 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 conducted. This System Review will audit the live environment against the proposed application, making sure that systems approved at application stage are implemented correctly on the live environment. On successful completion of this stage, the Authority issues a licence to the applicant.

COMPLIANCE

The Compliance Unit within the Regulatory Department is tasked with ongoing monitoring and effective supervision of all operators licensed by the MGA. This is further split into two areas, namely Compliance Operations and Regulatory Supervision.

The Compliance Operations Unit is mainly tasked with ensuring that licensed entities operate in accordance with the applicable obligations mandated by law and the relevant licence conditions, with a specific focus on ensuring a compliance culture amongst licensees. In 2017, over 100 compliance reviews were conducted by independent audit firms authorised

by the MGA. Such reviews are thoroughly assessed by the Authority's compliance officials, and relevant remedial action is taken where needed. Compliance reviews involve checks ranging from the adherence to player protection measures, to the verification of the approved technical infrastructure and gaming system, to the review of AML policies and procedures. The outcome of these reviews may, at times, affect the risk rating of a particular operator, with some leading to administrative action.

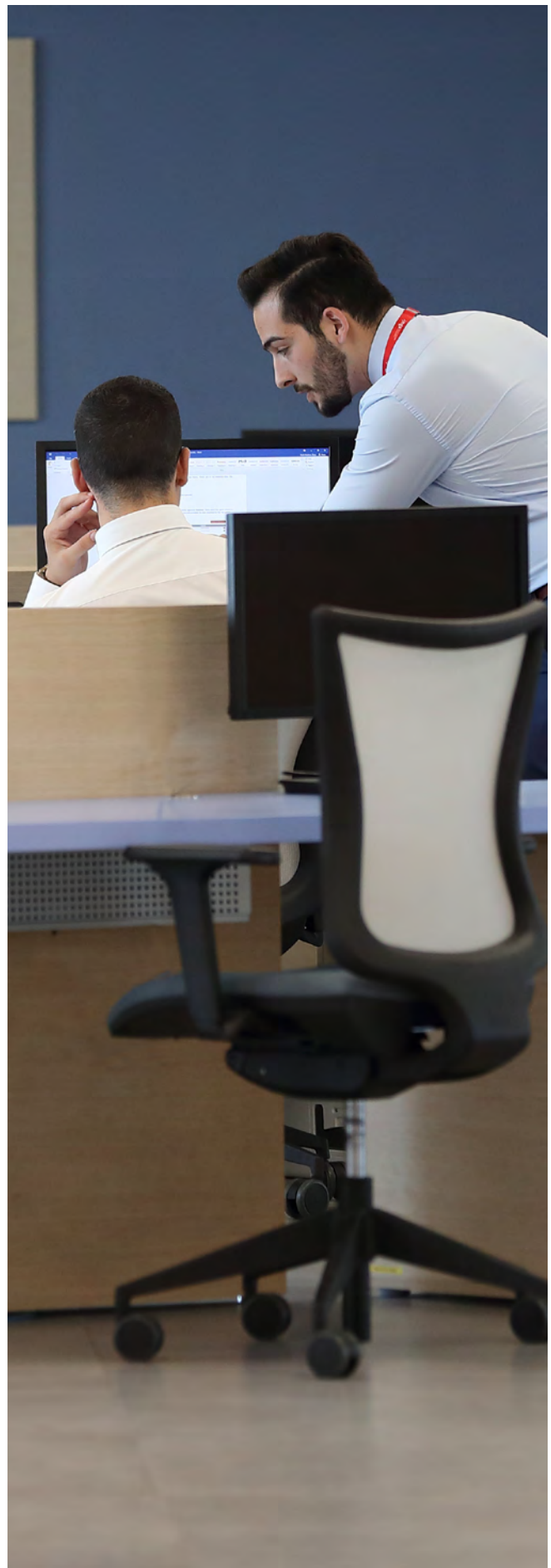
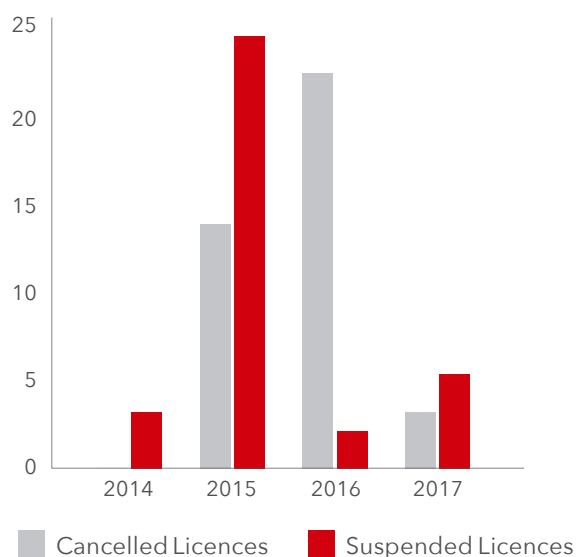
The Regulatory Supervision Unit is entrusted with the monitoring and verification of player liabilities reports, through which the Authority confirms, on a regular basis, that licensees are safeguarding player funds. This Unit is also responsible for conducting effective supervision through ongoing regulatory checks, specifically through a number of thematic reviews. In 2017, focus was placed on jackpots-related reviews, which covered over 161 operators, and other related player protection limits which concerned over 80 operators. In addition, the team carries out regular financial checks on all the licensees, through the analysis of the management accounts and audited financial statements.

INVESTIGATIONS & ENFORCEMENT

Throughout the year, the Authority has conducted a number of investigations on reported or identified gaming operations that were considered to be suspicious or in breach of the applicable legislation. Most commonly, these were related to unlicensed remote gaming operations.

Following a number of thorough investigations, during 2017, the MGA issued 45 administrative fines, suspended five licences and cancelled another three. These followed regulatory breaches by various gaming operators.

CHART 1: NUMBER OF CANCELLED AND SUSPENDED LICENCES



FIELD OPERATIONS

The Authority carries out inspections in all licensed land-based gaming establishments, namely casinos and gaming parlours as well as other licensed gaming establishments, including National Lottery Operator's (Maltco) points of sale, commercial bingo halls, non-profit tombola activities and any remote gaming infrastructures that are operating from a land-based area. In addition, the Inspectorate team oversees the National Lottery draws of Lotto, Grand Lottery and Super 5 games.

During the year under review, the team conducted 14,826 inspections, an increase of 27% when compared with the number of inspections carried out in 2016.

TABLE 1: LAND-BASED INSPECTIONS

	2015	2016	2017
Casinos	6,118	8,455	10,417
Commercial Bingo	639	617	812
Non-profit Tombola	226	446	401
Maltco's Points of Sale	317	637	850
Maltco Draws*	155	157	156
Gaming Parlours	655	1,382	2,190
Total	8,110	11,694	14,826

*The MGA oversees draws of Maltco Super 5, Grand Lottery and Lotto that are included under the "Maltco Draws" category.

During 2017, the Inspectorate team completed 16 inspections related to illegal gambling in various bars and clubs as well as in areas where illegal bingo was organised. Some of these operations were carried out in conjunction with the Malta Police Force.

PREVENTION OF MONEY LAUNDERING AND COMBATING OF FUNDING OF TERRORISM

The potential vulnerability of the gaming sector to money laundering is a primary concern of the MGA. Throughout 2017, the Authority continued to strengthen its AML supervision in order to ensure a coherent and effective supervision of the industry. The Authority has always been mindful that a risk-based approach is maintained in order to ensure that the necessary safeguards are in place to cater for the prevention of money laundering and/or funding of terrorism. To this effect, the Compliance Directorate within the Authority was tasked with the reviewing and ongoing monitoring of AML-related policies and procedures held by licensees.

In June 2017, the Authority concluded a thorough Sectoral Risk Assessment of the gaming industry in Malta. The exercise was intended to help interested stakeholders across the public and private sector, including the MGA, to understand the risks that Malta faces as a result of its involvement as a key player in the remote and land-based gaming industry.

In early summer 2017, the FIAU and the MGA issued a Consultation Document on the application of AML/CFT requirements to all gaming licence holders who provide a service involving the wagering of a stake with monetary value in games of chance, including games of chance with an element of skill via electronic means of distance communication with the chance to win monetary prizes.

The AML team within the Enforcement Directorate is responsible for carrying out AML/CFT supervisory assessments through on-site and off-site inspections and will report any findings to the FIAU. The team of AML officers have been given extensive training by local and international experts in AML/CFT activities to make sure that they have the necessary capability, skill and capacity to conduct effective off-site and on-site assessments for all licensees, both land-based and remote. By December 2017, the team initiated the first set of AML/CFT familiarization visits and completed a total of nine reviews. These visits anticipated the change of operators to subject persons under the new Fourth AML/CFT Directive which was due to come into force on the 1 January 2018. The motivation to perform these visits stemmed from the necessity to comprehend and gauge better the level of compliance with such Directive by the various gaming operators. This approach allowed the MGA to better plan its AML/CFT compliance plans for 2018. To this end, a supervisory plan was concluded early in 2018. The Authority shall continue to enhance its collaboration with the FIAU to ensure an effective AML/CFT framework coupled with the required levels of co-ordination and scrutiny across public and private bodies.

THE OPERATIONAL ACTIVITIES OF THE AUTHORITY

PLAYER PROTECTION AND SUPPORT

The MGA gives due regard to enhancing player safeguards and overall consumer protection by championing this area and continuing to increase efforts in research and outreach to problem gamblers in an even more coherent and systematic fashion. Throughout 2018 the Authority will be conducting a research survey, the second of its kind, to measure the gambling trends of the Maltese population. This survey will contribute towards determining additional or alternate forms of intervention to amplify further the player protection regulations.

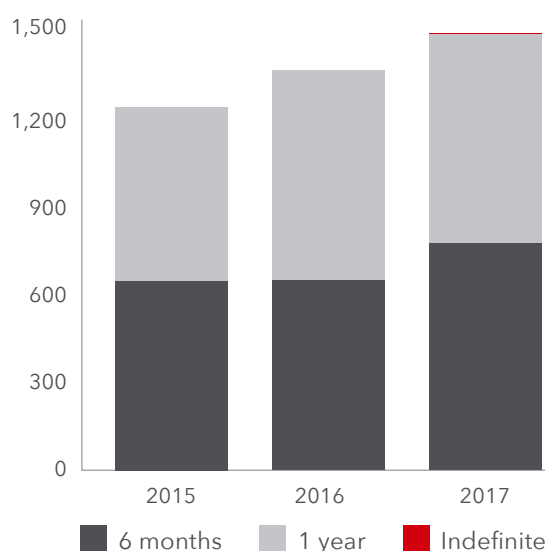
The Authority has a dedicated Player Support Unit which receives and assesses requests made by players and ensures the highest levels of player protection within the regulated gaming environment. In 2017, this Unit received 3,998 requests for assistance, with 3,586 of them being resolved. In addition, a total of 830 chat interactions were serviced, with an average chat duration of 8m 32secs. Furthermore, the Player Support Unit will be registered as an Alternative Dispute Resolution service provider and made available to all players.

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 period 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. The self-barring facility is a legal requirement that needs to be provided by all licensees.

The self-barring programme is one of the interventions aimed to minimise negative impacts of gambling, and it plays an important role in the recovery process of affected individuals. During the year under review, the number of self-exclusion requests in the land-based sector increased by 9%, from 1,277 in 2016 to 1,393 in 2017. Of these, 52% were for a period of six months, while the remaining were for a duration of one year. During this reporting period, one individual chose to self-bar for an indefinite period.

CHART 2: LAND-BASED - SELF-BARRING

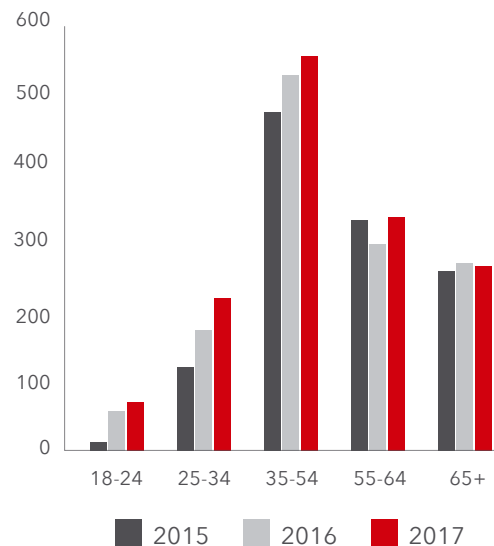


During 2017, Maltese individuals constituted 74% of all self-barrred people in land-based outlets (casinos, gaming parlours or bingo halls), with the number rising by 6% since 2015. The self-barring facility was also used by non-Maltese individuals including Italians (4%), Syrians (2%), Bulgarians (2%), Romanians (2%) and Somalis (2%), amongst others. Over the last three years, the vast majority of self-barrred individuals were male, constituting 71% of all self-barrred players in 2017, with absolute numbers rising by 13% and 14% respectively in 2016 and 2017.

It is worth noting that since 2015 the gamblers aged between 35-54 are most likely to request self-barring. This needs to be seen in the light of a significant number of players within this age group playing in casinos and gaming parlours.

Between 2016 and 2017, a considerable growth in self-barring was registered for players between the 18-24 and 25-34 age brackets, amounting to 22% and 27% respectively. This might reflect the increased effectiveness of outreach gambling awareness programmes.

CHART 3: LAND-BASED - SELF-BARRING BY AGE GROUP



Remote gaming operators licensed under the MGA framework are also obliged to offer self-exclusion facilities to their customers. During 2017, the total number of self-exclusion requests from remote gaming websites licensed by the MGA amounted to just below 790,000, an increase of 5.3% over the figure recorded for 2016.

PROGRAMME MANAGEMENT AND INFORMATION SYSTEMS

The MGA has continued to execute its strategy and agenda through the Programme Management and Information Systems Directorate, focusing on:

- the effective coordination and execution of projects while assuring high quality work standards;
- the continuous enhancement of the Authority's ICT systems and management of its information systems;
- the collection of good quality data from internal and external sources, together with the analysis of such data to provide insight to the Authority and the industry;
- the enhancement of a developed risk-based framework for the Authority; and
- the retention of an effective registry function.

PROGRAMME MANAGEMENT

In 2017, the Programme Management Unit expanded to embrace a quality function, ensuring that the Authority's deliverables are of the requested and expected quality standard. In embracing quality, the Authority is setting out to achieve value-adding outputs. The quality function will endeavour to instil a quality-at-source mentality and intends achieving quality assurance through the investment in standards and certifications. The Authority will continue to adopt internationally recognised standards in the foreseeable future.

During 2017, the Authority consolidated the work done in 2016 by achieving the following milestones:

- Finalisation of the Gaming Act which shall be the governing framework legislation regulating gaming services in and from Malta;
- Increased focus on anti-money laundering and countering the funding of terrorism through the consolidation of AML efforts in one Anti-Money Laundering Unit within the Authority's operational and regulatory structures, enabling the Authority to reinforce its AML/CFT supervisory mechanisms;
- Finalisation of a risk assessment on the regulation of the use of cryptocurrencies as a method of payment in a sandboxed environment, as well as the creation of a knowledge-base to allow the Authority to provide guidelines in exploiting DLT in the near future;
- Consolidation of the MGA policies and procedures to ensure better business continuity within the various directorates; and

- The formulation of a set of guidelines around the GDPR which should come into force during 2018. The main aim behind these guidelines is to assist gaming operators with obtaining and maintaining compliance with the GDPR.

INFORMATION TECHNOLOGY

Efficient, robust and scalable IT systems are key for the Authority to continue to excel in its supervisory functions. During 2017, the Authority has taken significant steps forward in its IT platforms through:

- the launch of a New Licensee Relationship Management System accessible through a secure and dedicated web portal. This system has changed the way the MGA interacts with its current and prospective licensees through the simplification and digitisation of its online and land-based processes and acts as one-stop shop for licensing as well as a communication channel;
- the consolidation of the Authority's IT systems, including the Customer Relationship Management system, by introducing additional modules aimed at automating certain functions within the MGA as well as further enhancement of the Human Resources and People Management system. These changes have brought about the need for continuous focus on protecting the MGA's information assets and ensuring that the existing security platforms are up-to-date and can offer the necessary protection from various threats;
- the digitisation of mail was another process which was undertaken during 2017. This has strengthened further the registry function within the Authority, whilst ensuring that any document is stored in accordance with the requirements stipulated by law; and
- the ongoing efforts for the development of an Enhanced Automated Reporting Platform (EARP). Such a system is based on three pillars which include a unified framework, the Internet of Things and Blockchain Technology.

INFORMATION SECURITY AND BEYOND

The mission of the Information Security function within the MGA is to design, implement and maintain an information security programme that protects the Authority's most valuable assets, including systems, services and data against unauthorised use, disclosure, modification, damage and loss.

The MGA is committed to respect and protect the security and privacy of the Information Assets created, processed, used, transmitted, stored and destroyed in accordance with applicable Government regulations, Government of Malta ICT Policy, MGA policies as well as reasonable business judgement and discretion.

Throughout 2017, the MGA has embarked on various projects which further enhance the Information Security function within the Authority, which include:

- Penetration testing: the MGA uses the services of professional third party security experts that employ blended threat scenarios to test the effectiveness of our security defences, policies and staff. Such an exercise is carried out twice yearly and assesses the Authority's information security defences by combining multiple testing strategies into a comprehensive offensive engagement, with the sole objective of gaining access to critical assets.
- ISMS Policy including an ongoing awareness campaign: this is an ongoing project whereby the MGA's ISMS policy is constantly being updated and independently reviewed by making sure that it is in line with the latest Government of Malta ICT policies and the ISO27001:2013. As part of the above, the MGA carries out various awareness campaigns involving all MGA staff throughout the year.
- Enterprise Immune System: the MGA has implemented an artificially intelligent advanced security network traffic analysis tool. Its advanced machine learning, unique specialized algorithms and deep insight into network traffic make the detection of advanced threats and other behavioural anomalies more sensitive and reliable. This dramatically improves the capabilities of security and network operations for rapid detection and response to security and other incidents.
- Encrypting Personal devices: all MGA workstations have their hard drives encrypted using the latest Microsoft Bit Locker Drive Encryption with a cryptographic encryption method of AES 256 bit making use of TPM2.0 + Personal Identification number.
- Mobile Device Management Security: all MGA mobile devices are connected to a mobile device management system having end-to-end encryption. This is a security software which is used to centrally manage and secure employees' mobile devices by including services and features that help in achieving a complete and secure Enterprise Mobility Management solution.
- VPN Update: all remote connections to the MGA's systems are being tunnelled through the CISCO ASA firewall. Access is granted through AD credentials and an RSA AES 256 SHA1 is being used to encrypt all traffic.



- Segregation of Networks: the MGA has procured an additional physical Internet Fibre Connection line which shall segregate completely the Guest Wi-Fi from the Corp Wi-Fi. For security reasons, the MGA Corp Wi-Fi shall be made available to MGA devices only via certificate authentication (802.1x), while allowing the MGA Guest Wi-Fi to be used solely by external guests and personal mobile devices.
- Telephony encryption via certificates: the aim of this project was to implement security mechanisms in the MGA CISCO's Unified Communications solution to prevent identity theft of phones and UC nodes, data tampering and to encrypt call signal messages and media streams. The MGA adopted a TLS handshake mechanism to mutually authenticate each other using digital certificates and a shared symmetric key is established. Signalling communications are subsequently encrypted using this symmetric key.
- Enhanced Printing solution: all print jobs generated at the MGA are printed against secure user RFID cards which authenticate with the printers. For security reasons, this tool makes use of intelligent routing which helps in controlling and managing what is printed and how.
- Document management: a major update was carried out on the MGA's Document Management System whereby all files, in transit or at rest, are being secured with 2048-bit encryption keys.
- Endpoint Protection: throughout 2017, the MGA has implemented a central endpoint advanced protection which enables device control, application control, web control, security heartbeat, malicious traffic detection, live protection and data loss prevention.

As the reliance and dependency on IT services increases at the MGA, the IT Department felt the need to reassess its current infrastructure to ensure the resilience against failures. The focus was to minimize the possibility of going into Disaster Recovery mode and, if it had to occur, recoverability happens within a maximum of one business day as defined by the Recovery Time Objective. In fact, in the coming months, the MGA will be embarking on a separate project to implement high availability on all its critical systems making sure that such systems are continuously operational with no downtime.

INFORMATION AND DATA ANALYSIS

The Authority collects and analyses data concerning remote and land-based gaming activities in Malta, holding an administrative database populated from various sources including licensed operators and other governmental entities. Such statistics enable the Authority to understand better the dynamics of the market and provide the necessary support to the decision making processes. The outcome of the data collection exercise for the year 2017 is presented on page 38.

A NEW FINANCIAL REGIME

During 2017, the Finance Directorate was instrumental in launching the new Gaming Licence Fee Regulations through Legal Notice 409 of 2017, which was necessary in preparation for the new legal framework. In an effort to continue improving the regulatory environment in this ever-growing sector, a dedicated Tax Compliance Unit has been set up in 2017 to enhance efficiency and effectiveness in the collection of gaming tax.

STRENGTHENING OUR ABILITIES

Over the recent years, the Authority has strengthened its human resource capabilities. This enabled the MGA to carry out its functions more efficiently and effectively. As at the end of December 2017, the Authority had 158 employees. Out of this total workforce, 42% were female with the majority of the employees lying within the 20 to 30 (37%) and 31 to 40 (38%) age brackets.

It is worth noting that during 2017, the MGA has invested in new highly-skilled employees and in the further development of its existing staff complement. As at the end of 2017, the number of employees that were qualified with a diploma or degree was 15% higher than that of the corresponding period in 2016.

During the year under review, the Authority continued proactively investing in the training and upskilling of its staff, especially in view of the regulatory and technological developments which lay ahead. Special focus was dedicated to Compliance and AML training in view of the Fourth AML/CFT Directive. Given the importance of the need to be updated with the latest technological trends and developments in the industry, training on DLT, such as blockchain and cryptocurrencies, was also high on the agenda of the MGA's training calendar. Special focus was also given to training on GDPR and Information Security. Training was also provided to the Inspectorate Department on the latest technologies related to gaming equipment. The full list of training courses can be found in Appendix 3.

In addition, throughout 2017, the Authority continued to invest in leadership training for its management team and, during the last quarter of the year under review, an Authority-wide training needs analysis was conducted in order to bring the Authority's training efforts in line with the ever-changing demands of the sector.

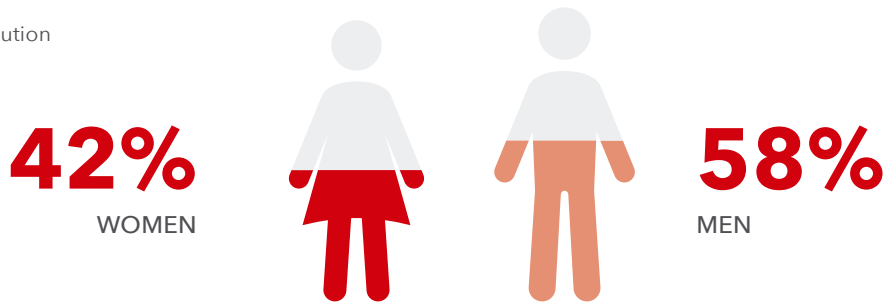
On a yearly basis, the MGA also takes stock of the engagement levels of its employees through an internal employee perception survey which is carried out independently by a research company. This survey not only measures the effectiveness of our human resources strategy but also highlights the areas which need improvement. With a participation rate of around 74% of the workforce the results of the survey provide a clear indication of how engaged the employees are. It is worth noting that among the highest scoring areas are those related to Corporate Culture, Training and Development and Employee Wellbeing. More specifically, high scores were registered by employees when it came to their pride in working for the MGA and the contribution the Authority gives to the country, the support they received from their Managers, the expectations of high performance from its employees by the Authority and the recognition of the investment by the organisation in training and development. Areas of improvement include the need of better rewarding mechanisms, especially when compared to the industry in which MGA operates, and the need of better communication between departments.

Investment in our human capital was not only limited to training and IT systems but focus was also given to teamwork and teambuilding. Teambuilding activities, social events and corporate social responsibility events were organised throughout the year, with the scope of fostering better relationships within the Authority.

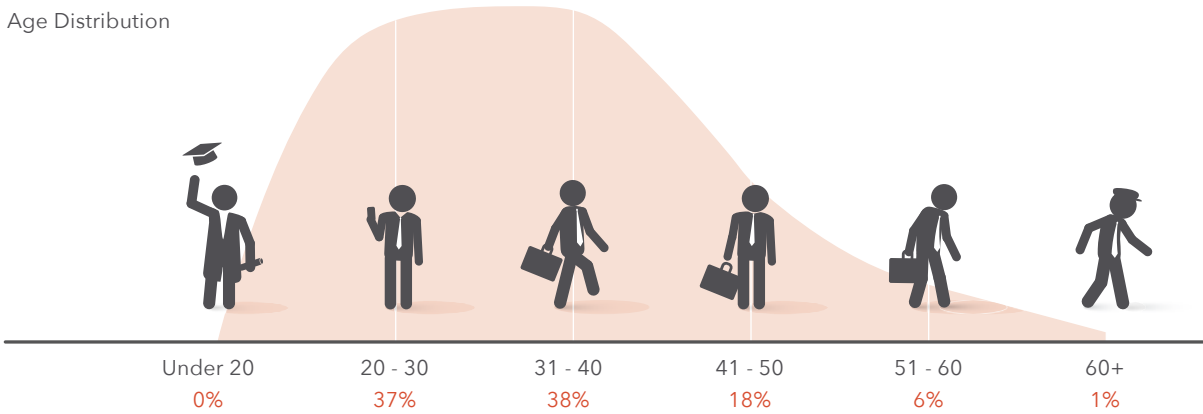
COMMUNICATION OUTREACH

The MGA is committed to get in touch with all its stakeholders via different mediums. During 2017, the Authority participated in a number of events and communicated relevant changes affecting the different players in the market. International exposure is also of considerable importance and the MGA participated in various local and international conferences and events. As can be noted in Appendix 3 the MGA was represented at various conferences, events, fairs and expos, focusing in different areas of interest for the industry. This continues to strengthen the MGA's relationship with the industry on various fronts.


Gender Distribution



Age Distribution












Qualification Distribution



Year	Degree, Post Grad Degree or equivalent	Diploma	Total
2015	43	29	72
2016	48	43	91
2017	64	41	105

HEADCOUNT TOTAL 158

Chairman's Office	5	
HR, Administration & Facilities, PR & Communication	21	
Programme Management & Information Systems	22	
Legal	6	
Regulatory	38	
Finance	10	
Enforcement	53	
Internal Audit	2	
Other	1	



4. 2018 ... THE YEAR AHEAD

Global and European gaming markets have continued to experience positive developments in 2017, driven in good part by technological innovation. The outlook for the global gaming sector remains optimistic, positioning operators and suppliers for moderate growth in 2018. Europe's leading share in the global remote gaming market continues to be reinforced by the innovative character of European operators and ongoing regulatory developments.

In this context, Malta continues to represent Europe's most complete gaming eco-system. Building upon its reputation and experience in the sector, the country has proved to be a dynamic and forward-looking jurisdiction. Malta recognised the move of the iGaming industry towards skill-based games and was at the forefront to regulate this

emerging industry segment. In fact, a new skill games licence was singled out as a top priority and introduced in January 2017, making Malta the first country in the European Union to cater for daily fantasy sports and other forms of controlled skill games.

The Authority aims to remain at the forefront of innovation by diversifying into new business areas and enhancing regulatory efficiency while improving compliance systems and player protection to meet the best global standards of practice. To this effect, the MGA commits itself to revamp its internal and strategic operations with the aim of re-positioning Malta as the thought leader in gaming regulation. In line with the Authority's longer-term strategy to future-proof such an important economic sector, over the past years, it has undertaken a series

of initiatives and investments, namely in terms of legislative changes, capacity building, information systems and human resources.

The efforts of the MGA are paying dividends to the Maltese economy. The robust growth of the gaming industry in recent years has been sustained in 2017, with the sector's share in economic value-added standing at 11%. The gaming industry thus consolidated its position as the third-largest economic sector, contributing to the generation of activity in other sectors. The industry employed around 6,600 persons directly by the end of 2017, an increase of around 500 jobs during the year. Around 3,100 additional jobs are estimated to be supporting the gaming industry in other sectors of activity.

2018 will be a year in which the Authority will consolidate most of the projects on which it has worked in the past. It is the MGA's aim to ensure a smooth transition into the new regulatory framework, which will come into force in July 2018 and which will represent a comprehensive and progressive legislative framework for all gaming sectors. The Authority will continue to explore innovative platforms for the benefit of the gaming industry. It is envisaged that there will be the issuance of a position on the use of cryptocurrencies and DLT in gambling activity. In this manner, Malta would be among the first countries to offer a regulatory framework for the use of cryptocurrencies in the gaming industry.

During 2018, the Authority will implement the GDPR, based on the impact assessment which was undertaken during 2017. This regulation builds on the premise of balancing individual privacy rights with the use of data for business purposes, but brings significant changes to the existing data protection regime. The territorial scope has been increased, while regulators and data subjects will be notified of data breaches.

In order to ensure the effective execution of these tasks, the MGA will maintain its focus on information security, robustness and efficient operations. To this effect, throughout 2018, it will undertake an overhaul of the current IT infrastructure with the aim of safeguarding the Authority's data and information from any potential cyber-attacks. The MGA will also be implementing the EARP, which will assist and facilitate verification reviews and reconciliation of financial data. This will initially be provided to a selected number of gaming companies to test the prototype, before rolling it out to the entire



industry by the end of 2018. Furthermore, improvements will be effected to the online portal for licensed operators, ensuring that all the eForms are concluded and can be used.

Within the context of the fast-paced regulatory and technological developments, the MGA recognises that enriching the knowledge and competencies of its people is the cornerstone of success. In the short to medium term, the Authority shall continue to collaborate with relevant stakeholders to ensure that the adequate human resource capacity and talent is in place. In particular, the MGA will continue working with Malta College for Arts, Science and Technology (MCAST) to strengthen the European Gaming Institute of Malta (EGIM). Such efforts will not only address education and training but will also serve to address the skills mismatch in the gaming labour market by nurturing more talent within this sector and creating long-term careers.

The decisions and actions of the MGA shall continue to be motivated by global developments and to remain equally sensitive to the issues and considerations raised by local relevant stakeholders. The Authority will continue to direct its efforts and commitments towards raising the quality standards across all gaming sectors while enhancing consumer protection mechanisms and improving the overall governance and supervision of the gaming sector.

Equally important, the Authority will be investing its efforts and commitment towards achieving the following key priorities in the short to medium term:

- ensure the highest levels of compliance through effective supervision of the gaming sector;
- enhance consumer protection mechanisms and rights;
- raise quality and standards across all gaming sectors;
- collaborate with other jurisdictions, key stakeholders and regulators; and
- harness innovation by exploring new growth areas and innovative platforms.





5. THE MALTESE GAMING INDUSTRY IN NUMBERS

OVERVIEW

The robust growth recorded in the gaming industry in Malta over the past five years has been sustained in 2017, with the sector's share in economic value-added standing at 11.3%¹. This indicates that the gaming industry continues to be a key driver of Malta's economic growth. With almost 290 companies engaged in remote gaming operations at the end of 2017, it is evident that Malta has consolidated its standing as an attractive and reputable jurisdiction within the global industry. The land-based segment also experienced positive growth in 2017, as a result of a number of reinforcing factors including improvements in household income, a growing tourism market and a higher resident population through immigration. Furthermore, Malta has been succeeding in attracting specific junket events for existing and new foreign markets. Looking ahead, operators expect positive results in the coming two years, also spurred by the implementation of a far-reaching repositioning of Malta's licensing structures. This will serve to foster innovation in the industry and enhance regulatory efficiency while raising the standards of service providers and protection levels of players to meet the best global standards of practice. ➤

¹ National Statistics Office.

HEADLINE INDICATORS

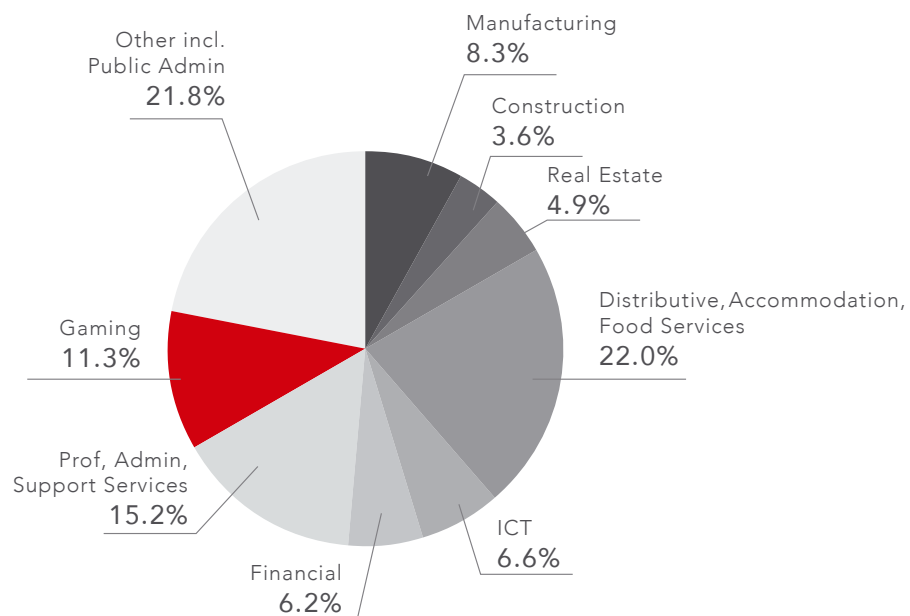
The gaming industry is estimated to have generated just over €1.1 billion² in terms of gross value added in 2017, as shown in Table 1. This represented a 10% growth over 2016, when the industry had already increased its gross value added by a similar amount. As a result of this momentum, the gaming industry's share in economic activity over the past years has increased, to stand at around 11.3% by 2017. Chart 1 indicates that, excluding public administration, the gaming industry has consolidated its position as the third-largest sector in the economy, exceeding in terms of size of value added other sectors which were traditionally major economic pillars. Furthermore, gaming contributes to the generation of value added through input-output linkages in other major sectors, including professional services, financial and ICT activities, hospitality and catering services, distributive trades and real estate.

TABLE 1: HEADLINE INDICATORS OF GAMING INDUSTRY ACTIVITY

	2015	2016	2017
Number of licences (remote)	490	513	625
Number of companies in operation	276	266	294
Gross value added (€m)	€901.9	€1,006.3	€1,108.4
Employment - Full-Time Equivalent (FTE) jobs³	4,707	6,193	6,673
Remote	3,908	5,327	5,861
Land-based	799	866	812
Gaming tax revenue (€m)	€55.2	€56.3	€59.1

Note: Number of licences (remote) and number of companies in operation relates to stock as at the end of December and refers solely to the MGA licensed entities.

CHART 1: CONTRIBUTION OF THE GAMING INDUSTRY TO VALUE ADDED



² National Statistics Office.

³ This number refers to employees working directly on the MGA licensed activity as reported by the gaming operators to the MGA. Kindly refer to point 5 of the Methodology for more information.

The gaming industry directly accounted for over 6,600 jobs in full-time equivalent terms as at the end of 2017. This represented an increase of almost 500 jobs over 2016, with the industry thus accounting for 4% of the entire increase in employment in Malta during the year. The growth in employment was spurred by the number of new jobs in the remote gaming sector which increased by around 530 from the comparable period in 2016. Conversely, the number of new jobs in the land-based gaming sector declined by around 50 jobs, reflecting the timing of specific events organised during the year. It is estimated that the expenditure by gaming firms in Malta generates the equivalent of an additional 3,100 full-time equivalent jobs in other economic sectors with high value added. A survey carried out by the MGA for the year 2017 indicates that when taking into account indirect employment, the total employment in the gaming industry was estimated to be around 9,800 full-time equivalent (FTE) jobs. These positive results are corroborated by the latest published data⁴ on employment for 2017, which indicate that the Gambling and Betting activities employed around 7,000 FTEs by the end of 2017. Compared to the previous year, this implies an increase of around 1,000 jobs in FTEs terms. The sustained growth in employment further attests to the sector's significant contribution to the Maltese economy.

The growth registered by the gaming industry activity in Malta in 2017 exceeded expectations, both in terms of performance in earlier years as well as in the context of the development of gaming activity globally. This, in part, reflects the development of a new Gaming Act, which is repositioning Malta as one of the most forward-looking jurisdictions globally, thus attracting new companies and providing the right environment for existing operators to expand their operations.

The number of companies licensed in the Maltese jurisdiction increased by around 11%, while the number of licences recorded a growth rate of 22% during 2017, as shown in Table 1. The fact that companies based in Malta are expanding their operations, while new ones are relocating to the country, is reflected in the growth in employment. The latter is also attributable to changes in the nature of the gaming business towards consolidation of service delivery robustness, quality and consumer satisfaction, which were, in good part, driven by regulatory requirements. Business, in general, also sought to acquire professional skills to enhance marketing activities. 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.

GAMING INDUSTRY OUTLOOK

The gaming industry in Malta is expected to continue to grow markedly in 2018 and 2019. 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 Gross Gaming Revenue (GGR) and employment, averaging around 15% in terms of GGR and 10% in terms of employment. At the same time, existing operators expect to increase their expenditure in Malta, in a range of around 8% to 13% per annum over the next two years, thereby further contributing to the growth, in particular, of the services, retail and real estate sectors. These effects will most likely be compounded by activities of new investors in Malta. Expectations of land-based operators are also positive but somewhat less upbeat than those of remote gaming firms.

The gaming sector is thus expected to continue to play a fundamental role in Malta, by directly generating employment and value added, attracting foreign investment and human capital, diversifying the economic base and contributing to the growth of related activities.

⁴ National Statistics Office, News Release (072/2018), Gainfully Occupied Population: December 2017.



LAND-BASED CASINOS

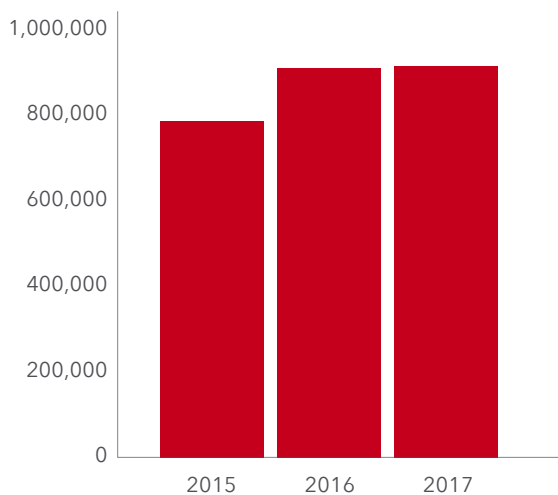
There were four licensed casinos operating in Malta in 2017. Three of them - Dragonara Casino, Portomaso Casino and Casino Malta - are located in the central part of the Maltese Islands whilst Oracle Casino is located in the northern part of Malta.

1. CASINOS: PLAYERS' VISITS

During the year under review, the total number of visits to local casinos stood at 910,202, a minimal increase of 0.6% over 2016. Following a substantial growth in the number of visits by Maltese and non-Maltese players between 2015 and 2016, of 11.8% and 19.6% respectively, a minor increase of 3.5% was reported for non-Maltese players. Visits by Maltese players decreased by 2.5%.

The highest number of visits, 96,429, was reported in August when the tourism figures peak in Malta. Interestingly, visits during that month were still 5.2% lower when compared with the levels reported in August 2016 when a total of 101,694 visits were registered. Visits reported during that month of 2016 were the highest number ever recorded in one month by the casinos' sector since 2010.

CHART 2: LAND-BASED CASINOS - NUMBER OF VISITS



Casinos also offer their facilities to junket⁵ players. Over the last few years, casinos have seen an increase in the number of junkets notified to the Authority, reaching 1,499 players during the year 2017, a considerable increase of 56.3% when compared to 2016.

TABLE 2: LAND-BASED CASINOS - NUMBER OF JUNKET PLAYERS

	2015	2016	2017
Total	559	959	1,499

2. CASINOS: NEW PLAYERS' REGISTRATIONS

Casino operators, as described in the Registration of Players Directive 2011⁶, are required to register each player entering their premises. During the year under review, total registrations of new players went up by 2.9% to 140,825, part of which represent multiple registrations by a single player in more than one casino.

During the second half of the year, the number of registrations was nearly double that reported during the first half. This reflects the seasonality of tourist visits to the Maltese Islands, which is strongly concentrated in the summer season.

TABLE 3: LAND-BASED CASINOS - NEW PLAYERS' REGISTRATIONS

	2016	2017
Total	136,856	140,825

3. CASINOS: NUMBER OF TABLES⁷

The number of gaming tables at casinos increased by 8.6% to 101 in the course of 2017. The highest number of tables featured Texas Hold'em and Roulette, with 34 and 26 tables respectively.

TABLE 4: LAND-BASED CASINOS - NUMBER OF TABLES

	end-2016	end-2017
Texas Hold'em	29	34
Roulette	27	26
Blackjack	18	19
Casino Poker	8	10
Punto Banco	6	6
Other	5	6
Total	93	101

4. CASINOS: NUMBER OF GAMING DEVICES AND SPORTS BETTING MACHINES⁸

The total number of sports betting machines in the casinos increased from 19 to 27 between 2016 and 2017, while the number of gaming devices decreased by 1.6% as shown in the Table below.

TABLE 5: LAND-BASED CASINOS - NUMBER OF GAMING DEVICES AND SPORTS BETTING MACHINES

	end-2016	end-2017
Gaming devices	915	900
Sports betting machines	19	27

⁵ 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.

⁶ This Directive refers also to commercial bingo halls and gaming parlours' operators.

⁷ Total number of tables for casinos' games as at 31 December.

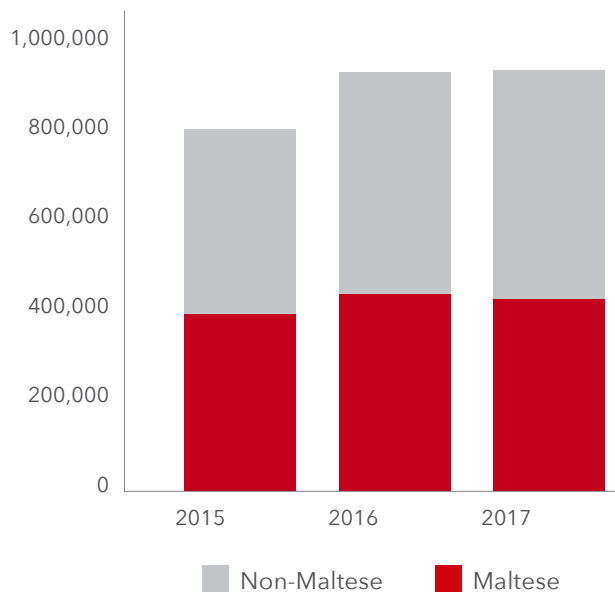
⁸ Total number of gaming devices and sports betting machines as at 31 December.

5. CASINOS: PLAYERS' PROFILE

Nationality

The monthly visits by Maltese players followed a trend, similar to that reported in 2016 with an exception in March when the number of visits were 43.2% higher, in particular, due to a low-base effect during the same month a year earlier. Non-Maltese players accounted for 54.3% of casino visits during 2017, an increase of one percentage point over the previous year. Such visits were characterised by two major peaks, in August and November, with the latter reflecting a poker tournament organised during that month.

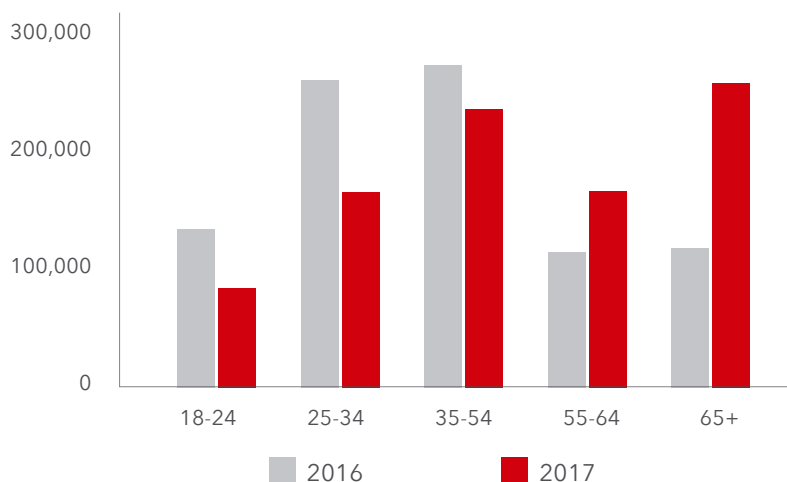
CHART 3: LAND-BASED CASINOS - PLAYERS' PROFILE BY NATIONALITY



Demographic Group

A notable demographic shift took place in the age groupings of visitors to casinos. The year 2017 was characterised by significantly lower visits for customers from younger age groups, compensated by an increase in visitors aged 55 years or more, as shown in Chart 4. In particular, the number of visitors aged 65 years or over more than doubled in 2017 when compared to the previous year. It is worth noting that men continued to constitute over 60% of total visitors to casinos in 2017.

CHART 4: LAND-BASED CASINOS - PLAYERS' PROFILE BY AGE GROUP DISTRIBUTION



Note: The legal age to enter casinos in Malta is 25 for Maltese and 18 for non-Maltese players.

6. CASINOS: GGR

The GGR of casinos rose by around 13.9% during 2017, following a relatively weaker performance in 2016. Out of the total GGR produced by casinos during 2017, 64% was generated through various gaming machines (including gaming devices and sports betting machines), whereas 36% was generated through table games. In 2017, the share of GGR from gaming machines rose by two percentage points over the previous year, reflecting an 18% growth in this category. In terms of table games, although the share of GGR decreased by two percentage points over 2016, the actual growth registered was of 7.2%.

FIGURE 1: LAND-BASED CASINOS - GGR DISTRIBUTION



The last two years were also characterised by the increase in junkets activity, both in terms of number of players and GGR. In 2017, junkets accounted for 7.9% of the total GGR reported by the local casinos, in line with what was reported for 2016.

Average GGR per Visit

In line with the increase in the number of visits and total GGR, the average GGR per visit rose by 13.2%, from €43.9 to €49.7, as shown in Table 6.

TABLE 6: LAND-BASED CASINOS - AVERAGE GGR PER VISIT

	2015	2016	2017
Total	€45.9	€43.9	€49.7

7. CASINOS: GAMING TAX

In line with the increase in casinos' GGR, the gaming tax payable by the casino sector went up by 18.1% in 2017, to stand at €17 million. This constituted 28.8% of total gaming tax revenue generated under the Maltese jurisdiction during the year.

TABLE 7: LAND-BASED CASINOS - GAMING TAX

	2015	2016	2017
Total	€13,719,674	€14,421,187	€17,038,381

8. CASINOS: EMPLOYMENT

As at end 2017, the number of full-time equivalent direct employees working in casinos went down to 584 from a total number of 648 that was reported for 2016. This change represented normal fluctuations associated with the timing of major gaming events.

TABLE 8: LAND-BASED CASINOS - EMPLOYMENT (FTE)

	end-2015	end-2016	end-2017
Total	574	648	584

The gender balance of employees remained comparable to that in 2016 with 43.6% of employees being female. Furthermore, an increasing dependence on foreign workforce in the casino sector was observed during 2017, when this category of workers reached 60% of the total.



GAMING PARLOURS

1. GAMING PARLOURS: NUMBER OF OUTLETS

By the end of 2017, there were 52 approved gaming parlours in Malta, representing an increase of four parlours over the corresponding period of the previous year. The outlets were distributed across 29 different localities.

The highest number of gaming parlours were located in Birkirkara, 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.

The table below presents the number of approved gaming parlours per operator.

TABLE 9: GAMING PARLOURS – NUMBER OF OUTLETS

	end-2015	end-2016	end-2017
Izibet	24	27	29
Bestplay Gaming	6	6	7
Media Games	7	5	5
Fairbet	6	7	7
Bingo	3	3	4
Total	46	48	52

2. GAMING PARLOURS: NUMBER OF GAMING DEVICES

The number of licensed gaming devices has increased from 384 in 2016 to 401 during 2017. This implied an average of eight gaming devices per outlet. This needs to be viewed in the context of regulations, limiting the number of devices per outlet to no more than 10.

The table below presents the number of licensed gaming devices per operator.

TABLE 10: GAMING PARLOURS - NUMBER OF GAMING DEVICES

	end-2015	end-2016	end-2017
Izibet	178	214	223
Bestplay Gaming	43	48	59
Media Games	49	40	38
Fairbet	43	52	41
Bingo	30	30	40
Total	343	384	401

3. GAMING PARLOUR: PLAYERS' VISITS

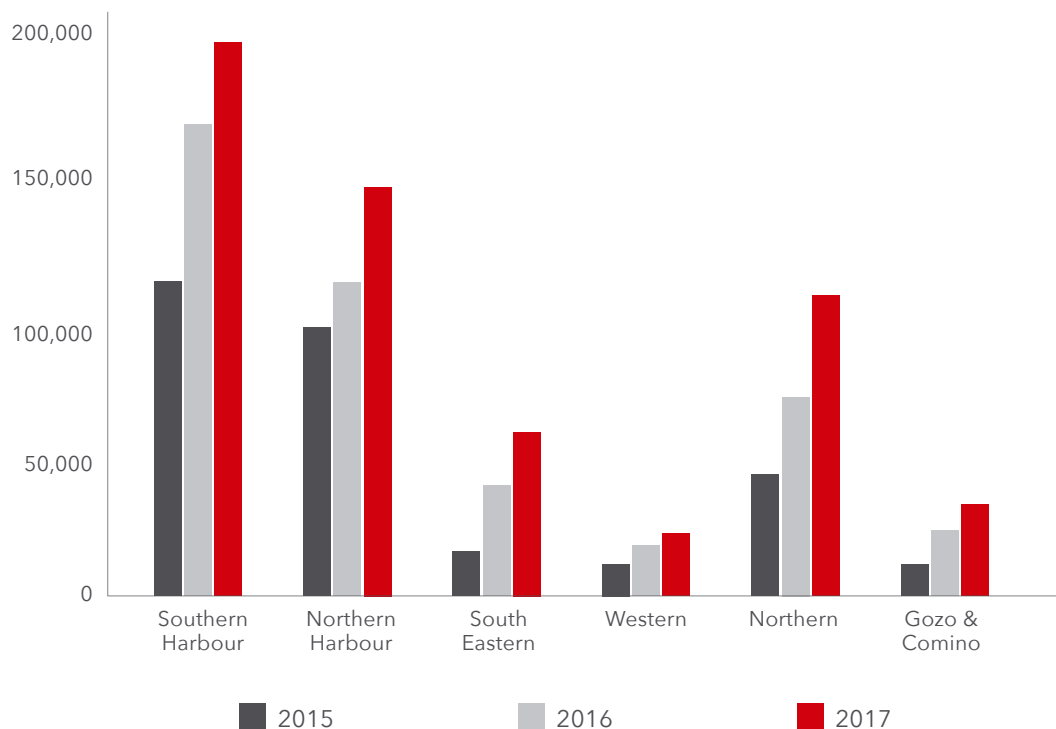
The number of visits to gaming parlours rose by 30.5%, from 432,177⁹ in 2016 to 564,090 in 2017. This growth was driven largely by the increased number of new gaming devices and by the introduction of new types of devices in the gaming outlets. The growth in resident and visiting tourist population within the context of improving disposable incomes would also have contributed to this increase.

Number of Visits by Locality

For statistical purposes, the Maltese Islands are divided into six districts namely: Southern Harbour; Northern Harbour; South Eastern; Western; Northern; and Gozo & Comino (see Appendix 6).

In 2017, more than one-third of all visits took place in Southern Harbour District where the highest number of outlets, 21, was located. Between 2016 and 2017, visits to gaming parlours grew in each district with the largest growth rates reported for the Northern District and the South Eastern District, at 50.7% and 48.2% respectively.

CHART 5: GAMING PARLOURS - NUMBER OF VISITS BY DISTRICT



4. GAMING PARLOURS: NEW PLAYERS' REGISTRATIONS

The gaming parlour sector reported 12,145 new registrations during 2017, 11.7% more when compared with the previous year's figure. On average, operators registered 2,429 new players each during 2017.

TABLE 11: GAMING PARLOURS - NEW PLAYERS' REGISTRATIONS

	2016	2017
Total	10,875	12,145

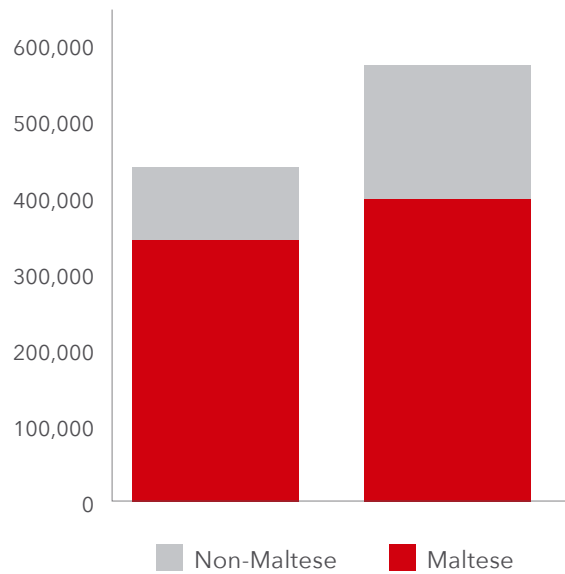
⁹ Players' visits to gaming parlours for 2016 have been revised to reflect changes reported after the publication of 2016 Annual Report.

5. GAMING PARLOURS: PLAYERS' PROFILE

Nationality

Visits to gaming parlours were predominantly by Maltese players, constituting 69.5% of all visits registered in 2017. At the same time, visits by non-Maltese customers went up by a significant 84.2% during the year, increasing their share from 21.6% to 30.5% of the total visits.

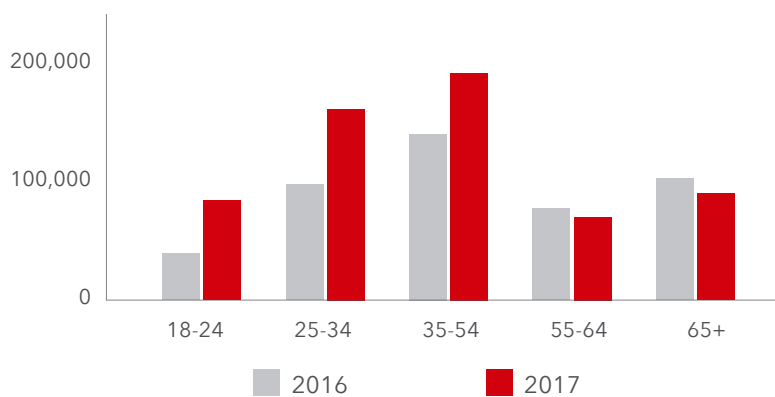
CHART 6: GAMING PARLOURS - PLAYERS' PROFILE BY NATIONALITY



Demographic Group

Contrary to the tendency in casinos, visits to gaming parlours increased mostly for players in younger age categories during 2017. Visits by players within the 18-24 age category doubled while those in the 25-34 age bracket rose by more than 60,000 (65.3%). Operators also reported an increase in visits by players in the 35 and 54 age group which rose by 36.8% year-on-year. On the other hand, visits of players within the older age brackets, between 55-64 and 65+, went down by 9.3% and 12.6% respectively.

CHART 7: GAMING PARLOURS - PLAYERS' PROFILE BY AGE GROUP DISTRIBUTION



In particular, gaming parlours are becoming increasingly popular with male players, who accounted for all of the growth which took place in visits during the year.

6. GAMING PARLOURS: GGR

In 2017, the GGR of the gaming parlour sector continued to grow by 21.5%, following a similar increase in the previous year.

Average GGR per Visit¹⁰

Over the last years, the average GGR per visit to gaming parlours has been decreasing as shown in the table below. Between 2015 and 2017, it dropped by 23.6% from €19.1 to €14.6 reflecting the changing nature of the gaming products offered in these outlets.

TABLE 12: GAMING PARLOURS - AVERAGE GGR PER VISIT

	2015	2016	2017
Total	€19.1	€15.7	€14.6

7. GAMING PARLOURS: PAYOUT RATIO

During this reporting period, the payout ratio averaged at 88%. The minimum payout ratio required by Gaming Devices Regulations SL.438.07 is 85%.

TABLE 13: GAMING PARLOURS - PAYOUT RATIO

	2015	2016	2017
Total	91%	89%	88%

8. GAMING PARLOURS: GAMING TAX

The gaming tax payable by the gaming parlour operators increased by 31.2%, from €1.6 million in 2016 to €2.1 million in 2017. This substantial growth was mainly driven by the additional gaming devices that were licensed during the period January to December 2017, and by the growth in GGR during the reporting period.

TABLE 14: GAMING PARLOURS - GAMING TAX

	2015	2016	2017
Total	€1,141,235	€1,617,012	€2,122,052

9. GAMING PARLOURS: EMPLOYMENT

The number of full-time equivalent direct employees working in the gaming parlours licensed by the MGA rose by 9.3% during 2017 reaching a total of 117.

TABLE 15: GAMING PARLOURS - EMPLOYMENT (FTE)

	end-2015	end-2016	end-2017
Total	115	107	117

As at the end of 2017, the majority of employees within the gaming parlour sector were Maltese (92.9%). It is worth noting that the proportion of non-Maltese workers increased by four percentage points, from 3.3% in 2016 to 7.1% in 2017. During the year under review, the proportion of female workers in the gaming parlour sector increased by 10 percentage points to 34.9% over the levels registered for 2016.

¹⁰ The average GGR per visit has been updated following the revision of players' visits.



COMMERCIAL BINGO

1. COMMERCIAL BINGO: NUMBER OF ESTABLISHMENTS

The number of bingo halls rose from four to five in the course of 2017. Currently, bingo establishments are located in Valletta, Paola, Sliema, Qawra and Birkirkara.

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 2017, the MGA issued a total of 2,129 permits for non-profit tombola. Over the past three years, these activities have increased in a contained and gradual manner as per table below.

TABLE 16: COMMERCIAL BINGO - NUMBER OF PERMITS ISSUED FOR NON-PROFIT TOMBOLA

	2015	2016	2017
Total	2,000	2,096	2,129

2. COMMERCIAL BINGO - PLAYERS' VISITS

Despite the addition of a new bingo hall in 2017, the sector reported a decrease of 4.4% in players' visits between 2016 and 2017.

TABLE 17: COMMERCIAL BINGO - NUMBER OF VISITS

	2015	2016	2017
Total	180,977	189,159	180,780

3. PROFILE OF COMMERCIAL BINGO PLAYERS

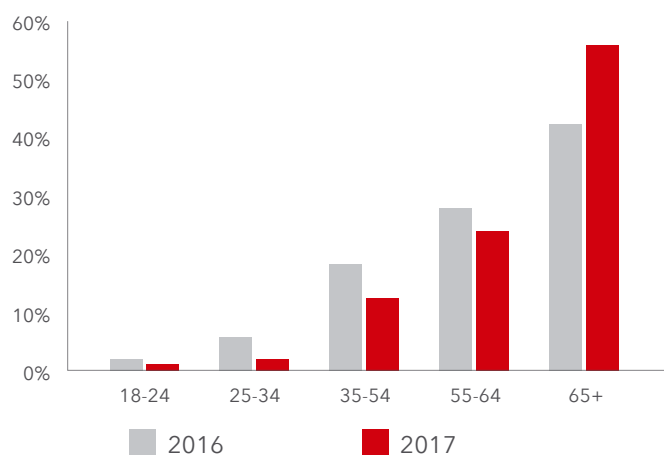
Nationality

Visitors to commercial bingo halls were predominantly made by Maltese residents, constituting 95.5% of the total visits in 2017. On the basis of relatively small numbers, visits of non-Maltese increased their share of the total by two percentage points during the year.

Demographic Group

In 2017, visits across all age groups up to 64 years decreased markedly, especially for the younger age categories. Only visits of persons of 65 years or older increased during the year, by a significant 25.9%. Visits by players within this age category represented 58.1% of the entire visits during 2017. This constitutes an increase of 14 percentage points when compared with the previous year.

CHART 8: COMMERCIAL BINGO - PLAYERS' PROFILE BY AGE GROUP DISTRIBUTION



The gender balance remained unchanged to that reported for 2016 with 86.9% of visits registered for females.

4. COMMERCIAL BINGO: GGR

The GGR of the commercial bingo sector went down by 1.6% in 2017, following a decrease of 2% between 2015 and 2016.

Average GGR per Visit

Notwithstanding the drop in the number of visits and GGR, the average GGR per visit went up by 3%, from €12.6 in 2016 to €13 in 2017.

TABLE 18: COMMERCIAL BINGO - AVERAGE GGR PER VISIT

	2015	2016	2017
Total	€13.5	€12.6	€13

5. COMMERCIAL BINGO: PAYOUT RATIO

The average payout ratio of the bingo sector for the year 2017 stood at 60%, in line with the Commercial Bingo (Tombola) Regulations SL.438.05.

6. COMMERCIAL BINGO: GAMING TAX

The gaming tax payable by the commercial bingo sector has decreased slightly by 1.1%, from €608,502 in 2016 to €601,945 in 2017.

TABLE 19: COMMERCIAL BINGO - GAMING TAX

	2015	2016	2017
Total	€600,692	€608,502	€601,945

7. COMMERCIAL BINGO: EMPLOYMENT

As at the end of 2017, the commercial bingo sector directly employed 44 full-time equivalent employees. The number of employees was stable when compared to the previous reporting periods.

TABLE 20: COMMERCIAL BINGO - EMPLOYMENT (FTE)

	end-2015	end-2016	end-2017
Total	43	46	44

The gender balance remained nearly unchanged to that reported in December 2016, with 73.4% of employees being female. As at the end of 2017, the share of non-Maltese employees in the commercial bingo sector increased by five percentage points over 2016, and constitutes 15.6% of the total workforce.



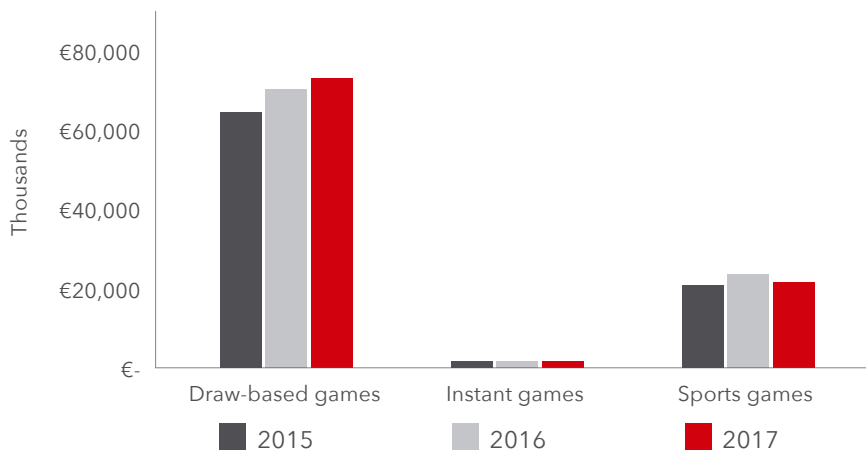
NATIONAL LOTTERY

1. NATIONAL LOTTERY: TURNOVER BY GAME CATEGORY

In 2017, 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) amounted to €92.6 million, a minimal increase of 0.8% over sales recorded for 2016.

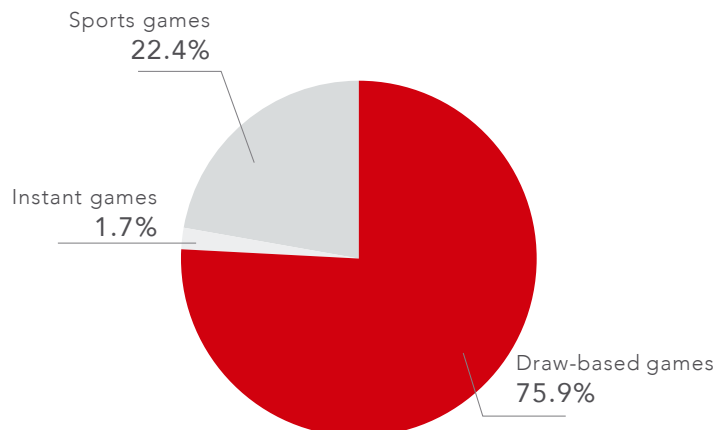
Over the last three years, turnover generated from draw-based games increased consistently. Sales for sports games, including both fixed odds and pari-mutuel betting, rose by 14% between 2015 and 2016 due to significantly higher interest generated from sports games in June 2016 during the European Football Championship (UEFA EURO 2016). Between 2016 and 2017, turnover for sports games returned to nearly the same level as in 2015. Sales for instant games grew by 4% between 2015 and 2017.

CHART 9: NATIONAL LOTTERY - TURNOVER BY GAME
SOURCE: MALTCO LOTTERIES LIMITED



In 2017, sales of draw-based games accounted for 75.9% of the total Maltco's sales of €92.6 million. Sports games accounted for 22.4% of sales whilst instant games represented 1.7% of sales.

CHART 10: NATIONAL LOTTERY - TURNOVER BY GAME
SOURCE: MALTCO LOTTERIES LIMITED



2. NATIONAL LOTTERY: GAMING TAX

During the year under review, the total gaming tax payable by the National Lottery operator increased by 3.5%, from €12.4 million in 2016 to €12.8 million in 2017.

TABLE 21: NATIONAL LOTTERY - GAMING TAX

	2015	2016	2017
Total	€11,534,302	€12,375,624	€12,813,404

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 2017, Maltco passed on €685,083 to this Fund.

TABLE 22: NATIONAL LOTTERY - CONTRIBUTION TO THE NATIONAL LOTTERY GOOD CAUSES FUND

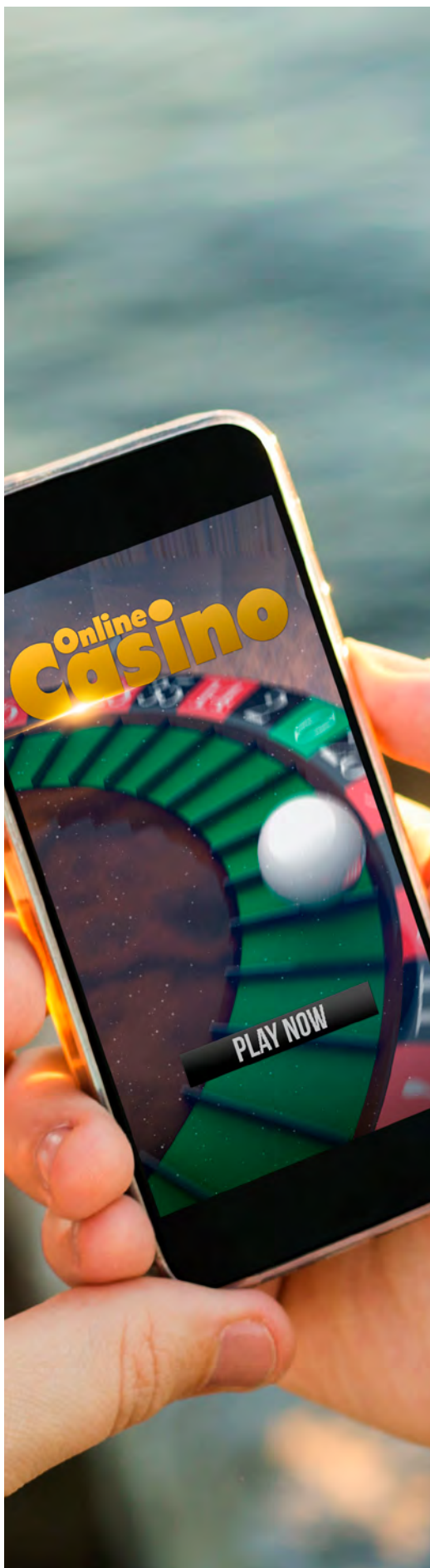
	2015	2016	2017
Total	€649,043	€651,018	€685,083

3. NATIONAL LOTTERY: 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 2017, the number of Points of Sale reached a total of 236 outlets spread across the Maltese Islands.

TABLE 23: NATIONAL LOTTERY - POINTS OF SALE

	end-2015	end-2016	end-2017
Total	246	235	236



REMOTE GAMING SECTOR

The growth in the remote gaming sector reported throughout the last three years was sustained in 2017. The industry maintained its role as a primary contributor to economic activity in Malta, generating 11.3% of gross value added. This positive performance is expected to remain sustained by the overhaul of the regulatory framework governing the gaming sector in Malta. The cutting-edge regulatory environment aims to streamline operations, increase player protection, and enable business innovation and diversification so as to further enhance Malta's global reputation as a gaming jurisdiction.

1. REMOTE GAMING: LICENCES

In 2017, the MGA received a total of 220 applications for remote gaming licences. It is interesting to note that 21 of these originated from skill games operators, following the launch of the regulatory framework for this segment late in 2016.

In the course of 2017, the MGA issued 165 remote gaming licences. This represented a considerable increase over the previous two years, reflecting the overall expansion of the business. During the year under review, 38 licences were terminated at the operators' requests. The Authority's Enforcement Unit suspended five licences due to regulatory breaches by the respective remote gaming operators. In addition, three remote gaming licences were cancelled during the year.

TABLE 24: REMOTE GAMING - LICENCES

	2015	2016	2017
New Applications	99	128	220
Licences Issued	88	91	165
Voluntary Terminations	35	39	38
Cancelled Licences	13	21	3
Suspended Licences	23	2	5

2. REMOTE GAMING: NUMBER OF COMPANIES

Between 2016 and 2017, the number of remote gaming companies licensed by the MGA increased by 11% from 259 to 287. Following a decline in the number of companies registered in 2016, mainly due to corporate consolidations and regulatory measures to remove inactive entities, developments during 2017 indicate that Malta has attracted new investment in the sector.

TABLE 25: REMOTE GAMING - NUMBER OF COMPANIES

	end-2015	end-2016	end-2017
Total	269	259	287

3. REMOTE GAMING: DISTRIBUTION OF LICENCES BY CLASS TYPE

By end 2017, there were 625 remote gaming licences¹¹ under the MGA jurisdiction, increasing by over 110 over a 12-month period. This was, in part, driven by the introduction of the games of skill licensing regime as noted earlier on, but was mainly driven by the overall market growth in Class 1 (casino-type gaming) licensing activities.

TABLE 26: REMOTE GAMING - DISTRIBUTION OF LICENCES BY CLASS TYPE¹²

	end-2015	end-2016	end-2017
Class 1	21	16	19
Class 1 on 4	246	277	359
Class 2	88	89	85
Class 2 on 4	12	14	31
Class 3	31	28	27
Class 3 on 4	30	30	22
Class 4	62	59	66
Controlled Skill Game - Service (B2C)	-	-	11
Controlled Skill Game - Supply (B2B)	-	-	5
Total	490	513	625

Indeed, the Class 1 group of licences, and especially the Class 1 on 4 which contains a B2B activity element, continued to represent the highest share of total remote gaming licences in issue. The Class 1 group of licences accounted for 60.5% of the total licence base as at December 2017, after growing by 29% to stand at 378 by the year end.

The Class 2 group of licences, mainly represented by fixed-odds betting activities, has the second highest share of the total, constituting 18.6% of the total licence base. Class 2 licences increased by 12.6% during 2017.

The Class 3 group of licences represented 7.8% 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 10.6% of the total licence base as registered at the end of 2017, an increase of 11.9% from the levels reported as at December 2016.

The rolling out of the new regulatory regime for "controlled skill games" resulted in the issue of 16 licences, out of which 11 were issued for a Controlled Skill Game Licence - Service (B2C) and five for a Controlled Skill Game Licence - Supply (B2B).

¹¹ The number of licences analysed in the section relates to the stock as at end December.

¹² 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 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 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.

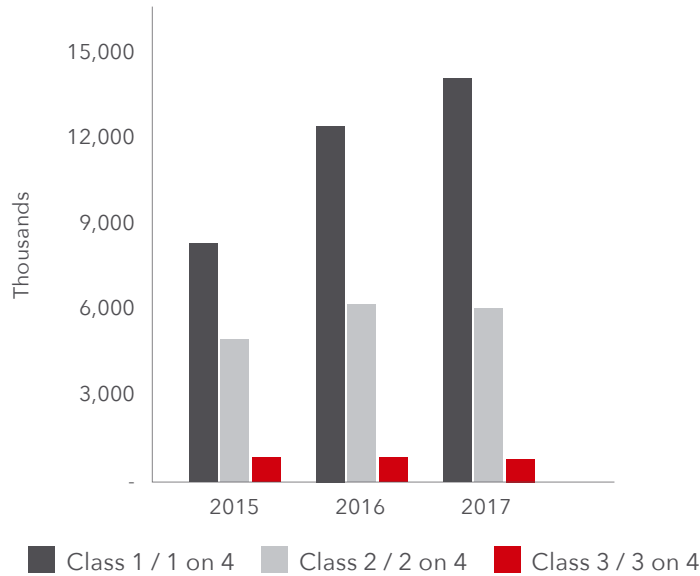
The Skill Game Regulations establish two (2) Controlled Skill Games Licences:

- (1) **Controlled Skill Game – Service (B2C)** - a controlled skill games licence to provide a service for the purpose of engaging with end consumers;
- (2) **Controlled Skill Game – Supply (B2B)** - a controlled skill games licence to provide a supply, that is, in a business-to-business capacity.

4. REMOTE GAMING: CUSTOMER ACCOUNTS

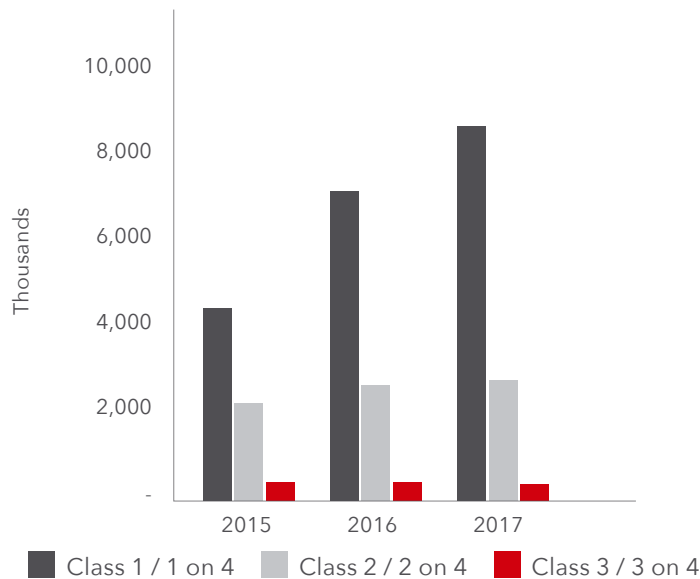
The number of active customer accounts¹³ under the Class 1 group of licences increased by 13.4% to 13.9 million in 2017. This continued on the trend of recent years, and took place in the context of the considerable growth in the number of licences within the Class 1 group referred to above. The number of active accounts on Class 2 licensed activity decreased by 2.1% between 2016 and 2017, due to a high-base effect in 2016 resulting from increased players’ activity related to UEFA EURO 2016. The number of accounts on Class 3 gaming decreased by 4.5%, reflecting the decline in the popularity of poker and other peer-to-peer games.

CHART 11: REMOTE GAMING - ACTIVE CUSTOMER ACCOUNTS



These developments reflected an acceleration in the new customer accounts¹⁴ in Class 1 licensed business, as shown in Chart 12. This contrasted with the weaker performance of new account openings for both Class 2 and Class 3 group of licences.

CHART 12: REMOTE GAMING - NEW ACTIVE CUSTOMER ACCOUNTS



¹³ 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.

¹⁴ New active customer accounts are defined as those on which customers played for the first time during their lifetime with the company during the specified period.

5. REMOTE GAMING: PLAYERS' PROFILE

Demographic Group

Over the last three years, players within the 25-34 age group constituted the largest category of remote gaming players, accounting for 39.5% of all the customers playing on the websites regulated by the MGA in 2017. Customers within the demographically wider 35-54 age group constituted 31.4% of the players' base. In comparative terms over the previous year, players in the 18-24 age group increased their share within the total by around two percentage points, primarily gaining from the loss registered for the 35-54 age group category. In term of the older age groups, 55-64 and 65+, their share remained considerably stable.

CHART 13: REMOTE GAMING – PLAYERS' PROFILE BY AGE GROUP DISTRIBUTION

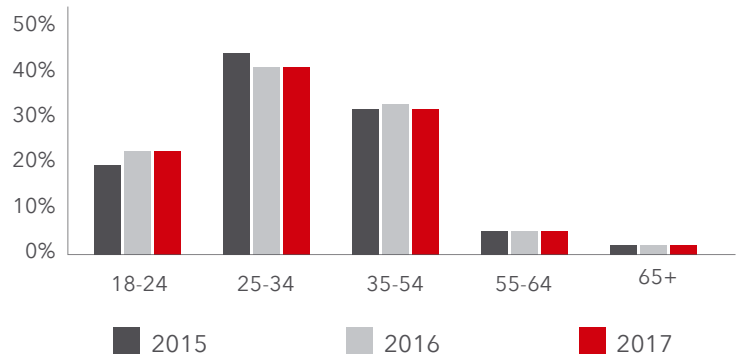
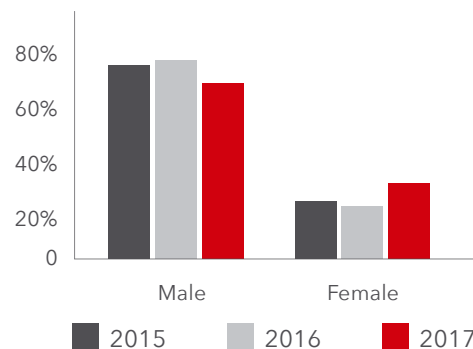


CHART 14: REMOTE GAMING – PLAYERS' PROFILE BY GENDER DISTRIBUTION

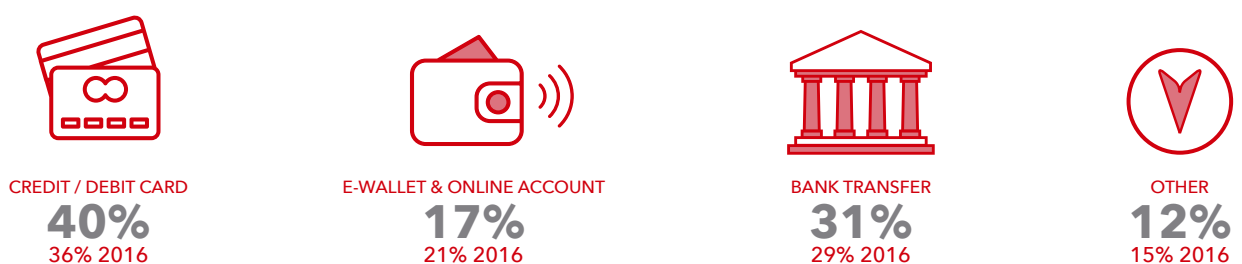
There has been a marked shift in the gender distribution of players in 2017. Although males continue to constitute the largest category of players, the share of female players rose by nine percentage points to 30% in 2017.



Deposits as a Method of Payment

In line with the figures reported for 2016, the most popular method of deposits amongst customers of the MGA's licensed companies were credit/debit cards. This payment method accounted for 39.9% of all deposit methods, an increase of four percentage points over 2016. Deposits made through bank transfer accounted for nearly one-third of all methods whilst those deposits made through e-wallets and online accounts decreased by four percentage points to account for 17.1% of all methods.

FIGURE 2: REMOTE GAMING - METHOD OF PAYMENT (DEPOSITS)



Withdrawals as a Method of Payment

During 2017, more than one-half (55.6%) 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 20.4% and 21.9% of the withdrawals respectively. The remaining 2% of the withdrawals were made through other methods, namely pre-paid vouchers and mobile payments.

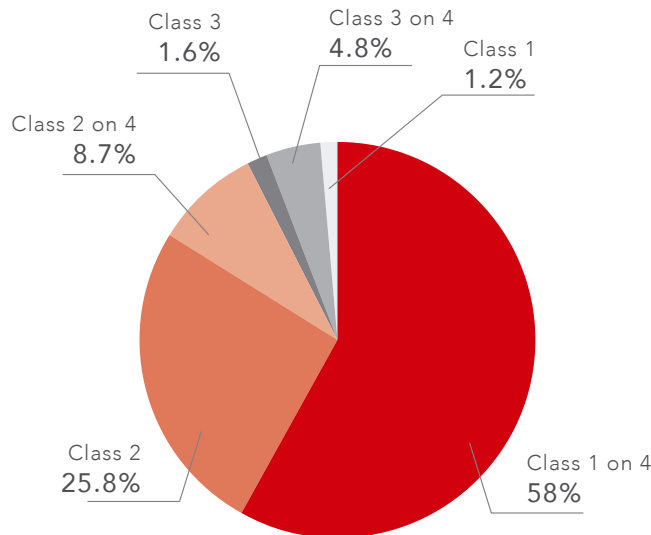
FIGURE 3: REMOTE GAMING - METHOD OF PAYMENT (WITHDRAWALS)



6. REMOTE GAMING: GGR FROM CUSTOMER GAMING ACTIVITIES (LICENCE GROUPS 1 TO 3)¹⁵

It is estimated that 59.2% of the total GGR in 2017 was generated through gaming under the Class 1 licence group. This represents a growth of four percentage points over the year 2016, corresponding to the developments in licences and player accounts noted earlier on. The GGR generated from Class 2 group of licences accounted for 34.4% of the total whilst the GGR of Class 3 operators amounted for 6.4%.

CHART 15: REMOTE GAMING - GGR DISTRIBUTION



¹⁵ 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. In addition, figures related to skill games operation were excluded from such analysis due to minimal activity generated throughout 2017.

Class 1 / Class 1 on 4

During 2017, 78.1% of the GGR for Class 1 was generated through slot games, up by nine percentage points from the figure reported for 2016. Just below 18% of GGR was generated through table games. The remaining 4% of the GGR for Class 1 group of licences was generated through other games, the most popular of which were video poker, scratch cards, live casino, card games and other side/mini games.

FIGURE 4: REMOTE GAMING - CLASS 1 GGR DISTRIBUTION



Class 2 / Class 2 on 4

During the period under review, the GGR generated through football accounted for 73.1% of the reported GGR for Class 2 and Class 2 on 4 collectively, a minor decrease of three percentage points over the year 2016. Betting on tennis accounted for 10.2% of the total GGR whilst bets on basketball accounted for 5.9%. The remaining 10.9% of GGR was generated through other bets, including betting on horses, cricket, motor sports, golf, volleyball, ice hockey and handball.

FIGURE 5: REMOTE GAMING - CLASS 2 GGR DISTRIBUTION



Class 3 / Class 3 on 4

Throughout 2017, poker continued to generate a major share of the GGR for Class 3 licences, accounting for 69.5% of the total, up by nearly two percentage point from 2016 figure¹⁶. GGR from betting exchange constituted 22.7% of the GGR whilst bingo's GGR accounted for 7.3% of the total. The remaining 1% of GGR was generated by other games offered though Class 3 licences, namely rummy and backgammon.

FIGURE 6: REMOTE GAMING - CLASS 3 GGR DISTRIBUTION

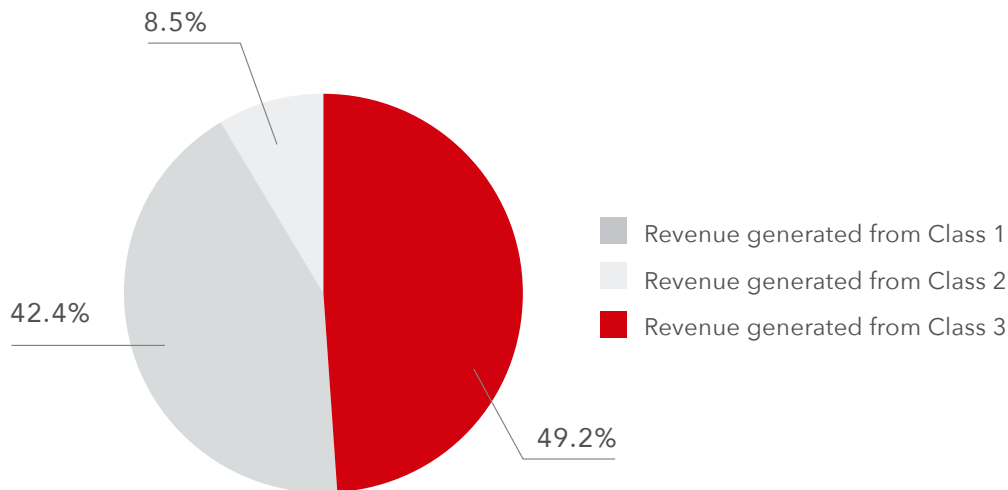


¹⁶ Figures for the year 2016 has been revised to reflect the changes reported after the publication of the 2016 Annual Report.

7. REMOTE GAMING: REVENUE FROM BUSINESS-TO-BUSINESS ACTIVITIES (CLASS 4 LICENCES)¹⁷

It has been estimated that out of the total revenue generated by Class 4 operators during the 12-month period ending December 2017, almost one-half was generated from Class 3 activities, two percentage points more than in 2016. Just over 40% was generated from Class 1 group of licences. The remainder of the GGR for Class 4 operators was generated from Class 2 licences.¹⁸

CHART 16: REMOTE GAMING – REVENUE FROM CLASS 4



8. REMOTE GAMING: GAMING TAX

In 2017, the total gaming tax payable by the remote gaming operators stood at €26.5 million, a drop of 3% when compared to 2016 despite an increase in the activity. The new gaming legislation introduces a taxation model which provides a more proportionate relationship between gaming activity and taxations, and is considered to be more equitable and fair.

In 2017, gaming tax due from Class 2 licences continued to account for the highest share amounting to 53.1% of the total remote gaming tax. Tax due from Class 1 group of licences (including Class 1 and Class 1 on 4) represented 21.5% of the total tax whilst Class 4 licences (including tax paid by the EEA operators) accounted for 14.5% of the total tax. Tax due by Class 3 group of licences (including Class 3 and Class 3 on 4) accounted for 10.8% of the remote gaming tax.

¹⁷ 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).

¹⁸ The following are the updated values for 2016 - revenue generated from: Class 1: 47%, Class 2: 7%, Class 3: 46%.

TABLE 27: REMOTE GAMING - GAMING TAX

	end-2015	end-2016	end-2017
Class 1	€1,543,280	€1,295,753	€1,362,500
Class 1 on 4	€3,432,202	€3,756,418	€4,347,071
Class 2	€13,217,847	€12,781,031	€11,197,840
Class 2 on 4	€2,828,098	€2,549,327	€2,910,222
Class 3	€1,572,252	€1,429,860	€904,036
Class 3 on 4	€2,287,890	€2,033,091	€1,953,336
Class 4 ¹⁹	€3,301,430	€3,431,932	€3,857,315
Controlled Skill Games (B2B and B2C)	-	-	€15,543
Total	€28,182,999	€27,277,412	€26,547,862

9. REMOTE GAMING: EMPLOYMENT²⁰

Between 2016 and 2017, the number of full-time equivalent employees directly working with remote gaming companies licensed by the MGA rose by 10%, from 5,327 to 5,861. This was in line with the increase in the number of remote gaming companies licensed by the MGA.

TABLE 28: REMOTE GAMING - EMPLOYMENT (FTE)

	end-2015	end-2016	end-2017
Total	3,908	5,327	5,861

As at the end of December 2017, 64.8% of all employees within the remote gaming industry in Malta were male. This remained in line with the employment gender distribution registered for the previous year.

Between 2016 and 2017, the proportion of non-Maltese workers in the remote gaming industry increased by four percentage points to constitute 71.8% of all employees in this sector. This further highlights the need for expatriate workers to sustain the growth of the industry.

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 2017.
3. The data contained in this review covers both the Maltese land-based gaming sector (casinos, gaming parlours, commercial bingo, national lottery, betting and the suite numbers games provided by the National Lottery operator – Maltco Lotteries Limited) and remote gaming as regulated by the MGA.

In the section referring to remote gaming, the data collected is based on the Industry Performance Returns 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, at the cut-off date for processing of the records for this report, was 89% overall. 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, Class 3 and Controlled Skill Game – Service (B2C) licences, and the second group represented those companies that have Class 4 and/or Controlled Skill Game – Supply (B2B) licences. 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.

4. Figures related to skill games operation were excluded from the following sections: (4) Customer Accounts, (5) Profile of the Remote Gaming Players, (6) GGR Distribution, due to limited activity throughout the period under review.
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 (land-based, remote and controlled skill game licence holders) in the Industry Performance Return conducted by the MGA. The remote gaming figures relate to employees working directly on the MGA licensed activity.
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. Wherever 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.

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.

6. LIST OF APPENDICES

APPENDIX 1 - LEGAL NOTICES ISSUED IN 2017

- Legal Notice 409 of 2017 - Gaming Licence Fees Regulations

APPENDIX 2 - CONSULTATION PAPERS ISSUED IN 2017

- A White Paper to Future-Proof Malta's Gaming Legal Framework - July 2017
- Consultation on the Application of Anti-Money Laundering and Countering the Funding of Terrorism Obligations to the Remote Gaming Sector - joint publication of the MGA and FIAU - July 2017

APPENDIX 3 - LIST OF TRAINING AND CONFERENCES FOR 2017

List of Training Courses, Seminars and Conferences:

- 2017 Foundation for Human Resources Development - Annual HR Conference
- AML & Tax Update for the Gaming Industry
- Annual Company Law Conference
- AML Training
- AML Directive
- Basics on AML
- Blockchain & Bitcoin Conference
- Blockchain in Practice
- Blockchain Legal Summit
- Blockchain, Bitcoin and Crypto Currencies
- Business in Action with Cloud Solutions
- Business Intelligence for EXCEL
- Cash Flows & Credit Risk Management
- Cashflow Analysis
- Certificate in Remote Gaming
- COBIT Training
- Compliance Briefing
- Customer Relationship Management & Document Management Systems
- Cybercrime Conference
- ECDL/EXCEL Training
- Educational Event - the Power of the Blockchain
- ePPS Training for Tender Evaluation Committees
- eSports Conference
- Eurofi
- Executive Seminar - Change Management
- Casino Games training
- GDPR
- GLI (Gaming Laboratories International)
- AML Implementing Procedures
- International Professional Practices Framework and the International Standards for Internal Auditing
- International Tax Conference
- Interviewing Skills
- Job Mobility & Skills Portability in the Maltese Market
- Malta Innovation Summit
- Management of Risk Foundation
- Mastering Customer Due Diligence
- MLRO Masterclass
- Operational Fraud Management

- Performance Management Review Training
- Prince 2
- Professional Certificate in Strategic Regulatory Reform
- Risk Fraud and AML Event
- Risk Management
- Role of Compliance, MLRO and Risk Officers
- Technology 2020 - The Future of Financial Services is with us
- The Capital Markets Conference
- The Challenges posed by the Fourth EU Anti-Money Laundering Directive for Gaming Companies
- The Gaming Act - A New Legal Framework
- The Internal Auditor's Role in the Organisation's Strategy
- The New GAPSME Financial Statements and other changes
- The Prevention of Money Laundering & Financing of Terrorism 2017
- Time and Attendance Module
- Training Course in AML, Regulation of Advertising of Gambling, Info Security, Data Protection, Responsible Gambling, Anti Bribery & Corruption
- VAT & EU Conference
- VAT & The Online Gaming Industry
- Windows Server 2016

List of Events / Fairs / Expos in which the MGA participated during 2017:

Foreign Events

- 19th Meeting of the Expert Group on Gambling Services and GREF
- 3rd European Cybersecurity Forum
- ASEAN Gaming Summit
- AVMS & the Responsible Advertising of Gambling
- Betting on Football Conference
- Betting on Sports Conference
- Cebit - Conference
- Convocation to the 11th EPAS Governing Board Meeting
- CS Conference
- Eastern European Gaming Summit
- EiG Expo Berlin 2017
- eSports Conference
- Expert Group Meeting
- GREF Annual Meeting
- IAGA Summit
- IAGR Johannesburg 2017
- ICE EXPO 2017
- iGaming Stockholm
- iGaming Supershow Conference
- IGIC
- IMGL Conference
- International Forum for Sports Integrity
- International Meeting
- Mobile Word Congress
- Panel debate on the Audio-visual Media Services Directive
- Professional Certificate in International Regulatory Affairs
- Professional Certificate in Regulatory Affairs
- Regulatory Summit
- Risk Connect Conference
- SAGSE Expo
- Seeds for Future
- WrB Responsible Gambling Innovation and Betting on Sports Events

Local Events

- 3rd Asset Management Forum
- Alibaba Cloud International
- C6 Intelligence and GBG Group
- Compliance Briefing
- Event in relation to the publication of the White Paper proposing major reforms to Malta's Legal Framework
- EY Attractiveness Survey 2017 Conference
- FEMA Prize Awards Ceremony
- iGaming meets the Maltese Capital Markets Conference
- Just Go Cloud
- Meet your Ambassador Event
- National Conference on New Economic Growth Areas
- Q&A by Society Education Malta entitled "The Gaming Act"
- RGC Conference
- Setting up of EGIM in collaboration with MCAST
- SiGMA
- The Developing Landscape of Gaming Regulation. What Next? - conference organised by the MGA
- The MGA Launches an efficient and user-friendly Licensee Relationship Management System

APPENDIX 4 - LIST OF ABBREVIATIONS

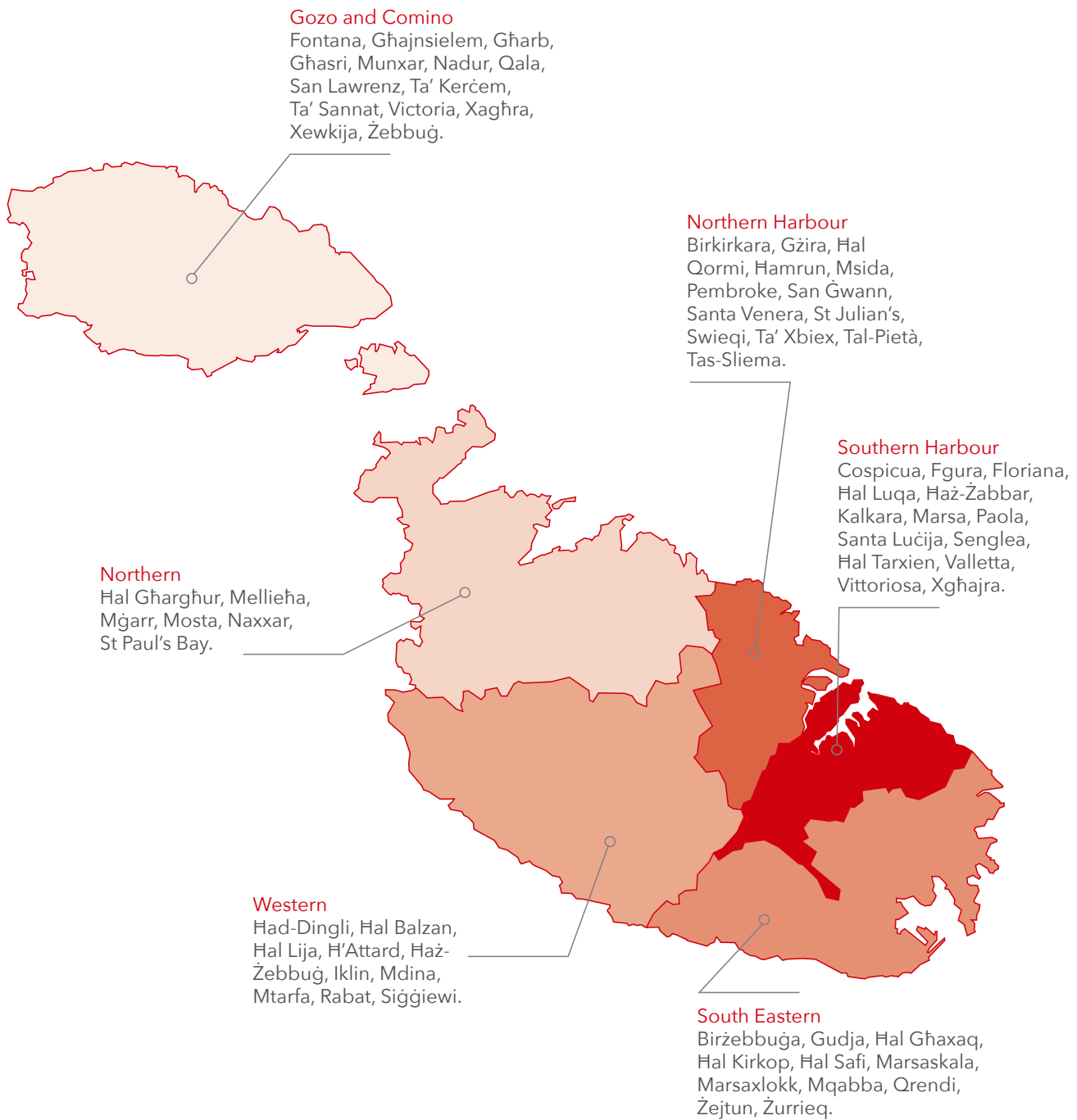
AML/CFT	Anti-Money Laundering / Combating the Financing of Terrorism
B2B	Business-to-Business
B2C	Business-to-Consumer
DLT	Distributed Ledger Technology
EARP	Enhanced Automated Reporting Platform
EGIM	European Gaming Institute of Malta
FIAU	Financial Intelligence Analysis Unit
GDPR	General Data Protection Regulation
GREF	Gaming Regulators European Forum
ICT	Information and Communication Technology
MCAST	Malta College for Arts, Science and Technology
MGA	Malta Gaming Authority

APPENDIX 5 - DEFINITIONS

Gaming Tax	The tax imposed on the GGR 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.
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 6 - STATISTICAL REGIONS AND DISTRICTS OF MALTA

LOCAL ADMINISTRATIVE UNITS (LAUs)





7. FINANCIAL STATEMENTS

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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

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

CHIEF EXECUTIVE OFFICER

Mr. Joseph Cuschieri

SECRETARY OF THE BOARD OF THE AUTHORITY

Dr. Matthew Bondin

HEAD OFFICE

Malta Gaming Authority
Building SCM 02-03, Level 4
SmartCity Malta
Ricasoli SCM 1001
MALTA

AUDITOR

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 2017.

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 operating revenue net of dormant funds generated by the Authority during the year amounted to EUR66,272,498 (2016: EUR62,528,892). After deducting all expenditure of EUR9,778,025 (2016: EUR9,850,870) the Authority registered a surplus for the year of EUR59,353,268 (2016: EUR55,030,286). The Authority transferred EUR54,499,298 (2016: EUR56,203,726) 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 72.

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:



Mr. Joseph Cuschieri
EXECUTIVE CHAIRMAN



Dr. Chris Cilia
DEPUTY CHAIRMAN

19th April 2018

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 2017 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 2017, 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.

Other information

The other information obtained at the date of the auditor's report is the 2017 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)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (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

19 April 2018

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 EUR	2016 EUR
REVENUE	5	66,272,498	62,528,892
Administrative and other expenses	6	(9,778,025)	(9,850,870)
OPERATING SURPLUS		56,494,473	52,678,022
Release of unclaimed player's monies		2,796,503	-
Reversal of provision for claims	14	60,000	2,350,000
Finance income	8	2,292	2,264
SURPLUS FOR THE YEAR		59,353,268	55,030,286

The accounting policies and explanatory notes on pages 80 to 91 form an integral part of the financial statements.

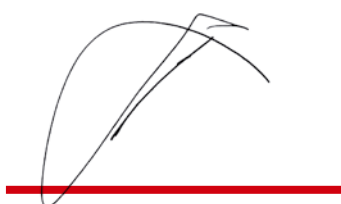
STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 EUR	2016 EUR
ASSETS			
Non-current assets			
Intangible assets	10	663,539	558,202
Property, plant and equipment	11	4,225,233	4,543,089
		<u>4,888,772</u>	<u>5,101,291</u>
CURRENT ASSETS			
Trade and other receivables	12	7,293,848	7,591,725
Cash at bank and in hand	16	7,760,330	1,743,765
		<u>15,054,178</u>	<u>9,335,490</u>
TOTAL ASSETS		<u>19,942,950</u>	<u>14,436,781</u>
EQUITY AND LIABILITIES			
Equity reserve	13	250,000	250,000
Reserve Fund	13	5,539,053	-
National Lottery Reserve Fund	13	-	-
		<u>5,789,053</u>	<u>250,000</u>
NON-CURRENT LIABILITIES			
Provisions for claims	14	890,000	950,000
CURRENT LIABILITIES			
Trade and other payables	15	13,263,897	13,236,781
TOTAL LIABILITIES		<u>14,153,897</u>	<u>14,186,781</u>
TOTAL EQUITY AND LIABILITIES		<u>19,942,950</u>	<u>14,436,781</u>

The accounting policies and explanatory notes on pages 80 to 91 form an integral part of the financial statements.

The financial statements on pages 76 to 91 have been authorized for issue by the Board Members of the Authority on 19th April 2018 and were signed on their behalf by:



Mr. Joseph Cuschieri
EXECUTIVE CHAIRMAN



Dr. Chris Cilia
DEPUTY CHAIRMAN

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	National Lottery Reserve Fund	Reserve Fund	Equity reserve	Total
	EUR	EUR	EUR	EUR
At 1 January 2017	-	-	250,000	250,000
Appropriation from statement of comprehensive income	1,029,724	58,323,544	-	59,353,268
Unclaimed prizes transferred in terms of section 59 of the Lotteries and Other Games Act, Cap. 438	685,083	-	-	685,083
Payments made to/or on behalf of Government in terms of sections 50 of the Lotteries and other Games Act, Cap. 438	(1,714,807)	(52,784,491)	-	(54,499,298)
At 31 December 2017	-	5,539,053	250,000	5,789,053
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

The accounting policies and explanatory notes on pages 80 to 91 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 EUR	2016 EUR
OPERATING ACTIVITIES			
Surplus for the year		59,353,268	55,030,286
Adjustment to reconcile surplus for the year to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		612,754	457,467
Amortisation of intangible assets		161,533	92,071
Increase in provision for doubtful debts		104,217	45,311
Loss on disposal of property, plant and equipment		-	-
Reversal of provision for claims		(60,000)	(2,350,000)
Finance income		(2,292)	(2,264)
Working capital adjustments:			
Decrease/Increase in trade and other receivables		193,660	(553,644)
Decrease/Increase in trade and other payables		712,199	2,296,546
Net cash flows from operating activities		61,075,339	55,015,773
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(294,898)	(1,325,436)
Purchase of intangible assets		(266,870)	(501,418)
Interest received		2,292	2,264
Net cash flows used in investing activities		(559,476)	(1,824,590)
FINANCING ACTIVITIES			
Payments made to Government		(54,499,298)	(56,203,726)
Net cash flows used in financing activities		(54,499,298)	(56,203,726)
Net movement in cash and cash equivalents		6,016,565	(3,012,543)
Cash and cash equivalents at 1 January		1,743,765	4,756,308
Cash and cash equivalents at 31 December	16	7,760,330	1,743,765

The accounting policies and explanatory notes on pages 80 to 91 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and with the Companies Act, Cap. 386 of the Laws of Malta. These have been prepared under the historical cost convention and are presented in Euro, except for derivative financial instruments which have been measured at fair value.

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective during the year:

- IAS 7 (Amendments) - Disclosure Initiative
- IAS 12 (Amendments) - Recognition of Deferred Tax Assets for Unrealized Losses

The adoption of these standards did not have significant impact on the financial statements or performance of the Company.

Standards, interpretations and amendments to published standards as adopted by the EU which are not yet effective

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective for the current reporting year and which the Company has not early adopted, but plans to adopt upon their effective date. The new and amended standards follow:

- IFRS 9 - Financial instruments (effective for financial year beginning on or after 1 January 2018)
- IFRS 16 - Leases (effective for financial year beginning on or after 1 January 2019)
- IFRS 15 - Revenue from Contracts with Customers including amendments to IFRS 15 (effective for financial year beginning on or after 1 January 2018)
- IFRS 15 (Clarifications) - Revenue from Contracts with Customers (effective for financial year beginning on or after 1 January 2018)
- IFRS 4 (Amendments) - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial year beginning on or after 1 January 2018)
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle - (effective for financial year beginning on or after 1 January 2017/1 January 2018)

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

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet adopted by the EU. The Company plans to adopt the new standards upon their effective date. The new and amended standards follow:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

- IFRS 17 – Insurance Contracts (effective for financial year beginning on or after 1 January 2021)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (effective for financial year beginning on or after 1 January 2018)
- IFRIC 23 – Uncertainty over Income Tax Treatments (effective for financial year beginning on or after 1 January 2019)
- IFRS 2 (Amendments) – Classification and Measurement of Share-based Payment Transactions (effective for financial year beginning on or after 1 January 2018)
- IAS 40 (Amendments) – Transfers of Investment Property (effective for financial year beginning on or after 1 January 2018)
- IFRS 9 (Amendments) – Prepayment Features with Negative Compensation (effective for financial year beginning on or after 1 January 2019)
- IAS 28 (Amendments) – Long-term Interests in Associates and Joint Ventures (effective for financial year beginning on or after 1 January 2019)
- Amendments to IAS19: Plan Amendment, Curtailment or Settlement (effective for financial year beginning on or after 1 January 2019)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective for financial year beginning on or after 1 January 2019)

IFRS 15 – Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). The Authority has determined that the standard does not have a significant effect on the fees charged by the Authority for licenses and applications and on duties.

IFRS 16 – Leases is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Authority is still assessing the effect of the changes on the financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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:

	%
Leasehold improvements	6.67 - 33.33
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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

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'.

5. REVENUE

Revenue comprises the following:

	2017 EUR	2016 EUR
License fees	6,159,181	5,474,824
Application fees	502,670	335,935
Other	487,002	418,397
Total Authority fees	7,148,853	6,229,156
Duties	59,123,645	56,299,736
Total revenue	66,272,498	62,528,892

Number of licences in issue at end of year:

	2017 No.	2016 No.
Commercial bingo houses	5	4
Casinos	4	4
Gaming parlours	52	48
National lotteries	1	1
Remote online gaming licences	625	513
Total number of licenses at end of year	687	570

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**6. EXPENSES BY NATURE**

	2017	2016
	EUR	EUR
Auditor's remuneration	17,700	17,700
Chairman's emoluments and Board honoraria (note 18)	31,910	31,910
Staff costs (note 7)	5,353,958	5,191,648
General administrative expenses	1,270,898	1,331,231
Professional fees	998,548	1,272,711
Promotional expenses	594,356	746,752
Depreciation and amortisation on property, plant and equipment and intangible fixed assets (notes 10 and 11)	774,287	549,538
Provision for doubtful debts (note 12)	104,217	45,311
Contributions to other entities	632,151	664,069
Total administrative and other expenses	<u>9,778,025</u>	<u>9,850,870</u>

7. EMPLOYEE INFORMATION**a. Staff costs**

The total employment costs were as follows:

	2017	2016
	EUR	EUR
Salaries	4,781,227	4,498,305
Social Security costs	323,290	304,600
Fringe benefits	129,074	167,996
	<u>5,233,591</u>	<u>4,970,901</u>
Other related costs	120,367	331,882
	<u>5,353,958</u>	<u>5,302,783</u>
Recharged salaries to responsible Gaming Foundation and Gaming Academy	-	(111,135)
	<u>5,353,958</u>	<u>5,191,648</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**7. EMPLOYEE INFORMATION (CONTINUED)****b. Staff numbers**

The number of persons employed by the Authority as at 31 December 2017 and 31 December 2016 was as follows:

	2017	2016
	No.	No.
Finance	10	10
Legal affairs	6	6
Enforcement including a staff complement dedicated to AML	53	51
Regulatory *	38	22
Compliance	0	14
Other	1	2
Information systems	16	16
Human resources and administration	21	21
Programme management and strategy	6	4
Chairman's office	5	4
Internal audit	2	-
Total	158	150

* Includes Compliance in 2017

8. FINANCE INCOME

	2017	2016
	EUR	EUR
Interest receivable on bank balances	2,292	2,264

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
	EUR
Cost	
At 1 January 2016	343,254
Additions	<u>501,418</u>
At 31 December 2016	844,672
Additions	<u>266,870</u>
At 31 December 2017	<u>1,111,542</u>
Amortisation	
At 1 January 2016	194,399
Amortisation for the year	<u>92,071</u>
At 31 December 2016	286,470
Amortisation for the year	<u>161,533</u>
At 31 December 2017	<u>448,003</u>
Net book value	
At 31 December 2017	663,539
At 31 December 2016	<u>558,202</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**11. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold Improvements EUR	Furniture and fittings EUR	Office equipment EUR	Motor vehicles EUR	Computer equipment EUR	Total EUR
Cost						
At 31 December 2016	2,862,218	658,124	207,095	2,862,218	2,862,218	2,862,218
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
Additions	209,424	3,882	1,438	52	80,102	294,898
At 31 December 2017	3,112,193	1,540,721	531,382	151,128	661,640	5,997,064
Depreciation						
At 1 January 2016	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
Depreciation charge for the year	263,359	169,778	79,634	16,972	83,011	612,754
At 31 December 2017	539,905	346,116	317,780	112,340	455,690	1,771,831
Net book value						
At 31 December 2017	2,572,288	1,194,605	213,602	38,788	205,950	4,225,233
At 31 December 2016	2,626,223	1,360,501	291,798	55,708	208,859	4,543,089

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 2017.

12. TRADE AND OTHER RECEIVABLES

	2017 EUR	2016 EUR
Duties and licences receivable (note i)	6,836,958	7,184,060
Other receivables	-	1,871
Prepaid expenses	290,010	238,914
Deposits	166,880	166,880
	7,293,848	7,591,725

(i) At 31 December 2017, duties and licenses receivable at nominal value of EUR1,619,926 (2016: EUR1,515,709) were impaired and fully provided for (Note 5).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**12. TRADE AND OTHER RECEIVABLES (CONTINUED)**

Provision for doubtful debts	2017	2016
	EUR	EUR
Opening balance	1,515,709	1,470,398
Increase in provision for doubtful debts	104,217	45,311
Closing balance	<u>1,619,926</u>	<u>1,515,709</u>

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
			EUR	EUR	EUR	EUR
2017	6,836,958	5,701,154	695,575	196,877	118,425	124,927
2016	7,184,060	4,708,313	1,121,507	610,263	472,843	271,134

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.

14. PROVISION FOR CLAIMS

During 2014 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. Other provisions estimated at EUR90,000 continued to be recognised as at 31 December 2017.

During 2017, a provision amounting to EUR60,000 has been reversed as it was deemed that the Authority could not be further liable for this claim. During 2016, claims amounting to EUR2,400,000 have not been pursued and from further analysis it was deemed remote that the Authority could be liable. The corresponding provision has been reversed.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**15. TRADE AND OTHER PAYABLES**

	2017	2016
	EUR	EUR
Amounts due to Government (note i)	1,500,000	1,135,659
Unclaimed deposits (note ii)	5,568,213	7,048,547
Trade and Other payables	2,225,183	1,522,671
Accruals	530,611	819,862
Deferred income	3,439,890	2,710,042
	13,263,897	13,236,781

- 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. Amounts due to government were settled subsequent to year end.
- 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:

	2017	2016
	EUR	EUR
Cash at bank and in hand	7,760,330	1,743,765

17. COMMITMENTS

The future minimum rentals payable including VAT under these operating leases as at 31 December 2016 and 31 December 2017 are as follows:

	2017	2016
	EUR	EUR
Within one year	455,753	451,842
After one year but not more than five years	1,963,901	1,923,288
More than five years	4,368,502	4,828,568
	6,788,156	7,203,698

18. RELATED PARTY DISCLOSURES

Related party	Year	Total transactions with related parties	Amounts owed to related parties at year end	Type of transaction
		EUR	EUR	
Government of Malta - The Treasury	2017	54,499,298	1,500,000	Surplus for the year
Government of Malta - The Treasury	2016	55,030,286	1,135,659	Surplus for the year

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. RELATED PARTY DISCLOSURES (CONTINUED)

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 (2016: EUR31,910).

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 15.

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 2016, an operator initiated court proceedings against the Authority. The Authority is contesting these claims and continues to follow the advice of its legal counsel. Court proceedings are in the initial stages and 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 that are expected to lead to a possible obligation.

ADMINISTRATIVE AND OTHER EXPENSES

	2017		2016	
	31 December 2017		31 December 2016	
	EUR	EUR	EUR	EUR
Salaries and national insurance	5,353,958		5,191,648	
Training	117,302		43,794	
Other staff costs	12,862		48,798	
Staff and ancillary costs		5,484,122		5,284,240
Chairman's emoluments and board honoraria	31,910		31,910	
Subcontracted services	35,365		118,965	
Telecommunications	16,189		29,472	
IT and Ancillary Costs	159,037		70,220	
Water and electricity	7,309		47,634	
Rent	368,073		357,404	
Insurance and licences	37,867		33,977	
Postage, stationery and printing	45,605		63,445	
Office expenses	21,365		28,166	
Motor vehicle running expenses	21,365		58,259	
Bank charges	3,493		6,611	
Cleaning expenses	9,261		8,237	
Subscriptions	84,245		33,801	
Repairs and maintenance	102,679		189,899	
Business development expenses	16,928		17,058	
Overseas travelling	159,540		149,515	
Seminars and conferences	22,537		25,976	
General administrative expenses		1,190,344		1,270,549
Professional fees	729,038		771,951	
Internal audit fees	41,005		100,064	
Auditors' remuneration	17,700		17,700	
Due Diligence consultancy fees	204,210		324,045	
Legal fees	6,595		76,651	
Professional fees		998,548		1,290,411
Promotional expenses		594,356		746,752
Depreciation and amortisation		774,287		549,538
Loss on disposal of property, plant and equipment				-
Provision for doubtful debts		104,217		45,311
Contributions to other entities		632,151		664,069
		<u>9,778,025</u>		<u>9,850,870</u>



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