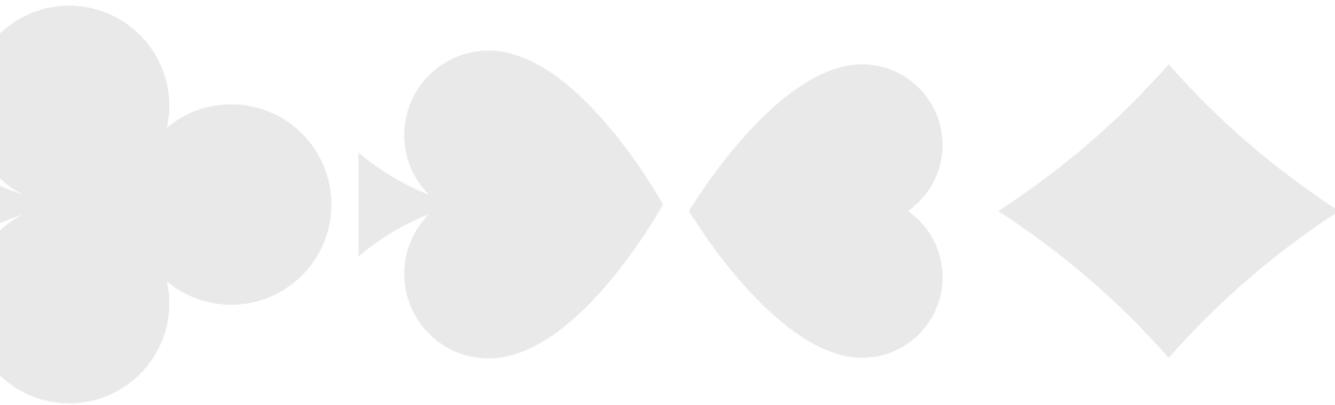
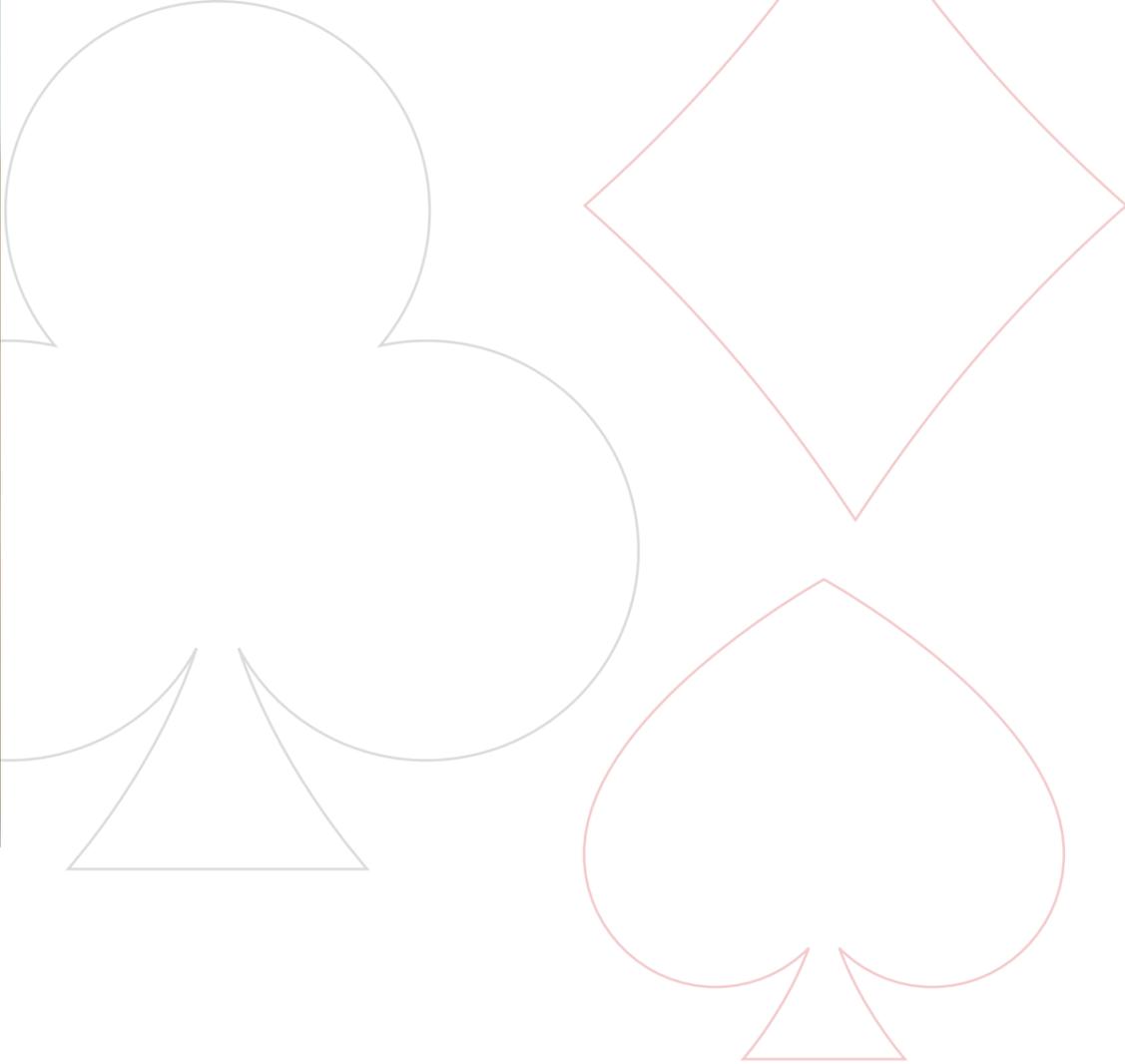


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CHAIRPERSON'S STATEMENT

Marlene Seychell

As Chairperson of the Malta Gaming Authority, I look at 2018 as the cornerstone for future development, where changes in the regulatory environment of the Maltese jurisdiction were enacted which will set the basis for the sustainable growth of the industry. At the same time, it is of immense satisfaction to note that the gaming industry continued to play a pivotal role in the Maltese economy in 2018 as it did in previous years.

During 2018, the industry consolidated its standing as the third largest contributor to economic value added, generating almost one-eighth of the total, and directly employing around 6,800 persons. It continued to complement and generate activity for other 'new economy' activities in Malta, such as ICT and higher value-added activities, and also helped the process of economic diversification and growth.

The Malta Gaming Authority continues to play a major role in the attainment of these results. It strives to render Malta as the jurisdiction of choice for operators seeking a reputable, world-class regulatory environment, that is furthermore abreast with the latest technological and global market developments. Through these efforts, as well as other initiatives aimed at enhancing the availability of skills and the cost-effective operation of remote gaming activities

from Malta, the Authority is overseeing a process of organic growth of the sector, complemented by new investment.

The success registered is all the more noteworthy within the context of the challenges facing the sector over the past years, which have, to an extent, intensified in the course of 2018. These include the challenges to comply with evolving international requirements in the context of combating money laundering and the financing of terrorism, and the uncertainties associated with Brexit.

The enactment of the new Gaming Law in August 2018 was a key event that will influence the development of the gaming industry in Malta for years to come. The Act will simplify regulation while simultaneously rendering it more effective, allowing for the development of new activities

based on innovative technologies while mitigating risks and enhancing the protection of vulnerable consumers. A number of internal and external initiatives which improved the overall governance and supervision of the gaming sector were also implemented in 2018.

Another foundational milestone achieved by the Authority in 2018 was the launch of guidelines on the establishment of a sandbox framework in respect of licensees leveraging innovative technology arrangements within their technical infrastructure, or accepting Virtual Financial Assets as a means of payment. The strong interaction of the Malta Gaming Authority with other local, competent regulators, was key to the successful management of this process.

Looking ahead to 2019, the Malta Gaming Authority expects another year of success for the industry in Malta. Market expansion is projected at a global level, driven by demographic shifts across major economic blocks, reinforced by technological advancements. Malta is expected to benefit from these trends. It will, however, be essential for the industry to continue to operate in a stable environment, which provides the required resources and support infrastructures.

Towards this end, the Authority will maintain its focus on consolidating Malta's reputation as a top global jurisdiction of choice for the licensing of gaming activities. The Authority is committed to achieving elevated levels of player protection as emanating from the new Gaming Act and to upholding or cementing further the Authority as a reputable regulator by ensuring it is responsive to consumer and industry needs. In 2019, the Authority will intensify its efforts in identifying, assessing and understanding the risks facing the gaming industry and in developing further risk-based supervisory practices.

Marlene Seychell
Chairperson

A MESSAGE BY THE CHIEF EXECUTIVE OFFICER

Heathcliff Farrugia

This Annual Report marks the end of my first year as the Malta Gaming Authority Chief Executive. It has been an interesting and busy year which saw the Malta Gaming Authority further step-up its efforts in securing an appropriate degree of protection for consumers and in safeguarding the integrity of Malta's gaming industry.

Indeed, the robustness and credibility of the regulatory environment of the Maltese jurisdiction is key to the continued development of the gaming industry in the country. In 2018, the Malta Gaming Authority achieved a number of key milestones in future-proofing the regulatory framework of gaming activity performed in and from Malta, also building on efforts expended during previous years. It is a pleasure for me to review these achievements and their impact on the development of the Maltese gaming jurisdiction for years to come.

The coming into force of the new Gaming Act in August 2018 is a cornerstone of this process. It gives space to the setting of objective-oriented standards as opposed to prescriptive requirements, thereby encouraging innovation and development and enhancing regulatory responsiveness to industry dynamics. It enables the Authority to adopt risk-based and priority approaches to focus the effectiveness of its deployment of resources, while streamlining processes to reduce bureaucratic burdens. The new Gaming Act further improves the criminal process to ensure more expeditious and effective sanctioning of illicit operations. It provides for a renewed focus on consumer protection standards and responsible gaming measures, including the protection of player funds.

In tandem with the enactment of the new regulatory framework in 2018, the Authority reformed the gaming fiscal regime towards a more equitable and proportionate revenue-based fee and tax structure.

The fight against money laundering and the financing of terrorism was a key focus of the activities of the Authority throughout 2018. Working in close collaboration with other competent bodies, the Authority led the sector to converge towards compliance with national and international requirements on this front. It empowered its Enforcement Directorate to effectively become an agent of the Financial Intelligence Assessment Unit. The Directorate discharges its functions through risk-based off-site and on-site examinations, performing 33 full-scope examinations in 2018 alone. In this context, the Authority participated in a number of programmes at the national and sectoral levels, including the formulation of the Sector Risk Assessment and the enactment of the Remote Gaming Implementing Procedures - Part II.

The protection of players, which has consistently been a key objective of the activities of the Authority, was given a renewed impetus in 2018 through the establishment of a new player protection legal framework. This provides for a more prescriptive approach towards regulation, ensuring that all the necessary measures are adopted by the gaming operators. It aims to not only ensure that the gaming service is fair, transparent, and in accordance with the law, but also requires that the service holistically promotes responsible gambling, and proactively identifies and assists players who develop a gambling addiction.



Malta's success as a gaming jurisdiction will be strongly dependent on the dynamism of the regulatory framework to be relevant in the rapidly-evolving technological milieu. The work done by the Authority in 2018 in setting up a regulatory sandbox on Virtual Financial Assets and Innovative Technology Arrangements is encouraging indeed. This work sets the basis for the embracing of technological innovation that would be adequately covered through regulatory tools, and will be attracting further effort from the Authority throughout 2019.

The activities of the Authority during 2018 continued to reinforce its status as a thought-leader in the effective regulation of the gaming industry. Looking ahead to 2019, I am fully confident that the Authority will be reaping the dividends of the work done in previous years by supporting the industry through regulation that is forward-looking, innovative and above all compliant in order to protect the consumers and society at large from the potential threats that may emanate from illicit and criminal behaviours.

In conclusion, I would like to thank all my colleagues at the Authority for their strong work ethic and commitment. Without them, none of our achievements would have been possible, and I have no doubt they will also be pivotal in sustaining our standing as a reputable gaming regulator for the years to come.

Heathcliff Farrugia
Chief Executive Officer

THE MALTA GAMING AUTHORITY

The Malta Gaming Authority (MGA) is the regulatory body responsible for the governance and supervision of all gaming activities in, and from, Malta. The Authority oversees within its jurisdiction the provision of fair, responsible, safe and secure gaming services, with particular emphasis on the prevention of crime, fraud and money laundering, together with the protection of minors and vulnerable persons.

The Authority's key functions include:

- ◆ regulating gaming;
- ◆ supervising licensees and overseeing gaming operations;
- ◆ ensuring fit and properness of individuals and companies in possession of a licence issued by the MGA;
- ◆ on-going monitoring and ensuring licensees are in compliance with the laws and regulations;
- ◆ acting as a supervisory Authority in accordance with the Prevention of Money Laundering and Funding of Terrorism Regulations;
- ◆ assessing licence applications and issuing approvals in line with the MGA requirements;
- ◆ 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.

It is the Authority's mission to regulate competently the various sectors of the gaming industry that fall under the Authority by ensuring gaming is fair and transparent to the players, by preventing crime, corruption and money laundering and by protecting minor and vulnerable players.

The Authority's vision is to:

- ◆ sustain Malta's position as one of the most reputable jurisdictions in the gaming industry;
- ◆ raise standards within the gaming sector globally to make gaming fairer and safer, protecting the interests of consumers;
- ◆ ensure gaming is kept free from crime by intensifying international collaboration efforts; and
- ◆ adapt Malta's gaming regulatory framework to evolving market needs, aiming for excellence.

THE BOARD OF GOVERNORS



MARLENE SEYCHELL
CHAIRPERSON



CHRIS CILIA
DEPUTY CHAIRPERSON



HEATHCLIFF FARRUGIA
CHIEF EXECUTIVE OFFICER



ROBERTO FRANCALANZA
BOARD MEMBER



CAESAR GRECH
BOARD MEMBER



JACQUELINE GRECH
BOARD MEMBER



JULIANA SCERRI FERRANTE
BOARD MEMBER



RUTH TRAPANI GALEA FERIOL
BOARD MEMBER



MIKIEL CALLEJA
BOARD SECRETARY

The Board of Governors is primarily responsible for overseeing the strategic development of the Authority and ensuring that the set policy and strategic objectives are achieved. The Board is responsible for policy development, overall risk management and is also consulted by Government on policy matters.

THE EXECUTIVE COMMITTEE

The Executive Committee is primarily responsible for the execution of the Authority's overall strategic vision, as directed by the Board of Governors. It is responsible for the day-to-day operation and management functions of the MGA as well as the implementation of the Authority's programmes and policies.



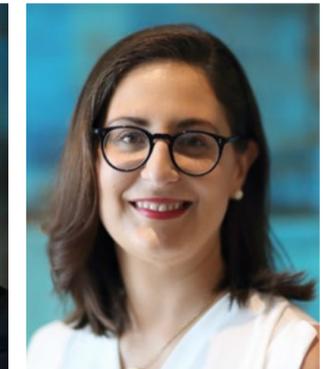
HEATHCLIFF FARRUGIA
CHIEF EXECUTIVE OFFICER



CARL BRINCAT
CHIEF LEGAL COUNSEL



KARL BRINCAT PELOW
CHIEF OFFICER AUTHORISATIONS



REBEKAH DUCA
CHIEF OFFICER COMPLIANCE



CHRISTOPHER FORMOSA
CHIEF OFFICER HUMAN
RESOURCES & CORPORATE
AFFAIRS



MICHELE MAGRO
CHIEF COUNSEL INTERNATIONAL
AFFAIRS & POLICY



DOMINIC MICALLEF
CHIEF OFFICER ENFORCEMENT



PETER SPITERI
CHIEF OFFICER FINANCE &
PROGRAMME MANAGEMENT

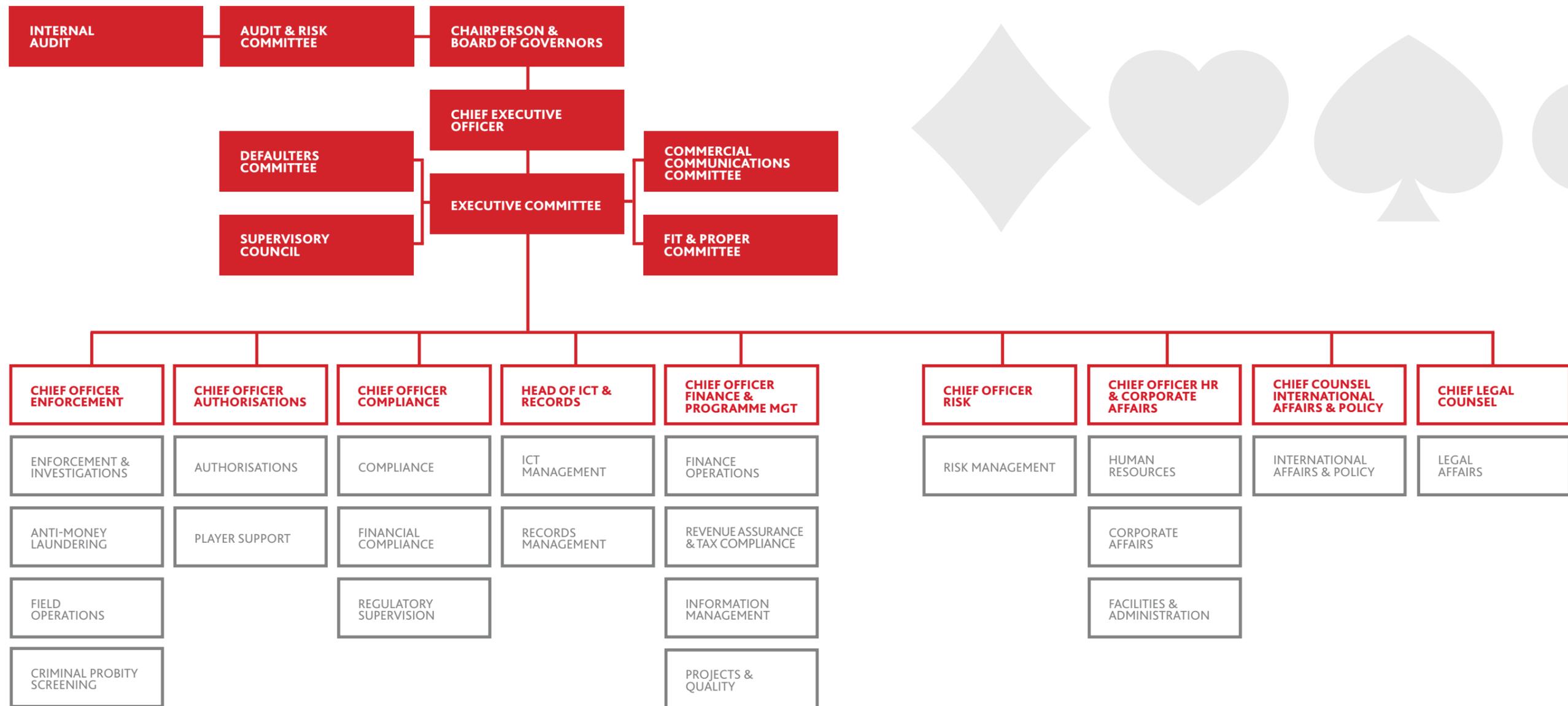


ANTIOPHI VOGIATZI
CHIEF OFFICER RISK



JASON FARRUGIA
HEAD OF ICT & RECORDS

THE ORGANISATIONAL STRUCTURE





The MGA Senior Management

FUNCTIONS AND RESPONSIBILITIES

The **CEO's Office** is responsible for the execution of the Authority's overall strategic vision and oversees the day-to-day management and operations of the various MGA directorates.

The **Enforcement Directorate** is responsible for taking the necessary actions on possible breaches of regulations by licensees and flagging them accordingly. It also tackles illegal gambling activities and assists the Malta Police Force, Courts of Malta and foreign reputable agencies in investigations related to suspected fraud and money laundering. The Directorate also undertakes criminal probity screenings on Ultimate Beneficiary Owners (UBOs) and shareholders, directors, key functions and entities. It is responsible for ensuring compliance with Anti-Money Laundering (AML) rules and regulations by carrying out on-site and off-site inspections. Furthermore, the team is tasked to carry out investigations on reported or identified gaming operations performed to or from Malta or through a Maltese legal entity without the relevant authorisations. Furthermore, the Inspectorate team, which also forms part of the Enforcement Directorate, is responsible for carrying out field operations and inspections on controlled gaming premises situated within the Maltese Islands, overseeing the live draws of the National Lottery operator's games and providing the necessary assistance to the Malta Police Force in any inspections in relation to illegal gaming activities.

The **Authorisations Directorate** is primarily responsible for the management and processing of the various types of authorisations, including the processing of new licence applications, the eventual renewals of the existing licences, Key Function, Recognition Notice and Material Supply Certificates, as well as the review and approval of any changes to the technical set-up, company structure or changes to the documentation that had been previously approved. In addition this Directorate encompasses the Player Support Unit, which assists and facilitates resolutions of complaints and disputes between players and licensed operators¹.

The **Compliance Directorate** ensures adherence to stipulated licence conditions. It also develops and implements the annual compliance review plan for all the Authority's licensees as well as conducts compliance audits, reviews various licensees' operations and carries out on-going monitoring for all land-based and remote licensees. The Directorate is also tasked with the undertaking of regulatory supervision, through the review of Monthly Player Funds Reports and financial statements as well as the performance of risk-based thematic reviews.

The **ICT & Records Directorate** is primarily responsible for ICT security and infrastructure, software development as well as records management. The team provides technology and infrastructure planning, hosting and data management and is responsible for in-house software development, business and software analysis and the quality assurance of software together with its testing and integration with other systems. In addition, the Directorate is responsible for document and records management and the digitisation of mail.

The **Finance & Programme Management Directorate** is composed of three main areas of responsibilities: financial matters, programme and quality management as well as information management. The finance team is further split into two areas: Revenue Assurance and Tax Compliance, which is mainly responsible for the collection and follow up on compliance contribution dues, licence fees, and other administrative fees charged to licensees and Finance Operations which focuses on corporate finance, financial accounting, planning and control as well as the preparation of management accounts and reporting. The Programme Management function's main responsibility is to enable the implementation of the Authority's change agenda as well as its corporate strategic plan via projects. In turn, while promoting continuous improvement and quality-at-source throughout the Authority, the Quality Management team promote and oversee the implementation of a Quality Management System (QMS) based on the requirements of ISO 9001:2005.

¹ From the second quarter of 2019, the MGA will be distinguishing between players' complaints and disputes. The MGA's Player Support Unit will no longer be delving into the merits of a dispute between a player and a B2C licensee, since this function is reserved for the relevant ADR entity. Disputes are understood to be a disagreement between a player and the MGA B2C licensee with which that player is registered.



Our People

In addition, the Information Management unit takes care of the overall knowledge and strategic information management of the Authority, including the collection of data from its licensed operators and preparation of different statistical reports for the internal and external consumption.

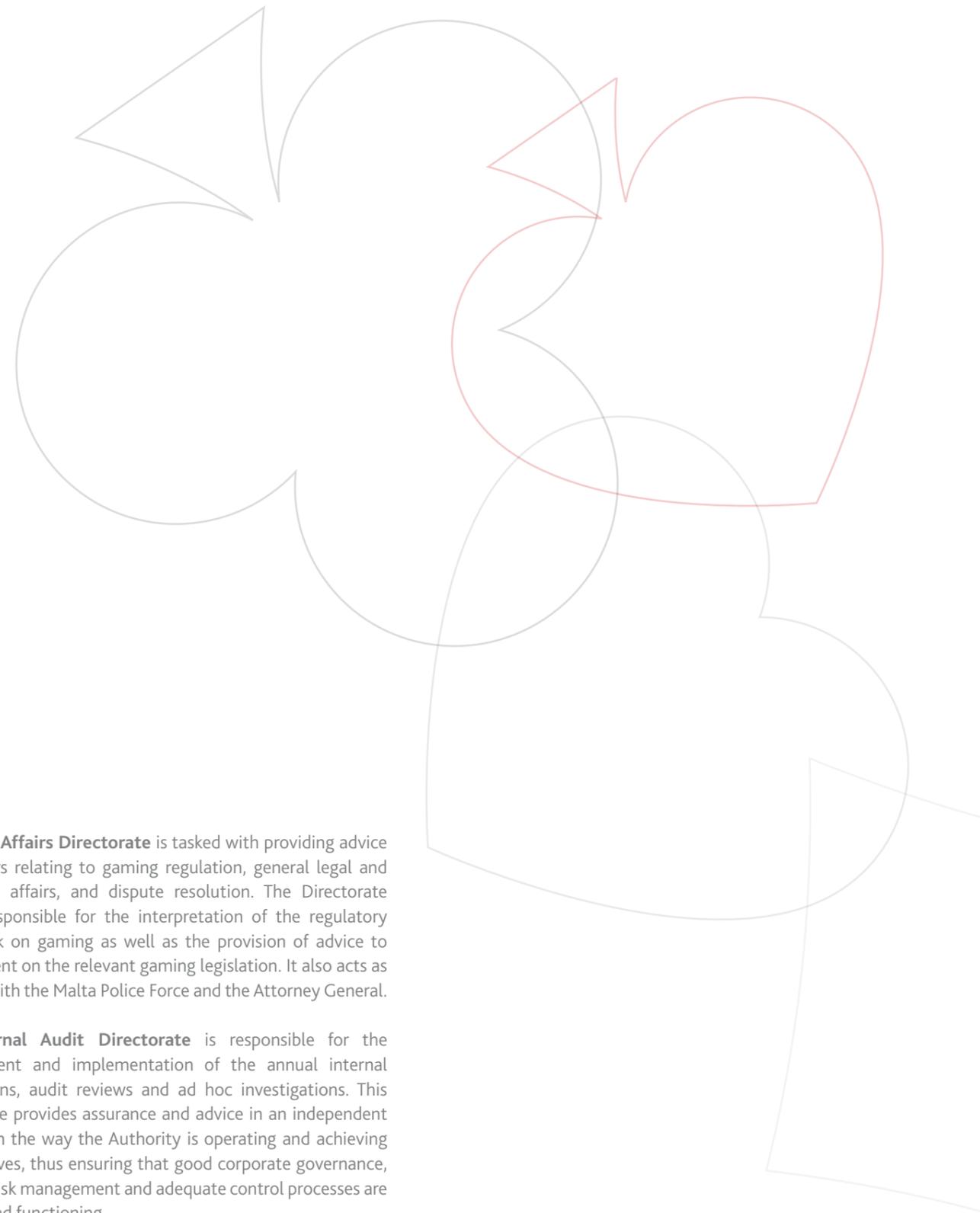
The **Risk Management Directorate** is responsible for the management of risk throughout the Authority, by systematically assessing and addressing risks and threats associated with the MGA's activities. The Directorate's scope entails identification, analysis, evaluation, treatment, monitoring and reviewing of the risks the Authority is exposed to, with a primary focus to support the MGA in developing and maintaining a risk-based approach to its undertakings. It is also entrusted with the implementation of effective risk management practices within the Authority and assisting risk owners in defining the risk exposure within their department.

The **Human Resources & Corporate Affairs Directorate** is responsible for the overall management and development of the Human Resources function with a focus on maintaining an employee-oriented, high performance culture which emphasises quality, productivity, and goal attainment including the on-going training and development of the Authority's employees. The team is also responsible for facilities management, health and safety and security, all internal and external communications, as well as public and media relations.

The **International Affairs & Policy Directorate** is responsible for identifying key regulatory areas requiring a specific focus in order to meet the Authority's policy objectives. The Directorate is also responsible for the EU and international affairs of the MGA, including relations with foreign counterpart regulators, matters relating to European Union and international legislative developments.

The **Legal Affairs Directorate** is tasked with providing advice on matters relating to gaming regulation, general legal and regulatory affairs, and dispute resolution. The Directorate is also responsible for the interpretation of the regulatory framework on gaming as well as the provision of advice to Government on the relevant gaming legislation. It also acts as a liaison with the Malta Police Force and the Attorney General.

The **Internal Audit Directorate** is 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.



THE COMMITTEES AND COUNCILS



The Audit & Risk Committee

THE AUDIT & RISK COMMITTEE

The Audit & Risk Committee supports and assists the MGA's Board of Governors in its oversight responsibilities regarding the Authority's governance, risk management and internal control mechanisms. The duties and requirements of the Audit & Risk Committee are established by the Audit Committee charter.

The Audit & Risk Committee is comprised of the following members:

- CHRIS CILIA - CHAIRPERSON**
- MARIA CARDONA - AUDIT COMMITTEE MEMBER**
- MAXIMILIAN FENECH - AUDIT COMMITTEE MEMBER**
- JACQUELINE GRECH - AUDIT COMMITTEE MEMBER**
- DEAN HILI - AUDIT COMMITTEE MEMBER**
- HARRY ST. JOHN - AUDIT COMMITTEE MEMBER**
- MIKIEL CALLEJA - COMMITTEE SECRETARY**

The Audit & Risk Committee is responsible for the management and supervision of the Internal Audit function, whose aim is to provide internal assurance and advice in an independent and objective manner, designed to add value as well as improve the overall operations of the MGA. During the year under review, an external peer review of compliance with the International Professional Practices Framework (IPPF) was conducted by the Internal Audit and Investigations Department (IAID). The IAID concluded that the Internal

Audit function of the MGA effectively conforms to the IPPF. The following enhancements were undertaken to consolidate conformity with these international standards:

- internal resources were deployed to strengthen the Internal Audit structure;
- a strategically-oriented internal audit universe was established using risk-based methodologies as required by the Internal Audit charter;
- mitigation factors contained in the Risk Registry and National Risk Assessment were adopted;
- the audit process was streamlined to ensure it maintains efficiency and effectiveness while minimising disruption to the Authority's operations;
- the business continuity follow-up methodology was introduced, to ensure implementation of recommendations; and
- the establishment of a list of recommendations for improvement in areas where potential enhancements in the control framework were identified. These were based on the internal audit assignment performed in 2018.

SUPERVISORY COUNCIL

The Supervisory Council is responsible for overseeing the proper functioning of the MGA's regulatory arm at an operational level. It is also tasked with providing oversight and guidance in relation to ongoing regulatory issues, strategic regulation and acting as an advisory committee to the Authority's Board of Governors and Management. The Council is composed of the senior management of the Authorisations and Compliance Directorates, the Enforcement Directorate as well as the Legal and Policy and International Affairs Directorates respectively.

In 2018, the Supervisory Council was re-constituted with a new governance framework, to ensure its better functioning by:

- meeting on a bi-weekly basis;
- increasing membership;
- including elements of other regulatory arms within the MGA, such as AML;
- standardising the review of higher risk licence applications by the Council;
- undertaking reviews of the effectiveness of enforcement measures taken; and
- driving the MGA's risk appetite and regulatory policy.

DEFAULTERS COMMITTEE

By virtue of the Gaming Act, the Board of Governors set up a Defaulters Committee within the Authority, with a primary function of ensuring compliance of authorised persons to regulatory instruments issued by the said Authority. In particular, the Committee is entrusted to review operators that fail to submit the requested submissions, including licence fees and compliance contribution fees and monitor the progress and determine the actions that the Authority should take in such circumstances.

In addition, it evaluates and recommends what enforcement measures should be taken against authorised persons that commit breaches of regulatory instruments which are deemed sufficiently serious as to require the Committee's direct attention as well as evaluate and determine any changes which may be required to the Authority's risk-based approach and/or the risk rating of its authorised person/s. In the absence of evidence, the Committee adopts a cautious approach to minimise the Authority's exposure to risk.

COMMERCIAL COMMUNICATIONS COMMITTEE

By virtue of the Commercial Communications Regulations (S.L. 583.09), and with the aim of ensuring that the applicable rules of advertising are being adhered to, during 2018, the Authority set up a Commercial Communications Committee. The Committee reviews any published, promoted or

advertised commercial communication that is submitted by the public to the Authority. Adverts which are published without the necessary authorisation are flagged to the Enforcement Directorate for necessary actions. Other promotional material received by the Authority is discussed during the Committee meetings and, if required, formal notifications are issued to licensees in line with the applicable regulations.

The Committee is composed of five members, pertaining to different directorates of the Authority to reflect the various issues which are to be taken into account. A sub-committee, which was set up to assist the Committee in the performance of its functions, reflects the same diverse membership.

During 2018, a total of 14 cases were evaluated by the Committee, out of which seven decisions determined that the "authorised person" was deemed to be in breach of the regulations and five decisions outlined that no further action was to be taken by the Authority. The remaining two cases were still pending at the end of the year. The Committee shall be publishing the aforementioned decisions during 2019.

The Committee shall be publishing a set of advertising guidelines (hereinafter referred to as the 'Guidelines'), which will provide a practical approach to the law, and shall contain clear, albeit non-exhaustive, examples of what is and what is not deemed to be a legal commercial communication. The aim of these Guidelines is to ensure consistency in the decisions of the Committee, and to serve as a reference point for the relevant stakeholders.

FIT & PROPER COMMITTEE

The Fit & Proper Committee 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 licence from the Authority, both at on-boarding stage and throughout their lifecycle as licensees.

In 2018, the Fit & Proper Committee convened 32 times wherein a total of 221 decisions were taken. Out of these, 63 pertained to the refusal of individuals and companies which the committee considered as not being fit and proper. In particular, 37 of these 63 refusal decisions were related to individuals or companies considered as not having satisfied the integrity and reputation pillars of the MGA's fit and proper criteria due to possible connections to money laundering or funding of terrorism. A further 70 decisions pertained to instances wherein the Committee resolved that the Authority ought to request further documentation and/or declarations from the applicant prior to moving forward with the application process, for the sake of ensuring integrity and reputability. The rest of the decisions referred to procedural decisions pertaining to the Authority.



THE JOURNEY OF 2018



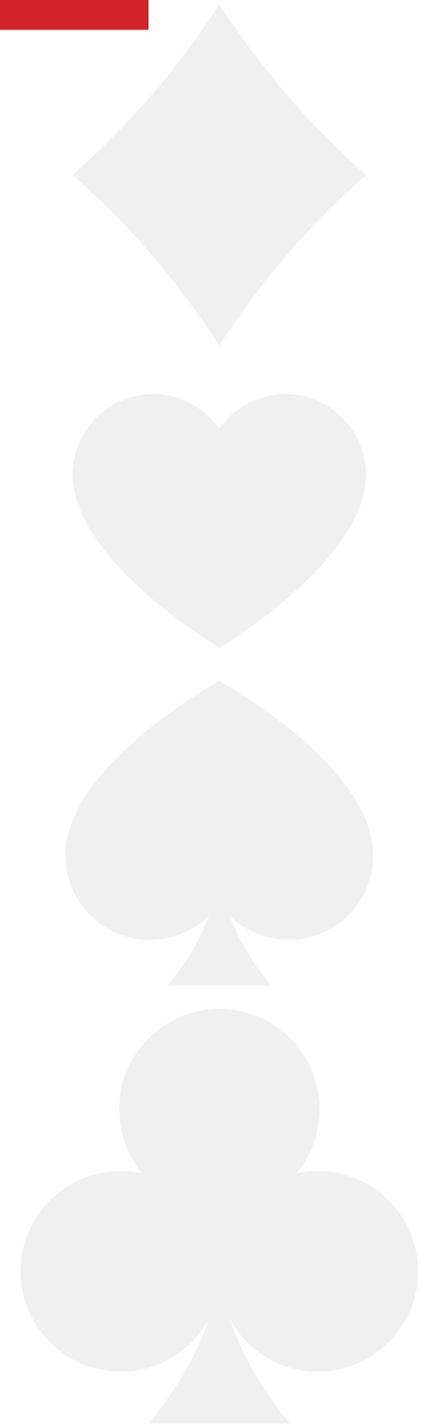
INTRODUCTION

The gaming industry kept up its sustained pace growth in 2018. The growth in the value added of the industry is estimated at over 12% for the year with its share in the economy total edging up to around 13%. The gaming industry thus consolidated its position as the third-largest economic sector, contributing to the generation of activity in other sectors. Over 3,000 additional jobs are estimated to be supporting the gaming industry in other sectors of activity. Thus, the gaming industry directly contributed 2.8% of total employment in the economy, and around 4.1% if the activities of supporting activities are also taken into consideration.

The sustained economic performance was underpinned by the enactment of the new Gaming Law as of the 1 August 2018. This is empowering the Authority to further strengthen its activities and to continue being a thought leader for years to come.

In addition, the Authority focused on improving regulatory compliance through a number of innovative internal and external initiatives which improved the overall governance and supervision of the gaming sector, while enhancing consumer protection mechanisms. To this end, a player protection legal framework has been developed encompassing the Gaming Player Protection Regulations and the Player Protection Directive. This reinforced the Authority's continuous efforts in the area of consumer protection and responsible gambling.

The MGA continued to create a strong foundation for its Anti-Money Laundering / Combating Financing of Terrorism (AML/CFT) supervision, in order to sustainably mitigate the risks relating to gambling services. In 2018, licensed gaming operators become Subject Persons under the Prevention of Money Laundering and Funding of Terrorism Regulations (PMLFTR). The Authority has enhanced further its collaboration with the Financial Intelligence Analysis Unit (FIAU) by publishing the Remote Gaming Implementing Procedures - Part II that were directed toward the remote gaming sector.



THE ENACTMENT OF THE NEW GAMING ACT

The new Gaming Act, which came into force on the 1 August 2018, together with the subsidiary legislation, was approved by the Maltese Parliament. These instruments substituted the previous legislation and consolidated the regulation of the various sectors into a holistic regulatory framework. The framework was applicable for remote gaming operators since the 1 August 2018, whereas the land-based operators became subject to these new laws as of the 1 January 2019.

The new legislative framework establishes, where possible, objective-oriented standards as opposed to prescriptive requirements, thereby encouraging innovation and development. Moreover, the Authority is empowered to be more agile and dynamic in updating regulatory requirements, in order to increase responsiveness to changes in the industry. This has streamlined certain processes and reduced bureaucratic burdens which provided little added value, whilst enabling the MGA to allocate its resources in a manner which achieves, through risk-based and priority approaches, the regulatory objectives envisaged in the law far more effectively. This move is fully in line with concurrent developments relating to AML/CFT, as discussed further below.

The new Gaming Act introduces a number of new concepts including the issuing of a Material Gaming Supply Certificate for non-critical services and the segmentation of the Key Official role into various key functions within a licensed activity, which requires an approval, thus reinforcing direct scrutiny and targeted supervisory controls. It also introduces 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. This streamlines further the criminal process to ensure more expeditious and effective sanctioning of illicit operations.

Furthermore, the reform also reflects the Authority's constant but renewed focus on consumer protection standards and responsible gaming measures, based on objective information which is used to educate the development of regulatory requirements to ensure effective outcomes. The protection of player funds has also been improved with the segregation

of player funds from the operator's assets being enshrined directly in the law.

In anticipation of the new regulatory regime in 2018, the Authority formulated and published a new fiscal structure through the Gaming Licence Fees Regulations (S.L. 438.12, now renumbered as S.L. 583.03), which became effective on the 1 January 2018. These regulations established a revenue-based fee and tax structure aimed at a more equitable and proportionate distribution of the financial burden on licensees. The fiscal structure also incentivises areas which have been identified as key for the continuing development of the sector. In particular, it exempts business-to-business licensees from gaming tax, and introduces a moratorium on certain fees for start-up undertakings, subject to a set of objective qualifying criteria.



CONSOLIDATING THE AUTHORITY'S MONITORING MECHANISMS FOR ANTI-MONEY LAUNDERING AND COMBATING THE FUNDING OF TERRORISM

With effect from the 1 January 2018, remote gaming operators, which are licensed to 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 opportunity to win prizes of money or money's worth, have become Subject Persons under the PMLFTR. Prior to the enactment of the new regulations, the MGA, together with the FIAU, identified 209 remote gaming operators, licensed with the MGA, that were performing 'relevant activity' and thus could be subject to the regulations as defined by the PMLFTR.

AML/CFT EXAMINATION METHODOLOGIES

The Anti-Money Laundering Unit within the MGA's Enforcement Directorate carries out off-site and on-site AML/CFT compliance examinations on Subject Persons according to the PMLFTR. All examinations are carried out by the MGA as an Agent of the FIAU in terms of Article 26(5) of the Prevention of Money Laundering Act (PMLA), either jointly with the FIAU or else solely by MGA officials.

The MGA adopts a three-step approach methodology in conducting its AML/CFT examinations involving desk-top research, as well as off-site and on-site examinations.

Desk-top research

The desk-top research focuses mainly on the existing documentation held at the MGA on Subject Persons. During this initial phase, AML officers examine the business type of the Subject Person by considering factors such as the size of the business, the type of services being offered, targeted jurisdiction, corporate and organisation structure and previous compliance audits conducted. Additionally, during this stage, agents investigate existing on-boarding procedures of Subject Persons through their respective registration domains.

Off-site examination

This phase is based on the analysis of documentation pertinent to AML/CFT obligations including the business risk assessment, customer acceptance policies, AML/CFT Procedures, player databases, third party reliance agreements and any AML/CFT internal audits performed.

On-site examination

In this final phase, the gaming operators' Money Laundering Reporting Officers (MLRO) are interviewed with the scope of gaining further information on the general business operations in terms of AML/CFT. In certain cases, additional individuals are also involved and interviewed on-site in order to gauge and gather all the necessary information which aids the AML officers to further evaluate the control measures adopted by gaming operators. Additionally, player sampling reviews are conducted which allow the Authority to determine the size and nature of the business. A typical on-site examination requires an average of two to three days.

Following the examination, Subject Persons are allowed a period of 30 days to provide clarifications on the findings identified by MGA AML officers. Following this, the AML/CFT findings are communicated to the FIAU along with the clarifications of the said Subject Persons.

During 2018, the AML unit performed 33 AML/CFT full-scope examinations, eight of which were conducted jointly with the FIAU. A number of common findings were identified which included lacunae in risk assessments, record keeping and training. These findings were identified predominately on operators classified as higher risk and, as such, the nature of such findings do not necessarily represent those of the total population of Subject Persons.

THE REMOTE GAMING IMPLEMENTING PROCEDURES - PART II

On the 19 July 2018, the FIAU and the MGA issued the Remote Gaming Implementing Procedures - Part II in terms of the provisions of the PMLFTR. These detailed procedures interpret the technical obligations of remote gaming operators under the requirements set out in the PMLFTR by providing comprehensive instructions on how to identify, mitigate, monitor and report AML/CFT exposures.

The implementing procedures meticulously delineate five major components which encapsulate an approach on how to manage AML risks, in line with international standards suggested by the Financial Action Task Force (FATF) in conjunction with the 4th Anti-Money Laundering Directive (AMLD) requirements.

1. Risk-Based Approach

The first major component refers to the Risk-Based Approach, which is a constitutional approach at the heart of the 4th AMLD. This section of the procedures delves into the details of how to conduct a business risk assessment which fully identifies the main risks pertinent to the remote gaming industry whilst also providing clear guidance on how to mitigate such risks in a proportionate and risk-based manner.

2. Customer Due Diligence

The second section guides the Subject Person on how to apply a level of Customer Due Diligence (CDD) commensurate with the identified risks. This section is intended to provide instructions with the aim of understanding who the customers are and how to build a customer profile. On this stipulated basis the operator would be able to assess the customers' activity and identify any unusual behaviour.

3. Reliance, Agents and Outsourcing

The third section provides guidelines to Subject Persons in those cases where it is necessary to exercise reliance on third parties in terms of the necessary agreements, highlighting which control measures should be in place when such arrangements occur.

4. Suspicious Transaction Reporting

The fourth section focuses on the MLRO obligation to adopt methodology and sequence of events criteria which would require the Subject Person to report suspicious cases of Money Laundering (ML) and Terrorist Financing (TF).

5. Terrorist Financing

The final section focuses on providing guidance on the terrorist financing concern. Whilst this section acknowledges the key differences between terrorist organisations and traditional crime organisations, which equally require money laundering operations, it also emphasises the fact that there is often the need to obscure or disguise links between the terrorist organisations or individuals and their legitimate funding sources. This scheme exposes remote gaming operators to be used as vehicles to disguise what seem to be legitimate funds and in similarity to ML controls, Subject Persons are advised to adopt the appropriate measures to mitigate TF risks.

ADOPTING A RISK-BASED APPROACH FOR AML

The risk-based approach is an intrinsic component of the 4th AMLD. Given the obligations of the Subject Persons to conduct a thorough business risk assessment of the gross exposures in terms of AML/CFT, the MGA, in collaboration with the FIAU, conducted its own holistic risk assessment of Subject Persons during the early months of 2018 which eventually resulted in a supervisory plan that identified a number of gaming operators that would be subject to an AML/CFT examination.

Towards the end of 2017, the MGA disseminated two questionnaires to all relevant licensed operators: one that was intended to acquire data pertinent to the gross AML/CFT exposures and the second one directed toward understanding the readiness of the operators in terms of control measures to mitigate AML/CFT risks. This enabled the Authority, through a robust modelling framework, to risk-rate the operators in terms of four risk pillars namely: Geographical, Product, Interface and Customer risks.

COLLABORATION WITH FIAU

Throughout 2018, both the MGA and the FIAU participated in cooperative initiatives to strengthen the oversight of the gaming sector.

Both Authorities embarked on comprehensive programmes which encompassed the formulation of the Sector Risk Assessment, the drawing up of the Supervisory Plan, the compilation of the MLRO registry, the enactment of the Remote Gaming Implementing Procedures - Part II, the formal request of AML/CFT data from the sector and the formal representation of the Sectoral Risk Assessment which delineated the major risk exposures of the industry. These initiatives enhanced the already-existing cooperation between the two Authorities.



INDUSTRY OUTREACH

The MGA participated in a number of discussion panels on the on-going fight against financial crime, the need for collaboration amongst organisations, the contrasting aspects of AML and GDPR obligations as well as the Authority's perspective on the notion of AML and social responsibility. Additionally, common failings of operators in terms of AML compliance, and applicable remedies, were discussed.

A central session was organised by the MGA and the FIAU, in March 2018, on the second round of consultations in terms of the revised document on the application of AML and CFT obligations to the remote gaming sector. In November, the Authorities published the final findings of the Sectoral Risk Assessment which documented the degree of risk that the industry may be exposed to in terms of AML/CFT.

STRENGTHENING THE RESPONSIBLE GAMBLING OBLIGATIONS

The protection of consumers, minors and vulnerable persons is one of the MGA's main objectives. The new Gaming Act and the associated regulatory instruments further enhance consumer protection standards and responsible gambling measures with the aim of ensuring that the necessary safeguards are in place for players to gamble safely and responsibly, curbing the risk of addiction, and identifying and supporting the persons who are most at risk.

THE PLAYER PROTECTION REGULATIONS AND THE PLAYER PROTECTION DIRECTIVE

In 2018, a Player Protection Directive² has been adopted by virtue of the new Gaming Act. This builds on the requirements laid down in the Gaming Player Protection Regulations³ by detailing processes and procedures. Such Directive is revisable by the Authority from time to time to ensure that the law remains relevant in the context of technological and similar dynamics.

By virtue of these two legislative instruments, collectively referred to as the player protection legal framework, the Authority continues to direct its attention towards ensuring that players remain in control of their gaming activity. The new player protection legal framework builds upon the player protection principles enshrined in the previous law, but takes a more prescriptive approach towards regulation, ensuring that all the necessary measures are adopted by the gaming operators.

The player protection legal framework protects and empowers consumers by:

- ensuring that the gaming service is fair and transparent, and in accordance with the law; and
- requiring that the service holistically promotes responsible gambling, and identifies and assists players who develop a gambling addiction.

The framework sets out the exact information that gaming operators must disclose to players and the general terms and conditions of an operator's gaming service. It also contains provisions relating to specific games and promotional schemes, the promotion of responsible gambling and the prevention of harm, the protection of minors and vulnerable persons, as well as the protection of player funds.

It is worth noting that the amended Player Protection Directive was subject to expert scrutiny and was found to meet all the following objectives:

- minimises the likelihood of a 'vulnerable player' developing a gambling problem whilst playing games within gaming environments;
- encourages well-informed and rational gambling behaviour among gaming clientele;
- provides for support for online clientele who develop problems and/or who show distress as a result of playing games within the gaming platform;
- protects vulnerable groups from either gambling online within the gaming platform in the first place (for example, by excluding under-age players), and minimises the harm to problem gamblers who continue to gamble online;
- contributes towards the ongoing understanding of gambling problems;
- develops an amicable relationship with the community and other stakeholders (for example, treatment providers, educational programmes, research community, faith groups, and so on); and
- promotes a positive reputation that accurately reflects the integrity of companies as responsible gaming operators.

Looking forward, an assessment is being carried out on other responsible gambling tools and initiatives that the MGA could consider, as well as specific datasets that should be collected in order to properly assess the effectiveness of the responsible gambling measures put in place by the Directive.

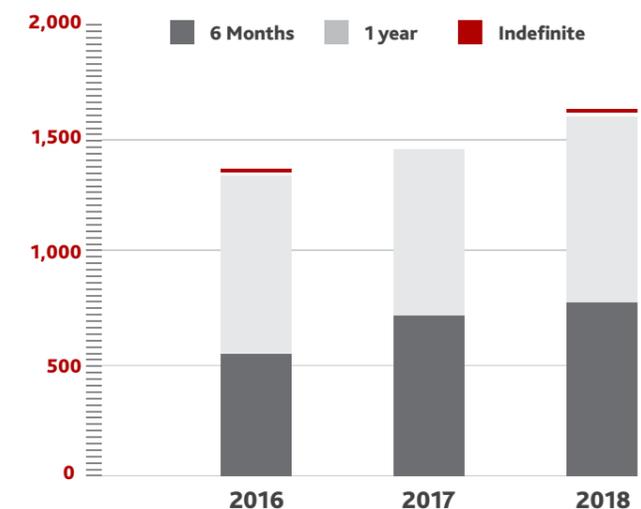
RESPONSIBLE GAMBLING TOOLS

As stipulated in the Player Protection Directive, all operators, be they online or land-based, are obliged to offer self-exclusion facilities to their customers. The self-exclusion programme is one of the interventions aimed at minimising the negative impacts of gambling, and it plays an important role in the recovery process of affected individuals. In addition, online players must be given the possibility to set additional limits, thus empowering customers to manage their gaming activity more effectively.

Land-based Self-Exclusion

Land-based gaming operators are connected to a unified self-exclusion database hosted by the MGA. Players may exclude themselves from gambling for a definite or indefinite time, and their details are immediately entered into the system, ensuring that this exclusion is implemented across land-based casinos, commercial bingo halls and/or gaming parlours. Gamblers also have the opportunity of excluding themselves for an indefinite period of time, in which case the exclusion can only be lifted on the presentation of a medical certificate stating that the person is no longer a compulsive gambler.

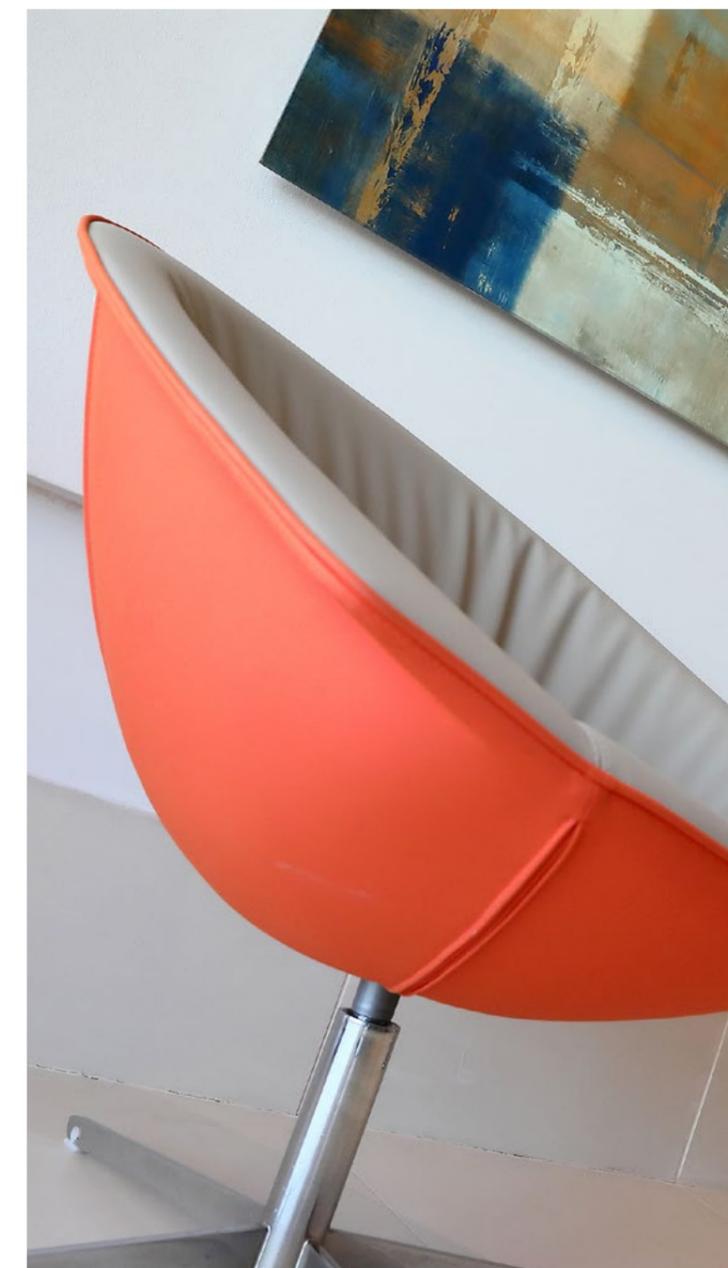
During the year under review, 1,585 individuals submitted requests to be self-excluded from the land-based gambling outlets in Malta, up by 14% from the previous year. These were virtually equally split between exclusions for one year and for six months. Three individuals chose to self-exclude themselves for an indefinite period.



In line with a trend registered over the past years, in 2018, gamblers aged between 35-54 were most likely to request self-exclusion, constituting 38% of all requests.

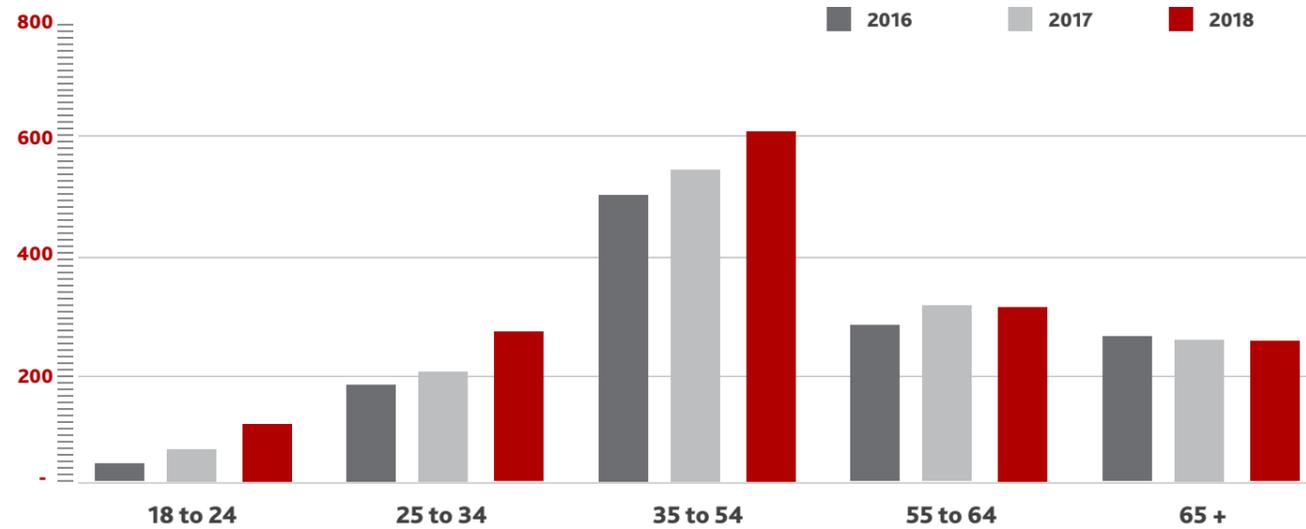
This needs to be seen in the light of a significant number of players within this age bracket playing in land-based outlets.

Between 2017 and 2018, the number of self-exclusions registered for players aged 18-24 more than doubled. This might reflect the increased effectiveness of outreach gambling awareness programmes amongst younger individuals. Increases in the number of self-exclusion requests were also registered for players aged 25-34 and 35-54, amounting to 36% and 13% respectively. On the other hand, self-exclusions requested by players within the older age brackets, that is, 55-64 and 65+, went down by 2% and 0.4% respectively.



² <https://www.mga.org.mt/wp-content/uploads/Directive-2-of-2018-Player-Protection-Directive.pdf>
³ <https://www.mga.org.mt/wp-content/uploads/Gaming-Player-Protection-Regulations-2018-1.pdf>

Key Highlights of the Report "An Inquiry into the Consumption of Gambling and Gaming Services by Maltese Residents in 2017"



Over the last three years, the majority of self-excluded players have consistently been male, accounting for 73% of all self-excluded players in 2018. During 2018, 70% of the individuals who opted for self-exclusion were Maltese nationals.

Online Self-Exclusion

All B2C licensees are obliged to make readily available to players, at all times, a procedure whereby players may exclude themselves from playing for a definite or indefinite period of time. Throughout this period, B2C licensees shall have procedures designed to ensure that players cannot gain access to gaming services during the self-exclusion period. During 2018, the total number of self-exclusion requests (sign ups) by players on the remote gaming websites licensed by the MGA amounted to 1.3 million⁴, part of which can represent multiple exclusions by a single player on more than one website. Cognizant of the existing gap in light of the fact that this unified self-exclusion mechanism is not equally available across all online platforms, the Authority is currently assessing the suitability of a range of technical solutions to launch a single, unified self-exclusion system for companies holding MGA gaming licences which would incorporate both online and land-based operations.

Furthermore, all registered players must be given the facility to either set a deposit or wager limit upon registration, or immediately after registration upon login. The B2C licensee may also offer players the possibility to set additional limits, including, but not limited to, loss and time or session limits.

The Importance of Data

The MGA recognises the importance of scientific studies and reports in order to properly assess the impact of gambling services. To support its commitment towards responsible gambling, the MGA initiated the collection of additional data from its licensed operators. Such data assists the Authority in assessing whether operators maintain adequate statistics for consumer protection and harm-minimisation. Furthermore, the information obtained from this exercise will provide more insights on whether the responsible gambling measures implemented by operators are actually having the desired effects.

Throughout 2018 the Authority conducted a research survey, the second of its kind, to measure the gambling trends of the Maltese population. The key outcomes of the report "An Inquiry into the Consumption of Gambling and Gaming Services by Maltese Residents in 2017" were presented in a press conference of the MGA and Responsible Gaming Foundation in the presence of local NGOs and other interested parties.



1-2%

The estimated percentage of the population who reported some form of adverse effect on their lifestyle after acquiring gaming services against payment.



€128M

€128 million is the estimated amount spent by the Maltese population on various gaming activity in 2017, an increase of €3 million over the 2015 estimate.



National Lottery games remained the most prevalent form of gambling activity in 2017, taking up around 73% of expenditure on gambling and gaming activities in Malta.



18+

Around 52.8% of the population aged 18 and over are estimated to have spent money on some form of gaming activity in 2017, which is close to 186,849 individuals.



€11.30 is the estimated amount spent by players on a weekly basis on some form of gaming activity in 2017. More than half the players spend no more than 2% of their income on gambling services.



33MIN

The average time spent by individual players in gaming activities per week, with well over half of the players spending no more than 10 minutes in playing each week, reflecting the strong component of players involved in National Lottery games.



The persons who engage in paid gaming activities are most likely to be young adults or senior citizens, having a secondary level of education.



Married individuals with children are most likely to engage in paid gaming activities when compared to other family types.

⁴ The methodology for the collection of self-exclusion data was revised by the MGA. The number of self-exclusion requested reported in this publication are exclusive of the number of exclusions imposed on players by the B2C licensees.

Providing the Necessary Support for Players

For the past years, the MGA's Player Support Unit has increasingly provided support to aggrieved players from all corners of the globe. The Player Support team has consistently sought to uphold the Authority's overriding strategic principles of fairness and transparency and the protection of minors as well as vulnerable persons.

The Player Support Unit offers mediation to players who felt that they had been unfairly treated by a licensed operator. The Unit investigates the merits of each and every complaint submitted and escalate further those cases which are considered to be valid. Based on arguments presented, the Unit would determine a fair conclusion.

In 2018, the Player Support Unit received 4,006 requests for assistance and resolved 3,692 players' queries. Out of

all requests received, 38% were in relation to payment of winnings which were either declined (12%) or delayed (24%) whilst one-fifth of requests stemmed from different support issues reported by players. The remaining requests were received in relation to other issues encountered by players, such as missing funds, responsible gambling matters, software glitches, registration issues and bonus-related problems.

The Player Support Unit has also played an important role in flagging a number of non-compliant operators with a number of cases leading to enforcement action against such operators. The new player protection legal framework, adopted in 2018, has reaffirmed the Authority's pledge in offering superlative player protection measures.



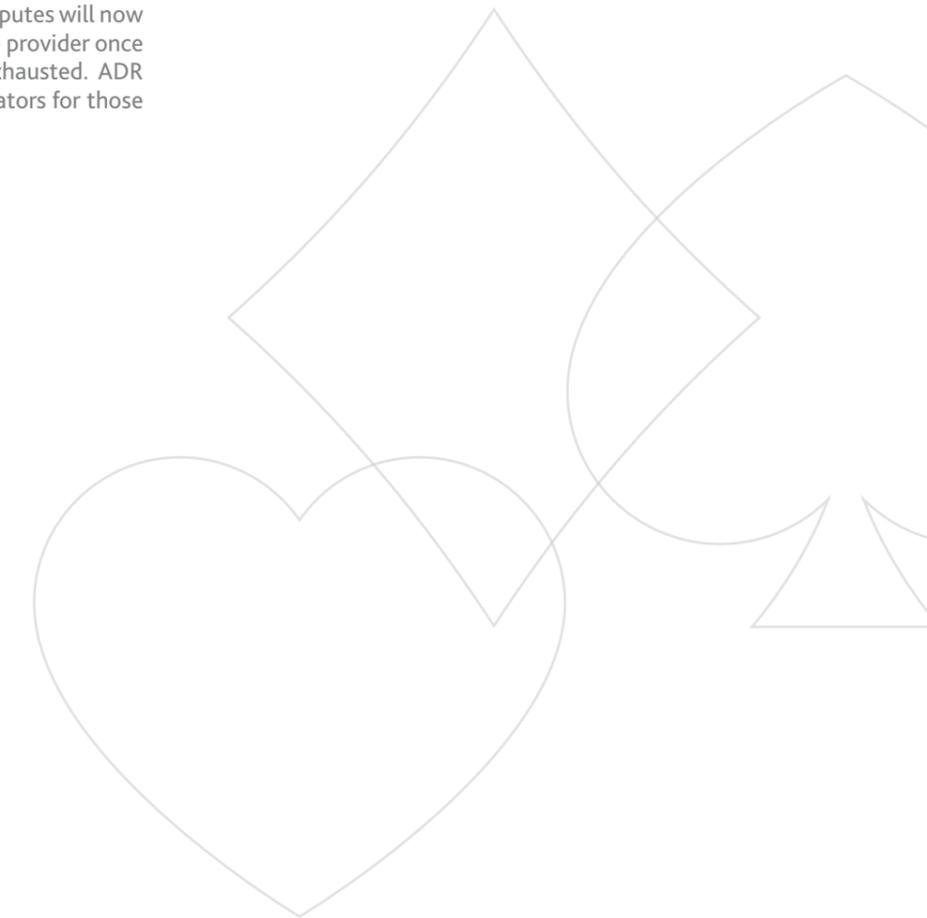
Introducing the Alternative Dispute Resolution Directive

Towards the end of 2018, the MGA adopted the directive entitled the "Alternative Dispute Resolution (ADR) Directive⁵". This stems from the new Gaming Act which establishes that B2C licensees must make readily available to players the applicable procedures for making a complaint to them and for referring the complaint to an ADR entity. The ADR Directive is intended to provide additional guidance to B2C licensees relating to the nature of the ADR entity which B2C licensees must refer players to, and detailing the specific information which must be notified to the Authority.

The Directive also brings about changes in the way the Authority operates. During 2019, there will be a clear distinction between disputes and complaints. Complaints refer to reports by individuals where any aspect of the provision of a gaming service by an MGA-licensed B2C is considered unlawful or is conducted in a manner which is not safe, fair or transparent. This is where the Player Support Unit will be redirecting its main focus. Disputes would constitute individual disagreements between a player and the B2C licensee such player is registered with. Such disputes will now be referred to the B2C's appointed ADR service provider once all the other means of redress have been exhausted. ADR conclusions will be binding upon gaming operators for those disputes relating to amounts under €5,000.

The Player Support Unit will also be monitoring the monthly reports submitted by B2C licensees. Such reports will contain details of the disputes which have been referred to the relevant ADR entities and the status of such disputes. The Player Support Unit will be better placed to focus further on the ongoing monitoring of those aspects which ensure player protection.

In view of the changes taking place, there exists increased scope of strengthening ties between the MGA and other local Regulatory bodies such as the Malta Competition and Consumer Affairs Authority (MCCAA) in order to further reinforce protection measures, specifically where unfair terms and conditions are concerned, amongst other matters. With this in mind, the bar has most definitely been raised and the player support area promises to rise to the challenge of re-defining its role to be more dynamic and relevant in achieving the Authority's strategic objectives when it comes to player protection. The new regulations have surely set the stage for the Authority to continue augmenting its player protection efforts, offering players everywhere the assurance of fairness, transparency and safety.



⁵ <https://www.mga.org.mt/wp-content/uploads/Directive-5-of-2018-ADR-Directive.pdf>

TIGHTENING THE AUTHORITY'S REGULATORY STRUCTURES

The Authority aims to offer a stable and effective regulatory environment that quickly responds to emerging technologies and new forms of gaming. Such an environment can only be offered if it has adequate regulatory processes and procedures in place. While the MGA has long been a protagonist of innovation, the rigorous regulatory oversight remains at the top of the Authority's agenda.

AUTHORISATIONS OF LICENCES AND CERTIFICATES

The authorisation function constitutes one of the core activities of the Authority. It closely liaises with the various other elements within the Authority in order to be able to carry out its role effectively. The Authorisations team is responsible for the on-boarding process of new operators and applicants, resulting in the issuance of the relevant licences or certificates. In addition, it reviews any requests for approvals and notifications made by the applicants.

The Authorisations Unit strives to be as efficient and effective as possible without jeopardising the necessary checks and balances that need to be undertaken in line with the risk-based approach, which is an intrinsic component of the on-boarding process. In this regard, additional reviews are made where deemed necessary.

The gaming licence application requirements were revisited in 2018 to account for the new Gaming Act requirements, and other relevant legislations and requirements, such as the 4th AMLD. In addition, it brought about a number of much-needed changes to the industry, all of which were communicated and explained to existing and prospective licensees, through various means, including the holding of information sessions at the MGA premises.

One of the fundamental changes brought about by the new regime was the merging of online and land-based licensing regime, as well as the replacement of the multi-licence system with a new two-licence system (B2B and B2C). Furthermore, any B2B supplier that provides services, which are critical to the gaming operation, is now required to obtain a licence from the Authority.

These developments led to increased interest in Malta's licensing regimes, as the new processes allow for easier expansion of the licensee's operations, especially since layering on additional gaming platforms simply requires a notification process, as opposed to applying for an additional licence, as happened in the past. During 2018, the Authority received 209 applications for a licence and issued 93 licences to remote gaming companies. The administrative burden, previously linked with issuing additional licences for existing licensees, has left the Authorisations Unit with more resources to concentrate on new licence applications, and further enhance an already rigorous review process on the set-ups of prospective licensees. Expertise gained throughout the years, coupled with a better understanding of the industry, has also enabled the various teams to perform extensive and in-depth due diligence checks, covering source of funds, criminal probity and fitness and propriety of the proposed operations. During 2018, the Authority rejected a total of eight applications.

The introduction of a number of notification processes has given the industry the necessary tools to be more proactive. Share transfers, adding new games based on the same game engine, and adding new game providers, now generally only require notification, rather than separate approvals and/or licences, as was the case with the previous legislation. This has resulted in a reduction of time, effort and administrative expenses. Internally, the Authority is reviewing such applications on a risk-basis, flagging any high-risk applications for eventual compliance reviews whilst reserving the right to request the reversal of any share transfers or the suspension of any gaming providers if the setup is not found to be fit, proper and compliant.



The new regulations provide the opportunity to recognise other EU/EEA licences held by operators who want to operate locally or else to give their services to the Maltese licensed operators. These licences are recognised and a Recognition Notice Certificate is issued, following a review process to ensure that such licences are equivalent to, and provide similar safeguards to, the Maltese licence. A significant change that has been introduced is the Certificate to personnel holding key functions within a licensed entity. These functions are defined in the Gaming Authorisation Regulations, and operators are required to appoint suitable and competent personnel for these roles, in accordance with the nature of their operations.

In addition, the Authority is also issuing Material Gaming Supply Certificates to any person offering specific services to an authorised person, covering the following:

- ◆ manufacturing, assembling, placing on the market, distributing, supplying, selling, leasing or transferring a gaming device;
- ◆ providing risk management services for the operation of a licensable game;
- ◆ providing event, content and/or odds;
- ◆ providing fraud management services for the operation of a licensable game;
- ◆ holding and/or managing player funds;
- ◆ providing services relating to customer due diligence;
- ◆ providing services related to player identity verification;
- ◆ providing co-location services and other managed information technology services, including cloud computing services and/or decentralised hosting protocols where the latter do not amount to a critical gaming supply; and
- ◆ providing back-up and disaster recovery services.

CONDUCTING CRIMINAL PROBITY SCREENING

During 2018, the MGA further strengthened its internal policies, procedures and systems to support and reinforce its criminal probity screening as it considers the latter to form not only an integral but also a vital role of its due diligence function. The carrying out of Criminal Probity Screening procedures is a fundamental first step in ensuring that gaming operations are not used as a vehicle for ML or FT activities.

The measures undertaken by the Criminal Probity Screening are procedures carried out at application stage and where deemed necessary thereafter, for the identification, verification, and investigation of all natural and legal persons involved with the prospective licensee or licence holder, in so far as criminal probity is concerned.

Proper measures must be such to assist the Authority in determining the identity of the beneficial owners behind the prospective licensee or licence holder, to be able to

understand and eventually monitor effectively the proposed operations, to establish the risk posed by a particular prospective licensee or licence holder and to have access to information relating to involved persons in a timely fashion in the event that any suspicious activities need to be reported.

The Unit carries out the necessary tests to perform any Criminal Probity Screening exercise to ascertain the criminal probity of the Directors, Shareholders, Ultimate Beneficiary Owners, and any Key Persons associated with the prospective licensee or licence holder. To this end, the Unit is responsible for the Authority's in-depth criminal probity checks together with all other necessary documentation, declarations and authorisations in order to enable the correct evaluation intended to determine whether an applicant qualifies from a criminal probity perspective for a licence and ascertain whether the persons or legal entities are fit and proper from a criminal probity perspective to operate in the gaming industry.

These assessments will allow the Criminal Probity Screening to deliver a knowledgeable and reliable recommendation to the Authority's Fit & Proper Committee, who eventually is responsible for delivering final judgement.

In 2018, the Criminal Probity Screening have conducted around 2,000 criminal probity screening tests, covering both land-based and remote gaming activities. In addition to the criminal probity vetting, the Unit continuously liaised with the FIAU in order to better mitigate the risks of ML and FT. Furthermore, it continuously interacted with multiple reputable third-party service providers whose professional assistance better enhanced the Unit's effectiveness in determining the criminal probity of applicants as well as licensees.

EXECUTING EFFECTIVE COMPLIANCE

It is one of the Authority's aims and objectives to instil a culture of regulatory compliance in all its licensees by ensuring that all licensed gaming operators, both land-based and online, adhere to the Gaming Act, Regulations, Directives and other regulatory instruments.

The new legislative framework, enacted in August 2018, has widened the Authority's powers relating to the compliance and enforcement functions, which brought about changes in internal compliance procedures. In preparation for this, the Compliance Unit updated all the documentation pertaining to the audit manuals, the internal systems, the Licensee Relationship Management System, internal policies and procedures to ascertain that these are consistent with the new legislative regime. In addition, the Unit contributed to an Authority-wide exercise of offering information sessions to the gaming operators, ensuring that the licensees and practitioners in the industry were aware of the salient points of the new laws and regulations.

During 2018, the MGA undertook a number of initiatives to further enhance the licensees' regulatory compliance. Starting in April 2018, the Authority launched the approved Audit Service Provider Guidelines, whereby interested parties that intend to act as service providers and perform systems and compliance audits of prospective operators and licensees, obtain the necessary approval from the Authority. The licensees would then choose any of the approved service providers to perform their audits.

Furthermore, during the year under review, the Authority introduced a new system which enables operators and licensees to apply online for any required change or update to the existing licence. To this end, the Authority ensured that it has the necessary tools to supervise an evolving and dynamic industry.

From a compliance perspective, the Authority continued to align its gaming standards to the internal supervisory processes with the common regulatory objectives shared between the EU Member States, so as to reduce unnecessary burdens on operators wishing to enter other national markets.

During 2018, the compliance function executed a number of risk-based desktop checks that focused on ensuring that any licence conditions and issues that emerged from audits, which were carried out, were resolved in a timely manner, with failures resulting in referrals to the Enforcement Directorate for further action.

With regard to the safeguarding of declared player funds, the Authority's regulatory supervision function reviewed approximately 2,500 Monthly Player Funds Reports during 2018. This was coupled with compliance audits and ongoing regulatory checks through thematic reviews pertaining mainly to player protection mechanisms. These were complemented by periodic financial health checks on the Authority's licensees, to ensure that financial concerns did not compromise players' funds.

The Authority is conscious of the ever-increasing convergence between the various channels of delivery of a gaming service. During the year under review, additional controls were introduced with respect to land-based gaming premises, which provided the operators with the necessary transitional period to implement the new requirements, thus ensuring a smooth transition for the introduction of the new regulatory framework which came into force on the 1 January 2019 for the land-based sector.

To this end, the Authority implemented the necessary systems that would enable it to take on new functions that were previously administered by the Public Lotto Department and ensured that, as from the 1 January 2019, all games classified as Low Risk Games would be made available on the MGA LRMS, through which interested parties could apply for all land-based applications online. Such games, which encompass non-profit games, limited commercial communication games and commercial communication games, are now required to acquire a Low Risk Games

Permit issued by the Authorisations Unit. The Authority also published the Gaming Premises Directive, a document that added granularity to the previously published Gaming Premises Regulations. This included further clarifications with regard to employee and customer identification, access controls, winning certificates, surveillance and counting procedures.

ENFORCEMENT AND INVESTIGATIONS

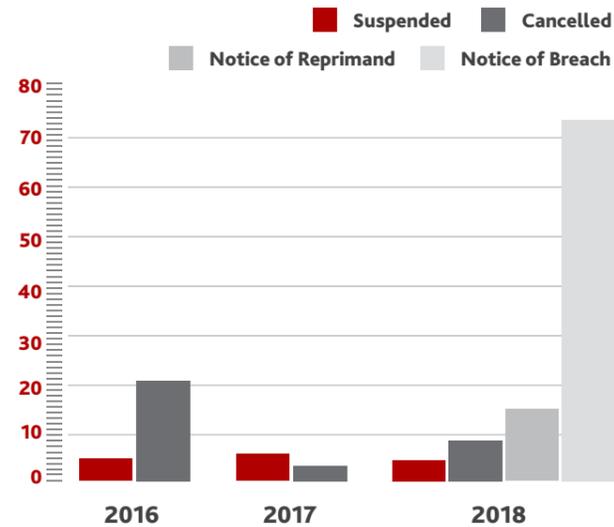
The enforcement and investigations functions of the Authority underwent a refocus of efforts towards areas of greater priority with the introduction of the new regulatory regime in 2018. The enforcement process within the Authority has been reinforced as the framework establishes, in clearer terms, the process that is followed for compliance reviews, investigations and eventual enforcement measures, where warranted.



The Enforcement Unit is primarily responsible for taking enforcement action against any persons or entities who are in breach of the relevant gaming laws and regulations falling under the Authority's remit and coordinating with the various units of the Authority on possible breaches of laws and regulations by licensees. It seeks to provide protection in the interests of both the players and the Maltese gaming industry at large. The ultimate aim is to build on past accomplishments and drive for further improvements in the quality, customer service, preparedness, and quality management systems in line with the Authority's strategic goals and objectives. In addition, the Enforcement Unit also gathers intelligence and analysis on possible match fixing and gaming fraud and actively participates in the National Task Force against match fixing.

In order to carry out its functions effectively, the Authority assists the Malta Police Force, Courts of Malta and foreign reputable agencies in investigations related to suspected fraud and money laundering from gaming activities. The Unit also acts as the main point of contact with the Attorney General, FIAU, Malta Police Force, Security Services as well as foreign law enforcement agencies. In 2018, two criminal cases relating to the provision of illegal gaming services in land-based outlets were adjudicated and the accused found guilty.

Following the compliance audits and other reviews carried out on licensees' operations, in 2018, the Authority has issued 16 Notices of Reprimand, 73 Notices of Breach, suspended four licences and cancelled another eight. In addition, a total of 139 administrative fines were imposed, which, in their majority, related to failure to submit periodic reports required in terms of law, including monthly and half-yearly reports, yearly audited accounts as well as the bi-annual Industry Performance Return. A number of fines were also issued due to breach of the licence conditions and failure to notify the Authority, or to seek the Authority's prior approval, when certain changes are made, as required by law.



The new legislative framework establishes a distinction between breaches of an administrative nature and criminal offences, which naturally have different ramifications. In this light, and in view of the fact that the more serious breaches are the ones that retain the classification as criminal offences, the Act also envisages an increase in thresholds with regard to possible financial penalties stemming from criminal proceedings.

The Investigations function of the Authority began enhancing collaboration with Law Enforcement Agencies and other Regulators in 2018. In particular, through discussions held with the local Police Force, both investigative bodies acknowledged that Malta would benefit from joining expertise and available channels, as such collaboration would deter criminals from attempting to infiltrate the gaming sector in the Maltese jurisdiction. As a result, the MGA through its Investigations function and the Malta Police Force, established specific processes and communication channels that facilitate their investigative work and aid co-operation. The majority of the cases encountered during 2018 revolved around gaming operations performed from/to Malta or through a Maltese legal entity without the relevant authorisations. In addition, the MGA's Investigations function assisted foreign Enforcement Bodies in combating illegal gaming networks by exchanging intelligence and by bringing suspicious gaming operations to their attention.

THE ADMINISTRATIVE REVIEW TRIBUNAL

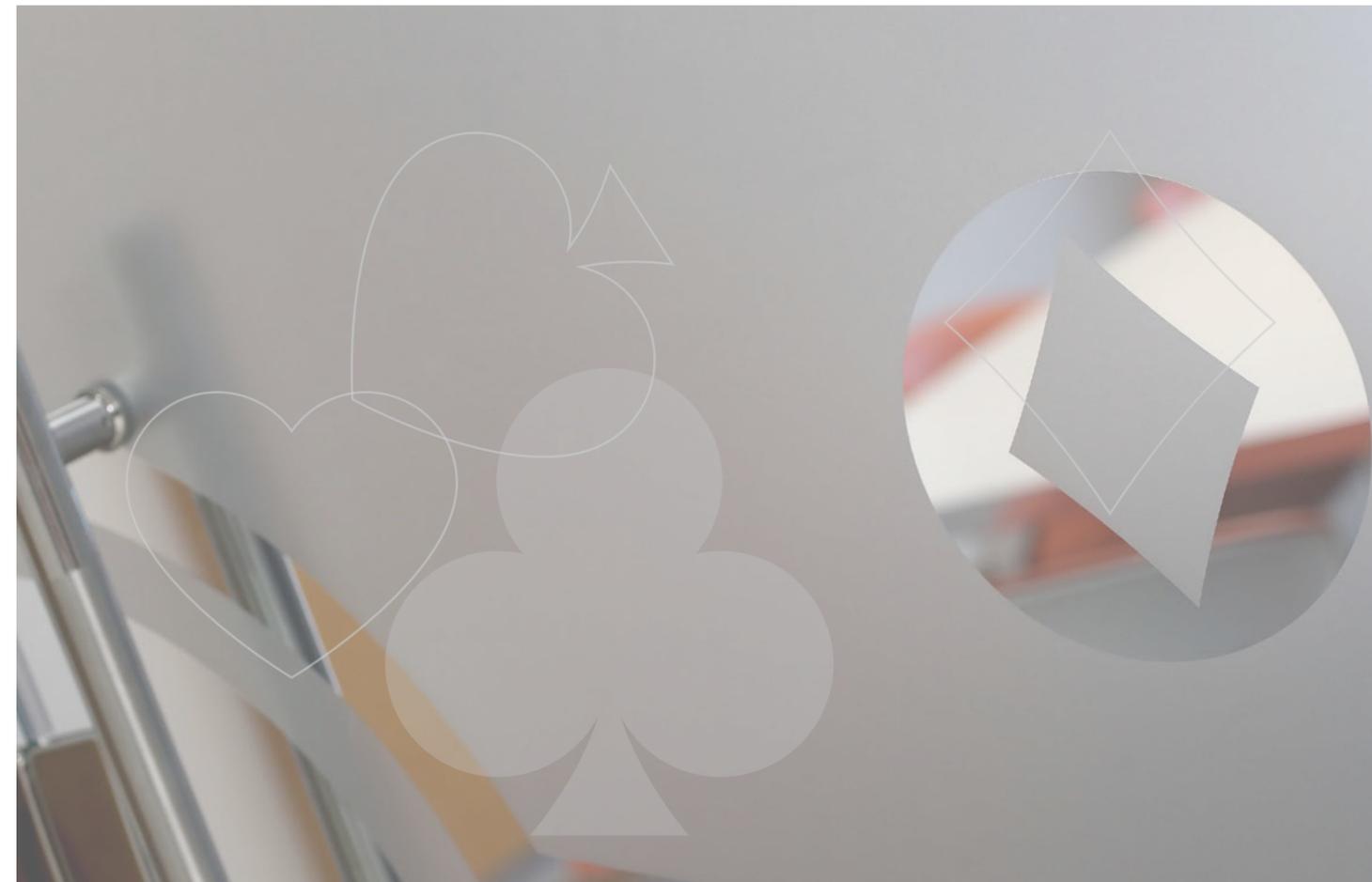
Under the new Gaming Act, the administrative decisions of the Authority are, in line with the requirements and the limited exclusions envisaged in the law, subject to review by the Administrative Review Tribunal. The Tribunal is empowered to ensure that the discretion exercised by the Authority in taking decisions is exercised properly, and therefore any person who feels aggrieved by a decision of the Authority may, where applicable, seek a review of the manner in which the Authority's discretion was exercised in front of the Tribunal. This introduction is in line with the governing principles that underpin the Authority's regulatory actions. In 2018, two appeals were lodged against the Authority's decisions, both of which concerned the Authority's refusal to grant a licence to the applicant.

INSPECTIONS ON LAND-BASED GAMING ACTIVITIES

As part of its regulatory functions, the MGA has an Inspectorate team which carries out regular inspections in all the licensed land-based gaming establishments, namely casinos, gaming parlours, commercial bingo halls, National Lottery operator's points of sale outlets as well as other lotteries and non-profit games. The Inspectorate team also oversees draws of different games offered by the National Lottery licensee. Such inspections ensure that any ongoing land-based gaming activities are adhering to the stipulated rules and regulations as well as minimising the organisation of illegal gambling in various unauthorised areas in the Maltese Islands.

During 2018, the team conducted nearly 13,700 inspections in the land-based outlets. As a result of various changes in team structure, procedures and training activities, a decline in the number of inspections was noted for some particular sectors. In addition, the Inspectorate team also conducted a number of inspections in relation to illegal gambling in various bars and clubs, as well as in areas where illegal bingo was organised.

Number of Land-based Inspections (2016 - 2018)	2016	2017	2018
Casinos	8,455	10,417	9,484
Commercial Bingos	617	812	646
Non-Profit Tombola	446	401	413
Maltco's Points of Sale	637	850	717
Maltco Draws	157	156	154
Gaming Parlours	1,382	2,190	2,268
Total	11,694	14,826	13,682





LEGISLATIVE AND INTERNATIONAL DEVELOPMENTS

DEVELOPMENTS AT A EUROPEAN LEVEL

Following the European Commission's decision to de-prioritise the gambling sector in December 2017, the number of Expert Group on Gambling Services meetings hosted by the European Commission were reduced from four to two for 2018. The European Commission's mandate to host the Expert Group also came to an end in 2018, without it having been renewed, and thus, the initiative meant to establish cooperation between Member States' gambling regulators, and assist the European Commission in the preparation of legislative proposals and policy initiatives came to an end, after six years.

Significant legacy projects initiated by the Expert Group will still go on, however, including a study on the "Evaluation of regulatory tools for enforcing online gambling rules and channelling demand towards controlled offers", the development of a CEN (European Committee for Standardization) Standard on 'Reporting in support of online gambling supervision', and the multilateral Cooperation Arrangement between the gambling regulatory authorities to enhance administrative cooperation, signed in 2015. The MGA is heavily involved in the multi-faceted effort to develop the CEN Standard.

The MGA also remained active within the international gaming regulatory community, by increasing its commitment and efforts with respect to two regulators' associations, the Gaming Regulators European Forum (GREF), and the International Association of Gaming Regulators (IAGR).

The MGA's primary efforts in 2018 were in relation to GREF, having participants attending all of the three working groups, being eGambling and Technical Issues, Responsible Gambling and Addiction, and Information and Statistics (InfoStat). The MGA's representatives in each of these working groups share information, best practices, and data with counterparts in order to learn from each other, benchmark statistics and share regulatory and policy developments.

One of the key areas of discussion in both the European Commission Expert Group, as well as the GREF eGambling

Working Group was the blurring of lines between gambling and other forms of entertainment, particularly the inclusion of gambling elements within video-games, which are often availed of by minors. This culminated in an international declaration by the gaming regulators of 16 European and American States and territories, including Malta, expressing their shared concerns about the risks posed by such new models of entertainment that skirt the lines between gambling and digital entertainment, and calling for a constructive dialogue with representatives of the video-games and social games industries.

In its function as advisor to the Government of Malta, the MGA also provided feedback for the formulation of a national position over a number of EU and international legislative initiatives that could impact the gambling and digital sectors. These include the Audiovisual Media Services Directive, the Copyright Directive, the e-Privacy Directive, the e-Evidence Directive, the Digital Tax proposals, the Prevention of Terrorist Content Online Regulation and the Recommendation for the Prevention of Illegal Content Online. Further work was also carried out by the MGA, in coordination with other entities responsible, for the implementation of other EU legislative initiatives, including the General Data Protection Regulation, and the 4th and 5th EU Anti-Money Laundering Directives.

The MGA regularly exchanges information with counterpart regulators in the EU, as well as elsewhere. Apart from the Administrative Cooperation Arrangement signed between the regulators of most gaming regulators in the EU and the European Economic Area (EEA), the MGA maintains bilateral Memoranda of Understanding with a number of other regulators, namely, Alcohol and Gaming Commission of Ontario; Alderney Gambling Control Commission; Danish Gambling Authority; Isle of Man Gambling Supervision Commission; Jersey Gambling Commission; Kahnawake Gaming Commission and the Swedish Gambling Authority. Information exchange normally concerns either information relating to other regulatory frameworks, in order to extract standard or best practices, or specific information about an operator or a person from a licensed or home jurisdiction.

Throughout 2018, the MGA received 41 cooperation requests with the most common requesting authorities being the United Kingdom Gambling Commission, and the Netherlands Gambling Authority. Six requests were received from regulators in the United States of America, three from Australian regulators, and the remaining requests from other European regulators.

The MGA sent 21 cooperation requests to foreign regulators, with the most common recipients being the United Kingdom Gambling Commission and the Italian Amministrazione Autonoma dei Monopoli di Stato. Four requests were also sent to all signatories of the Administrative Cooperation Arrangement.

REGULATORY SANDBOX ON VIRTUAL FINANCIAL ASSETS AND INNOVATIVE TECHNOLOGY ARRANGEMENTS

After conducting a detailed study into the risks associated with licensees leveraging innovative technology arrangements within their technical infrastructure, or accepting virtual financial assets as a means of payment, the Authority launched guidelines on the 4 October 2018 establishing a sandbox framework, which sets out the additional requirements which were recognised as necessary to mitigate the associated risks.

This regulatory sandbox reflects the feedback received during extensive consultations with the industry and the public at large, as well as continuous discussion with the other relevant national stakeholders, who were also undertaking regulatory initiatives in connection with Innovative Technology Arrangements (ITAs) and Virtual Financial Assets (VFAs), particularly the Malta Digital Innovation Authority (MDIA) and the Malta Financial Services Authority (MFSA), with the aim of ensuring that the legal regimes applicable to VFAs and ITAs in their various uses are coherent.

The sandbox is divided into two phases: one relating to the acceptance of VFAs; and the second phase on leveraging distributed ledger technology, as one type of ITA, within the technical setup of a licensee. The former, to coincide with financial legislation in relation to VFAs, commenced on the 1 January 2019. The latter shall commence later in 2019 concomitantly with developments spearheaded by the MDIA.

The technology-neutral basis of the new Gaming Act introduced in August 2018 has allowed for regulatory initiatives such as this sandbox framework, which are developed in a flexible manner to ensure that changes can be made on an ongoing basis to reflect the dynamic developments in the most cutting-edge innovative sectors of the industry. The outcomes will inform the Authority's decisions on VFAs and ITAs in the near future, and they will also underpin regulatory initiatives on other ITAs, in line with the regulatory objective of promoting responsible innovation in the gaming sector, in terms of the Gaming Act.

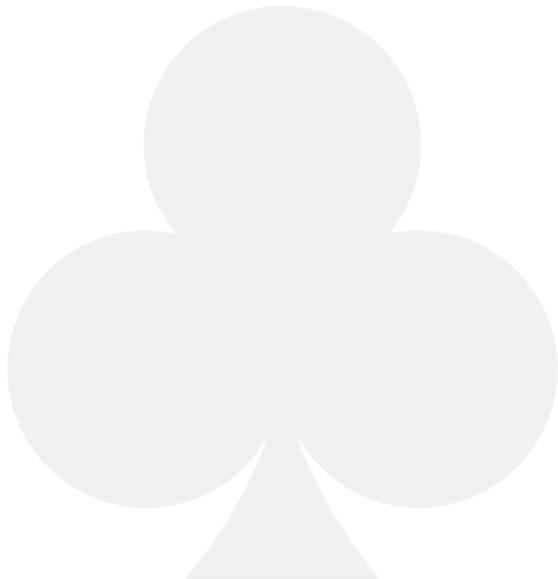


THE COMMERCIAL COMMUNICATIONS REGULATIONS

The new regulatory framework enacted in August 2018 introduced a more comprehensive regime on the advertising of gaming services. Prior to the new law, any restrictions on advertising were written in product-specific or channel-specific legislation, or in an industry-wide Code of Advertising, Promotions and Inducements dating back to 2001. The new Gaming Commercial Communications Regulations standardise obligations across operators of gaming services, and puts operators of gaming services, online or land-based, on a level playing field when it comes to opportunities to market.

The Commercial Communications Regulations were drafted to bring the sector in line with the EU Commission's Recommendation of the 14 July 2014 on principles for the protection of consumers and players of online gambling services and for the prevention of minors from gambling online. The framework introduced more robust measures intended to protect consumers, and minors and vulnerable persons in particular. The new framework also builds upon the experience gathered by the MGA, and best practices witnessed in a number of jurisdictions, and thereby outlines stronger limitations as to where advertisements can be placed, and the manner in which such communications can be made. The framework also introduces rules, specifically relating to sponsorships, bonuses and promotions, misleading advertising and advertising aimed at self-excluded persons.

The Commercial Communications Regulations also include a section wholly dedicated to the enforcement of the provisions, thereby obliging the MGA to review any complaints, and any defence thereto, within a specified time-limit, thus recognising the time-sensitive nature of any alleged breach of the Commercial Communications Regulations. The practical implementation of the Commercial Communications Regulations can also be seen in the establishment of the Commercial Communications Committee within the MGA.



THE GENERAL DATA PROTECTION REGULATION

In anticipation of the coming into force of the General Data Protection Regulation (GDPR) the MGA undertook two work-streams. The first related to ensuring that the internal policies and procedures of the MGA reflect the principles and obligations imposed on data controllers by the GDPR. To this end, the MGA reviewed its privacy policy, and internal data management policies, such as data retention policy, recruitment policy and CCTV policy. The MGA also reviewed the information it provides to all individuals who share data with the MGA as it exercises its regulatory function. This process also involved appointing a Data Protection Officer, who conducted training for all the MGA staff that revolved around the manner in which MGA employees must respond to requests by data subjects, as well as revised instructions on the handling, managing and storing of personal data throughout the course of the daily activities.

The second work-stream consisted of assisting MGA licensed operators, who are also data controllers, with their implementation of the GDPR. The latter was deemed a priority by the MGA as it recognised that the correct implementation of data protection legislation inevitably meant increased protection for players. To this end, the MGA partnered up with the Maltese Office of the Information and Data Protection Commissioner (IDPC) in order to publish GDPR guidelines for the Maltese Gaming Industry. Aimed primarily at B2C business models, the guidelines were intended to provide industry-specific practical guidance as to the application of the GDPR, by translating specific obligations into practical examples relating to the provision of a gaming service. The guidelines are a live document, and, as such, will be revisited in the near future, after an evaluation of the way in which the GDPR has, in fact, been implemented by operators, the difficulties and challenges commonly faced, and an analysis of new guidance issued by Article 29 Working Party (WP29).



THE OPERATIONAL AND SUPPORT STRUCTURES

In addition to the legislative and regulatory functions, the MGA has other supporting Directorates which assist with the day-to-day operations of its business, ensuring that the Authority functions in a smooth and organised manner.

THE HUMAN RESOURCE ELEMENT

During 2018, the Authority further strengthened its human resource capabilities, to ensure that the MGA continued to deliver its functions and responsibilities successfully. As at the end of December 2018, the Authority had a total of 165 employees.

Throughout the year, the MGA invested in new highly-skilled employees and in the further development of its existing staff complement. As at the end of 2018, the number of employees who held a recognised qualification amounted to 64%, out of which 63% had a first degree, post-graduate qualification or equivalent.

Following an extensive in-house Training Needs Analysis (TNA), the Authority continued proactively investing in the training and upskilling of its staff. Specialist training workshops were delivered to the Anti-Money Laundering Unit, Criminal Probity Screening Unit and the entire Regulatory Directorate. In addition, various staff members continued to be kept abreast of the latest regulatory and technological developments in the industry by attending conferences, seminars and various training events. Special attention was also given to in-house GDPR training due to the new data protection provisions which came into effect at the end of May 2018. In addition, in view of the new Gaming Act which came into force in August 2018, in-house training was delivered across the Authority on the new legislative framework including all necessary training on the core MGA technological systems. Furthermore, the Authority continued to invest in leadership training for its management team. The full list of training courses, conferences, workshops and seminars can be found in Appendix 1.

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 the Authority's human resources strategy but also highlights the areas which need improvement. With a participation rate of 73% of the total workforce, the survey results provide a clear indication of the employees' engagement levels. It is worth noting that among the highest scoring areas are those related to Corporate Culture, Training and Development and Employee Well-being. Areas of improvement included the need of better rewarding mechanisms.

	2016	2017	2018
 FIRST DEGREE, POST GRADUATE DEGREE OR EQUIVALENT	48	64	67
 DIPLOMA	43	41	39
TOTAL	91	105	106



The MGA's efforts on employee engagement have not gone unnoticed. The Authority was awarded the Employee Voice Award and was chosen as Employer of Choice in the 150+ employees category for the year 2018, organised by Business Leaders Malta. This annual award recognises organisations for their outstanding work in employee engagement, employees' perceptions of their employers and quantify employee attitudes and satisfaction, amongst other factors.

In line with the MGA's commitment towards the well-being of all employees, an Employee Assistance Programme was set up in collaboration with The Richmond Foundation whereby staff are able to access a number of free, confidential counselling sessions held with professional mental health practitioners. This service aims to assist employees with emotional distress, to reduce sources of stress and to create a working environment which promotes positive mental well-being. Such an initiative has been valued by employees and has contributed to having the MGA provide a healthy and happy workplace.

For the first time, in October 2018, the MGA was represented at the University of Malta Fresher's Week. This allowed the Authority to showcase its functions as a regulatory body and attract future prospective talent. It was a very successful week with many students expressing their interest in obtaining suitable internships with the MGA.

Investment in our human capital was not only limited to training but effort was also given to teamwork and teambuilding. Following a hugely successful Authority-wide Teambuilding Day in 2017 and the positive feedback received from various staff members, the MGA organised another teambuilding event in 2018. In addition, social events and corporate social responsibility events were also organised throughout the year, with the scope of strengthening stronger relationships as well as better communication within the Authority.



DIVERSITY AND INCLUSION

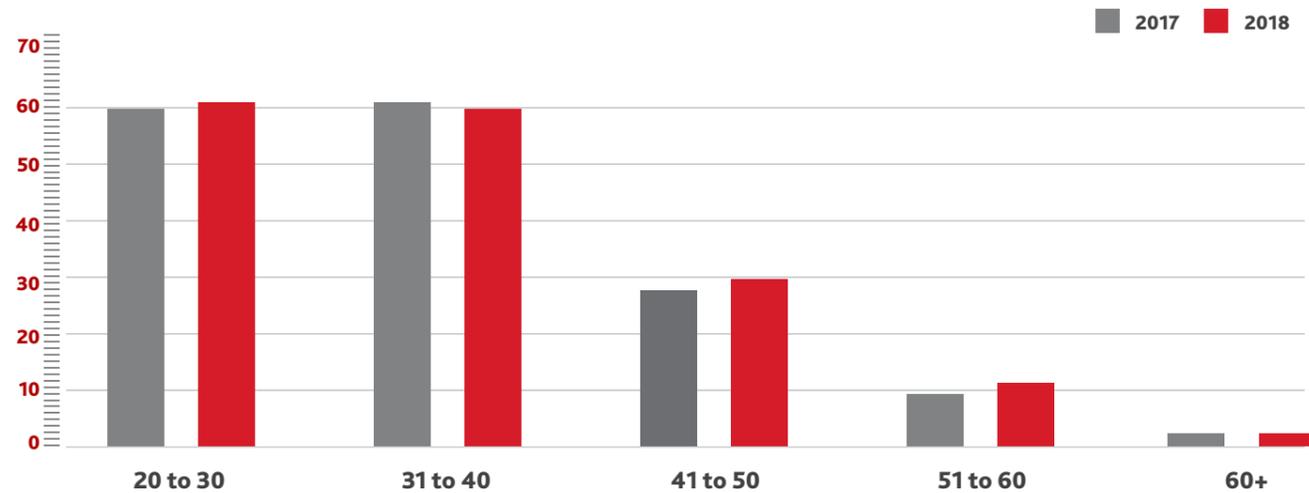
The Authority is committed to create a diverse and inclusive workplace. As at the end of 2018, 41% of the 165 MGA's employees were females. The Authority is determined to develop an inclusive and diverse culture and fully committed to increasing the representation of women at all levels.

The tone for inclusivity and diversity within the MGA starts at the top. In 2018, 50% of the Authority's Board members were women. During the past year, the Executive team was mostly composed of men as a result of different organisational changes. The MGA seeks to build teams as diverse as the industry it is servicing, hence the Authority's aim is to make a systematic effort to appoint more women to C-level positions in the coming years. In 2018, the upper level positions of the Authority were mostly taken up by women accounting for 56% of our Senior Management Team.



The employees' age distribution was about the same in 2018 as it was in the previous year with the majority of employees lying within the 20 to 30 and 31 to 40 age brackets, both constituting 36% of the total workforce respectively.

The Authority saw a substantial increase of 33% in the 51-60 age bracket followed by a 14% increase in 41-50 age group. The number of employees in the youngest age group, 20-30, registered a 2% increase. It can be noted that the only age group which registered a drop in the number of employees was that of 31-40, while there was no change in the number of employees aged 60+.



SUPPORTING DIVERSITY IN THE GAMING INDUSTRY

The MGA joined the All-In Diversity Project in support of diversity and inclusion. The Authority became the first European Gambling Regulator to enter this strategic partnership. The industry-driven initiative was launched to set the benchmark for diversity, equality and inclusion across the global betting and gaming sector. The All-In Diversity Project aims to facilitate an open and objective discussion about diversity across the entire industry on a global scale.

BUILDING INFORMATION AND KNOWLEDGE

The Information Management function is responsible for the planned and systematic collection of data from its licensed operators and other reliable sources, which enables the Authority to understand the dynamics of the market better and provide the necessary support to the decision-making processes. The MGA utilises the information obtained through various questionnaires to assess any changes in the gambling landscape with regard to money wagered, gaming revenue, overall participation in gaming and gambling activities, and responsible gambling measures.

The MGA believes in collaboration between different local agencies with the aim of exchanging information and sharing knowledge. To this effect, the Information Management Unit provides ongoing support to the National Statistics Office in its work towards official data compilation.

Throughout the past years, the MGA contributed to the collection of gambling market statistics led by the GREF's working group on Information and Statistics (InfoStat). In 2018, the representatives of the MGA's Information Management Unit participated in two group meetings where

experts from different Gambling Authorities exchanged best practices in data collection, research and analysis.

In 2018, two main surveys were conducted by the Unit. In order to support its commitment towards consumer protection, the MGA carried out a questionnaire on the Consumption of Gambling Services by Maltese Residents and published the results in the last quarter of 2018. Furthermore, during the past year, the Authority felt that, in order to effectively address the skills gap, more research work is needed in this area. In light of this, in the first quarter of 2018, the MGA carried out a survey on the 'Skills Gap Affecting the Remote Gaming Industry in Malta'. The results of the survey were published in order to assist the education sector in a better understanding, and ultimately servicing, of the needs of the remote gaming industry. The skills gap data is being collected by the Information Management team on a six-monthly basis in order to monitor the effectiveness of different initiatives undertaken at the national level to address the existing skills shortage.



ENHANCEMENT OF THE INFORMATION SYSTEMS

The Authority seeks to continuously enhance its IT systems and management of its information systems. Throughout 2018, the MGA has embarked on various new projects and continued improving on existing IT ones while staying abreast of the new technologies. These efforts included:

- the updating of the Licensee Relationship Management System, which has been used successfully by the remote gaming operators for the past two years, to also cater for the land-based operators. These processes have been digitised entirely to offer a more efficient service to the MGA's licensees;
- the digitisation of the Monthly Licence and Compliance Contribution Report and its availability on the MGA's Licensee Relationship Management web-portal. This functionality has replaced the manual process of submitting the monthly tax report to the MGA;
- the publishing and award of a tender for the supply, delivery and installation of highly available servers and storage area network infrastructure solution. The new setup, which is going to be implemented through 2019, will be based on a stretched cluster across two different sites. A server appliance in each site will be configured in High Availability mode to act as a disaster recovery and also as a load balance between the sites;
- the drafting of a preliminary market consultation document for a Unified Self Exclusion system with publication being targeted for the first months of 2019. This system will be an extension of the self-exclusion criteria set on operators in Part IV, Clause 11 of the Player Protection Directive, implemented by the Authority throughout 2018; and
- the investigation for the use and implementation of Internet of Things (IoT) devices and Blockchain Technology within the Enhanced Automated Reporting Platform (EARP) project, which shall be implemented throughout the year 2019. To this end, during 2018, the infrastructural work pertaining to the network and data sets has been carried out.

PROGRAMME MANAGEMENT

The Authority believes that it is vital to have effective coordination and execution of strategic projects being handled by the various Units, while assuring high quality working standards. Throughout 2018, the Programme Management function persevered with managing the Authority's portfolio of projects geared towards the implementation of the MGA's change agenda and strategic vision. The Programme Management team ensured that projects are clearly scoped and accompanied by a documented journey which is conducive towards achieving the desired goals and outcomes.

During 2018, the Authority consolidated the work done in 2017 by achieving the following key milestones:

- enacting the new Gaming Act⁶;
- publishing guidelines on the Virtual Financial Assets and use of Distributed Ledger Technology Sandbox⁷;
- publishing a guidance document on the GDPR⁸ to minimise risks arising from the industry's concerns about GDPR-compliance and the way it impacts the gaming industry;
- launching the Licensee Register⁹ for public consumption via its website. Via this tool, interested parties can search by licensee name, authorisations status, URL or Gaming Service;
- publishing the results of the Inquiry on the Consumption of Gambling and Gaming Services by Maltese residents in 2017¹⁰. The survey takes into account economic and social considerations whilst providing an assessment of the gambling and gaming behaviours in Malta through a scientific survey; and
- transposing a number of manual forms to the MGA's own portal. These developments reflect the continued efforts of the Authority to digitise itself, thus streamlining the points of contact between itself and its licensees. This digital bridge is intended to consolidate the relationship and the synergy between the MGA and the licensees. It is envisaged that additional forms are introduced on the portal throughout 2019 as well.

CORPORATE AFFAIRS

The MGA's Corporate Affairs function is responsible for the execution of the promotional and Corporate Affairs strategies in order to ensure that objectives set out by the Authority are duly and effectively reached. The year under review was characterised by the implementation of the new Gaming Act which was of major importance to this function with the Authority, since the team was entrusted to communicate, via different mediums, with all the interested parties, ranging from the Authority's licensees to the general public at large, on all the various dimensions of the new Gaming Act. In particular, a number of Information Sessions were organised at the MGA's Offices, during which key employees of the Authority provided information to gaming operators ensuring that the licensees and practitioners in the industry were aware of the salient points of the new laws and regulations.

In addition, the team was also responsible for the preparation and execution of all events in which the MGA personnel participated in, both locally and internationally, a list of which can be found in Appendix 1. These included conferences, events, fairs and expos, focusing on different thematic areas, in particular AML and GDPR.

ESTABLISHING A QUALITY MANAGEMENT SYSTEM

In 2018 the Quality Management team continued to consolidate its place within the Authority as the go-to point of reference in generating quality outputs. Throughout 2018, the team took initial steps in establishing an effective Quality Management System and in promoting the principle of continuous improvement across the Authority. It also sought the streamlining of existing processes, with the intention of establishing good practice and standardisation.

In addition, in 2018, the Unit consolidated its Quality Management function and has placed itself as a key player for effective quality control. Furthermore, a number of tools and templates have been generated to standardise outputs, thus promoting the concept of generating quality at source.



⁶ <https://www.mga.org/mt/new-gaming-act-comes-into-force/>
⁷ <https://www.mga.org/mt/the-mga-publishes-guidelines-on-its-sandbox-framework-for-the-acceptance-of-virtual-financial-assets-and-the-use-of-distributed-ledger-technology-within-the-gaming-industry-at-the-delta-summit-2018/>
<https://www.mga.org/mt/the-mga-implements-first-phase-of-its-sandbox-framework-for-the-acceptance-of-virtual-financial-assets-and-the-use-of-distributed-ledger-technology-within-the-gaming-industry/>
⁸ <https://www.mga.org/mt/mga-publishes-industry-guidelines-on-the-gdpr-in-consultation-with-the-idpc/>
⁹ <https://www.mga.org/mt/mgalicenseeregister/>
¹⁰ <https://www.mga.org/mt/the-mga-publishes-results-of-its-inquiry-on-the-consumption-of-gambling-and-gaming-services-by-maltese-residents-in-2017>

PLANNING FOR 2019

The outlook for the gaming sector in Malta in 2019 is primarily based on a continued strength of the sector. This is within the context of a substantial expansion at the global level, driven by consumption trends, income developments and demographic shifts across major economic blocks. These trends, reinforced by technological advancements, are expected to provide new stimulus to the global gaming industry, including the European one, and to continue to foster business consolidations and mergers. Malta is expected to continue to benefit from these trends, and to experience activity growth within its jurisdiction on the strength of its regulatory environment, particularly through the changes enacted in 2018 and its innovative outlook. Brexit is another factor which would bring potential opportunities as well as threats to the local gaming industry. In this regard, it will be essential for the industry within the Maltese jurisdiction to continue to operate in a stable environment which provides the required resources and support infrastructures.

Against this background, the MGA will continue to consolidate its operational base during 2019. In part, this will involve the implementation of ongoing strategic projects. Furthermore, throughout 2019, the Authority's headship will be engaged in a number of initiatives by way of input for the documentation of a strategic plan for the Authority spanning over 2020 – 2022.

During the year ahead, the Authority aims at consolidating further its commitment towards regulating the Gaming Sector and continue enhancing further consumer protection and responsible gambling measures, while promoting a risk-based approach to regulation and reinforcing its compliance and enforcement functions, in line with AML and funding of terrorism obligations. This will be reinforced by strengthening its collaboration with the FIAU, thus ensuring that the Subject Persons are meeting their obligations at law and that the AML/CFT supervisory and compliance processes undertaken by the

two entities meet the rules and regulations governing this area. During 2019, the MGA's Player Support Unit will refocus its efforts since it will no longer be delving into the merits of a dispute between a player and a B2C licensee, since this function is now being handled by the relevant ADR entity. To this end, the Unit will focus further on the ongoing monitoring of those aspects which ensure player protection.

The Authority is looking forward to new challenges brought about by new technologies such as DLTs, Blockchain and Artificial Intelligence, as well as the completion of the roll-out of the Authority's electronic services. The year 2019 should be a continuation of this challenging experience, whereby the full benefits of the regulations aimed at strengthening the supervisory role of the regulator will be exploited. In this regard, the MGA aims at continuing to improve its criminal probity measures by taking on more robust and intelligence-oriented investigations as well to reinforce its compliance functions by communicating further the new requirements that emanate from the new regulatory instruments and ensure that they are being followed. The aim of the MGA is to start issuing technical standards for the industry in 2019, to provide streamlined supervision and minimise administrative regulatory burdens.

The Authority will continue to digitise data collection forms in 2019, including the Industry Performance Returns. This will provide the MGA with a more solid technical platform where data is stored, and a better platform for data analytics. The EARP is expected to be launched during 2019. This will provide the MGA with tools to effectively monitor compliance and introduce automated reporting to its licensed land-based gaming operators. In addition, it shall provide the MGA with access to data to perform analytics, the ability to process information quickly and will also provide the gaming operators with an electronic service that will eliminate the need of cumbersome and inefficient manual reporting processes.





THE MALTESE GAMING INDUSTRY STATISTICS



PREFACE

The following section presents the performance of business operators regulated by the MGA during 2018. This is presented in terms of the economic value added, employment and other results attained by the operators licensed under the Maltese jurisdiction.

A number of changes were introduced in this year's review as a result of the introduction of the new regulatory framework for the gaming sector. The legislative framework was applicable for online gaming operators as of the 1 August 2018, whereas land-based operators became subject to these new laws as of the 1 January 2019. Developments introduced by the new Gaming Act had a significant impact on the MGA and its licensees' operation, and therefore resulted in different reporting requirements implemented by the Authority. In light of this, for some variables presented in this assessment, there are no comparable data sets for the previous reporting periods. Readers are strongly encouraged to carefully read the methodological notes that precede the statistical review to ensure correct interpretation of data.

METHODOLOGY

1. These statistics relate to the gaming industry in Malta that have been collated by the MGA. The sources are:
 - ◆ Industry Performance Returns submitted by operators in terms of Article 7(2)(d) of the Gaming Act (Chapter 583 of the Laws of Malta);
 - ◆ information provided by operators through specific questionnaires and correspondence with the MGA; and
 - ◆ financial information provided by operators to the MGA.
2. Unless otherwise stated, figures are representative of the position as at the end of December 2018.
3. The data contained in this review covers the gaming industry as regulated by the MGA. Due to the fact that the online gaming operators became subject to the new law from the 1 August 2018, and land-based operators from the 1 January 2019, the structure of this report remained unchanged, with distinct sections on each of the two channels. Nevertheless, the MGA recognises the increased convergence between the land-based and online sectors which was expressed in the new regulatory framework. This development will be even better reflected in future statistical reviews issued by the Authority.
4. In the section referring to online gaming, the data collected was based on the Industry Performance Return which was disseminated amongst all companies 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. The response rate, at the cut-off date for processing of the records for this review, was 96%. The remaining 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, namely companies operating with a Business-to-Consumer (B2C) - Gaming Service licence and those that operate with a Business-to-Business (B2B) - Critical Gaming Supply licence.

Following the data collection exercise, data cleaning was undertaken to ensure consistency of results. In a number of cases, operators were contacted to clarify their responses. Omitted data was imputed through appropriate techniques and answers to each question were analysed. Initial sample results were grossed up to obtain population data for all Malta-licensed activities through appropriate weighting techniques.
5. The new gaming regime replaced the multi-licence system with a system which distinguishes between a B2C licence and a B2B licence covering different types of activities across multiple distribution channels. In order to provide comparable data sets for the online gaming, all licences of a B2C-nature under the previous legislative framework, namely Class 1, Class 2, Class 3 and Skill Game B2C were grouped into "B2C - Gaming Service Licence" category whilst the licences containing B2B-activity elements, namely Class 4 and Skill Game B2B, were grouped into "B2B - Critical Supply Licence" category.
6. In view of the replacement of the multi-licence system with a two-licence system, the MGA moved away from the collection of player account data (that is, the number of active and new active player accounts) by class from its B2C licensees towards the collection of data at the level of the reporting entity.



7. The horizontal approach to the licensing of gaming services also extends to the manner in which such services are subject to taxation. Under the new law, dues are based on the Gaming Revenue (GR) generated by the operators, thus abolishing any dues previously payable as a fixed fee. The new law also caters for a compliance contribution. Furthermore, B2B operators (previous holders of Class 4 and/or Controlled Skill Game B2B licences) are now exempt from any compliance contribution and gaming tax, thus paying only the annual licence fee.

For online gaming operators holding a B2C licence, compliance contribution and 5% gaming tax (on customers located in Malta) is reported for the year 2018 whilst for the previous years (2016-2017), only dues were reported in line with the Remote Gaming Regulations (S.L. 438.04). Further to the exemption introduced by the new law, online gaming operators holding B2B licence were excluded from such analysis. In respect of the land-based sector, no changes were reflected in the review so far because they were only applicable from the 1 January 2019.
8. The MGA moved towards a standardised concept of GR for the computation of gaming tax and compliance contribution. The online gaming operators were requested to submit GR data as defined by the Gaming Licence Fees Regulations (S.L. 583.03) and the Directive on the Calculation of Compliance Contribution (Directive 4 of 2018), instead of Gross Gaming Revenue (GGR) as was the case for previous years. Due to differences in computation of GR and GGR, data relating to online channel could not be compared on a year-on-year basis. Thus, the breakdown of GR by different Game Types is presented in the online gaming section solely for 2018. For the land-based sector, no changes were yet implemented.
9. Employment figures detailed in this report refer to full-time equivalent jobs as at the end of each reporting period provided by the gaming operators (both land-based and online companies holding B2C and B2B licences) in the Industry Performance Return submitted to the MGA.

The online gaming figures relate to employees working directly on the MGA-licensed activity. The methodology for the collection of the employment figures for the online gaming sector has been revised for 2018. As a result, the figure for that year cannot be compared with those of the previous years since the number of online gaming employees reported prior to 2018 includes the number of outsourced/self-employed individuals directly engaged by the gaming companies.
10. Figures related to games falling under Type 4 were excluded from the sections on Customer Accounts, the Profile of the Online Gaming Players and the GR Distribution due to limited activity throughout the period under review.
11. 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 online gaming companies (excluding activities of B2B operators).
12. The statistical figures reported for the previous periods have been revised to reflect any changes reported after their publication.

INTRODUCTION

The gaming industry sustained its contribution to the growth of the Maltese economy in 2018. The value added of the industry expanded by over 12%, with its share in the economy total edging up to around 13%, confirming the gaming sector as third-largest productive sector in Malta. The gaming industry directly accounted for 6,794 jobs in full-time equivalent terms by the end of 2018 with 88% of these employees engaged in the online sector. The growth in economic value added was thus matched by an expansion in employment, in a situation where the demand for human capital is buoyant and being met by the immigration of workers and indigenous skills development programmes. Over 3,000 additional jobs are estimated to be supporting the gaming industry in other sectors of activity.

The outlook for the gaming sector in Malta in 2019 features continued growth within the context of a substantial demand expansion at the global level accompanied by technological advancements. These are expected to provide new stimulus for business consolidations and mergers. Malta is expected to continue to benefit from these trends, and to experience quality growth founded on its regulatory environment, particularly through the changes enacted in 2018, and its innovative outlook.

HEADLINE INDICATORS

The gaming industry is estimated to have generated just over €1.4 billion¹ in terms of gross value added in 2018, as shown in Table 1. This represented a 12.1% growth over 2017, when the industry had already increased its gross value added by 10.4% year-on-year. As a result of this momentum, the gaming industry's share in economic activity over the past years has increased, to stand at around 13.2% by 2018. 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

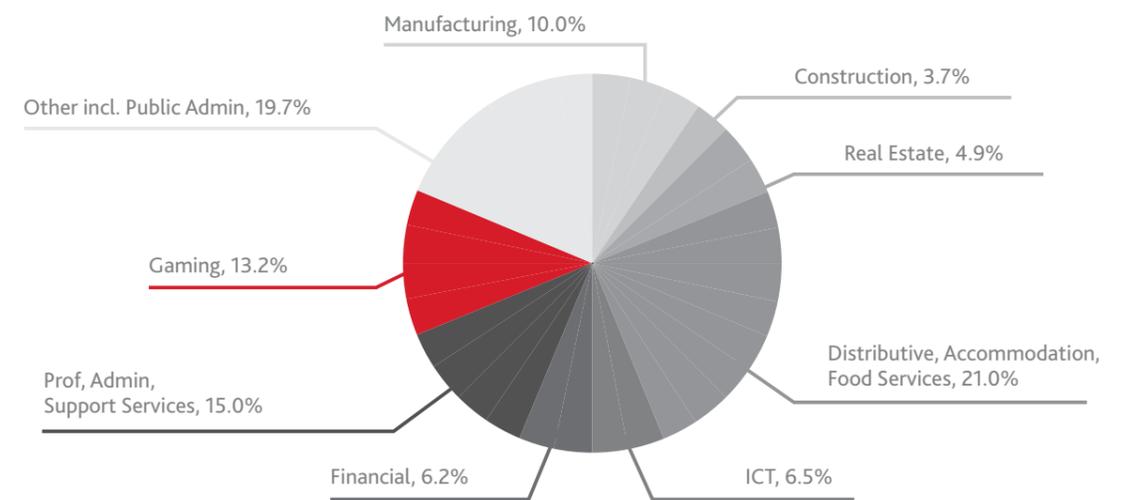
	2016	2017	2018
Number of licences (online) (Note 1, 2)	513	625	275
Number of companies in operation (Note 2)	268	296	283
Gross value added (€m)	1,152.6	1,272.1	1,426.6
Employment - full-time equivalent (FTE) jobs ²	6,193	6,673	6,794
Online	5,327	5,861	5,950
Land-based	866	812	844
Gaming tax revenue / compliance contribution (€m) (Note 3)	56.3	59.1	66.9

Notes:

- (1) The drop in the number of licences (online) was mainly due to the replacement of the multi-licence system with two-licence system.
- (2) Number of licences (online) and number of companies in operation (incl. both online and land-based) relates to stock as at the end of December and refers solely to the MGA licensed entities;
- (3) Gaming tax revenue was reported for the year 2016 and 2017 in line with the Remote Gaming Regulations (S.L. 438.04). The figure for the year 2018 includes the gaming tax paid by the land-based operators whilst the compliance contribution was reported for the online gaming operators in line with the Gaming Licence Fees Regulations (S.L. 583.03). The 2018 figure also includes the 5% gaming tax on customers located in Malta in line with Gaming Tax Regulations (S.L. 583.10).

¹ National Statistics Office.
² This number refers to full-time equivalent jobs as at the end of each reporting period provided by the gaming operators (both land-based and online companies holding B2C and B2B licences). Kindly refer to point 9 of the Methodology for more information.

CHART 1: CONTRIBUTION OF THE GAMING INDUSTRY TO VALUE ADDED
 SOURCE: NATIONAL STATISTICS OFFICE



The gaming industry directly accounted for just below 6,800 jobs in full-time equivalent terms as at the end of 2018. It is estimated that the expenditure by gaming firms in Malta generates the equivalent of an additional 3,000 full-time equivalent jobs in other economic sectors with high value added. A survey carried out by the MGA for the year 2018 indicates that, when taking indirect employment into account, the total employment in the gaming industry was estimated to be around 9,850 full-time equivalent (FTE) jobs. 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 2018 remained significant, 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 re-regulated the gaming industry, and thus repositioned Malta as a jurisdiction of choice. During 2018, companies based in Malta consolidated their operations towards service delivery robustness, quality and consumer satisfaction, driven also by regulatory requirements. Business, in general, also sought to acquire professional skills to enhance marketing activities.

GAMING INDUSTRY OUTLOOK

The gaming industry in Malta is expected to continue to grow in 2019 and 2020. This will, in part, be underpinned by the industry outlook at a global level, which is a positive one. Together with the revamped regulatory environment, this is expected to contribute to further quality investment in the jurisdiction and organic growth in existing business. With respect to the latter, results of surveys undertaken by the MGA focusing on activity over 2019 and 2020 indicate expected growth in Gaming Revenue and employment, averaging around 12% to 14% and 10% to 11% respectively. At the same time, existing operators expect to increase their expenditure in Malta, in a range of around 8% to 10% 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. These results equally apply to online gaming operators with B2C and B2B licences, with the latter actually expecting somewhat faster rates of growth. Expectations of land-based operators remain positive but somewhat less upbeat than those of online 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.

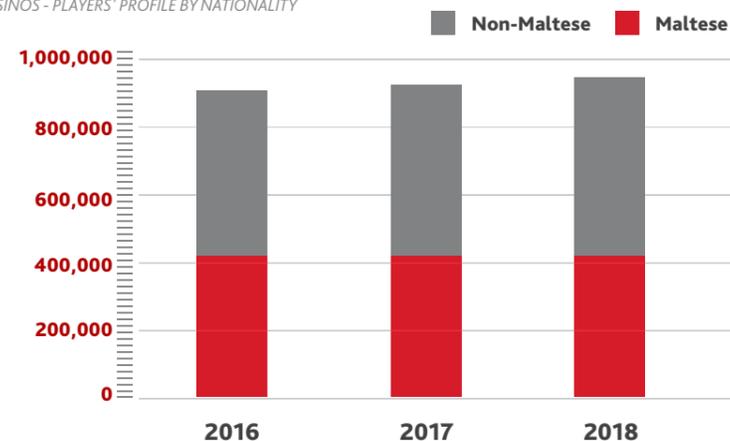
GAMING PREMISES - CASINOS

There were four licensed casinos operating in Malta during 2018: Dragonara Casino, Portomaso Casino and Casino Malta, located in the central part of the country, and Oracle Casino located in the north.

1. GAMING PREMISES - CASINOS: PLAYERS' VISITS

The total number of visits to local casinos stood at 934,612 in 2018, an increase of 2.7% over the previous year. This increase was wholly due to a 4.8% rise in visits by non-Maltese players, in good part reflecting the growth in tourist arrivals which in 2018 amounted to 14.3%³. Indeed, the highest number of visits in any month was reported in August when the tourism arrivals in Malta also reached their peak.

CHART 2: GAMING PREMISES - CASINOS - PLAYERS' PROFILE BY NATIONALITY



³ National Statistics Office, News Release (017/2019), Inbound Tourism: December 2018.

Visits by non-Maltese accounted for 55.4% of the total visits in 2018, up by one percentage point over the previous year. Apart from the August peak, there was a notable inflow of foreign visitors in November 2018 in view of poker tournaments. Visits by Maltese players remained stable over the year, ranging between 32,000 and 37,400 visits per month.

Over the last few years, casinos have reported a steady increase in the number of junket⁴ players. In 2018, these amounted to over 1,600, 11% more when compared to 2017.

TABLE 2: GAMING PREMISES - CASINOS - NUMBER OF JUNKET PLAYERS

	2016	2017	2018
Total	959	1,499	1,666

2. GAMING PREMISES - CASINOS: NEW PLAYERS' REGISTRATIONS

Casino operators are required to register each new-to-the-casino player entering their premises. In 2018, operators reported a total of 147,674 registrations in their establishments, part of which represent multiple registrations by a single player in more than one casino. Similar to previous years, nearly 60% of registrations happened during the second half of the year. This reflects the seasonality of tourist visits to the Maltese Islands, which is strongly concentrated in the summer season.

TABLE 3: GAMING PREMISES - CASINOS - NEW PLAYERS' REGISTRATIONS

	2016	2017	2018
Total	136,856	140,825	147,674

3. GAMING PREMISES - CASINOS: NUMBER OF GAMING DEVICES

As at the end of 2018, the total number of gaming devices⁵ in the casinos stood at 926, including 909 slot-type gaming machines and 17 sports betting machines as shown in the table below.

TABLE 4: GAMING PREMISES - CASINOS - NUMBER OF GAMING DEVICES

	end-2016	end-2017	end-2018
Slot-type gaming machines	915	900	909
Sports betting machines	19	27	17
Total	934	927	926

⁴ The arrangement, the purpose of which is to induce any person residing outside Malta, selected or approved for participation therein, to come to a gaming premises in possession of a concession issued by Government for the purpose of playing licensable games and pursuant to which, and as a consideration for which, any or all of the costs of transportation, food, lodging, and entertainment for the said person is directly or indirectly paid by the authorised person operating the gaming premises.

⁵ Total number of gaming devices as at 31 December.

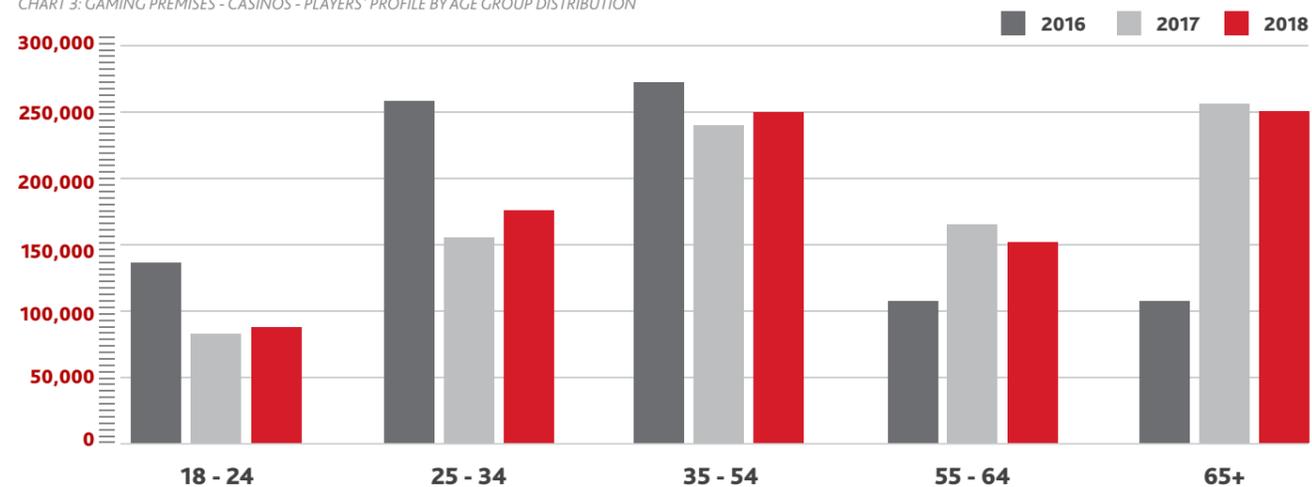
4. GAMING PREMISES - CASINOS: PLAYERS' PROFILE

Demographic Group

Persons aged 65 and over continued to constitute the largest demographic category of visitors to casinos, accounting for around 27% of the total, in line with the number of visits reported for persons in the 35-54 age bracket.

The increase in visitors during 2018 was almost entirely concentrated in the 25-year to 54-year age bracket as shown in the chart below.

CHART 3: GAMING PREMISES - 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.

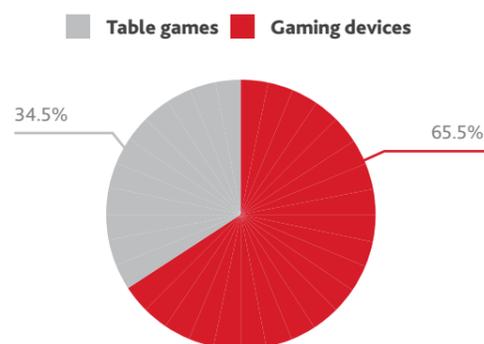
It is worth noting that visits by male players continued to account for over 60% of total visits to casinos in 2018, in line with the figures reported for the previous two years.

5. GAMING PREMISES - CASINOS: GGR

Following a substantial growth in GGR of 13.9% between 2016 and 2017, a more moderate increase of 4.7% was registered between 2017 and 2018. This is within the context of an 8% growth in expenditure by tourists⁶, and an 8.3% increase in the consumption expenditure by households⁷ in Malta registered in 2018.

Almost two-thirds of GGR was generated through gaming devices (including slot-type machines and sports betting machines), and the rest through table games. Over the last three years, the share of GGR from gaming machines rose by nearly four percentage points, reflecting a 19.3% growth in this category between 2016 and 2018. GGR from table games remained stable during the period.

CHART 4: GAMING PREMISES - CASINOS - GGR DISTRIBUTION



⁶ National Statistics Office, News Release (017/2019), Inbound Tourism: December 2018.

⁷ National Statistics Office, News Release (038/2019), Gross Domestic Product: 2018.

The last two years were also characterised by an increase in junket activity, both in terms of number of players and GGR. In 2018, junkets accounted for 7.9% of the total GGR reported by the local casinos, which is equal to the same amount reported for 2017.

Average GGR per Visit

The average GGR per visit rose by 2% in 2018 to stand at €50.7, as shown in Table 5. This is in line with the rate of price inflation, which in 2018 stood at 1.7%⁸.

TABLE 5: GAMING PREMISES - CASINOS - AVERAGE GGR PER VISIT

	2016	2017	2018
Total	€43.9	€49.7	€50.7

6. GAMING PREMISES - CASINOS: GAMING TAX

The gaming tax⁹ payable by the casino sector amounted to €17.3 million in 2018. This constituted 25.9% of total gaming tax revenue generated under the Maltese jurisdiction during the year. Over the medium term, the growth of the sector has resulted in a higher tax intake.

TABLE 6: GAMING PREMISES - CASINOS - GAMING TAX

	2016	2017	2018
Total	€14,421,187	€17,038,381	€17,301,552

7. GAMING PREMISES - CASINOS: EMPLOYMENT

The number of full-time equivalent direct employees working in the casino sector increased by 2.4% to 611 by the end of 2018, as shown in the table below. A considerably lower number of employees registered as at the end of 2017 can be explained by the normal fluctuations in the number of staff needed during the major gaming events organised by casinos.

TABLE 7: GAMING PREMISES - CASINOS - EMPLOYMENT (FTE)

	end-2016	end-2017	end-2018
Total	648	584	611

The proportion of male employees increased by three percentage points from levels reported as at the end of 2017, to reach just below 60% as at the end of 2018. Furthermore, an increasing dependence on foreign workforce in the casino sector was observed during 2018 when the share of non-Maltese employees rose by four percentage points to 64.1%.

⁸ National Statistics Office, News Release (007/2019), Harmonised Index of Consumer Prices (HICP): December 2018.

⁹ For more information on the gaming tax, please refer to point 7 of the Methodology.

CONTROLLED GAMING PREMISES

1. CONTROLLED GAMING PREMISES: NUMBER OF OUTLETS

The number of approved controlled gaming premises¹⁰ in Malta remained unchanged between 2017 and 2018, with minor changes in the number of premises registered between operators. The highest number of outlets were located in the Southern Harbour and Northern Harbour Districts (as defined in Appendix 2) having 22 and 14 approved premises respectively. A new gaming operator started its operations in April 2018 by opening one outlet.

There are no specific limits of controlled gaming premises per locality, but the Authority ensures that approvals of licences and premises are in line with legal restrictions to safeguard and protect minors and the general public.

The table below presents the number of controlled gaming premises per operator.

TABLE 8: CONTROLLED GAMING PREMISES - NUMBER OF OUTLETS

	end-2016	end-2017	end-2018
Gaming Operations Limited	27	29	30
Bestplay Gaming Limited	6	7	7
Media Games Malta (EU) Limited	5	5	5
Fairbet Limited	7	7	5
Bingo Limited	3	4	4
SmartBet Operations Limited	-	-	1
Total	48	52	52

¹⁰ Controlled Gaming Premises are premises intended to make available for use, to host or operate one or more gaming devices, but shall not include premises in which gaming is carried out in virtue of a concession by Government, or premises in which the only gaming which is carried out consists in tombola games.

2. CONTROLLED GAMING PREMISES: NUMBER OF GAMING DEVICES

The number of licensed gaming devices has increased from 401 in 2017 to 416 during 2018. This brought the average number of gaming devices per outlet to eight, which is in line with the regulations limiting the number of devices per outlet to no more than 10. The increase in devices registered in 2018 was consistent with that of the previous year.

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

TABLE 9: CONTROLLED GAMING PREMISES - NUMBER OF GAMING DEVICES

	end-2016	end-2017	end-2018
Gaming Operations Limited	214	223	246
Bestplay Gaming Limited	48	59	59
Media Games Malta (EU) Limited	40	38	40
Fairbet Limited	52	41	37
Bingo Limited	30	40	30
SmartBet Operations Limited	-	-	4
Total	384	401	416

3. CONTROLLED GAMING PREMISES: PLAYERS' VISITS

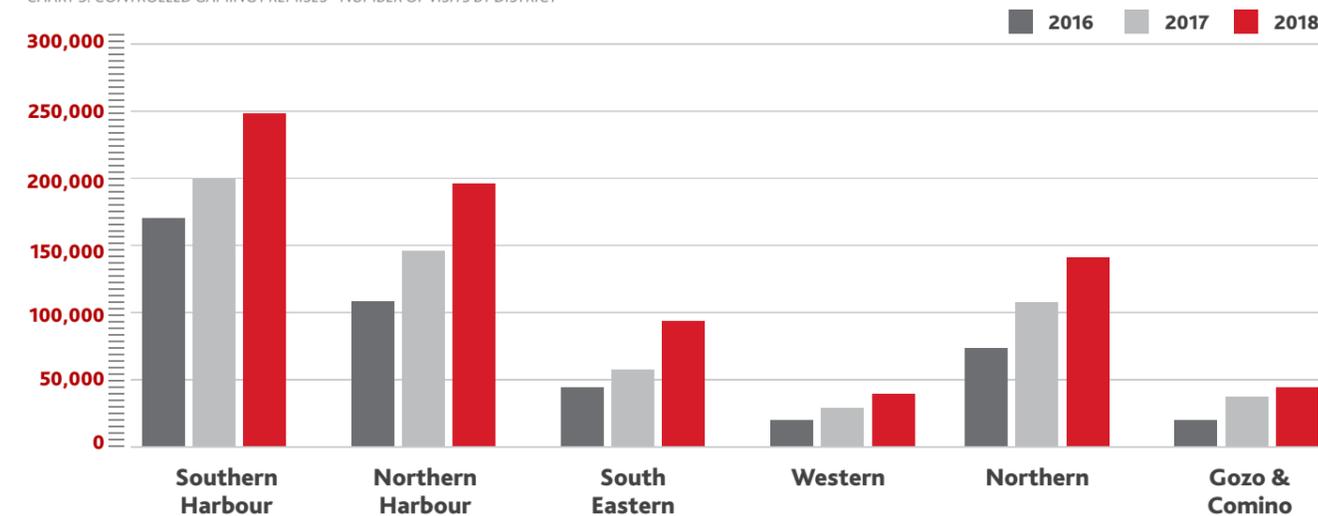
The number of visits to controlled gaming premises rose by 30.6% in 2018 to stand at 736,662. This is consistent with the ongoing demographic expansion in the country, fuelled in good part by immigration, as well as the growth in tourist arrivals.

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 2).

Of all players' visits registered in 2018, one-third took place in Southern Harbour District where the highest number of outlets, 22, were located. This is consistent with the patterns of earlier years. Between 2017 and 2018, visits to controlled gaming premises grew in each district with the largest growth rates reported for the South Eastern District, at 63%, despite considerably lower number of visits reported in such a district when compared to Southern Harbour and Northern Harbour Districts.

CHART 5: CONTROLLED GAMING PREMISES - NUMBER OF VISITS BY DISTRICT



4. CONTROLLED GAMING PREMISES: NEW PLAYERS' REGISTRATIONS

The controlled gaming premises sector continued to report a steady increase in the number of new registrations in 2018, albeit the growth was at a slower pace when compared to the previous year, as shown in Table 10.

TABLE 10: CONTROLLED GAMING PREMISES - NEW PLAYERS' REGISTRATIONS

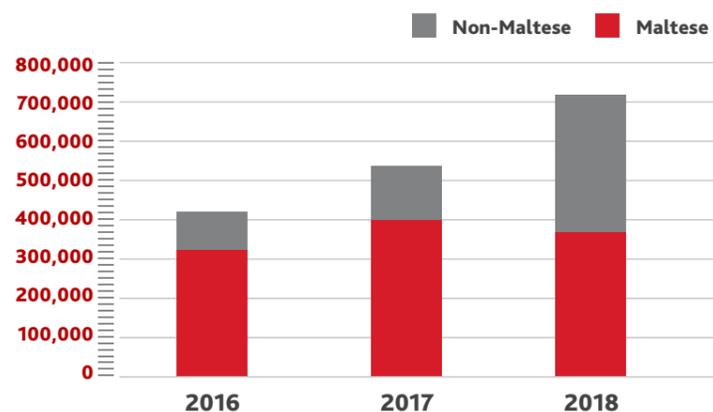
	2016	2017	2018
Total	10,875	12,145	12,561

5. CONTROLLED GAMING PREMISES: PLAYERS' PROFILE

Nationality

Visits by non-Maltese players rose by over 68% in 2018. The share of visits by this category, at 22% of the total in 2016, nearly doubled to almost 40% by 2018. In absolute terms, visits by Maltese players grew but at a much more subdued rate of around 14% to 16% per year, which is, however, also significant and, in part, contributing to restrain the expansion in casino activity.

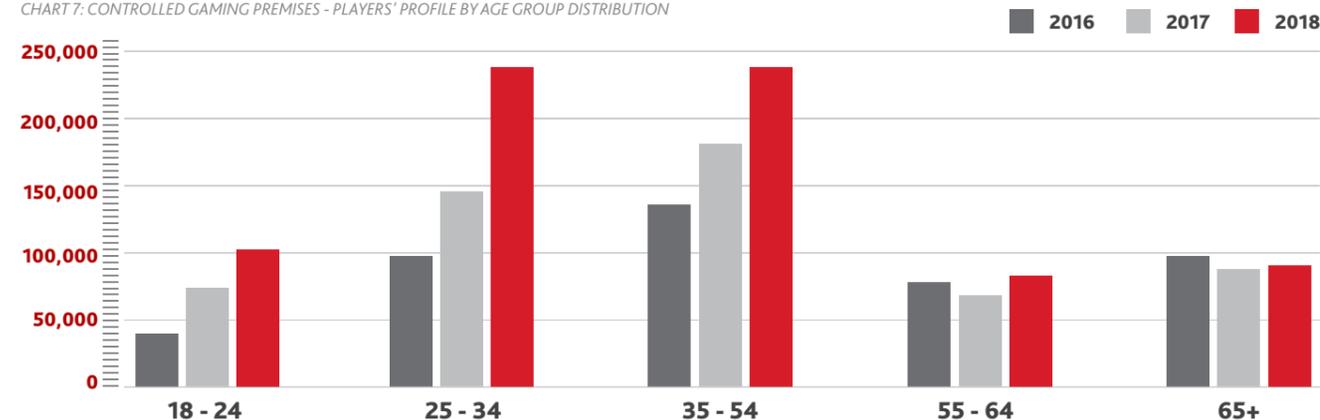
CHART 6: CONTROLLED GAMING PREMISES - PLAYERS' PROFILE BY NATIONALITY



Demographic Group

As in earlier periods, the growth in controlled gaming premises visits during 2018 was concentrated mainly in the 25-year to 54-year age bracket. Visits of players falling within these age brackets account for over 60% of the total.

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



In particular, controlled gaming premises are mostly popular with males, whose visits accounted for 86.4% of the total visits registered in 2018.

6. CONTROLLED GAMING PREMISES: GGR

After a considerable increase in GGR in the controlled gaming premises sector between 2016 and 2017, a decrease of 3% was reported between 2017 and 2018, in spite of the significant increase in the number of visits.

Average GGR per Visit

Over the last years, the average GGR per visit to controlled gaming premises has been decreasing as shown in the table below. Between 2017 and 2018, it dropped by 25.7% from €14.6 to €10.9 reflecting the changing nature of the gaming products offered in these outlets. To an extent, it may also reflect a lower spending power of the demographic categories that are accounting for the largest part of the growth in the number of visits.

TABLE 11: CONTROLLED GAMING PREMISES - AVERAGE GGR PER VISIT

	2016	2017	2018
Total	€15.7	€14.6	€10.9

7. CONTROLLED GAMING PREMISES: PAYOUT RATIO

During this reporting period, the payout ratio averaged at 90%. The minimum payout ratio required by Gaming Devices Regulations (SL. 438.07) is 85%.

TABLE 12: CONTROLLED GAMING PREMISES - PAYOUT RATIO

	2016	2017	2018
Total	89%	88%	90%

8. CONTROLLED GAMING PREMISES: GAMING TAX

The gaming tax¹¹ payable by the controlled gaming premises operators increased by 3.6%, from €2.1 million in 2017 to €2.2 million in 2018. This growth was mainly driven by the additional gaming devices that were licensed during the period January to December 2018.

TABLE 13: CONTROLLED GAMING PREMISES - GAMING TAX

	2016	2017	2018
Total	€1,617,012	€2,122,052	€2,198,832

9. CONTROLLED GAMING PREMISES: EMPLOYMENT

The number of full-time equivalent direct employees working in the controlled gaming premises licensed by the MGA increased by 6.9% during 2018 reaching a total of 125.

TABLE 14: CONTROLLED GAMING PREMISES - EMPLOYMENT (FTE)

	end-2016	end-2017	end-2018
Total	107	117	125

As at the end of 2018, almost 90% of employees within the controlled gaming premises sector were Maltese, and just under two-thirds were male.

¹¹ For more information on the gaming tax, please refer to point 7 of the Methodology.



GAMING PREMISES - COMMERCIAL BINGO

1. GAMING PREMISES - COMMERCIAL BINGO: NUMBER OF ESTABLISHMENTS

During 2018, five commercial bingo halls were operational in Malta in the following localities: Qawra, Valletta, Paola, Birkirkara and Sliema. The latter outlet closed down during the first half of 2018.

2. GAMING PREMISES - COMMERCIAL BINGO: PLAYERS' VISITS

The number of players' visits to commercial bingo halls remained stable throughout the last years with minimal changes reported by operators. Between 2017 and 2018, a marginal decrease of less than 1% was registered for the sector.

TABLE 11: CONTROLLED GAMING PREMISES - AVERAGE GGR PER VISIT

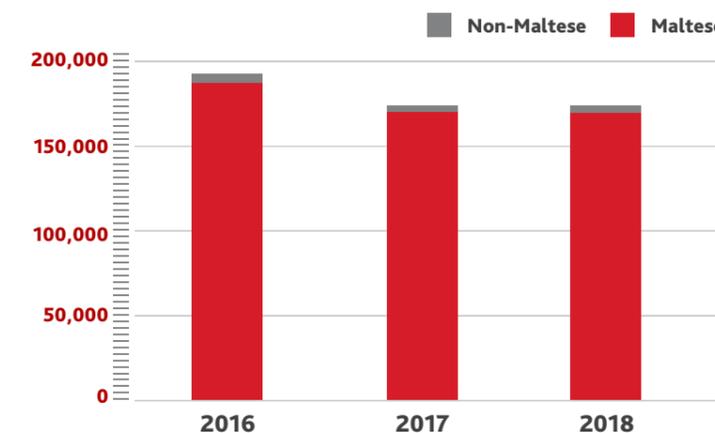
	2016	2017	2018
Total	189,159	180,780	179,172

3. GAMING PREMISES - COMMERCIAL BINGO: PLAYERS' PROFILE

Nationality

Visits to commercial bingo halls were predominantly made by Maltese residents, constituting 96% of the total visits reported during the year under review. On the basis of relatively small numbers, visits by non-Maltese decreased their share of the total number of visits by one percentage point between 2017 and 2018.

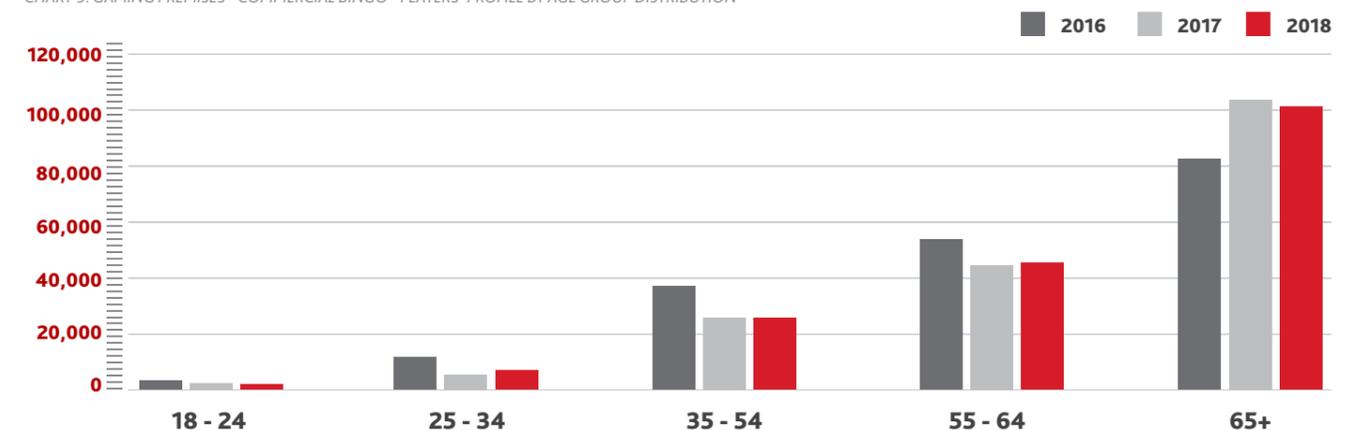
CHART 8: GAMING PREMISES - COMMERCIAL BINGO - PLAYERS' PROFILE BY NATIONALITY



Demographic group

In 2018, visits by players aged 65 years or over continued to represent the highest share (56.7%) of the total visits registered by the commercial bingo sector. However, visits of players falling within that age group decreased by 3.4% between 2017 and 2018 in line with the decline in overall visits to bingo halls. The absolute number of visits by players within the 18-24 age category continue to decrease to a very low level by 2018, while those of players in other age categories remained broadly stable.

CHART 9: GAMING PREMISES - COMMERCIAL BINGO - PLAYERS' PROFILE BY AGE GROUP DISTRIBUTION



The gender balance remained unchanged to that reported for 2016 and 2017 with 86.3% of visits made by women.

4. GAMING PREMISES - COMMERCIAL BINGO: GGR

The GGR of the commercial bingo sector¹² increased substantially, by 18.6%, between 2017 and 2018 despite a minor decrease in the number of players' visits.

Average GGR per Visit

In line with the increase in GGR generated by the commercial bingo sector, the average GGR per visit went up from €13 in 2017 to €15.5 in 2018.

TABLE 16: GAMING PREMISES - COMMERCIAL BINGO - AVERAGE GGR PER VISIT

	2016	2017	2018
Total	€12.6	€13	€15.5

5. GAMING PREMISES - COMMERCIAL BINGO: PAYOUT RATIO

The average payout ratio of the bingo sector for the year 2018 stood at 60%, in line with the Commercial Bingo (Tombola) Regulations (SL. 438.05).

6. GAMING PREMISES - COMMERCIAL BINGO: GAMING TAX

The gaming tax¹³ payable by the commercial bingo sector has increased by 14.2%, from €601,945 in 2017 to €687,374 in 2018.

TABLE 17: GAMING PREMISES - COMMERCIAL BINGO - GAMING TAX

	2016	2017	2018
Total	€608,502	€601,945	€687,374

7. GAMING PREMISES - COMMERCIAL BINGO: EMPLOYMENT

The number of employees within the commercial bingo sector continued to decrease in 2018. As at the end of the year, the bingo sector directly employed 42 full-time equivalent employees.

TABLE 18: GAMING PREMISES - COMMERCIAL BINGO - EMPLOYMENT (FTE)

	end-2016	end-2017	end-2018
Total	46	44	42

The gender balance remained nearly unchanged to that reported in December 2017, with 72.2% being female employees. As at the end of 2018, the share of non-Maltese employees in the commercial bingo sector decreased by three percentage points over 2017, and constituted 13% of the total workforce.

¹² GGR of commercial bingo sector takes into account sales recorded by operators and winnings up to 60% of said sales. The extra prizes given out by operators are not included in the total winnings.

¹³ For more information on the gaming tax, please refer to point 7 of the Methodology.

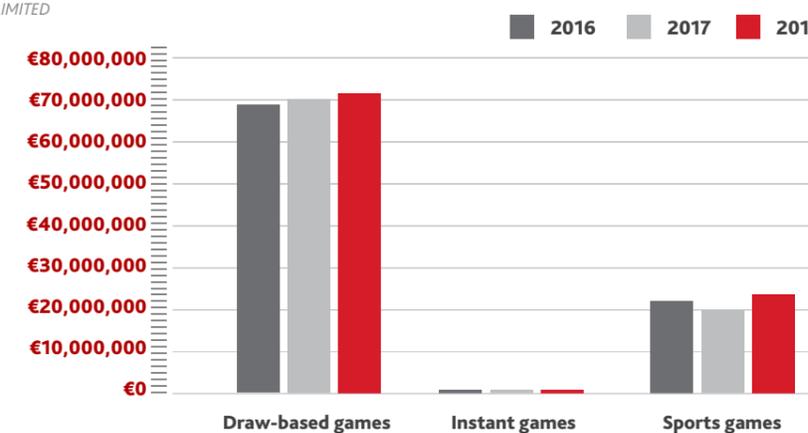


1. NATIONAL LOTTERY: TURNOVER BY GAME CATEGORY

In 2018, 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) stood at €96.6 million, up by 4.3% over the sales recorded for 2017.

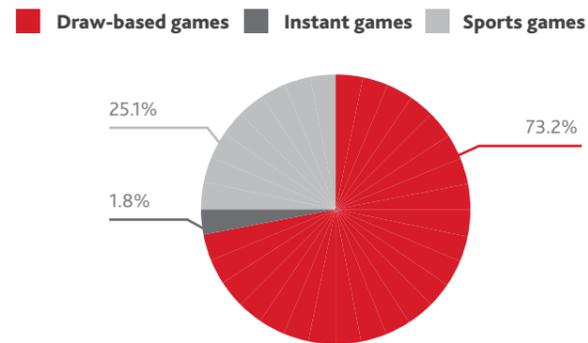
Draw-based games are the largest source of turnover, growing consistently in 2017, but slowing down to a 0.6% increase in 2018. Sales for sports games, including both fixed odds and pari-mutuel betting, reported the strongest growth, at 16.9%, during the year. Sales for instant games grew by 8.3%.

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



In 2018, sales of draw-based games accounted for 73.2% of the total Maltco's sales, nearly three percentage points less when compared with 2017. Sports games increased its share from 22.4% in 2017 to 25.1% in 2018. During the year under review, instant games represented 1.8% of sales in line with the levels reported in 2017.

CHART 11: 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 licensee stood at €12.7 million, in line with the figure reported for 2017.

TABLE 19: NATIONAL LOTTERY - GAMING TAX

	2016	2017	2018
Total	€12,375,624	€12,813,404	€12,722,515

Maltco's Contribution to the Good Causes Fund

In addition to gaming tax, Maltco contributes to the National Lotteries Good Causes Fund. During 2018, Maltco passed on €690,869 to this Fund.

TABLE 20: NATIONAL LOTTERY - CONTRIBUTION TO THE NATIONAL LOTTERY GOOD CAUSES FUND

	2016	2017	2018
Total	€651,018	€685,083	€690,869

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 2018, the number of Points of Sale reached a total of 220 outlets spread across the Maltese Islands.

TABLE 21: NATIONAL LOTTERY - POINTS OF SALE

	end-2016	end-2017	end-2018
Total	235	236	220



ONLINE GAMING

The online industry maintained its role as a primary contributor to economic activity in Malta, generating 13.2% of the gross value added. This positive performance was sustained through the overhaul of the regulatory framework governing the gaming sector in Malta. The new framework is enabling the Authority to be more effective and forward-looking whilst benefiting operators by means of a future-proofed and streamlined regulatory environment.

1. ONLINE GAMING: KEY FIGURES

In line with the new licensing system, operators who are already in possession of a Gaming Service Licence or Critical Gaming Supply Licence¹⁴ and wish to offer an additional type of game are now required to apply for the necessary approval instead of applying for an additional licence. As a result, fewer applications for a gaming licence are being received by the Authority. This is already apparent in the lower number of applications received in the second half of 2018, which stood at 82, bringing a total number of applications received between January to December 2018 to 208, as shown in Table 22.

As a consequence, the number of licences issued was lower than in the previous year and stood at 93 for 2018. Operators who applied for multiple gaming licences prior to the introduction of new Gaming Act are now generally able to operate through the same B2C or B2B licence.

During the year under review, 37 licences were terminated at the operators' requests. The Authority's Enforcement Unit suspended four licences and cancelled another eight licences due to regulatory breaches. In addition, eight licences were rejected by the MGA.

¹⁴ The Gaming Act establishes two (2) Categories of Gaming Licences, as follows: (1) Gaming Service Licence which is a business-to-consumer licence (B2C) to offer or carry out a gaming service, and (2) Critical Gaming Supply Licence which is a business-to-business (B2B) licence to provide or carry out a critical gaming supply.

TABLE 22: ONLINE GAMING - KEY FIGURES

	2016	2017	2018
New Gaming Licence Applications (Note 1)	128	220	209
Gaming Licences Issued (Note 2)	91	165	93
Voluntary Terminations of Gaming Licences (Note 3)	39	38	37
Cancelled Licences	21	3	8
Suspended Licences	2	5	4

Notes:

(1) The number of new gaming licence applications for the years 2016 - 2017 and for the period 1 January to 31 July 2018 are reported in line with the multi-licence system under the previous legislative framework. All applications received after the 1 August 2018 are reported in line with the two-licence system. The multiple applications submitted by the same operator were grouped into one licence application depending on whether they contained B2C or B2B activity element.

(2) The number of new gaming licences for the years 2016 - 2017 and for the period 1 January to 31 July 2018 are reported in line with the multi-licence system under the previous legislative framework. All licences issued after the 1 August 2018 are reported in line with the two-licence system.

(3) The number of terminated licences for the years 2016 - 2017 and for the period 1 January to 31 July 2018 are reported in line with the multi-licence system under the previous legislative framework. All licences that were terminated after the 1 August 2018 are reported in line with the two-licence system.

2. ONLINE GAMING: NUMBER OF COMPANIES

As at the end of 2018, the number of gaming companies offering online services stood at 273, as shown in Table 23. The new Gaming Act introduced the concept of a Corporate Group Licence, allowing multiple companies to be covered by one group licence. Entities falling under a corporate licence are jointly considered by the Authority to be one licensed entity, and for the purposes of these statistics, are considered to be one operating company. This reclassification resulted in a minor decline in the number of companies, as shown in the table below.

As at the end of 2018, nine companies held the MGA's Corporate Group Licence with a total of 17 entities forming part of the group.

TABLE 23: ONLINE GAMING - NUMBER OF COMPANIES

	end-2016	end-2017	end-2018
No. of companies	259	287	273
Additional companies falling under the Corporate Group Licence	N/A	N/A	17

3. ONLINE GAMING: DISTRIBUTION OF LICENCES BY CATEGORY

As at the end of 2018, there were 275 licences approved to offer online services under the MGA jurisdiction, including nine Corporate Group Licences. After the introduction of new licensing regime, the number of gaming companies and licences are more aligned as the operators do not require multiple licences to offer different games, unless they wish to offer both B2C and B2B services. As at December 2018, B2C group of licences accounted for 75% of the total licence base.

Out of nine Corporate Group Licences issued until the end of 2018, six were issued for B2C-related operations whilst the remaining three for the B2B-related activity.

TABLE 24: ONLINE GAMING - DISTRIBUTION OF LICENCES BY CATEGORY

	end-2016	end-2017	end-2018
B2C - Gaming Service Licence	454	554	207
of which are B2C - Corporate Licences	N/A	N/A	6
B2B - Critical Supply Licence	59	71	68
of which are B2B - Corporate Licences	N/A	N/A	3

Note:

For 2016 and 2017, all licences which contained B2C-activity element, namely Class 1, Class 2, Class 3 and Skill Game B2C were grouped into "B2C - Gaming Service Licence" category whilst the licences containing B2B activity element, namely Class 4 and Skill Game B2B, were grouped into "B2B - Critical Supply Licence" category.

4. DISTRIBUTION OF GAME TYPES

The new licensing regime categorises all games that can be offered by the licensees into four different Game Types¹⁵. An operator can offer one or multiple game types. As at the end of 2018, the vast majority of B2C operators were in possession of an approval to offer Type 1 and Type 2 games, as presented in table below.

TABLE 25: ONLINE GAMING - B2C - GAME TYPES (END-2018)

	Type 1	Type 2	Type 3	Type 4
No.	132	100	37	10

5. ONLINE GAMING: CUSTOMER ACCOUNTS

Active Player Accounts

The number of active player accounts¹⁶ registered on the websites licensed by the MGA grew by 29.6%, from 14 million in 2017 to 18.1 million in 2018.

TABLE 26: ONLINE GAMING - ACTIVE PLAYER ACCOUNTS

	2017	2018	% change
Total	13,994,330	18,138,064	+29.6%

New Active Player Accounts

The increase in the number of new registrations reflected the expansion in new player accounts¹⁷, as shown in Table 27. The yearly number of new active player accounts reached 12.3 million in 2018 resulting in a 27.7% growth year-on-year.

TABLE 27: ONLINE GAMING - NEW ACTIVE PLAYER ACCOUNTS

	2017	2018	% change
Total	9,671,378	12,350,484	+27.7%

¹⁵ The Gaming Act establishes four (4) Game Types, as follows:

- (1) Type 1 - Games of chance played against the house, the outcome of which is determined by a random generator, and shall include casino type games, including roulette, blackjack, baccarat, poker played against the house, lotteries, secondary lotteries and virtual sports games; and/or
- (2) Type 2 - Games of chance played against the house, the outcome of which is not generated randomly, but is determined by the result of an event or competition extraneous to a game of chance, and whereby the operator manages his or her own risk by managing the odds offered to the player; and/or
- (3) Type 3 - Games of chance not played against the house and wherein the operator is not exposed to gaming risk, but generates revenue by taking a commission or other charge based on the stakes or the prize, and shall include player versus player games such as poker, bingo, betting exchange, and other commission based games; and/or
- (4) Type 4 - Controlled Skill Games as per regulation 8 of the Gaming Authorisations Regulations.

¹⁶ Active accounts are defined as those accounts for customers that played at least once during the year under review.

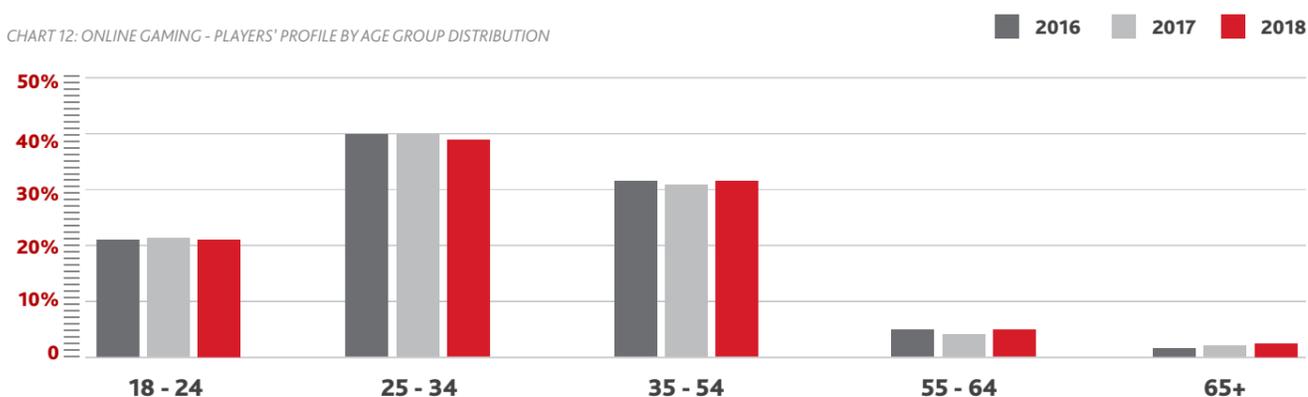
¹⁷ New active customer accounts are those accounts on which customers played for the first time during their lifetime with the company licensed by the MGA during the year under review.

6. ONLINE GAMING: PLAYERS' PROFILE

Demographic Group

Over the past three years, players within the 25-34 age group constituted the largest category of players, accounting for 38.6% of all customers playing on the websites regulated by the MGA in 2018. Customers within the demographically wider 35-54 age group constituted 32.4% of the players' base. The share of players falling within the 18-24 age group remained comparable to those reported for the previous years, which stood at 21.4% in 2018. Players aged 55 and over continued to account for a minimal share of online gaming activity licensed under the Maltese jurisdiction.

CHART 12: ONLINE GAMING - PLAYERS' PROFILE BY AGE GROUP DISTRIBUTION

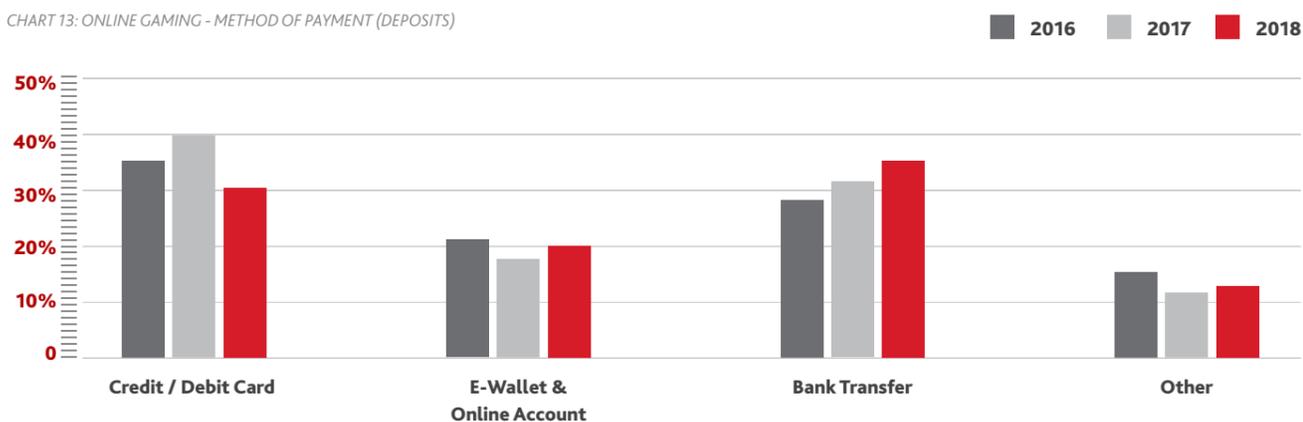


Throughout 2018, males continued to constitute the largest category of players, accounting for 73.6% of the total players' base. The share of female players returned to similar levels as reported in 2017, at just above 20%. During the year under review, 1% of all players was reported to fall under Gender X¹⁸ category. Furthermore, operators reported 4.4% of players who did not specify their gender upon registration.

Deposits as a Method of Payment

There has been a marked shift in the methods of deposits amongst customers of the MGA's licensed companies. In 2018, the most popular method of deposits was bank transfer. This payment method accounted for 35.9% of all deposit methods, an increase of 4.5 percentage points over 2017. Deposits made through credit/debit cards accounted for nearly one-third of all payments whilst deposits made through e-wallets and online accounts decreased by 3.1 percentage points to account for 20.2% of the total. The remaining 12.1% of payments were made through other methods.

CHART 13: ONLINE GAMING - METHOD OF PAYMENT (DEPOSITS)

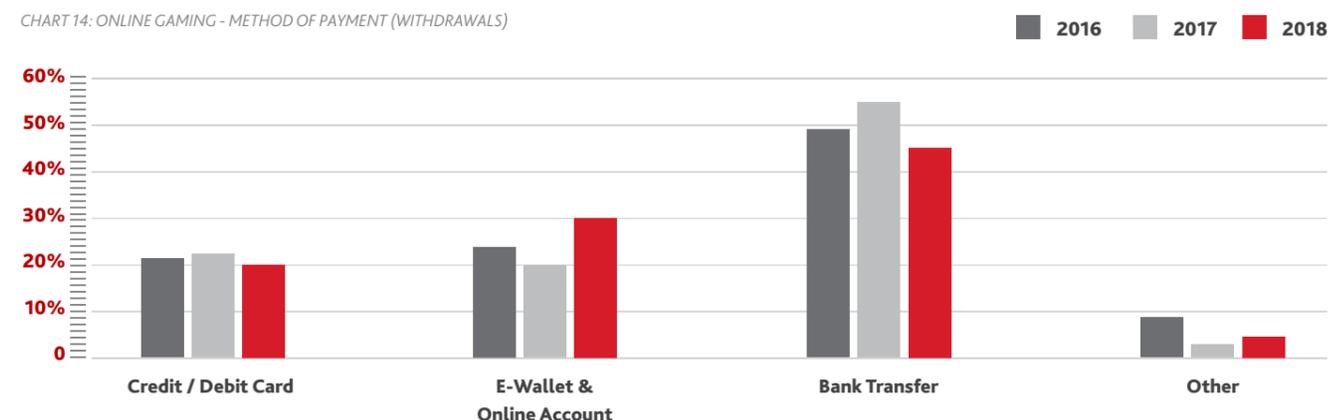


¹⁸. Gender type which is not exclusively male or female, including those who identify with a gender other than male or female, as more than one gender, or as no gender, identifying as a combination of genders or not identifying with either gender at all.

Withdrawals as a Method of Payment

During 2018, more than 44.2% of all withdrawals were made through bank transfer. Online gaming operators indicated that e-wallet and online accounts, and credit/debit cards, were the chosen method for 20.3% and 30.5% of the withdrawals respectively. The remaining 5.1% of the withdrawals were made through other methods, namely pre-paid vouchers and mobile payments.

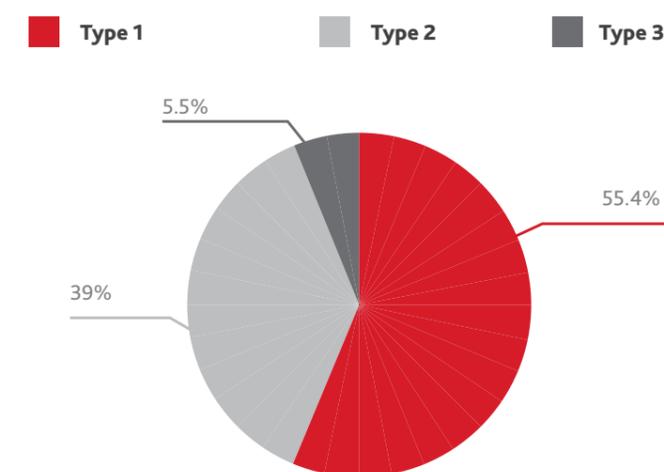
CHART 14: ONLINE GAMING - METHOD OF PAYMENT (WITHDRAWALS)



7. ONLINE GAMING: GAMING REVENUE FROM CUSTOMER GAMING ACTIVITIES (B2C LICENSEES)

It is estimated that in 2018, 55.4% of the total GR¹⁹ of the B2C licensees was generated through gaming classified under the Type 1 group. The GR generated from games falling under Type 2 accounted for 39% of the total whilst the GR from Type 3 games accounted for 5.5%. The activity reported for the Controlled Skill Games, classified under Type 4 was minimal throughout the year under review and accounted for less than 1% of the total GR.

CHART 15: ONLINE GAMING - GR DISTRIBUTION BY GAME TYPE



¹⁹. For more information on Gaming Revenue, please refer to point 8 of the Methodology.

Type 1 Games

In 2018, the GR generated from Type 1 Games constituted more than half (55.4%) of the total gaming revenue. During this reporting period, a significant share of GR for Type 1 Games, of just below 80%, was generated through slot games. The GR generated from table games accounted for 17.6% of the total GR generated under Type 1 game category. The remaining 2.9% of the GR for Type 1 group was generated through other games, the most popular of which were virtual sports games, lotteries and secondary lotteries.

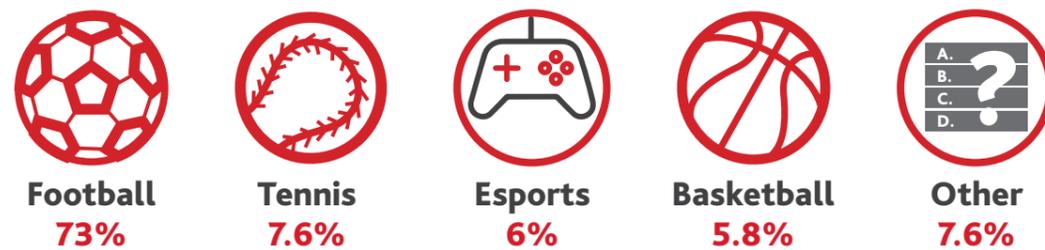
FIGURE 1: ONLINE GAMING - TYPE 1 GAMES - GR DISTRIBUTION



Type 2 Games

During the year under review, just below 40% of the GR was generated from games falling under Type 2 Game category. Betting on football generated the highest portion, at 73%, of GR from Type 2 games. Bets on tennis accounted for 7.6% of Type 2 games' GR. In 2018, GR generated from esports constituted 6% of the GR whilst bets on basketball accounted for 5.8%. The remaining 7.6% of GR was generated through other bets, including betting on horses, cricket, motor sports, golf, volleyball, ice hockey and handball.

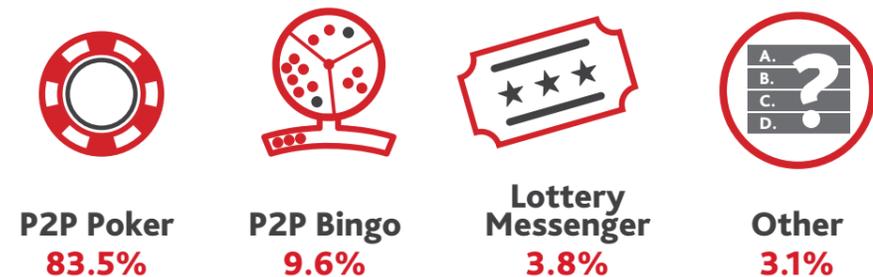
FIGURE 2: ONLINE GAMING - TYPE 2 GAMES - GR DISTRIBUTION



Type 3 Games

Throughout 2018, peer-to-peer (P2P) poker generated a major share of the GR for Type 3 Games, accounting for 83.5% of the total. GR from P2P bingo constituted 10% of the GR whilst that from lottery messenger accounted for 3.7% of the total. The remaining 3.1% of GR was generated by other games offered through Type 3 approval.

FIGURE 3: ONLINE GAMING - TYPE 3 GAMES - GR DISTRIBUTION



8. ONLINE GAMING: COMPLIANCE CONTRIBUTION

The Gaming Licence Fees Regulations (S.L. 583.03) were brought into force on the 1 January 2018 introducing the concept of the compliance contribution fee²⁰. The amount payable by the operators depends on the type of approval issued by the Authority and it is strictly correlated with the Gaming Revenue generated during the licence period. This Regulation also stipulates a minimum and maximum amount of contribution which is to be paid according to the Game Type in question. Throughout 2018, the compliance contribution paid by the online gaming operators amounted to €34 million.

TABLE 28: ONLINE GAMING - COMPLIANCE CONTRIBUTION

	2016	2017	2018
Total	€27,277,412	€26,547,862	€33,977,600

Note: Gaming tax revenue was reported for the year 2016 and 2017 in line with the Remote Gaming Regulations (S.L. 438.04). The figure for the year 2018 includes the gaming tax paid by the land-based operators whilst the compliance contribution was reported for the online gaming operators in line with the Gaming Licence Fees Regulations (S.L. 583.03). The 2018 figure also includes the 5% gaming tax on customers located in Malta in line with Gaming Tax Regulations (S.L. 583.10).

9. ONLINE GAMING: EMPLOYMENT

As at the end of 2018, the number of full-time equivalent employees directly working with online gaming companies licensed by the MGA stood at 5,950²¹.

TABLE 29: ONLINE GAMING - EMPLOYMENT (FTE)

	end-2016	end-2017	end-2018
Total	5,327	5,861	5,950

As at the end of December 2018, 62.2% of all employees within the online gaming industry in Malta were male. The proportion of non-Maltese workers in the online gaming industry constituted 67.7% of all employees in this sector. This further highlights the need for expatriate workers to sustain the growth of the industry.

²⁰ For more information on compliance contribution and gaming tax, please refer to point 7 of the Methodology.

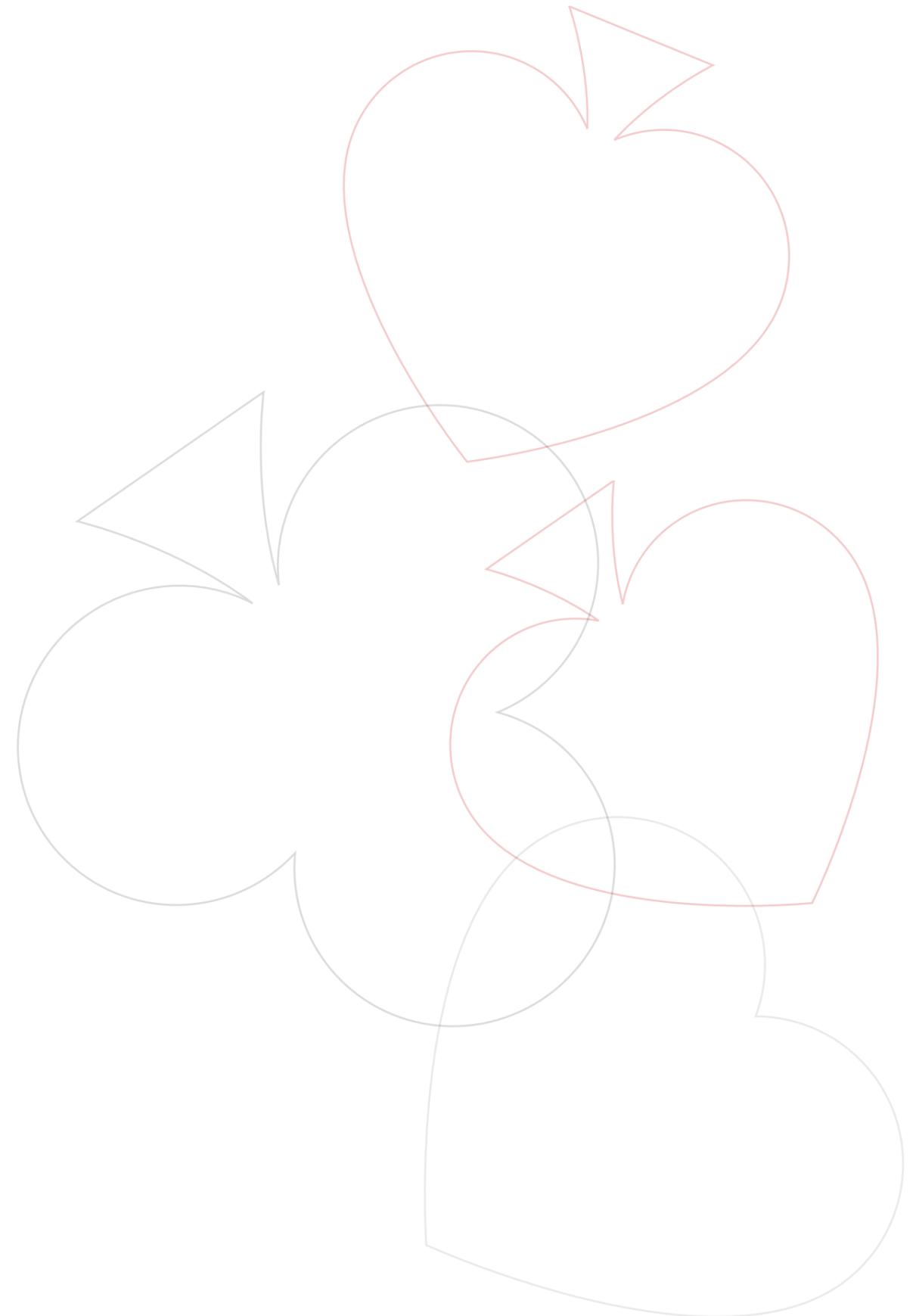
²¹ This number refers to direct employees working on the MGA licensed activity. Kindly refer to point 9 of the Methodology for more information.

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 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.



LIST OF APPENDICES

APPENDIX 1: LIST OF TRAINING, CONFERENCES AND EVENTS FOR 2018

1. LIST OF TRAINING COURSES, SEMINARS AND CONFERENCES

TRAINING COURSES/SEMINARS:

Accounting for Assets
AML & CFT: 4th AML Directive and Developments
AML In-house Workshop
Award in Blockchain Technology Fundamental
Blockchain & Distributed Ledger Technology
Consolidations & Business Combinations
Corporate Structures and Company Law
Criminal Probity Workshop
Cryptocurrency Seminar
Economic Sanctions Compliance: Essentials for Corporate and Financial Institutions
Employment Law Updates
Gaming Act Legislation (in-house)
GDPR Information Session
Influential Dialogue – Leadership
Information Security Awareness
Internal Audit Seminar
Interviewing Skills
Introduction to iGaming
Malta Financial Crime Compliance Forum 2018
Managing Culture Risk and Internal Auditing
Meeting Audit Committee Expectations through Internal Audit
Mental Health First Aid
Presentation of Financial Statements
Professional Diploma in Digital Marketing
Public Sector Accounting
Reinventing Performance Management
Seminar on Due Diligence and Cybersecurity in relation to DLT
The General Data Protection Regulation
The MIM VAT & EU Conference: Digital Economy
VAT updates

CONFERENCES:

AI Malta Summit
Blockchain & Bitcoin Conference
Blockchain & Distributed ledger Technology
Business Leaders Malta - Break the Rule
CYBERSECURITY - Securing our Future
Employment Issues Conference
Gaming Innovation Day
Global PR Summit Malta
HR FHRD Annual Conference 2018
Malta Blockchain Summit
MITLA GDPR Conference
Tax Conference 2018 World Blockchain Congress

2. LIST OF EVENTS / FAIRS / EXPOS IN WHICH THE MGA PARTICIPATED DURING 2018

FOREIGN EVENTS:

ICE 2018
EASG
GREF
iGB Live 2018
IMGL Conference
Kindred- Sustainable Gaming Conference
SAGSE
WrB Conference

LOCAL EVENTS:

2018 Financial Crime Compliance Forum
AML and GDPR Conference
AML Transaction Monitoring Seminar
BLM Annual Conference
Conference Gambling and Gaming Survey Report 2017
Delta
Fenech & Fenech Advocates - Malta IP Forum
FIAU-Money Laundering and Terrorism Finance
Fresher's Week
Gaming Compliance Forum
GBG Conference
GRTU Malta Chamber of SMEs
ISMS conference 2018
KPMG - Gaming eSummit
Malta eSports Forum - GamingMalta
Malta the Jurisdiction of your Choice
Mas 2018 - EY
MITLA Conference
New Gaming Act - Information session MGA
New Legal Framework
Secure your Gaming Business
SIGMA 18
Society Education conference
Stop the Fix, Fix the Threat - Ghal Sport Nadif Conference

APPENDIX 2: STATISTICAL REGIONS AND DISTRICTS OF MALTA

LOCAL ADMINISTRATIVE UNITS (LAUs)

GOZO AND COMINO

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

NORTHERN

Ħal Għargħur, Mellieħa, Mgarr, Mosta, Naxxar, St Paul's Bay.

WESTERN

Ħad-Dingli, Ħal Balzan, Ħal Lija, Ħ'Attard, Ħaż-Żebbuġ, Iklin, Mdina, Mtarfa, Rabat, Siġġiewi.

NORTHERN HARBOUR

Birkirkara, Gżira, Ħal Qormi, Ħamrun, Msida, Pembroke, San Ġwann, Santa Venera, St Julian's, Swieqi, Ta' Xbiex, Tal-Pietà, Tas-Sliema.

SOUTHERN HARBOUR

Cospicua, Fgura, Floriana, Ħal Luqa, Ħaż-Żabbar, Kalkara, Marsa, Paola, Santa Luċija, Senglea, Ħal Tarxien, Valletta, Vittoriosa, Xgħajra.

SOUTH EASTERN

Birżebbuġa, Gudja, Ħal Għaxaq, Ħal Kirkop, Ħal Safi, Marsaskala, Marsaxlokk, Mqabba, Qrendi, Żejtun, Żurrieq.

FINANCIAL STATEMENTS

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FINANCIAL REVIEW FOR THE YEAR ENDED 2018

During the year under review, the MGA generated a total revenue of €75.2 million compared to €66.3 million in 2017. Year on year, this represents a 14% increase in turnover amounting to €8.97 million. Furthermore, contributions in gaming taxes made to Government in 2018 amounted to €63.2 million compared to €54.5 million in 2017. This represents an increase of 16%, equivalent to €8.7 million year on year. It is estimated that by the end of financial year ending 2019, the MGA will contribute €64 million in gaming taxes to Government, which would represent an increase of €0.8 million over 2018. The substantial increase in turnover was attributable to the changes in the legislation which were enacted during the current financial year.

The surplus for the year amounted to €64.1 million compared to €59.3 million in 2017, representing an increase in surplus of €4.8 million, which is 8% more than the previous year. Throughout 2018, the MGA continued to focus on its regulatory reform programme with a focus on consolidating the Authority's monitoring mechanism in relation to Anti-Money Laundering / Combating Financing of Terrorism through the recruitment of specialized staff and consultancy services. The operational costs, amounting to €11.6 million, compared to €9.8 million in 2017, are a direct reflection of the strategic initiatives undertaken during the year under review. This represents an increase of €1.8 million, or 19%, over 2017. The increase in operational expenditure was mainly attributable to the following:

- with the introduction of the 4th AML Directive and the enactment of the New Gaming Act (and subsidiary legislation), the Authority further invested in the AML function as well as the other areas of the organization, in terms of human resources, in order to achieve the desired service levels and capability to conduct all its functions at law and regulate effectively its portfolio of licensees. During 2018, the Authority also concluded a five-year collective agreement covering the period 2017-2021, which included an in-depth salary benchmarking exercise conducted together with the Industrial Relations Unit. The backdated salary revisions and collective agreement increments were reflected in this year's financial statements;
- the focus on innovation and automation led IT and ancillary costs to increase, mainly related to software and maintenance support services. Capital expenditure for the year amounted to €0.5 million which was mainly attributable to the investments in IT software and hardware enhancement, including the upgrading of servers and laptops;
- in keeping with its avowed policy of increasing international corporation with other regulators as well as continuing to build on its strategic relationships with relevant stakeholders, the MGA increased its participation in conferences, international fora and gaming related expos, resulting in higher communication costs and during the year under review;
- in line with previous years, the MGA engaged in various technical and professional engagements, predominately consultancy services, in relation to AML, risk management, technical studies, engagement of specialists, due diligence services and other relevant advisory services covering a number of key operational and strategic areas of the MGA's business activity; and
- the MGA continued to finance two related organizations namely the Gaming Malta Foundation and the Responsible Gaming Foundation. Whilst sharing the national ethos of positioning Malta as a centre of excellence in the gaming industry and helping people with gambling addiction respectively, both organizations are autonomous and have roles, that are distinct from the MGA.

GENERAL INFORMATION

REGISTRATION

The Malta Gaming Authority (hereinafter referred to as the 'Authority') was established by virtue of the Gaming Act, Chapter 583 of the Laws of Malta.

BOARD OF GOVERNORS OF THE AUTHORITY

Marlene Seychell	(Chairperson)
Chris Cilia	(Deputy Chairperson)
Caesar Grech	
Ruth Trapani Galea Feriol	
Juliana Scerri Ferrante	
Roberto Francalanza	
Jacqueline Grech	

CHIEF EXECUTIVE OFFICER

Heathcliff Farrugia

SECRETARY OF THE BOARD OF THE AUTHORITY

Mikiel Calleja

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 OF GOVERNORS OF THE AUTHORITY

The Board of Governors of the Authority (hereinafter referred to as the 'Board') submit their annual report and the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The Authority was established by virtue of the Gaming Act, Chapter 583 of the Laws of Malta, for the purpose 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 EUR 75,244,475 (2017: EUR 66,272,498). After deducting all expenditure of EUR 11,621,185 (2017: EUR 9,778,025) the Authority registered a surplus for the year of EUR 64,130,495 (2017: EUR 59,353,268). The Authority transferred EUR 63,221,963 (2017: EUR 54,499,298) to the Government of Malta.

BOARD OF GOVERNORS OF THE AUTHORITY

The members of the Board who acted in such position during the year under review are listed on page 85.

CHAIRPERSON

In accordance with Article 6(4) and the First Schedule of the Gaming Act, Chapter 583 of the Laws of Malta, the Chairperson and the other members of the Board are appointed by the Minister responsible for the gaming sector.

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.

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



MARLENE SEYCHELL
Chairperson

11 April 2019



CHRIS CILIA
Deputy Chairperson

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of the Authority, which comprise the statement of financial position as at 31 December 2018 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 2018, 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 Gaming Act, Chapter 583 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, Chapter 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 2018 Board of Governors Report. The Board is 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 of Governors' 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 the Gaming Act, Chapter 583 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.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

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 scepticism 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; and
- 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

11 April 2019

	Notes	2018 EUR	2017 EUR
Revenue	5	75,244,475	66,272,498
Administrative and other expenses	6	(11,621,185)	(9,778,025)
Operating surplus		63,623,290	56,494,473
Release of unclaimed player's monies		506,867	2,796,503
Reversal of provision for claims	14	-	60,000
Finance income	8	338	2,292
Surplus for the year		64,130,495	59,353,268

The accounting policies and explanatory notes on pages 93 to 105 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 EUR	2017 EUR
ASSETS			
Non-current assets			
Intangible assets	10	819,629	663,539
Property, plant and equipment	11	3,716,255	4,225,233
		4,535,884	4,888,772
Current assets			
Trade and other receivables	12	10,287,726	7,293,848
Cash at bank and in hand	16	10,253,080	7,760,330
		20,540,806	15,054,178
TOTAL ASSETS		25,076,690	19,942,950
EQUITY AND LIABILITIES			
Equity reserve			
Equity reserve	13	250,000	250,000
Reserve fund			
Reserve fund	13	7,138,455	5,539,053
National Lottery Reserve Fund			
National Lottery Reserve Fund	13	-	-
		7,388,455	5,789,053
Non-current liabilities			
Provision for claims	14	890,000	890,000
Current liabilities			
Trade and other payables	15	16,798,235	13,263,897
Total liabilities		17,688,235	14,153,897
TOTAL EQUITY AND LIABILITIES		25,076,690	19,942,950

The accounting policies and explanatory notes on pages 93 to 105 form an integral part of the financial statements.

The financial statements on pages 89 to 105 have been authorised for issue by the Board of Governors of the Authority on 11 April 2019 and were signed on their behalf by:



MARLENE SEYCHELL
Chairperson



CHRIS CILIA
Deputy Chairperson

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	National Lottery Reserve Fund EUR	Reserve Fund EUR	Equity Reserve EUR	Total EUR
At 1 January 2018	-	5,539,053	250,000	5,789,053
Appropriation from statement of comprehensive income	1,011,873	63,118,622	-	64,130,495
Unclaimed prizes transferred in terms of Article 59 of the Lotteries and Other Games Act, Chapter 438 of the Laws of Malta	690,869	-	-	690,869
Payments made to/or on behalf of Government in terms of Article 50 of the Lotteries and other Games Act, Chapter 438 of the Laws of Malta, substituted by the Gaming Act, Chapter 583 of the Laws of Malta	(1,702,742)	(61,519,220)	-	(63,221,963)
At 31 December 2018	-	7,138,455	250,000	7,388,455
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 Article 59 of the Lotteries and Other Games Act, Chapter 438 of the Laws of Malta	685,083	-	-	685,083
Payments made to/or on behalf of Government in terms of Article 50 of the Lotteries and other Games Act, Chapter 438 of the Laws of Malta	(1,714,807)	(52,784,491)	-	(54,499,298)
At 31 December 2017	-	5,539,053	250,000	5,789,053

The accounting policies and explanatory notes on pages 93 to 105 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

Notes	2018 EUR	2017 EUR
Operating activities		
Surplus for the year	64,130,495	59,353,268
Adjustment to reconcile surplus for the year to net cash flows		
Non-cash:		
Depreciation of property, plant and equipment	472,083	612,754
Amortisation of intangible assets	318,922	161,533
Increase in provision for doubtful debts	138,053	104,217
Reversal of provision for claims	-	(60,000)
Finance income	(338)	(2,292)
Working capital adjustments:		
Decrease/Increase in trade and other receivables	(3,131,931)	193,660
Decrease/Increase in trade and other payables	4,225,209	712,199
Net cash flows from operating activities	66,152,493	61,075,339
Investing activities		
Purchase of property, plant and equipment	(65,347)	(294,898)
Purchase of intangible assets	(417,742)	(266,870)
Interest received	338	2,292
Net cash flows used in investing activities	(482,751)	(559,476)
Financing activities		
Payments made to Government	(63,221,963)	(54,499,298)
Grant Amortisation	44,971	-
Net cash flows used in financing activities	(63,176,992)	(54,499,298)
Net movement in cash and cash equivalents	2,492,750	6,016,565
Cash and cash equivalents at 1 January	7,760,330	1,743,765
Cash and cash equivalents at 31 December	10,253,080	7,760,330

The accounting policies and explanatory notes on pages 93 to 105 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Authority is established by virtue of the Gaming Act, Chapter 583 of the Laws of Malta. The principal activity of the Authority is to govern and supervise the gaming sector 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 the European Union (EU) and comply with the Gaming Act, Chapter 583 of the Laws of Malta.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The financial statements of the Authority have been prepared in accordance with International Financial Reporting Standards hereinafter referred to 'IFRSs' as adopted by the European Union (EU) and with the Companies Act, Chapter 583 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.

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

- IFRS 9 - Financial Instruments (effective for financial year beginning on or after 1 January 2018);
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective for financial year beginning on or after 1 January 2018);
- Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for financial year beginning on or after 1 January 2018);
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 (effective for financial year beginning on or after 1 January 2018);
- Amendments to IFRS 4: 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 2018);
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for financial year beginning on or after 1 January 2018); and
- Amendments to IAS 40: Transfers of Investment Property (effective for financial year beginning on or after 1 January 2018).

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

The Authority applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Authority. The Authority has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - CONTINUED

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

- IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted IFRS 15 using the full retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Company did not apply any of the other available optional practical expedients.

- IFRS 9 Financial instruments (effective for financial year beginning on or after 1 January 2018)

The Company applied the modified retrospective method upon adoption of IFRS 9. This method required the recognition of the cumulative effect of initially applying IFRS 9 to retained earnings and not to restate prior years. The impairment of financial assets, mainly trade receivables, is now assessed using an expected credit loss model, whereas previously the incurred loss model was used. The Company had no material impact to its impairment allowances from this change. As the Company does not apply hedge accounting and continues measuring at fair value all financial assets currently held at fair value, there was no impact from these changes.

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 changes resulting from these standards are not expected to have a material effect on the financial statements of the Company. The new and amended standards follow:

- IFRS 16 Leases (effective for financial year beginning on or after 1 January 2019);
- IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial year beginning on or after 1 January 2019); and
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for financial year beginning on or after 1 January 2019).

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - CONTINUED

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

The Company has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:

Assets	
Property, plant and equipment (right-of-use assets)	4,784,170
Liabilities	
Lease liabilities	4,784,170
Net impact on equity	-

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:

- IFRS 17 Insurance Contracts (effective for financial year beginning on or after 1 January 2021);
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (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);
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective for financial year beginning on or after 1 January 2019);
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for financial year beginning on or after 1 January 2020);
- Amendment to IFRS 3 Business Combinations (effective for financial year beginning on or after 1 January 2020);
- Amendments to IAS 1 and IAS 8: Definition of Material (effective for financial year beginning on or after 1 January 2020); and
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Deferred Indefinitely).

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 licences, duties and application fees in the normal course of business. All revenue is recognised on the accrual basis. The following specific recognition criteria must also be met before revenue is recognised:

Licences

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

Application fees

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

Duties

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

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

3. SUMMARY OF ACCOUNTING POLICIES - CONTINUED

REVENUE RECOGNITION - CONTINUED

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.

Impairment of financial assets

The Authority recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Authority expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Authority does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Authority has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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.

Grant

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

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.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

3. SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Intangible assets

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

	%
Computer software	25

Property, plant and equipment

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

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

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

Leases

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Provisions for claims and contingent liabilities

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

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

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

5. REVENUE

Revenue comprises the following:

	2018 EUR	2017 EUR
Licence fees	6,987,413	6,159,181
Application fees	409,220	502,670
Other	959,970	487,002
Total Authority fees	8,356,603	7,148,853
Duties	66,887,872	59,123,645
Total revenue	75,244,475	66,272,498

Number of licences as at the end of year:

	2018 No.	2017 No.
Commercial bingo houses	4	5
Casinos	4	4
Gaming parlours	52	52
National lotteries	1	1
Remote online gaming licences	275	625
Total number of licences at end of year	336	687

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

6. EXPENSES BY NATURE

	2018 EUR	2017 EUR
Auditor's remuneration	26,550	17,700
Chairperson's emoluments and Board honoraria (note 18)	43,591	31,910
Staff costs (note 7)	6,536,287	5,353,958
General administrative expenses	1,445,383	1,270,898
Professional fees	1,069,754	998,548
Promotional expenses	849,252	594,356
Depreciation and amortisation on property, plant and equipment and intangible fixed assets (notes 10 and 11)	791,007	774,287
Provision for doubtful debts (note 12)	138,053	104,217
Contributions to other entities	721,308	632,151
Total administrative and other expenses	11,621,185	9,778,025

7. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

	2018 EUR	2017 EUR
Salaries	5,747,979	4,781,227
Social Security costs	371,367	323,290
Fringe benefits	135,169	129,074
Total employment costs	6,254,515	5,233,591
Other related costs	281,772	120,367
Total staff costs	6,536,287	5,353,958

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 2018 and 31 December 2017 was as follows:

	2018 No.	2017 No.
Finance	11	10
Legal affairs	6	6
Enforcement including a staff complement dedicated to AML	59	53
Regulatory	38	38
Information systems	11	12
Human resources and administration	21	21
Programme management and Information management	9	10
Chief Executive Officer's Office	5	5
Internal audit	4	2
Other	1	1
Total	165	158

8. FINANCE INCOME

	2018 EUR	2017 EUR
Interest receivable on bank balances	338	2,292

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 2017	844,672
Additions	266,870
At 31 December 2017	1,111,542
Additions	417,742
Transfers	74,473
At 31 December 2018	1,603,757
Amortisation	
At 1 January 2017	286,470
Amortisation for the year	161,533
At 31 December 2017	448,003
Amortisation for the year	336,124
At 31 December 2018	784,127
Net book value	
At 31 December 2018	819,629
At 31 December 2017	663,539

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 1 January 2017	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
Additions	-	-	4,907	-	60,440	65,347
Transfers	-	-	-	-	(74,473)	(74,473)
At 31 December 2018	3,112,193	1,540,721	536,289	151,128	647,607	5,987,938
Depreciation						
At 1 January 2017	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
Depreciation charge for the year	186,945	169,558	78,055	20,082	45,212	499,852
At 31 December 2018	726,850	515,674	395,835	132,422	500,902	2,271,683
Net book value						
At 31 December 2018	2,385,343	1,025,047	140,454	18,706	146,705	3,716,255
At 31 December 2017	2,572,288	1,194,605	213,602	38,788	205,950	4,225,233

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

11. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

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

12. TRADE AND OTHER RECEIVABLES

	2018 EUR	2017 EUR
Duties and licences receivable (note i,ii)	5,566,756	4,148,916
Accrued Income (note i, ii)	4,104,320	2,688,042
Prepaid expenses	449,770	290,010
Deposits	166,880	166,880
	10,287,726	7,293,848

(i) At 31 December 2018, duties and licences receivable at nominal value of EUR1,757,979 (2017: EUR1,619,926) were impaired and fully provided for (Note 5).

Provision for doubtful debts

	2018 EUR	2017 EUR
Opening balance	1,619,926	1,515,709
Increase in provision for doubtful debts	138,053	104,217
Closing balance	1,757,979	1,619,926

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

	Total EUR	Neither past due nor impaired EUR	Past due but not impaired			
			<30 days EUR	31-60 days EUR	61-90 days EUR	>90 days EUR
2018	9,671,076	6,583,405	652,878	1,417,053	898,014	119,631
2017	6,836,958	5,701,154	695,575	196,877	118,425	124,927

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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 Article 59(1) of the Lotteries and Other Games Act, Chapter 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 Article 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 EUR 800,000. The Authority with the assistance of legal counsel rebuts these claims. Other provisions estimated at EUR 90,000 continued to be recognised as at 31 December 2017.

During 2017, a provision amounting to EUR 60,000 has been reversed as it was deemed that the Authority could not be further liable for this claim. The Authority continues to monitor these claims following the advice from its legal counsel.

15. TRADE AND OTHER PAYABLES

	2018 EUR	2017 EUR
Amounts due to Government (note i)	-	1,500,000
Unclaimed deposits (note ii)	7,589,545	5,568,213
Trade and Other payables	1,748,522	2,058,741
Advances received from operators	2,289,038	166,442
Accruals	765,759	530,611
Deferred income	4,405,370	3,439,890
	16,798,234	13,263,897

(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 Gaming Act, Chapter 583, 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.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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:

	2018 EUR	2017 EUR
Cash at bank and in hand	10,253,080	7,760,330

17. COMMITMENTS

The future minimum rentals payable including VAT under these operating leases as at 31 December 2018 and 31 December 2017 are as follows:

	2018 EUR	2017 EUR
Within one year	469,415	455,753
After one year but not more than five years	2,022,726	1,963,901
More than five years	3,519,903	4,368,502
	<u>6,012,044</u>	<u>6,788,156</u>

18. RELATED PARTY DISCLOSURES

Related party	Year	Total transactions with related parties EUR	Amounts owed to related parties at year end EUR	Type of transaction
Government of Malta - The Treasury	2018	63,221,963	-	Surplus for the year
Government of Malta - The Treasury	2017	54,499,298	1,500,000	Surplus for the year

Key management personnel

The Chairperson and the Board are considered to be key management personnel. Included in 'Administrative and other expenses' (note 6) are salaries paid to the Chairperson and the Board amounting to EUR 43,591 (2017: EUR 31,910).

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Contractual maturity profile of financial liabilities

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

SUPPLEMENTARY STATEMENT: ADMINISTRATIVE AND OTHER EXPENSES

NOTES

	31 December 2018		31 December 2017	
	EUR	EUR	EUR	EUR
Salaries and national insurance	6,536,287		5,353,958	
Training	100,725		117,302	
Other staff costs	13,603		12,862	
Staff and ancillary costs		6,650,615		5,484,122
Chairperson's emoluments and board honoraria	43,951		31,910	
Subcontracted services	9,788		35,365	
Telecommunications	56,789		46,189	
IT and Ancillary Costs	344,399		159,037	
Water and electricity	43,468		7,309	
Rent	374,489		368,073	
Insurance and licences	58,805		37,867	
Postage, stationery and printing	55,821		45,605	
Office expenses	24,166		21,365	
Motor vehicle running expenses	59,270		68,941	
Bank charges	4,620		3,493	
Cleaning expenses	11,284		9,261	
Subscriptions	66,363		84,245	
Repairs and maintenance	141,156		102,679	
Business development expenses	14,075		16,928	
Overseas travelling	86,694		129,540	
Seminars and conferences	6,059		22,537	
General administrative expenses		1,401,197		1,190,344
Professional fees	689,658		729,038	
Internal audit fees	-		41,005	
Auditors' remuneration	26,550		17,700	
Due Diligence consultancy fees	291,065		204,210	
Legal fees	62,481		6,595	
Professional fees		1,069,754		998,548
Promotional Expenses		849,252		594,356
Depreciation and amortisation		791,007		774,287
Provision for doubtful debts		138,053		104,217
Contributions to other entities		721,308		632,151
		11,621,185		9,778,025



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