



cutting through complexity

Annual Review 2013

INCLUDING THE KPMG IN MALTA
TRANSPARENCY REPORT

MARCH 2014

kpmg.com.mt

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At KPMG we build and sustain our reputation as the best firm to work with by ensuring that our people, our clients, and our communities achieve their full potential.

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. The network operates in 155 countries and has 155,000 outstanding professionals working together to deliver value in member firms around the world.

KPMG in Malta is a Maltese Civil Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

Transparency Report

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A portrait of a middle-aged man with a receding hairline, smiling slightly. He is wearing a dark suit jacket over a white shirt. The background is a soft-focus outdoor scene with a bright light source on the left, creating a lens flare effect. The bottom of the image is partially obscured by a blue geometric overlay containing text.

Introduction by Senior Partner

Following a year of double digit growth, 2013 has proven to be a year of consolidation, a year in which we embarked on various initiatives essential for the growth of our practice over the next few years. At the beginning of 2013 we rolled out a set of client service levels intended to ensure that the needs and expectations of our clients continue to have prominence in the minds of our people. We have continued to invest heavily in building a greater understanding of our clients' industries and business models. We have sought to engage our clients in a discussion on what they value most in our services and where they believe we could deliver more value.

Introduction by Senior Partner

continued

I am confident that we will witness strong growth in 2014. We believe that we will continue to see an improvement in the global economy and this should translate in a healthy economic climate domestically as well as to an increased level of inward investment.

As evidenced by the results of the client survey carried out a few weeks ago, we continue to enjoy the overwhelming confidence of our clients. From our end, we reiterate our commitment to provide value adding services across all our service lines. For this purpose we have continued to develop new service offerings designed to meet our clients' changing needs, leveraging the firm's global Centres of Excellence as required. For instance, in 2013 we have successfully completed significant Lean Six Sigma engagements, launched an on-line e-learning portal targeted at busy professionals, and extended the gamut of transaction and restructuring services we offer.

In 2013 we were awarded the first place in the two FHRD award categories we contested, namely Employee Engagement and Learning and Development. This reflects the importance we give to cultivating a high performance culture in all our people, a culture of continuous improvement

and development, and one in which each one of us is engaged in providing quality services to our clients.

I am confident that we will witness strong growth in 2014. We believe that we will continue to see an improvement in the global economy and this should translate in a healthy economic climate domestically as well as to an increased level of inward investment. In addition we are committed to continue innovating and driving new service offerings across the practice.

Finally, I believe that every organisation has to remind itself continuously of its purpose. This is even more so in the case of a leading professional services firm such as ours. Without this self-awareness, this understanding of our core purpose, we cannot hope to move forward and achieve our aims. We are determined to achieve our purpose, that is, to be the best firm for our clients, our people and our community.



Tonio Zarb
SENIOR PARTNER

28 March 2014

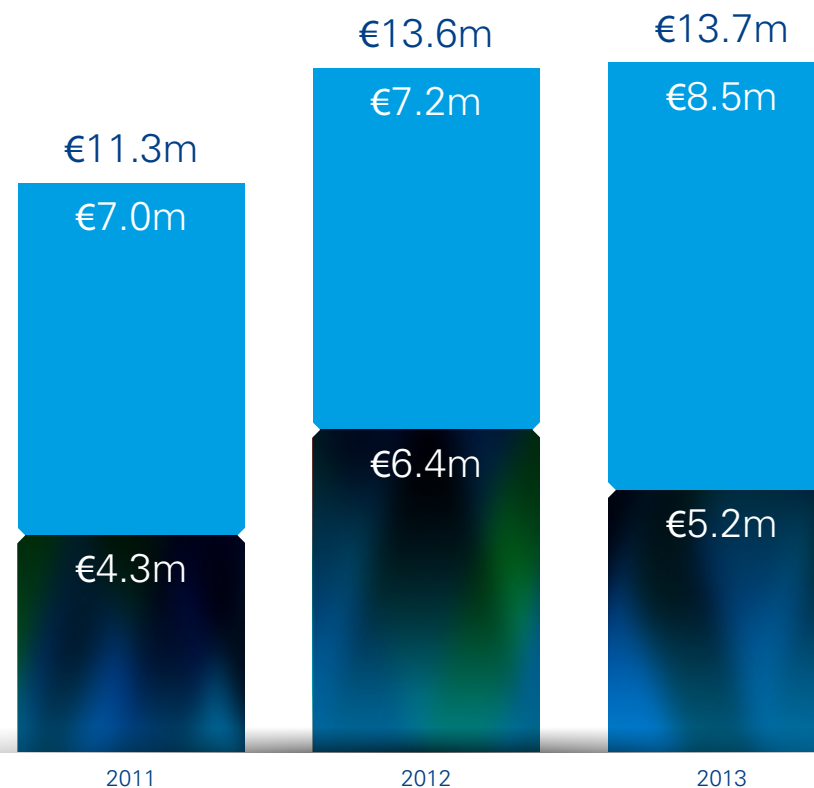
Highlights Performance

Revenue



Revenue by service line

	Audit	Tax & Advisory
2013	€5.2m	€8.5m
2012	€6.4m	€7.2m
2011	€4.3m	€7.0m



Note: Revenue earned from the secondment of audit professionals to the audit function of other KPMG member firms are included as part of revenue from audit services. All other secondment revenue is included under the caption Revenue from tax and advisory services.

Highlights Performance

continued

2%

total fees earned by the firm's
largest Audit client group.

60.5%

2013 tax & advisory revenue that
originated from services provided
to non-audit clients (2012: 60%).

Reputation

Satisfaction with the extent to which KPMG
has met or exceeded client expectations.*

2014	96%
------	-----

2013	92%
------	-----

Satisfaction with the extent to which KPMG has demonstrated
an understanding of clients' business needs and of the issues
and challenges facing their business.*

2014	90%
------	-----

2013	86.2%
------	-------

Highlights People

The average number of KPMG partners, directors and staff expressed in full time equivalents.

2013 266 (Including 22 Principals)

2012 264 (Including 21 Principals)

2011 249 (Including 19 Principals)

44% Female participation in management roles (2012: 36%)

% of promotions to manager roles awarded to females

2013 57%

2012 46%

91% of our people stated that they are proud to work for KPMG (KPMG Pulse Survey 2013)

87% believe that KPMG has an outstanding future as a firm (KPMG Pulse Survey 2013)

105 University students participated in our graduate recruitment programme

Senior appointments

Giles Schembri was appointed Partner as of 1st January 2013. He forms part of the Firm's PPC (area specialist)



Training & Development

86%

of our people believe that colleagues are getting the training and development needed to meet our clients' changing needs.

(KPMG Pulse Survey 2013)

36,000 training Hours provided in 2013



€5,000

average training spent per employee (Includes salary costs).



Family Friendly Measures

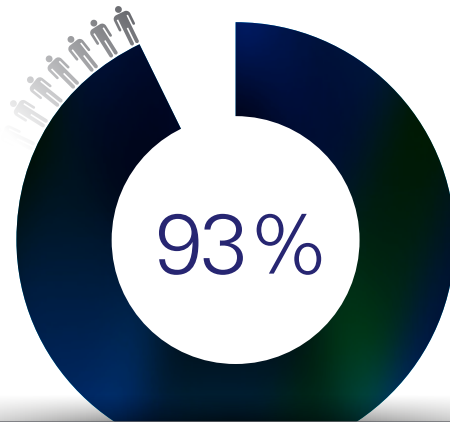
The Firm has recently introduced Family Friendly Measures to support women in management roles.



The Firm has 25 working mothers benefitting from these measures.

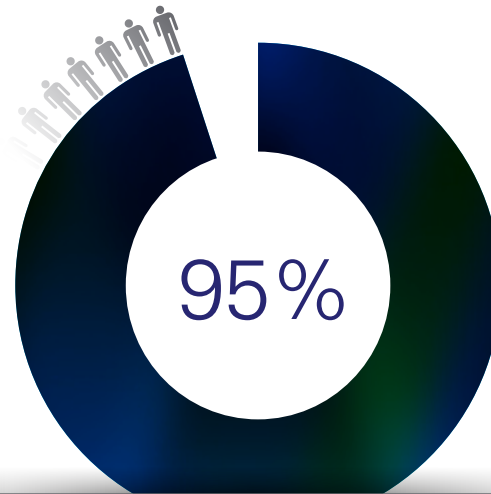
Highlights

Adding Value



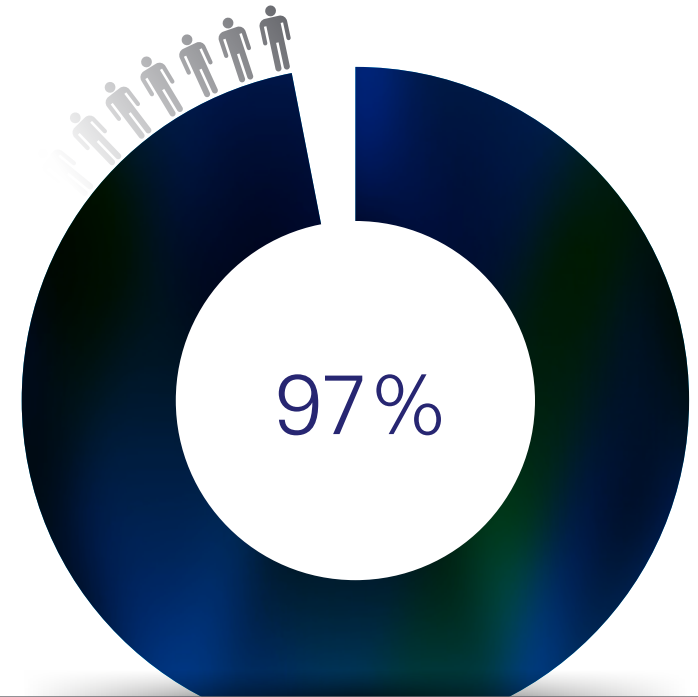
of our people believe that the people they work with collaborate to get the job done

(KPMG Pulse Survey 2013).



of our clients are satisfied with the quality and skills of KPMG employees

(KPMG Client Satisfaction Survey 2014).



stated that the leadership of our firm is committed to ethical business practices and conduct

(KPMG Pulse Survey 2013).

Highlights

The greater good



In excess of
250
man days of effort
has been provided
on a pro-bono basis

€21,000
invested in staff events in
2013 in order to promote
a healthy camaraderie and
environment at KPMG

JCI Malta

We renewed our partnership agreement with JCI Malta. The agreement includes financial support for flagship programmes such as the Best Business Plan Competition and the Creative Young Entrepreneur Award. The agreement gives JCI Members access to KPMG expertise and training for KPMG staff in areas as required.



MIM

We extended our collaboration with the Malta Institute of Management (MIM) with regards to the organisation, delivery and sponsorship of the Advanced Diploma in International Taxation (ADIT) accredited by the Chartered Institute of Taxation (UK).

260+ gift boxes

As part of our annual Christmas shoe box initiative, our staff put together over 260 boxes of gifts for children homed in local institutions. Each and every gift was sourced intentionally with the particular child in mind and delivered by our staff to the relevant institution.

Highlights Awards

KPMG was granted two awards by the Foundation for Human Resources Development (FHRD) in recognition of their efforts and accomplishments in the human resources field.



FHRD
2013 Award
for Learning &
Development

FHRD
2013 Award
for Employee
Engagement



Highlights Going Digital

workingwithkpmg.com.mt

In 2013 we launched our digital corporate profile created to provide our audience with access to information on particular market segments in Malta, as well as first-hand insight into setting up operations in Malta. The profile includes a number of video clips highlighting the experience of leading international organisations that have chosen to invest in Malta.



Mobile App

In 2013 we also launched the KPMG App for iPad/iPhone and Android. The App was designed to provide our audience with information on the most topical business issues directly from their mobile or tablet device. The App provides instant access to hundreds of articles, surveys and studies that aim to help organisations respond to the dynamic business environment in which they do business.

The App also provides users with information and updates on upcoming KPMG events.



Highlights

Thought Leadership

THOUGHT LEADERSHIP PROGRAMME

Thought Leadership

We are committed to our brand's position as thought leaders and under our Thought Leadership Programme launched in 2011, we continue to publish articles and host events aimed at developing and sharing the latest thinking on contemporary issues facing the business community.

These articles and high profile events provide access to the latest research, specialist resources and an extensive body of knowledge.

In 2013 we issued and published over 30 features providing insight in various sectors and market segments.

In all we hosted 10 client events attracting about 700 delegates. These events included:

- ACI (Audit Committee Institute) Forum
- AML (Anti Money Laundering) Round Table
- CFO Agenda
- Biennial Financial Conference -2013. This year's conference was titled 'Shaping the Future of Financial Services in Malta: Delivering in 2020'
- IFRS Conference
- Public Private Partnership Breakfast meeting - 2013.



In 2013 we also launched the **AML Blog**, a tool to help us connect with our audience more frequently and provide more frequent updates. It is a tool for sharing insights, experiences, research and allows our audience to share their point of view.

In their words...



Overview Tonio Zarb

As the global economy is showing signs of a sustained recovery, 2014 presents us with growth opportunities that we have not seen for some time. Malta's economy has withstood the economic turmoil and has continued to grow albeit at a much slower pace. But the events of the last few years have radically changed the business world and transformed business models across a swathe of industries. If we are to thrive in what promises to be a sustained period of growth we have to be fully aware of these changes and their implications.



Banks, Financial Services sector Juanita Bencini

2013 was another strong year for financial services in Malta as the country continued to buck the trend. A new Labour government immediately went into action to reinforce the message that it was full square behind this important part of the national economy. As a lot of important regulation hits Europe and financial services institutions come to terms with it, the search for a European domicile that has a robust regulatory framework, but is business friendly and cost effective continues. Malta ticks all the right boxes.



Capital Markets David Caruana

Over the past months, we have witnessed a number of local companies seeking debt finance from the local capital markets, with such issues being very well received by the investing public. 2014 is expected to be a busy year with numerous public bond issues in the pipe-line. We believe that in the coming years, besides significant increase in activity in the bond market, the local scene will follow the recent international trends of increased equity offerings.

In their words...

continued



Projects **Mario J Vella**

The Malta Government has to balance its commitment to bring down the deficit with its objective to improve Malta's infrastructure and services to the public in general. To achieve these two apparently conflicting objectives the Government is looking towards a variety of PPP ventures. Of course these need to be carefully assessed beforehand to ensure that they are fit for purpose and represent good value for money. Such PPPs must also ensure that they leave the private sector operator with a fair reward through a better management of resources. In 2014 we should also see the award of large projects such as those relating to land reclamation which are likely to generate significant activity for the building industry and which should hopefully attract considerable inward investment.



Succession Planning **Anthony Pace's**

Succession is one of the most long-term challenges facing family businesses. Transitioning the family business from one generation to the next is seldom an easy and straightforward process. There are a number of inherent complexities and obstacles that need to be tackled, or overcome, to try to ensure the future success of the business. One must also not forget the tax implications. Getting expert tax advice is key, as some solutions are only tax efficient if implemented over many years. We have seen a growing number of family business owners seeking our assistance with respect to succession planning issues and we expect this trend to continue going forward.



International Tax **Juanita Brockdorff**

Who would have thought we would come to hear the words "hot" and "sexy" referring to international tax issues? And yet tongue-in-cheek expressions like David Cameron's "Wake up and smell the coffee" have become famous as international tax talk has spilled over the realm of the unfamiliar to that of the man in the street. Nevertheless tax law remains complex, and guidance is essential to handle tax exposure and obligations correctly.



Audit **Noel Mizzi**

Larry Bradley, the Global Head of Audit, stated that "I've always believed that at its very core, the role we play as auditors is to be the trusted intermediary between the preparers and users of financial information." But this trust has been severely strained as a result of the financial crises. We believe that the future of audit is to move away from the pass/fail format of the audit report to a position where we provide broader assurance on information that matters to stakeholders.



Market Insights

Our view on enhancing the value of auditor reporting

Hilary Galea-Lauri

Following the global financial crisis, users of audited financial statements want more insight into audited entities and their financial statements. Many feel that, although the auditor's opinion is valuable, the auditor's report could provide greater transparency about what the auditor does on an audit and the results of that work.

Indeed, the requirements of Proposed International Standard on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, "..... are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users." As I see it, a change, therefore, not only in how an auditor reports, but also what he / she reports to meet the information needs of a variety of users of the financial statements.

We see - as an imperative - that the proposals relating to auditor commentary included in audit reports are developed using robust criteria which will enable auditors to provide meaningful commentary that is responsive to users' needs.

Surveys within the capital markets have consistently demonstrated a clear need for the auditor's work and report. It has been said that users are skeptical in the absence or qualification of such a report.

Beyond financial reporting, even some non-financial risks can now result in serious financial consequences. As a result, the need for broader and more relevant assurance has never been greater. This is where I believe the greatest opportunity for growth lies, though not without its

challenges – barriers which need to be overcome, not least identifying new services and competencies.

So, against a backdrop of the proposed changes to the audit report, legislative reforms aimed at the profession at EU level, increased users' expectations, heightened regulatory scrutiny and a host of other moving targets, one need not be the bearer of a crystal ball to foresee auditors being asked to take on an ever-increasing task list in meeting all the demands that such changes will necessitate.

A widening expectation gap will narrow through audit enhancements and extending the auditor's role not the lowering of public's expectations. Those enhancements are to see auditors communicating key audit matters in their audit report and including therein explicit statements on going concern as is currently being proposed by the International Auditing and Assurance Standard Board, and, as we see it, attesting to, amongst others, governance, business risks, and (not least) systems of internal control supporting financial reports communicated to the capital markets. In this regard, we are firmly convinced that users can benefit from auditor insights.

Beyond such reporting, then, the audit profession needs to reposition, and at the same time guard the auditor's existing post, besides breeding the "NextGen" auditors.



Market Insights

Regulation in general of Banks & Financial Services

Juanita Bencini

Another year of strong growth in the financial services sector in Malta has gone by and 2014 promises to be yet another good year. Europe is slowly coming out of a recession, which means companies are no longer in survival mode, looking inwards but will be scouring the horizon to see where they should be investing or opening up new offices.

People will have more money in their pockets and will be looking to see where to invest. These signs of a bottoming out of the recession will result in financial services entities across Europe positioning themselves to catch this new business.

During 2013 Malta withstood the backlash that came with the banking crisis in Cyprus and there were many across Europe who thought “Malta will be next”. Yet we have lived to tell our tale and prove the doomsayers wrong and

what this has meant is that with every passing year Malta is becoming further entrenched as the European domicile of choice for financial services. 2013 has also seen a change in local government but the message remains strong – the financial services sector is one of the pillars of the Maltese economy and there is renewed political vigour to grow this sector. EU regulation in a cost friendly environment and a business minded regulator – these are and remain Malta’s ingredients of success. All in all a jurisdiction which ticks the right boxes.



Market Insights China

Andre' Zarb

“Facing the new situation and new task, to build a well-off society, and, further, a prosperous, democratic and harmonious socialist modern country, and to realize the Chinese people’s great dream for the nation’s renaissance, we must engage ourselves in comprehensive and profound reform at this new historical starting point.”

– Communiqué of the Third Plenum of the 18th Central Committee of the CPC

The communiqué issued at the close of the 18th Central Committee’s Third Plenum conveys a clear message of reform. Reform away from direct government intervention against market forces, reform in favour of efficient resource allocation, reform in favour of attracting FDI and recalibrating China’s economy towards a higher value add position in the global supply chain, reform so as to reduce bureaucracy and reform in favour of external expansion of domestic Chinese businesses (both State owned entities and the private sector).

These promises of reform herald the beginning of an interesting time in global economics and geopolitics. To the extent that the Chinese authorities follow through on these promises for liberalisation, recognition of free market forces and reduction in regulation and bureaucracy the opportunities to do business with China will only continue to expand exponentially.

Looking at this macro environment in the context of the Maltese government’s concerted effort to strengthen the economic, education and cultural links in place between China and Malta, there is clearly a scope for Malta to position itself as the jurisdiction of choice both for Chinese multi-nationals looking to expand into Europe as well as for European business to move the other way. The success of this endeavour will largely depend on the industry expertise which Malta is able to bring to bear, as well as sensitivities to cultural differences which impact upon the Chinese business styles.

The outlook is optimistic though it must be acknowledged that certain areas of Malta’s product will require a significant investment in order to be able to meet and exceed expectations in this area, however KPMG in Malta is fully committed to continue investing into China product and relationship development activities.



Market Insights

Mergers & Acquisitions (M&A)

David Pace

Local businesses increasingly going the M&A way

Discussions on a potential merger or business transaction are increasingly making their way into corporate corridors. So what is spurring the concept? We believe it is a variety of factors such as:

- The dynamics of an ever more competitive market, where margins are placed under pressure, often coupled with little room for local market growth. In this setting M&A could deliver the much required economies of scale, leading players to merge with others, including one's once arch rivals.
- Greater awareness of M&A as a plausible tool for strategy implementation, enabling one to acquire market presence, a customer book, knowledge & skills, an assembled workforce, supplier arrangements (incl. Brands), amongst others – cutting learning curves and shortening lead times.
- Larger corporate groups, which have built up cash reserves, are eager to sustain and enhance their returns via investing in growth areas. This is creating a new pool of potential bidders, with appetite for multiple transactions.
- Succession motivated transactions in family owned businesses, and a new generation of entrepreneurs who build to sell rather than build to hold.

Within this setting there are a number of take-aways as we move into 2014. Potential first mover advantages only emphasise the importance of acting swiftly.

Pertinent questions for Boards to consider include:

- Has the business' leadership invested commensurate time to consider what M&A could offer or at least where could M&A be worth exploring?
- If there was an approach by an unsolicited bidder tomorrow would shareholders be able to extract the value they believe the business is worth?

It is increasingly evident that it is never too early to take steps towards grooming a business for sale.

We expect 2014 will be a year of deal-making, both in closing transactions as well as seeding new opportunities. CEOs and business owners are well encouraged to follow this space and the value-add it could offer.



Market Insights

Our view on Libya

Mark Bamber

Libya is a jurisdiction which offers tremendous economic opportunity to the right entrepreneur. A nascent democracy, intrinsically oil rich and with an ambitious modernisation agenda, Libya offers significant opportunities in infrastructure development and in many sectors of related activity. Furthermore, a domestic market of six million people, with a young average age and an ambition to emulate other Arab states, presents countless opportunities in consumer markets.

The risks need to be underlined. Internationalisation is often seen as the solution to saturation, especially in a small open economy like Malta. It is an ambitious, and demanding process, for any company, and one that will absorb highly material amounts of resources until an overseas business achieves a degree of independence. This can be especially strenuous on capital and liquidity, apart from the demands on key personnel. Doing business in Libya entails adaptation to a different culture and language, an uncertain security context, different systems of public procurement and exposure to country and currency risk. Compliance burdens in Libya may be unfamiliar, and businesses may not be geared up to remain

abreast of the changing compliance landscape. Finally, carrying out profitable business in Libya still leaves profits on the wrong side of the Libyan exchange control regime.

A good number of Maltese businesses have already successfully targeted business opportunities in Libya. Others have been less successful. Libya remains a high risk jurisdiction and is a country experiencing significant political, legislative, regulatory, security and market changes. In a volatile environment, businesses need to remain alert and responsive to emerging opportunities and risks.

Who We Are

We are proud to form part of an international network, a network that stands out as a leading provider of trusted, high quality and valued audit, tax and advisory services.

Since inception, KPMG has led with truth and transparency, earning the trust of our clients and each other. Today, as a network, we continue to gain trust and lead our profession in the right direction. Through our expertise, our forward thinking and global mindset, and a passion for what we do, we have the collective insight, foresight, and drive to provide our clients with the advice and service they need to thrive and grow in today's complex environment.

We believe in individual responsibility, personal growth and dedicated teamwork. We achieve this with outstanding professionals that are alert, intellectually curious with a hands-on attitude. We thrive in team collaboration and an environment built on mutual respect and fun. We believe in hard work and stretching ourselves to become better every day. It is for this reason that we can promise a long-term commitment to providing what truly makes a difference to our clients; like objective advice you can trust, professional relationships you can count on and global capabilities that are the foundation of great outcomes.

We work to be the best firm for our clients, our people and our communities.

Our Business

KPMG is a professional services firm that delivers Audit, Tax and Advisory services. The principal services provided by each function include:

Audit

Provision of statutory, regulatory and other attestation services; provision of advice in relation to compliance with statutory reporting requirements.

Tax

Tax compliance, advice on direct and indirect taxes, incentive legislation, employee taxes, cross-border tax planning and international business support services.

Advisory

These services fall under three main headings:

- Transactions and restructuring comprising corporate finance, restructuring and transaction services
- Risk consulting comprising accounting advisory services, financial risk management, forensic services, internal audit and risk and compliance services
- Management consulting comprising IT advisory services, business effectiveness services, and financial management.

Who We Are

continued

Our Values

Our purpose is supported by our values that are documented in our global Code of Conduct and available to each and every KPMG professional. We deliver on our values daily.

How we live it: our values and beliefs

Our purpose is supported by our values, which are documented in our Code of Conduct, available to every KPMG professional on the desktop of their computers and on our intranet. We deliver on our core values every day.

We lead by example

At all levels we act in a way that exemplifies what we expect of each other and our clients.

We respect the individual

We respect people for who they are and for their knowledge, skills and experience as individuals and team members.

We are open and honest in our communication

We share information, insight and advice frequently and constructively and manage tough situations with courage and candour.

Above all, we act with integrity

We constantly strive to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

We work together

We bring out the best in each other and create strong and successful working relationships.

We seek the facts and provide insight

By challenging assumptions and pursuing facts, we strengthen our reputation as trusted and objective business advisers.

We are committed to our communities

We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities and protecting the environment.

Who We Are

continued

Our Strategy

The world has changed since the financial crisis. In order to continue to deliver the 'KPMG Difference' we need to continually transform ourselves to stay ahead of changes in society, in business and technology in order to allow us to continually deliver on client expectations.

- We need to focus relentlessly on the issues that really matter to our clients

- It is essential that we are totally focused on the market, listen to our clients and pre-empt their needs

- Creating the right culture lies at the heart of what we do and what we deliver. KPMG has worked hard over the years to create a high performance culture where talented people can excel

- Value creation is the responsibility of all KPMG professionals.



Our sole mission is to give our clients great advice and outstanding service while being a great place to work. Our goal is to build and sustain our reputation as the most respected professional services firm to work with by ensuring that our people, our clients, and our communities achieve their full potential.

Who We Are

continued

We aim to:

Contribute to sustainable business success

Our clients comprise a wide range of organisations across the public and private sectors. Our depth of market and industry knowledge enables us to bring a breadth of expertise and insight to their challenges, whether it be exploring new paths for growth or helping them take a long-term view of the risks and opportunities they face. As advisors and thought leaders we have the responsibility to re-instil confidence in business, demonstrating that responsible business is a vital part of building long term success.

Be the most relevant professional services firm to our clients

Our success lies in being the most relevant professional services firm for our clients – the first point of reference, providing support and advice. Our training, leadership and development programmes are all geared to enable our people to fulfil that promise. It is also vital that we play a leading role in the business and social issues of the day, working closely with regulators, policymakers and civil society organisations to shape thinking on issues as diverse as taxation, infrastructure investment, financial reporting, social mobility and cyber security.

We want to be recognised for the quality of our insights, the incredibly rich array of capabilities we can deploy and for the value we create.

To be the Employer of Choice

KPMG in Malta aims to be the firm of choice for the brightest talent. We want to create a culture where talented people from diverse backgrounds, with varied skills and attitudes, most want to work, grow, develop and succeed.

Who We Are

continued

Our Talent

One of the key drivers of quality is ensuring that our professionals have the skills and experience appropriate to contribute to our value creation in such a way that we deliver on our promise of Cutting Through Complexity. This requires recruitment,

development, promotion and retention of our professionals. We believe it is essential to attract and retain the best people. During 2013, 46 people joined the firm.

Partner and Staff Complement as at 31 December

Full time employees	2013	2012
Professional staff (including principals)	191	201
Trainees	22	20
Support staff	40	37
	253	258

Graduate Programme

University students recruited by the firm as part of our graduate programme	105	109
	358	367

We are totally committed to equipping our people with the skills and tools they need to cut through the complexity of today's world – complexity that sees our people increasingly working across borders, collaborating on a global basis and taking on challenging and innovative projects.

We believe we have developed one of the strongest learning and development programmes – a powerful combination of technical training, coaching, skills-building programmes and milestone events which focus on celebrating promotions.

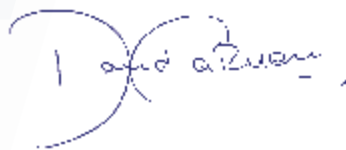
During 2013 our professionals spent an average of 8% of their available hours on training. Mentoring and coaching are also critical KPIs for all our professionals looking to progress in their career paths.

In 2013 we were proud to have been awarded the Award for Learning & Development by the Foundation for Human Resources, as well as the Award for Employee Engagement.

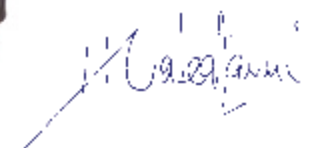
We are proud of our reputation as a 'People's Firm' and are committed to continuing to cultivate our open culture, a culture based on collaboration, honesty and integrity across the board. We are committed to nurturing talent and developing outstanding professionals who set the bar in our industry.

Introducing the Transparency Report

28 March 2014



David Caruana
COMPLIANCE PRINCIPAL



Hilary Galea-Lauri
HEAD OF AUDIT –
TECHNICAL & QUALITY MATTERS

The information contained in the forthcoming sections of this report, in conjunction with other information in earlier sections, is provided in terms of the disclosure requirements of Section 18 of the Accountancy Profession Act (CAP. 281) relevant to audit firms which carry out statutory audits of public interest entities.

We recognise that transparency promotes investor confidence and, in turn, economic stability. We play a vital role in reinforcing confidence and trust in the financial statements, financial markets and business in general. Quality and integrity characterise, underpin and are the basis of everything we do, every aspect of our firm and the people comprising it.

Defined by our actions, our professionals seek to respond to clients' needs and demonstrate their belief and commitment in maintaining the highest levels of quality and integrity in the delivery of services which is both uncompromising and unwavering.

Our information as set out in this report goes beyond the minimum requirements brought about by the ever-increasing regulation and enhanced transparency requirements as laid out in the said Act which include, amongst others, a description of the governance structure, the internal quality control system and its effectiveness. We have sought to provide ample explanations (with a particular focus on audit), on how we are

organised and managed so as to deliver on our commitment to quality across all our services. Unless otherwise stated, the information in this report reflects the position as at 28 March 2014. We invite you to browse our web-site for further information relating to other aspects of our firm.

We trust that you find this report a useful insight into how we manage our firm and uphold to the principles of quality and good corporate governance. We expect that this report gives the opportunity for feedback from our stakeholders and we would very much welcome your views as to how we can continue to improve the quality of the information presented herein in future years.

1. Our structure & governance

1.1 Legal structure

KPMG in Malta is affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. Further details about KPMG International and its business, including our relationship with it, is available in the 2013 KPMG International Transparency Report.

KPMG in Malta is a civil partnership constituted under the laws of Malta and is registered as an audit firm with the Accountancy Board in terms of the Accountancy Profession Act (CAP. 281). KPMG in Malta operates from Portico Building, Marina Street, Pietà PTA 9044, Malta.

KPMG in Malta is wholly owned, and its voting rights are fully held, by its partners all of whom are professionals actively involved in the provision of audit, tax and advisory services to the firm's clients.

KPMG in Malta has three wholly-owned subsidiaries, namely KPMG Holding Limited, KPMG Advisory Services Limited and KPMG Property Limited. Most services, including all audit

services, are provided by KPMG. KPMG Holding Limited acts as the "paymaster" for the practice, whilst KPMG Advisory Services Limited is licensed to provide recruitment services under the Employment and Training Services Act.

KPMG and its subsidiary undertakings in Malta are collectively referred to as KPMG in this report, unless the context clearly indicates otherwise. The contents of this report apply to the whole KPMG practice in Malta including that of its subsidiary undertakings.

There were 13 partners in KPMG in Malta as at 31 December 2013.

1.2 Name and ownership

KPMG is the registered trademark of KPMG International and is the name by which the member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities.

Member firms may consist of more than one separate legal entity. If this is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

1. Our structure & governance

continued

1.3 Governance

KPMG's governance structure in Malta as at the date of this report and as reflected in the Partnership Agreement is summarised in the figure below.



1. Our structure & governance

continued

1.3 Governance

Partnership Board

The key governance and management body of KPMG is the Partnership Board made up of all of the partners of KPMG. All the voting rights of the firm are held by the partners. The Partnership Board is responsible, amongst others, for setting the policies, direction and strategy of the firm and the appointment of partners and staff to carry out the managerial roles within the firm's governance structure. 10 partners' meetings were held during 2013.

Executive Management Committee

The Executive Management Committee (EMC) is responsible for formulating concrete proposals for the consideration of the partners' meeting on a variety of issues including the firm's vision and strategy, financial management, and human resources strategies and policies. It is also responsible for co-ordinating financial reporting and control, including working capital management on a day-to-day basis as well as co-ordinating the performance of the firm on a cross-functional basis. The EMC, which is chaired by the firm's managing partner, met 34 times during 2013.

Quality and Risk Management Committee

The principle role of the Quality and Risk Management Committee is to provide oversight of quality and risk management matters across the firm. As part of its role it oversees that a culture of quality and integrity is maintained within the firm and, where required, it will act as a sounding board to the Risk Management Partner on the policies and procedures relating to professional risk management, ethics and independence and quality control and compliance. The Committee also considers the impact of the key findings from our compliance quality monitoring programmes and the adequacy of proposed remedial actions. The Quality and Risk Management Committee met 5 times in 2013.

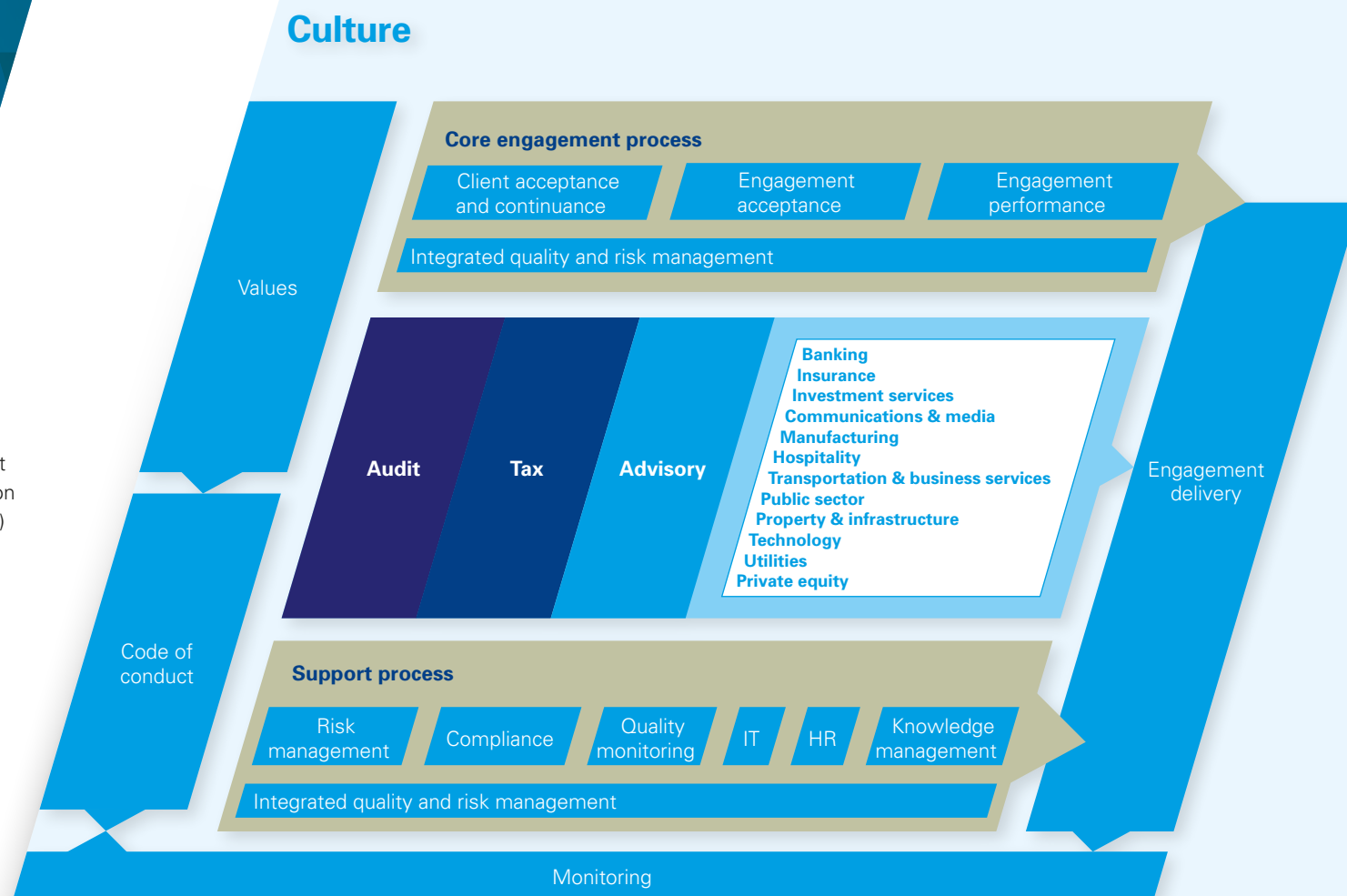
Functional committees

The partners and directors working within each of the firm's three functions form part of a partners' committee for that function, chaired by the respective head of function. The objective of these committees is to ensure the effective management of each respective function within the firm.

2. System of quality control

KPMG International has policies of quality control that apply to all member firms. These policies are based on the International Standard on Quality Control (ISQC 1) issued by the International Auditing and Assurance Standards Board (IAASB), and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), relevant to firms that perform statutory audits and other assurance and related services engagements. These policies and associated procedures are designed to guide member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing reports that are appropriate in the circumstances.

Our firm implements KPMG International policies and procedures. ISQC1 is mandated on us by local regulations. Though many of its provisions are strictly speaking only required to our audit practice, we have adopted its principles across all functions of our practice. To help ensure quality control, our operating model encompassing each of the key areas from ISQC1, is depicted below.



In addition to the standards required by ISQC1, we maintain systems of quality control for our audit practice that are designed to meet or exceed the expectations of audit committees (our clients) as well as the rules and standards issued by the Accountancy Board and other regulators.

KPMG International's policies reflect individual quality control elements to help our personnel act with integrity and objectivity,

perform their work with diligence, and comply with applicable laws, regulations, and professional standards.

Quality control and risk management are the responsibility of all KPMG personnel. This responsibility includes the need to understand and adhere to firm policies and associated procedures in carrying out their day-to-day activities.

2. System of quality control

continued

While many KPMG quality control processes are cross-functional, and apply equally to tax and advisory work, the remainder of this section focuses on what we do to enable our firm to deliver quality audits. In this section we therefore focus on our system of audit quality control.

At KPMG, audit quality is not just about reaching the right opinion, but how we reach that opinion. It is about the processes, thought and integrity behind the audit report. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the

auditing standards. This means, above all, being independent and compliant with relevant legal and professional requirements.

To help all audit professionals concentrate on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, KPMG International have developed the Global Audit Quality Framework. Our Framework introduces a common language that is used by all KPMG member firms to describe what we believe drives audit quality, and to highlight how every audit professional at KPMG contributes to the delivery of audit quality.

Audit quality framework

Our Audit Quality Framework identifies seven drivers of audit quality

- | | |
|--|--|
| <ul style="list-style-type: none"> • Tone at the top • Association with the right clients • Clear standards and robust audit tools • Recruitment, development and assignment of appropriately qualified personnel • Commitment to technical excellence and quality service delivery | <ul style="list-style-type: none"> • Performance of effective and efficient audits • Commitment to continuous improvement. <p>Tone at the top sits at the core of the Audit Quality Framework's seven drivers of audit quality and helps ensure that the right behaviours permeate across our entire network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others. Each of the seven drivers is described in more detail in the following sections of this report.</p> |
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2. System of quality control

continued

2.1 Tone at the top

Our leadership clearly demonstrates and communicates its commitment to quality, ethics and integrity. The tone at the top of any organisation drives its culture and accepted behaviours. We make it clear that quality is a part of our culture and values.

KPMG's tone at the top provides a clear focus on quality through:

- culture, values, and code of conduct – clearly stated and demonstrated in the way we work
- focused and well-articulated strategy – incorporating quality at all levels
- standard set by our leadership
- governance structure and clear lines of responsibility for quality - skilled and experienced people in the right positions to influence the quality agenda.

2.1.1 Culture and values

At KPMG we are committed to doing the right thing in the right way for our people, our clients and other stakeholders including the capital markets we serve. To create this shared sense of identity, we have clearly stated values and a Code of Conduct (the "Code") against which an expected level of performance and behaviour is understood. The Code incorporates these core values and addresses the commitments that we make as well as the responsibilities of our personnel at all levels across our firm. We understand that trustworthiness is a critical characteristic that stakeholders expect and rely upon. It is this commitment that underlies our values-based compliance culture where individuals are encouraged to raise their concerns when they see behaviours or actions that are inconsistent with our values or professional responsibilities. Any concern is considered and constructively

reviewed, and appropriate action taken. We communicate our values clearly to our people and living our values is so important to us that we embed these into our performance appraisals and they are given specific consideration for senior promotions. Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG core value – Above all, we act with Integrity. For us integrity means constantly striving to uphold the highest professional standards in our work, providing sound advice to our clients, and rigorously maintaining our independence.

Setting the right tone is a key responsibility of our senior leadership team. The Senior Partner and all members of the leadership team are committed to building a culture based on quality and ethics. This is fundamental to the work we perform and the maintenance of our reputation.

2. System of quality control

continued

2.1.2 Code of conduct

Our Code of Conduct is driven by our values. It defines the professional standards required from all of our people both in delivering professional services engagements and in their internal dealings at KPMG. The Code emphasises that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility.

The Code of Conduct points out that all of our people have to comply with the internal regulations on independence, impartiality, confidentiality, objectivity and professional ethics and that any breach of the independence regulations should be reported immediately. Partners and employees undertake annual ethics

training on relevant Code of Conduct topics, and each year acknowledge that they agree to comply with the Code and confirm such compliance. The Code of Conduct was updated in 2012 to reflect changes in law, regulations and professional ethics.

We operate rigorous policies and procedures to ensure that our partners and employees are free from prohibited financial interests in, and relationships with, our audit clients, their management, directors and significant owners. Both these policies and procedures and the Code are included in the firm's quality and risk management manual which is refreshed at least once annually and, together with guidance notes, is readily available to all our people.

2.1.3 Whistle-blowing

Our policies provide that, anyone who has concerns about how others are behaving (either internally or externally) is required to raise the issue with their line manager or any partner. Anyone, at any time, is entitled to contact our Ethics and Independence Partner, David Caruana, with the assurance that their concern will be dealt with in confidence. We recognise that some people may feel uncomfortable reporting through the normal channels of communication within the firm or may consider that concerns they have expressed have not been dealt with effectively. We inform our people in our training and communications including on our intranet portal, that KPMG International maintains a hotline operated by a third party supplier. This hotline serves

as a confidential reporting mechanism for any concerns about possible illegal, unethical, or improper conduct, in relation to certain areas of activity by KPMG International itself, those who work for KPMG International, or the senior leadership of a KPMG member firm. Matters can be raised anonymously without fear of retaliation. Matters reported to the hotline are investigated under the supervision of an independent ombudsman and are reported ultimately to the firm's Quality & Risk Management Committee. This report covers matters reported to the hotline, how the investigations were conducted, findings from the investigations, and the implications for our policies and procedures.

2. System of quality control

continued

2.1.4 Leadership responsibilities for quality and risk management

While we stress that all professionals are responsible for quality and risk management, the following entities and individuals have leadership responsibilities.

Senior partner

In accordance with the principles set out in ISQC1, our Senior Partner, Tonio Zarb, has assumed ultimate responsibility for KPMG's system of quality control. Details of some of the measures that he and the rest of the Partnership Board have taken to ensure that a culture of quality prevails within KPMG, are set out in this section of the report.

Risk Management Partner

Operational responsibility for the system of quality control, risk management and compliance in KPMG has been delegated to the Risk Management Partner, David Caruana, who is responsible for setting overall professional risk management and quality control policies and monitoring compliance for the firm. He has a seat on the firm's Executive Management Committee, chairs the Quality and Risk Management Committee, and has a direct reporting line to the Senior Partner. This underlines the importance that the firm places on risk and quality issues. The Risk Management Partner is supported, as appropriate, by partners and professionals in each of the functions.

The Audit, Tax and Advisory functions – Function Heads

The three heads of the client service functions (Audit, Tax and Advisory) are accountable to the senior partner for the quality of service delivered in their respective functions. Between them, they determine the operation of the risk management, quality assurance and monitoring procedures for their specific functions within the framework set by the Risk Management Partner. These procedures make it clear that at the engagement level risk management and quality control is ultimately the responsibility of all professionals.

2. System of quality control

continued

2.2 Association with the right clients

2.2.1 Acceptance and continuance of clients and engagements

The firm recognises that rigorous client acceptance and continuance policies are vital to our ability to provide high-quality professional services and to protect KPMG's reputation and support its brand. We have established policies and procedures for deciding whether to accept or continue a client relationship and whether to perform specific services for a particular client. This evaluation includes completion of a standard questionnaire that assesses the risk profile. These evaluations include an assessment of a number of external

factors that have the potential to impact on the quality of our audits such as the adequacy of the client's internal governance processes, the robustness of its financial systems and controls, the reputation of the client and the integrity of its owners. Where issues are noted, these should be appropriately considered as part of the audit planning process and where they are very significant these may affect our ongoing association with the client. For higher risk clients and engagements, approval is required from our Risk Management Partner.

2.2.2 Prospective client and engagement evaluation process

Before accepting a client, we undertake an evaluation of the prospective client. This involves an assessment of its principals, its business, and other service-related matters. This also involves background checks on the prospective client, its key management and beneficial owners. A key focus is on the integrity of the prospective client management. A second partner, as well as the evaluating partner, approves the prospective client evaluation. Where the client is considered to be higher than 'low' risk the Risk Management Partner is involved in approving the evaluation.

The prospective engagement partner evaluates each prospective engagement. The evaluation identifies potential risks in relation to the engagement. A range of factors is considered as part of this evaluation including potential independence and conflict of interest issues (using Sentinel™ - KPMG International's proprietary global conflicts and independence checking system) as well as factors specific to the type of engagement, including for audit services, the competence of the client's financial management team. The evaluation is made in consultation with other senior member firm personnel and includes review by quality and risk management leadership as required.

Where audit services are to be provided for the first time, the prospective engagement team is required to perform additional independence evaluation procedures including a review of any non-audit services provided to the client and of other relevant relationships.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are documented and resolved prior to acceptance.

Our firm will decline a prospective client or engagement if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional and firm standards, or if there are other quality and risk issues that cannot be appropriately mitigated.

Section 2.3.2 provides more information on our independence and conflict checking policies.

2. System of quality control

continued

2.2.3 Continuance process

An annual re-evaluation of all clients is undertaken. In addition, clients are re-evaluated earlier if there is an indication that there may be a change in their risk profile. Recurring or long running engagements are also subject to re-evaluation.

This re-evaluation serves two purposes. Firstly, we will decline to continue to act for any client where we are unable to deliver

to our expected level of quality or if we have reason to believe that it would not be appropriate to continue to be associated with the client. More commonly, we use the re-evaluation to consider whether or not any additional risk management or quality control procedures need to be put in place for the next engagement (this may include the assignment of additional professionals or the need to involve additional specialists on the audit).

2.2.4 Client portfolio management

Our leadership appoints engagement leaders who have the appropriate competence, capabilities, time and authority to perform the role for each engagement.

The client portfolio of each engagement leader is regularly reviewed to ensure that they have sufficient time to manage the portfolio and that risks are being appropriately managed.

2.3 Clear standards and robust audit tools

Professional practice, risk management and quality control are the responsibilities of every KPMG professional. Our professionals are expected to understand, apply and adhere to KPMG policies and procedures (including independence policies) and are provided with a range of tools to support them in meeting these

expectations. The policies and procedures we set for audit incorporate the relevant requirements of accounting, auditing, ethics, and quality control standards, and other relevant laws and regulations.

2.3.1 Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up to date. Our global audit methodology, developed by the Global Services Centre, is based on the requirements of the International Standards on Auditing (ISAs). The methodology is set out in our audit manual, KPMG International's KPMG Audit Manual ("KAM") and includes additional requirements that go beyond the ISA and which

KPMG believes enhance the quality of our audits. KAM is made available to all audit professionals. Such methodology serves as the foundation of our financial statement audit. In addition to engagement, quality and risk matters, KAM also deals with the activities involved in, and standard documentation for, all aspects of our audit work.

2. System of quality control

continued

Our audit methodology is supported by eAudit, KPMG International's electronic audit tool, which provides KPMG auditors worldwide with the methodology, guidance, and industry knowledge needed to perform efficient, high-quality audits. eAudit has been deployed to all audit professionals in our firm.

eAudit's activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to stakeholders.

The key activities within the eAudit workflow are:

Engagement setup

- perform engagement acceptance and scoping
- determine team selection and timetable.

Testing

- test operating effectiveness of selected controls
- plan and perform substantive procedures.

Risk assessment

- understand the entity
- identify and assess risks
- plan for involvement of KPMG specialists and external experts, internal audit, service organisations and other auditors, as required
- evaluate, design and implement relevant controls
- conduct risk assessment and planning discussion
- determine audit strategy and planned audit approach.

Completion

- update risk assessment
- perform completion procedures, including overall review of financial statements
- perform overall evaluation, including evaluation of significant findings and issues
- communicate with those charged with governance (e.g. the audit committee)
- form the audit opinion.

KAM contains, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks. Our methodology encourages engagement teams to exercise professional scepticism in all aspects of planning and performing an audit. The methodology encourages use of specialists when appropriate and also requires involvement of relevant specialists in the core audit engagement team when certain criteria are met.

KAM includes the implementation of quality control procedures at the engagement level that provide us with reasonable assurance that our engagements comply with the relevant professional, legal, regulatory, and KPMG requirements.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Quality & Risk Management Manual (GQ&RMM) that is applicable to all KPMG member firms, functions and personnel.

2. System of quality control

continued

2.3.2 Independence, integrity, ethics and objectivity

2.3.2.1 Overview

Member firms and KPMG professionals are required to comply with independence standards that meet or exceed those set out in the IESBA Code of Ethics together with those of other applicable regulatory bodies (which may include those of a foreign jurisdiction where those requirements apply extraterritorially).

These policies are supplemented by other processes to ensure compliance with the standards issued by the Accountancy Board. These policies and processes cover areas such as personal independence, firm financial independence, business relationships, post-employment relationships, partner rotation, and approval of audit and non-audit services.

Our firm has a designated Ethics and Independence Partner (EIP) supported by a core team of specialists to help ensure that we implement robust and consistent independence policies and procedures. Ethics and independence policies, including amendments in the course of the year, are communicated through the issuance of e-mail alerts and notifications together

with an annual training programme including both web-based and classroom training. All our ethics and independence policies are available on the firm's intranet portal which is made available to all staff members.

To help ensure ethical conduct, including integrity and independence, our firm and its personnel must be free from prohibited financial interests in, and prohibited relationships with, the network's audit clients, their management, directors, and significant owners.

In the event of failure to comply with relevant independence policies, whether identified in the rolling compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary policy. Matters arising are factored into promotion and compensation decisions and, in the case of partners and managers, are reflected in their individual quality and risk metrics.

2.3.2.2 Personal independence

KPMG International policy extends the IESBA Code of Ethics restrictions on ownership of audit client securities to every member firm partner in respect of any audit client of any member firm.

Our professionals are responsible for making appropriate enquiries to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes. In common with other member firms of KPMG International we use a web-based independence tracking system to assist professionals in their compliance with our investment policies. This system contains an inventory of publicly available investment products. The firm's audit clients and subsidiaries are marked "restricted" in the system. Before purchasing a security or securing a loan or other financial relationship, professionals must use the independence search engine to determine if the entity is restricted. Partners and managers providing professional services

are required to register all of their reportable investments in the tracking system, which automatically notifies professionals if their investments subsequently become restricted.

We monitor compliance with this requirement as part of an annual program of independence compliance audits of a sample of professionals. In 2013, 26 of our people were subject to these audits, which included approximately one third of our principals (partners and directors).

In accordance with KPMG International's rules, all partners are prohibited from owning securities in an audit client of any KPMG International member firm worldwide.

In addition, any professional providing services to an audit client is required to notify the EIP if they intend to enter into employment negotiations with that audit client.

2. System of quality control

continued

2.3.2.3 Independence training and confirmations

Our firm provides all relevant personnel with periodic independence training appropriate to their grade and function and provides all new personnel with relevant training when they join.

All personnel are required to sign an independence confirmation upon joining our firm. Thereafter, professionals are required to provide an annual confirmation that they have remained in compliance with applicable ethics and independence policies throughout the period, which confirmation is administered via an

electronic system. This confirmation is used to evidence the individual's compliance with, and understanding of, our firm's independence policies.

Engagement team members assigned to the audit of public interest entities are requested to declare their independence of the audit client immediately prior to the commencement of the audit engagement. In addition, the firm confirms annually its independence to the audit committees of public interest entities.

2.3.2.4 Audit partner rotation

Partners are subject to periodic rotation of their responsibilities to provide audit services to a public interest entity under applicable laws, regulations, and independence rules. These limit the number of years that partners in certain roles may provide audit services to an audit client. KPMG International rotation policies are consistent with IESBA Code of Ethics and require our firm to comply with any stricter applicable rotation requirements. We monitor the rotation

of partners who provide services to audit clients. This monitoring system also aids in the development of timely transition plans to enable us to allocate partners with the necessary competence and capability to deliver consistent quality service to our clients. The process of monitoring and tracking service time and partner rotation is subject to compliance testing as part of the national quality performance review processes.

2.3.2.5 Non-audit services

We have policies and procedures as to the scope of services that can be provided to audit clients which are consistent with both IESBA principles and Directive 2, Code of Ethics for Warrant Holders issued in terms of the Accountancy Profession Act (CAP. 281). KPMG International policies require the lead audit engagement partner to evaluate the threats arising from the provision of non-audit services and the safeguards available to address those threats.

KPMG International's proprietary system, Sentinel™, facilitates compliance with these policies. Lead audit engagement partners

are required to maintain group structures for their publicly traded and certain other audit clients and their affiliates in the system. Every engagement entered into by a KPMG member firm is required to be included in the system prior to starting work. The system enables lead audit engagement partners for entities for which group structures are maintained to review and approve, or deny, any proposed service for those entities worldwide.

In accordance with applicable auditor independence rules, none of our audit principals are compensated on their success in selling non-audit services to their audit clients.

2. System of quality control

continued

2.3.2.6 Fee dependency

KPMG International's policies recognise that, self-interest or intimidation threats may arise when the total fees from an audit client represent a large proportion of the total fees of the operating firm expressing the audit opinion. In particular, KPMG International's policies require that, in the event that the audit client were a public interest entity and the total fees from the audit client and its related entities represented more than 10 percent

of the total fees received by a firm for two consecutive years, this would be disclosed to those charged with governance at the audit client and a senior partner from another operating firm would be appointed as the engagement quality control (EQC) reviewer.

No audit client accounted for more than 10 percent of the total fees received by our firm over the last two years.

2.3.2.7 Business relationships/suppliers

Our firm has policies and procedures designed to ensure that business relationships are maintained in accordance with the IESBA Code of Ethics and any additional applicable local independence requirements. Detailed guidance is maintained covering, inter alia, business alliances and joint working arrangements, procurement relationships, and marketing and

public affairs activities. Consultation is required in any case of uncertainty with the Risk Management Partner to ensure that no relationship is entered into with an audit client or its management, which is not permitted for independence purposes. Compliance with these policies and procedures is reviewed periodically.

2.3.2.8 Conflicts of interest

Conflicts of interest may prevent our firm from accepting a client or an engagement. The Sentinel™ system is also used to identify and manage potential conflicts of interest within and across member firms in the KPMG International network of member firms. Any potential conflict issues identified are resolved in consultation with other parties as applicable, and the outcome is documented. An escalation procedure exists in the case of dispute between KPMG member firms. If a potential conflict issue cannot be resolved, the engagement is declined or terminated. Any potential conflict matters that raise important points of principle for

our firm are referred to the Head of Quality and Risk for resolution; in case of difficulty a panel of partners may be convened to resolve the matter.

It may be necessary to apply specific procedures to manage the potential for a conflict of interest to arise or be perceived to arise so that the confidentiality of all clients' affairs is maintained. Such procedures may, for example, include establishing formal dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

2.3.2.9 Compliance with laws, regulations and anti-bribery and corruption

Training covering compliance with laws (including those relating to anti-bribery and corruption), regulations, professional standards and the KPMG Code of Conduct is required to be completed by client-facing professionals at least once every two years, with new

recruits completing such training within three months of joining our firm. In addition, certain non-client-facing personnel who are at manager level and above are required to participate in anti-bribery training.

2. System of quality control

continued

2.4 Recruitment, development and assignment of appropriately qualified personnel

One of the key drivers of quality is ensuring the assignment of professionals with the skills and experience appropriate to the entity subject to audit. This requires a focus on recruitment, development, promotion and retention of our personnel, and

the development of robust capacity and resource management processes. Member firms monitor quality incidents for the purposes of partner assignments and also for the purposes of partner evaluation, promotion and remuneration.

2.4.1 Recruitment

At KPMG we aim to recruit well-rounded individuals with good communication, critical thinking and problem solving abilities combined with high technical competency and personal values consistent with the firm's values. All candidates for professional positions submit résumés and application forms, and are interviewed. Certain information included in the candidates' application is also verified through independent sources. At interview stage personnel are informed of the general personal independence requirements that apply to all professional staff

members. Upon joining our firm, new personnel are required to participate in a comprehensive on-boarding program, which includes training in areas such as ethics and independence, quality and risk management and IT security, in addition to any job-related modules. New joiners are asked to ascertain and confirm their independence and to identify any potential problems in this respect. Any situations involving independence or conflicts of interest are resolved appropriately.

2.4.2 Personal development

It is important that all professionals have the necessary business and leadership skills to be able to perform quality work in addition to technical skills. At KPMG we continually review and assess our people's capabilities and competence to perform engagements in accordance with professional standards, legal and regulatory requirements. We provide opportunities for our people to develop the core competencies, skills, behaviours and personal qualities that form the foundations of a successful career. Courses for all staff levels to enhance personal effectiveness and develop technical, leadership and professional skills are provided by the firm on an ongoing basis. We further develop our personnel for high performance through coaching and mentoring on the job, complemented by opportunities to work on challenging

engagements both in Malta and overseas through the global mobility program.

The firm requires its professionals to complete annual training on independence standards and the ethical standards embedded in the firm's Code of Conduct. We also ensure that our professionals stay abreast of technical updates by attending internal and external industry-specific training programmes and conferences as well as reviewing pertinent bulletins and periodicals. Quality is continually emphasised to our client service professionals through timely training and communication of accounting, auditing, and reporting matters. During 2013, our people's aggregate time on training, including on-the-job training, was in the region of 56,000 hours.

2. System of quality control

continued

2.4.3 Performance evaluation and compensation

Formal evaluation of performance is conducted and documented annually. All partners and staff have a suitably qualified performance manager assigned who is in a position to assess performance and propose a performance rating on the basis of their evaluation based on: (i) attainment of agreed-upon goals, (ii) demonstration of the KPMG skills and behaviours for their level, and (iii) technical capabilities and market knowledge. This is achieved through our global performance development process, which is supported by a web-based application.

Assessed skills and behaviours relating to quality include: quality focus and professionalism, technical knowledge, accountability, business and strategic focus, leading and developing people, continuous learning and relationship building. An individual's accountability in achieving quality is a core benchmark used to assess performance and progression within the firm. The result of their annual performance evaluation directly affects compensation of personnel and in some cases their continued association with the firm.

KPMG is committed to the career development of its people. To support this, the Global People, Performance, and Culture group has designed a new behavioural capability framework which is being adopted in member firms around the world. This framework, combined with development initiatives in areas such as coaching and mentoring, will support our people in enhancing their skills, maximizing their performance, and reaching their full potential.

Our firm has compensation and promotion policies that are clear, simple, and linked to the performance evaluation process, which for partners includes the achievement of key audit quality and compliance metrics. This helps our partners and employees know what is expected of them and what they can expect to receive in return. Partners are remunerated solely out of the profits of the whole firm and are personally responsible for funding pensions and other benefits. Audit partner / director remuneration setting takes no account of the level of non-audit services provided to the partner's / director's audit clients.

2.4.4 Partner admissions

Our process for admission to partnership is rigorous and thorough, involving various levels of assessment carried out both by the local firm and at a sub-regional level. Our criteria for admission to the partnership are consistent with our commitment to

professionalism and integrity, quality and being an employer of choice. These are strongly aligned to KPMG's behavioural capabilities and are based on consistent principles.

2. System of quality control

continued

2.4.5 Assignment

Professionals are assigned to engagements based on a number of factors including their skill set, relevant professional and industry experience, and the nature of the assignment or engagement. Function heads are responsible for the partner assignment process. Key considerations include partner experience, accreditation and capacity, based on an annual partner portfolio review, to perform the engagement in view of the size, the complexity and risk profile of the engagement and the type of support to be provided (i.e., the engagement team composition and specialist involvement).

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal

and regulatory requirements. This may include involving specialists or from our own or other KPMG member firms.

The Senior Partner, in consultation with the Heads of Audit and the Risk Management Partner, is responsible for assigning engagement leaders and engagement quality control reviewers in the case of audit engagements for public interest entities and certain higher risk non-public interest audit clients. These assignments, together with the partner rotation plan, are reviewed periodically by the Quality and Risk Management Committee.

The need for any specialists (e.g. tax, valuation, etc.) to be assigned to a particular engagement is specifically considered as part of the engagement acceptance / continuance process as well as during engagement planning.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement leader's considerations may include the following:

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> • an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation | <ul style="list-style-type: none"> • appropriate technical skills, including those related to relevant information technology and specialised areas of accounting or auditing | <ul style="list-style-type: none"> • ability to apply professional judgement |
| <ul style="list-style-type: none"> • an understanding of professional standards and legal and regulatory requirements | <ul style="list-style-type: none"> • knowledge of relevant industries in which the client operates | <ul style="list-style-type: none"> • an understanding of KPMG's quality control policies and procedures. |

2. System of quality control

continued

2.5 Commitment to technical excellence and quality service delivery

We provide all professionals with the technical training and support they need. This includes access to networks of specialists and professional practice departments (DPP). These are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation.

At the same time, we use our audit accreditation and licensing policies to require professionals to have the appropriate knowledge and experience for their assigned engagements. Our structure enables our engagement teams to apply their business understanding and industry knowledge to deliver valued insights and to maintain audit quality.

2.5.1 Technical training

In addition to personal development, discussed in section 3.4.2, our policies require all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Learning and Development teams at the global, regional and local levels identify annual technical training priorities

for development and delivery using a blend of classroom, e-learning and virtual classroom methods. These teams work with subject matter experts and leaders to ensure the training is of the highest quality, relevant to performance on the job and is delivered on a timely basis.

2.5.2 Accreditation and licensing

Our firm is responsible for ensuring that professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the local predominant financial reporting framework. We have specific accreditation requirements for many of our services (including Transaction Services and Corporate Finance services) which ensure that only partners and employees with the appropriate training and experience are assigned to clients and are appropriately licensed where necessary.

Our firm requires that all client service professionals maintain accreditation with their professional body and satisfy the continuing professional development requirements of the respective body and, where applicable, that they satisfy the Continuing Professional Education requirements of the Malta Institute of Accountants as holders of the warrant of Certified Public Accountant. Our policies and procedures are designed to ensure that those individuals that require a licence to undertake their work are appropriately licensed.

2. System of quality control

continued

2.5.3 Access to specialist networks

Our audit engagement teams have access to a network of specialists both in the Malta practice and in other KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills.

The need for specialists (e.g. information technology, tax, valuation, treasury, pensions, forensic, actuarial) to be assigned to a specific audit engagement is considered as part of the audit engagement acceptance and continuance process.

2.5.4 Consultation

Internal consultation is a fundamental contributor to quality and is encouraged and, in certain circumstances, required to address difficult or contentious matters. Our firm provides appropriate consultation support to audit engagement professionals through professional practice resources that include a DPP and a Professional Practice Committee (PPC).

The role of these resources is crucial in terms of the support that they provide to the Audit function. They provide technical guidance to client service professionals on specific engagement-related matters, develop and disseminate specific topic guidance on emerging local technical and professional issues, and disseminate international guidance on IFRS and ISA.

The firm has established protocols for consultation and documentation of significant accounting and auditing matters,

including procedures to facilitate resolution of differences of opinion on engagement issues. Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by the Quality and Risk Partner and / or Senior Partner.

Technical support is available to our firm through the International Standards Group (ISG) as well as the U.S. Capital Markets Group for work on SEC foreign registrants.

The ISG works with Global IFRS and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS between member firms, identify emerging issues, and develop global guidance on a timely basis.

2.5.5 Developing business understanding and industry knowledge

A key part of engagement quality is having a detailed understanding of the client's business and industry.

For significant industries, global audit sector leads are appointed to support the development of relevant industry information which is made available to audit professionals within eAuditIT. This

knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available which provide general and business information in respect of particular industries, as well as, a summary of the industry knowledge provided in eAuditIT.

2. System of quality control

continued

2.6 Performance of effective and efficient audits

How an audit is conducted is as important as the final result. Our drivers of audit quality enhance the quality of the engagement team's performance during the conduct of every audit.

We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. These behaviours are discussed below.

2.6.1 KPMG audit process

As set out above, our audit workflow is enabled in eAudIT. The key behaviours that our auditors apply throughout the audit process to deliver effective and efficient audits are:

- | | | |
|---|---|--|
| • timely partner and manager involvement | • ongoing mentoring and on the job coaching, supervision and review | • reporting |
| • critical assessment of audit evidence | • appropriately supported and documented conclusions | • insightful, open and honest two-way communication with those charged with governance |
| • exercise of professional judgment and professional skepticism | • if relevant, appropriate involvement of the EOC reviewer | • client confidentiality, information security and data privacy. |

2. System of quality control

continued

2.6.1.1 Timely partner and manager involvement

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position and the environment in which it operates.

The engagement leader is responsible for the overall quality of the audit engagement and therefore for the direction, supervision and performance of the engagement.

Involvement and leadership from the engagement leader during the planning process and early in the audit process helps set the appropriate scope and tone for the audit, and helps the engagement team obtain maximum benefit from the

engagement leader's experience and skill. Timely involvement of the engagement leader at other stages of the engagement allows the engagement leader to identify and appropriately address matters significant to the engagement, including critical areas of judgement, and significant risks.

The engagement leader is responsible for the final audit opinion and reviews key audit documentation – in particular, documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the engagement leader in meeting these responsibilities and in the day-to-day liaison with the client and engagement team.

2.6.1.2 Critical assessment of audit evidence with emphasis on professional scepticism

We consider all audit evidence obtained during the course of the audit, including consideration of contradictory or inconsistent audit evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. The analysis of the audit evidence requires each of our team members to exercise professional judgement and maintain professional scepticism to obtain sufficient appropriate audit evidence.

Professional scepticism involves a questioning mind and alertness to contradictions or inconsistencies in audit evidence. Professional scepticism features prominently throughout auditing standards and receives significant focus from regulators. Our Audit Quality

Framework emphasises the importance of maintaining an attitude of professional scepticism throughout the audit.

We have developed a professional judgement process that provides audit professionals with a structured approach to making judgements. Our professional judgement process has professional scepticism at its heart. It recognises the need to be alert to biases which may pose threats to good judgement, consider alternatives, critically assess audit evidence by challenging management's assumptions and following up contradictory or inconsistent information and document rationale for conclusions reached on a timely basis as a means of testing their completeness and appropriateness.

2. System of quality control

continued

2.6.1.3 Ongoing mentoring and on the job coaching, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of skills and capabilities of our professionals, without compromising on quality, we use a continuous learning environment. We support a coaching culture throughout KPMG as part of enabling personnel to achieve their full potential.

Ongoing mentoring and on-the-job coaching and supervision during an audit involves:

- engagement partner participation in planning discussions
- tracking the progress of the audit engagement
- considering the competence and capabilities of the individual members of the engagement team, including whether they

have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement

- helping engagement team members address any significant matters that arise during the audit, and modifying the planned approach appropriately
- identifying matters for consultation with more experienced team members during the engagement.

A key part of effective mentoring, coaching, and supervision is timely review of the work performed so that significant matters are promptly identified, discussed and addressed.

2.6.1.4 Appropriately supported and documented conclusions

Audit documentation records the audit procedures performed, evidence obtained and conclusions reached on significant matters on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

The key principle that engagement team members are required to consider is whether an experienced auditor, having no previous connection with the engagement, will understand:

- the nature, timing, and extent of audit procedures performed to comply with the ISAs
- applicable legal and regulatory requirements
- the results of the procedures performed, and the audit evidence obtained
- significant findings and issues arising during the audit, and actions taken to address them (including additional audit evidence obtained)

- the basis for the conclusions reached, and significant professional judgements made in reaching those conclusions.

Our methodology recognises that documentation prepared on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before our report is finalised. Teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 calendar days from the date of the audit report but may be more restrictive under certain applicable regulations.

Our firm has a formal document retention policy in accordance with the applicable laws and regulations that govern the period we retain audit documentation and other client-specific records.

2. System of quality control

continued

2.6.1.5 Appropriate involvement of the EQC reviewer

EQC reviewers have appropriate experience and knowledge to perform an objective review of the decisions and judgements made by the engagement team. They are experienced audit professionals who are independent of the engagement team. They provide an objective review of the more critical and judgemental elements of the audit.

An EQC reviewer is required to be appointed for the audits, including any related review(s) of interim financial information, of all listed entities, non-listed entities with a high public profile, engagements that require an EQC review under applicable laws or regulations, and other engagements as designated by the risk management partner or country head of audit. Before the date of the auditor's report, these individuals review:

- selected audit documentation and client communications
- appropriateness of the financial statements and related disclosures
- significant judgements the engagement team made and the conclusions it reached with respect to the audit.

The audit is completed only when the EQC reviewer is satisfied that all significant questions raised have been resolved.

We are continually seeking to strengthen and improve the role that the EQC review plays in audits as this is a fundamental part of the system of audit quality control. In recent years we have taken a number of actions to reinforce this, including:

- issuing leading practices guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQC reviewers
- incorporating specific procedures in eAudIT to facilitate effective reviews
- implementing policies relating to recognition, nomination and development of EQC reviewers, as well as monitoring and assessing the nature, timing and extent of their involvement.

2. System of quality control

continued

2.6.1.6 Reporting

Auditing standards and the requirements of the Companies Act (CAP. 386) largely dictate the format and content of the audit report that includes an opinion on the fair presentation of the client's financial statements in all material aspects. Experienced engagement partners arrive at all audit opinions based on the audit performed.

In preparing audit reports, engagement leaders have access to extensive reporting guidance and technical support to audit through consultations with DPPs, especially where there are significant matters to be reported to users of the audit report, either as a qualification to the audit report or through the inclusion of an emphasis of matter paragraph.

2.6.1.7 Communication with those charged with governance

Two-way communication with those charged with governance is key to audit quality. We stress the importance of keeping those charged with governance informed of issues arising throughout the audit and of understanding their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and ongoing discussions with members of the audit committee.

We deliver insights such as our assessment of the appropriateness of significant accounting practices, including accounting policies, accounting estimates, financial statement disclosures, significant deficiencies in the design and operation of financial reporting systems, controls when such deficiencies come to our attention during the course of the audit, and any uncorrected misstatements. We share our industry experience to encourage discussion and debate with those charged with governance.

2. System of quality control

continued

2.6.1.8 Focus on effectiveness of group audits

Our audit methodology covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is a key to audit quality. The group audit engagement partner is required to evaluate the competence

of component auditors, whether or not they are KPMG member firms, as part of the engagement acceptance process. Our audit methodology incorporates the heightened attention currently being given to key risk areas for group audits.

2.6.2 Client confidentiality, information security and data privacy

We take the issue of client confidentiality very seriously. The importance of maintaining confidentiality is continually emphasised through a variety of mechanisms included in our Code of Conduct, as well as, through training and the annual affidavit / confirmation processes that all of professionals are required to complete.

We have a formal document retention policy governing matters, such as, the retention period for audit documentation and other

records relevant to an engagement in accordance with applicable laws, standards and regulations.

Our firm has clear policies on information security and the protection of confidential information which cover a wide range of areas. Data privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG personnel.

2. System of quality control

continued

2.7 Commitment to continuous improvement

We focus on ensuring that our work continues to meet the needs of participants in the capital markets. To achieve this goal, we employ a broad range of mechanisms to monitor our performance, respond to feedback and understand opportunities for continuous improvement.

Additionally, we have processes in place to proactively identify emerging risks and to identify opportunities to improve quality and provide insights.

2.7.1 Monitoring

2.7.1.1 Internal monitoring

KPMG International has an integrated monitoring programme that covers all member firms, to assess the relevance, adequacy, and effective operation of key quality control policies and procedures. This monitoring addresses both engagement delivery and KPMG International policies and procedures. The results and lessons from the programmes are communicated within each member firm, and the overall results and lessons from the programmes are considered and appropriate action taken at regional and global levels. Our internal monitoring programme also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Our monitoring procedures involve ongoing consideration of:

- compliance with KPMG International's policies and procedures
- the effectiveness of training and other professional development activities

- compliance with applicable laws and regulation and member firms' standards, policies, and procedures.

Two KPMG International developed and administered inspection programmes are conducted annually across the Audit, Tax, and Advisory functions, the Quality Performance Review (QPR) Programme and the Risk Compliance Programme (RCP).

Additionally, all member firms are covered by cross-functional Global Compliance Reviews (GCRs). These programmes are designed by KPMG International and participation in them is a condition of ongoing membership of the KPMG network.

Quality performance reviews (QPRs)

The international QPR Programme is the cornerstone of our efforts to monitor engagement quality and one of our primary means of ensuring that member firms are collectively and consistently meeting KPMG International's requirements and

2. System of quality control

continued

applicable professional standards. The QPR Programme assesses engagement level performance in the Audit, Tax, and Advisory functions and identifies opportunities to improve engagement quality. All engagement leaders are generally subject to selection for review at least once in a three-year cycle. The reviews are tailored to the relevant function, performed at firm level, generally overseen by a lead reviewer from outside the member firm, and are monitored regionally and globally.

We perform a root cause analysis for pervasive issues, if applicable. Remedial action plans for all significant deficiencies noted, are required at an engagement and member firm level. We disseminate our findings from the QPR programme to our professionals through written communications, internal training tools, and periodic partner, manager and staff meetings. These areas are also emphasised in subsequent inspection programmes to gauge the extent of continuous improvement.

Lead audit engagement partners are notified of less than satisfactory engagement ratings on their respective cross-border engagements. Additionally, lead audit engagement partners of parent companies / head offices are notified, where a subsidiary / affiliate of their client group is audited by a member firm, where significant quality issues have been identified during the Audit QPR.

Risk Compliance Programme (RCP)

The RCP is a member firm's annual self-assessment programme. The objectives of the RCP are to monitor, assess, and document member firm-wide compliance with the system of quality control established through KPMG International's quality and risk management policies and applicable legal and regulatory requirements as they relate to the delivery of professional services. The programme is overseen and monitored regionally as well as globally.

Global Compliance Review (GCR) programmes

GCRs are performed by reviewers independent of the member firm, who report to GQ&RM and are led by the Global Compliance Group. GCRs are carried out on member firms once in a three-year cycle. These reviews focus on significant governance, risk management, independence and finance processes (including an assessment of the robustness of the firm's RCP). In the event that a GCR identifies issues that require immediate or near-term attention, a follow-up review will be performed as appropriate.

All three programmes require action plans to address identified issues, with timelines, to be developed by the member firm, and these actions to improve performance are followed up at the regional and global level to ensure that the actions address the identified issues with the objective of continuous improvement.

2. System of quality control

continued

2.7.1.2 External monitoring

The Quality Assurance Oversight Committee forming part of the Accountancy Board within the Ministry for Finance performs quality reviews of audit practitioners in Malta. Our firm was reviewed in 2012. We have considered each of the findings and recommendations and have implemented

actions to strengthen policies and procedures as appropriate. As per the final report issued in the first quarter of 2013, no issues were identified that have a material impact on the conduct of our statutory audit business.

2.7.1.3 Client feedback

In addition to internal and external monitoring of quality, we operate a formal program where we actively solicit feedback from client management and those charged with governance on the quality of specific services that we have provided to them. The feedback that we receive from this program is formally considered by our firm and individual engagement teams to ensure that we continually learn and improve the levels of client

service that we deliver. Any urgent actions arising from client feedback are followed up by the engagement partner to ensure that concerns on quality are dealt with on a timely basis.

In addition, we have procedures in place for monitoring and addressing complaints relating to the quality of our work.

2.7.2 Interaction with regulators

At an international level, KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators (IFIAR) to discuss audit quality findings and actions taken to address such issues at a network level.

3. Network arrangements

3.1 Legal structure

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative which is a legal entity formed under Swiss law. The KPMG network consists of approximately 155,000 personnel working in 155 countries.

For the year ended 30 September 2013 the member firms comprising the network generated aggregate revenues of US\$23.03 billion¹.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

The structure is designed to support consistency of service quality and adherence to agreed values wherever in the world the member firms operate. One of the main purposes of KPMG International is to facilitate the provision by member firms of

high quality Audit, Tax, and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies and standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

¹ This represents combined information of the separate KPMG member firms that perform professional services for clients. It is combined solely for presentation purposes.

3. Network arrangements

continued

3.2 Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and is able to adopt global and regional strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools. Each member firm takes responsibility for its management and the quality of its work.

Member firms are also required to have the capability to provide certain types of core services and to refer work to other member

firms where appropriate (for example, if the engagement concerns work in that other member firm's country and that other member firm has the required capacity and expertise to perform the work).

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status, as a KPMG member firm, and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

3.3 Professional Indemnity Insurance

A substantial level of insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial

coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG member firms.

3.4 Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Executive Team.

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and, therefore, only has members, not shareholders). Among other things, the Global Council elects the chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members.

It includes representation from 54 member firms that are "members" of KPMG International as a matter of Swiss law.

Sub-licensees are generally indirectly represented by a member. The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Board include, approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms and ratifies the chairman's appointment of the deputy chairman and members of the Global Executive Team.

The Board includes the chairman, the deputy chairman, the chairman of each of the three regions (the Americas; Asia Pacific

3. Network arrangements

continued

(ASPAC); and Europe, the Middle East, and Africa (EMA) and a number of senior partners of member firms. One of the Board members is elected as the lead director by those Board members who are not also members of the Global Executive Team (“non-executive” members). A key role of the lead director is to act as liaison between the chairman and the “non-executive” Board members.

The Board is supported on its oversight and governance responsibilities by several committees, including a Governance Committee, an Audit, Finance, and Investments Committee, a Compensation and Nomination Committee, a Quality and Risk Management Committee, and a Professional Indemnity Insurance Committee. The lead director nominates the chairs and members of Board committees for approval by the Board.

The Global Executive Team is the principal management body of KPMG International. The Global Executive Team drives the execution of the strategy approved by the Global Board and establishes processes to monitor and enforce policy compliance. It

is led by the chairman and includes the deputy chairman, the chief operating officer, global practice heads, regional leaders, and a number of senior partners of member firms.

The Global Executive Team is supported by Global Steering Groups responsible for executing the approved strategy and business plan in their respective areas. In particular, the Global Quality and Risk Management Steering Group operates under delegated authority from the Global Executive Team.

Each member firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating or executive officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International’s policies and processes within the region.

Further details about KPMG International including the governance arrangements, can be found in its Transparency Report.

3.5 Area Quality and Risk Management Leaders

KPMG International has a network of Area Quality and Risk Management Leaders (AQRMLs), reporting to the global vice chair–Quality and Risk Management. The AQRMLs are members of the Global Quality and Risk Management Steering Group and

each AQRML performs a monitoring function over a group of member firms. Their role is to enhance the KPMG network’s ability to proactively monitor quality and risk management across member firms.

4. Principals' remuneration

4.1 Partners' profit share

Partners are remunerated solely out of the whole profits of the firm and are personally responsible for funding pensions and most other benefits.

There are three elements to partner remuneration:

- Base component – a proportion of the firm's budgeted profits are allocated to partners as base component. The amount of base component reflects the role and seniority of each partner
- Performance related remuneration – rewards performance in the year by each partner against individual objectives previously agreed
- Residual profit share – the residual profits are shared by the partners in accordance with the terms of the partnership agreement.

There is transparency among partners over the total income allocated to each partner.

4.2 Drawings

During the year, partners receive monthly drawings (the amount being dependent on their level of base component) together with additional distributions of profits from time to time. The timing of the additional distributions of profits is dependent on the firm's working capital requirements.

4.3 Remuneration of directors

Directors are salaried employees of the firm and receive a fixed salary plus performance related bonuses.

5. Public interest entities

The definition of a PIE is that given by the Accountancy Profession Act (cap. 281). In accordance with this definition, public interest entities comprise **(a)** those entities whose transferable securities are admitted to trading on a regulated market of any Member State; **(b)** credit institutions; **(c)** insurance undertakings; and **(d)** any other entity as may be prescribed by the Accountancy Board (the Accountancy Board has to date not specified any such additional entities). In addition, the firm carries out audits for several other entities which, though not PIEs by definition, are nevertheless entities of significant public interest.

List of PIE audit clients						
Name	Audit Report issued in 2013	Listed Equities	Listed Corporate Bonds	Listed Funds	Credit Institutions	Insurance Companies
Abbey International Insurance PCC Ltd ^(a)	✓					✓
ACL Fund SICAV p.l.c.	✓			✓		
Bavaria Reinsurance Malta Ltd	✓					✓
Central Bank of Malta ^(b)	✓				✓	
Credit Europe Bank NV ^(c)	✓				✓	
Deutsche Bank (Malta) Ltd	✓				✓	
FIMBank p.l.c. ^(d)	✓	✓			✓	
Grand Harbour Marina p.l.c.	✓	✓				
HSBC Bank Malta p.l.c.	✓	✓		✓		
HSBC Life Assurance (Malta) Ltd	✓					✓
HSBC Malta Funds SICAV p.l.c.	✓		✓			
HSBC No-Load Funds SICAV p.l.c.	✓		✓			
Investkredit International Bank p.l.c.	✓			✓		
Izola Bank Limited	✓	✓		✓		
JFP Investments SICAV p.l.c. ^(e)	✓		✓			
Mediterranean Bank p.l.c.	✓	✓		✓		
Medserv p.l.c. ^(f)	✓	✓				
Munich Re of Malta p.l.c.	✓					✓
Oney Insurance (PCC) Limited ^(g)	✓				✓	✓
Oney Life (PCC) Limited ^(g)	✓				✓	✓
Orlen Insurance Ltd	✓				✓	
Pilatus Bank Limited ^(h)			✓			
Platinum Insurance Ltd	✓			✓		
Raiffeisen Malta Bank p.l.c.	✓		✓			
R&Q Insurance (Malta) Limited ⁽ⁱ⁾				✓		
RS2 Software p.l.c.	✓	✓				
Saint John's Insurance Ltd	✓			✓		
St Julians Insurance Co Ltd	✓			✓		
Volksbank Malta Limited	✓		✓			

Note:

- (a)** No longer an audit client. KPMG served as the statutory auditor of Abbey International Insurance PCC Ltd up to 27 June 2013
- (b)** Though not a credit institution as defined in point 1 of Article 1 of Directive 2000/12/EC (recast as Article 4 in the Directive 2006/48/EC), and as such not a public interest entity in terms of the Accountancy Profession Act Cap 281, the Central Bank of Malta is considered to be an entity of particular significant public interest and for all effects and purposes is treated as a PIE by the firm
- (c)** Malta branch
- (d)** Listed corporate bonds were redeemed in September 2013
- (e)** The fund was deregistered from the Malta Stock Exchange in 2013.
- KPMG served as the statutory auditor of JFP Investments SICAV p.l.c. up to 13 May 2013
- (f)** Medserv p.l.c. issued corporate bonds on the official list of the Malta Stock Exchange in 2013
- (g)** No longer audit clients. KPMG served as the statutory auditor of Oney Insurance (PCC) Limited and Oney Life (PCC) Limited up to 19 April 2013
- (h)** Pilatus Bank Limited is a new bank which was formed on 6 December 2013. The first audit report will be issued in 2015
- (i)** R&Q Insurance (Malta) Limited is a new insurance company registered in 2013 and KPMG are the appointed auditors. The first audit report will be issued in 2014

Appendix

Partners & Directors



Partners



Directors



Raymond Azzopardi
PARTNER, AUDIT SERVICES

Raymond is an audit partner with 39 years experience and has been a partner in the firm's financial services audit team for over 25 years.

Mark Bamber
PARTNER, ADVISORY SERVICES
HEAD OF MARKETS
MEMBER OF THE EMC
CEO OF KPMG IN LIBYA

Mark is an advisory partner, leading the firm's Management Consulting advisory team. Mark has been a partner for 11 years and has been actively involved in the setting up of the KPMG firm in Libya where he has been designated as the CEO.

Appendix – Partners & Directors

Partners



Juanita Bencini
PARTNER, ADVISORY SERVICES

Juanita heads the Risk Consulting advisory team in Malta and is also Head of Risk Consulting for TOG. Juanita is a council member of the Institute of Financial Services Practitioners. She has been a partner for 8 years.

Juanita Brockdorff
PARTNER, TAX SERVICES

Juanita, a lawyer, is a partner in the tax function and focuses on international and European taxation. She is a council member of the Institute of Financial Services Practitioners.

David Caruana
PARTNER, ADVISORY SERVICES
QUALITY & RISK AND ETHICS & INDEPENDENCE PARTNER
MEMBER OF THE EMC
COMPLIANCE PRINCIPAL

David leads the firm's Transactions and Restructuring and the Accounting Advisory Services teams. A partner for 11 years, he is the firm's Head of Quality & Risk Management. With effect from 1 January 2013, he was appointed Compliance Principal in terms of the Accountancy Profession Act (Cap. 281) as well as the firm's Money Laundering Reporting Officer (MLRO).

Appendix – Partners & Directors

Partners



Hilary Galea-Lauri

**HEAD OF AUDIT – TECHNICAL AND QUALITY MATTERS
MEMBER OF THE EMC**

Hilary is an audit partner and the lead technical partner on IFRS and the KPMG audit methodology. Hilary heads the firm's Department of Professional Practice (DPP) and Professional Practice Committee (PPC). He sits on the Quality and Risk Management Committee, and has been a partner for 15 years.



Noel Mizzi

**HEAD OF AUDIT – OPERATIONS
MEMBER OF THE EMC**

Noel is an audit partner specialising in financial services. He forms part of the firm's DPP and PPC Committee. He has been a partner for 15 years.



Eric Muscat

PARTNER, ADVISORY SERVICES

Eric is the partner responsible for IT Advisory services and for the coordination of overseas staff secondments. He has been a partner for 15 years.

Appendix – Partners & Directors

Partners



Anthony Pace
PARTNER, TAX SERVICES
HEAD OF FINANCE
MEMBER OF THE EMC

Anthony is a partner in the tax function, particularly specialising in indirect taxation. He has been a partner for 11 years.

Pierre Portelli
PARTNER, TAX SERVICES

Pierre is a partner in the tax function and heads the Corporate Services team. He has been a partner of the firm for 17 years and sits on the Quality and Risk Management Committee. Pierre has been appointed as the Firm's Human Resources Partner with effect from 1 April 2013.

Giles Schembri
PARTNER, AUDIT SERVICES

Giles was appointed partner with effect from 1 January 2013. Over the past 19 years he has principally practised within the firm's audit function in Malta and in Milan. He forms part of the firm's PPC (area specialist).

Appendix – Partners & Directors

Partners



André Zarb
HEAD OF TAX SERVICES
MEMBER OF THE EMC

André assumed responsibility for the tax function in Malta in 1993, followed by making partner in 1994. He chairs the firm's Business Development Committee.



Tonio Zarb
SENIOR PARTNER
HEAD OF ADVISORY SERVICES
CHAIRS EMC

Tonio was appointed as the firm's Senior Partner with effect from October 2012 and chairs the Executive Management Committee. He also leads the firm's Advisory Services function. He has been a partner for 25 years.

Directors

Appendix – Partners & Directors

Directors



Hermione Arciola
DIRECTOR, ADVISORY SERVICES

Hermione is a director in the advisory function, focusing principally on corporate finance and transaction services. She joined the Transactions and Restructuring team in 2007 and was appointed director in January 2014. Prior to joining KPMG, Hermione gained professional experience with another Big 4 firm.



Norbert Bugeja
DIRECTOR, AUDIT SERVICES

Norbert has been a director in the audit department since 2010 specialising in financial services and forms part of the firm's PPC (area specialist). He has been employed with the firm since 1989.



Doreen Fenech
DIRECTOR, TAX SERVICES

Doreen is a tax director with over 15 years experience in domestic and international tax. She has been a director for more than 4 years.

Appendix – Partners & Directors

Directors



Darren Govus
DIRECTOR, AUDIT SERVICES

Darren is a director in the financial services audit department. He forms part of the firm's PPC (area specialist) and provides accounting training, particularly in relation to financial instruments. Darren has been with the firm for 18 years.



Jan Grech
DIRECTOR, ADVISORY SERVICES

Jan leads a team of multi-disciplinary advisory professionals within the Management Consulting practice. He first joined the firm in 1987.



Kevin Mifsud
DIRECTOR, AUDIT SERVICES

Kevin is a director in the audit department, with expertise in financial services, telecommunications and software development and forms part of the firm's PPC (area specialist). He has been employed with the firm since 1998.

Appendix – Partners & Directors

Directors



David Pace
DIRECTOR, ADVISORY SERVICES

David was appointed director with effect from 1 October 2012 within the Transactions and Restructuring team, which he joined in 2002. He is actively involved in assisting with business negotiations and has a lead role in the firm's Merger and Acquisition service offering.

Mario J. Vella
DIRECTOR, ADVISORY SERVICES

Mario J. Vella has been appointed director with effect from 1 February 2013, forming part of the firm's Transactions and Restructuring team. His main area of focus is leading the financing service line, which includes providing advice and assistance to corporate clients in structuring and arranging financing for their projects and operations. Mario joined the firm after a career spanning 44 years with one of Malta's leading banks.

Joseph Schembri
CONSULTANT

Joseph, former senior partner of the firm up to September 2012, retired from the partnership on 30 June 2013, after 35 years experience as an audit partner. Joseph is now a consultant with the firm. He has been assisting in the setting up of the KPMG firm in Libya where he holds responsibility for the Quality and Risk Management function.

KPMG

Portico Building,
Marina Street,
Pietà PTA 9044,
Malta

Tel

+356 2563 1000

Fax

+356 2566 1000

Email

kpmg@kpmg.com.mt

kpmg.com.mt