Investor Compensation Scheme
Report and financial statements
For the year ended 31 December 2007

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Statement of responsibilities of the Management Committee

The Management Committee consists of the Chairman and the Committee Members, who are to ensure that:

a. proper accounting records are kept of all transactions entered into by the Scheme and of its assets and liabilities

b. adequate controls and procedures are in place for safeguarding the assets of the Scheme and the prevention and detection of fraud and other irregularities.

The Investor Compensation Scheme Regulations require that financial statements are prepared for each financial year. In preparing those financial statements which give a true and fair view of its state of affairs as at the end of the financial year and of its surplus or deficit for that year, the Management Committee:

- adopts the going concern basis unless it is considered inappropriate;
- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- accounts for income and charges relating to the accounting period on the accruals basis;
- values separately the components of asset and liability items; and
- reports comparative figures corresponding to those of the preceding accounting period.

Report of the auditors to the members

We have audited the accompanying financial statements of Investor Compensation Scheme, which comprise the balance sheet as at 31 December 2007, the income and expenditure account, statement of net assets/equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Committee's responsibility for the financial statements

The management committee is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Scheme as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Investor Compensation Scheme Regulations.

Austin Demajo
f/Grant Thornton

Certified Public Accountants

Grant Thornton House
Princess Elizabeth Street
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Malta

26 June 2008

Income and expenditure account

	Note	2007 Lm	2006 Lm
Finance income	4	**16,196**	14,276
Administrative expenses		**(6,295)**	(6,376)
Surplus for the year	5	**9,901**	7,900

Balance sheet at 31 December

	Note	2007 Lm	2006 Lm
Non-current assets			
Financial assets	7	350,977	295,017
Current assets			
Debtors	8	5,457	5,075
Cash at bank		13,227	8,079
		18,684	13,154
Creditors: amounts falling due within one year	9	(3,539)	(3,420)
Net current assets		15,145	9,734
Net assets		366,122	304,751
Capital and reserves			
Contributions fund		312,428	251,102
Variable contributions		4,966	3,882
Deferred contributions fund		22,814	33,754
Income and expenditure account		25,914	16,013
		366,122	304,751

The financial statements on pages 3 to 13 were approved by the Management Committee on 26 June 2008 and were signed on their behalf by:

Dr. Anton Felice
Chairman

George Farrugia
Member

Statement of changes in net assets/equity

	Contributions fund Lm	Variable contributions fund Lm	Deferred contributions fund Lm	Income and expenditure account Lm	Total Lm
At 31 December 2005	196,102	3,646	42,504	8,113	250,365
Contributions during the year	46,250	236	-	-	46,486
Transfer of deferred contributions to current year	8,750	-	(8,750)	-	-
Surplus for the year	-	-	-	7,900	7,900
At 31 December 2006	251,102	3,882	33,754	16,013	304,751
Contributions during the year	50,386	1,084	-	-	51,470
Transfer of deferred contributions to current year	10,940	-	(10,940)	-	-
Surplus for the year	-	-	-	9,901	9,901
At 31 December 2007	**312,428**	**4,966**	**22,814**	**25,914**	**366,122**

Notes -

a) The variable contributions fund represents variable contributions received from licence holders who have elected to follow the guidelines issued by MFSA in September 2004 and pay the variable contribution directly to the Scheme. In addition to these amounts received the Scheme holds pledges amounting to Lm 20,842 in terms of item 3, para (b)(ii) of the Second Schedule of the Regulations which may be called upon by the Management Committee in terms of Regulation 16.

b) The deferred contributions fund represents the funds transferred from the Malta Stock Exchange Compensation Fund to the Scheme in terms of Regulation 36 of the Regulations. Whereas these funds have been absorbed as an integral part of the Scheme by virtue of the Third Schedule under Regulation 36, these funds shall be accounted for over the moratorium period which is established in paragraph 3 of the Third Schedule of the Regulations.

Cash flow statement

	Note	2007 Lm	2006 Lm
Operating activities			
Cash generated from operations	10	9,638	9,556
Investing activities			
Payments to acquire financial assets		(218,869)	(68,832)
Proceeds on maturity of financial assets		162,909	8,000
Net cash used in investing activities		(55,960)	(60,832)
Financing activities			
Contributions received		51,470	46,486
Increase/(decrease) in cash at bank		5,148	(4,790)
Cash at bank at beginning of year		8,079	12,869
Cash at bank at end of year		13,227	8,079

Notes to the financial statements

1 Presentation of financial statements

The financial statements are presented in Maltese Liri (Lm). They have been prepared under the historical cost convention, except for the revaluation of certain financial assets in accordance with the requirements of International Financial Reporting Standards (IFRS) and the Investor Compensation Scheme Regulations.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In the opinion of the management committee, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised).

2 First time adoption of IFRS

IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements: Capital Disclosures became mandatory with effect from 1 January 2007.

The Scheme has adopted both standards in these financial statements.

The capital disclosure requirements that became necessary due to the change in IAS 1 can be found in note 12.

IFRS 7 replaces and amends disclosure requirements previously set out in IAS 32 Financial Instruments: Presentation and Disclosures. All disclosures relating to financial instruments, including comparative information, have been updated to reflect the new requirements. The first-time application of IFRS 7, however, has not resulted in any prior-period adjustments of cash flows, net income or balance sheet line items.

Other standards or interpretations relevant for IFRS financial statements did not become effective during the current financial year and the company has not opted for earlier adoption. The Management Committee anticipate that these standards and interpretations will have no material impact on the financial statements in the year of initial application.

Notes to the financial statements (continued)

3 Summary of significant accounting policies

The principal accounting policies are set out below.

Income recognition

The Scheme's income consists of earnings on investments. Income is recognised on the accruals basis.

Impairment

At each balance sheet date the Scheme reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the Scheme's balance sheet when the Scheme has become a party to the contractual provisions of the instruments.

Investment in securities

Investment in securities are recognised on a settlement date basis and are initially measured at cost.

At subsequent reporting dates, loans and receivables and held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Investment in available-for-sale securities are measured at subsequent reporting dates at fair value. For available-for-sale securities, unrealised gains and losses are recognised directly in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

Financial instruments (continued)

In respect of available-for-sale investments, any difference between the initial measurement amount and the maturity amount (premium or discount) arising on financial assets that have a fixed maturity is amortised to the profit and loss account using the effective interest rate method over the period to maturity in accordance with the requirements of IAS 39. Fair value changes on available-for-sale assets are calculated as the differences between fair value and amortised cost of such instruments.

Debtors

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

Cash and cash equivalents

Cash and cash equivalents comprise balances with bank.

Creditors

Creditors are stated at their nominal value.

4 Finance income

	2007 Lm	2006 Lm
Interest on held-to-maturity investments	14,086	12,634
Amortisation of discount	2,110	1,642
	16,196	14,276

5 Surplus for the year

	2007 Lm	2006 Lm
The surplus for the year is stated after charging:		
Committee Members' honoraria	5,750	5,750
Auditors' remuneration	295	295

6 Taxation

The Investor Compensation Scheme is exempt from taxation under section 12(1)(c) of the Investment Services Act, Cap. 370.

Notes to the financial statements (continued)

7 Financial assets

	2007 Lm	2006 Lm
Held-to-maturity investments -		
7.35% Malta Government Stocks 2007	-	10,300
7.2% Malta Government Stocks 2008	**11,000**	11,000
6.25% Malta Government Stocks 2011	**11,800**	11,800
5.7% Malta Government Stocks 2012	**25,622**	-
5.7% Malta Government Stocks 2012	**16,608**	-
6.35% Malta Government Stocks 2013	**11,800**	11,800
6.6% Malta Government Stocks 2014	**13,300**	13,300
5.9% Malta Government Stocks 2015	**26,174**	-
6.6% Malta Government Stocks 2019	**12,800**	12,800
5.2% Malta Government Stocks 2020	**25,000**	-
5% Malta Government Stocks 2021	**19,704**	-
5% Malta Government Stocks 2021	**100,000**	100,000
5.1% Malta Government Stocks 2022	**32,700**	32,700
3.8% EIB Bond 2009	**18,500**	18,500
Treasury Bills	**25,969**	72,817
	350,977	295,017

Note -

The fair value of the above financial assets at 31 December 2007 amounted to Lm 359,487 (2006: Lm 310,810).

8 Debtors

	2007 Lm	2006 Lm
Amounts falling due within one year:		
Accrued income	**5,457**	5,075

The carrying value of accrued income is considered to be a reasonable approximation of fair value.

9 Creditors: amounts falling due within one year

	2007 Lm	2006 Lm
Accruals	**3,539**	3,420

The carrying value of accruals is considered to be a reasonable approximation of fair value..

Notes to the financial statements (continued)

10 Notes to the cash flow statement

(a) Cash generated from operations

	2007 Lm	2006 Lm
Surplus for the year	**9,901**	7,900
Adjustment for:		
Interest receivable	**(14,086)**	(5,075)
Operating (loss)/surplus before working capital changes	**(4,185)**	2,825
Decrease in debtors	**13,704**	6,479
Increase in creditors	**119**	252
	9,638	9,556

11 Financial instruments

Financial assets include securities, debtors and cash held at bank. Financial liabilities include creditors. At 31 December 2007 and 2006 the Scheme had no unrecognised financial instruments. At 31 December 2007 and 2006 the fair values of financial assets and liabilities were not materially different from their carrying values, except as disclosed in note 7.

Risk Management policies

(a) Credit risk

Financial assets which potentially subject the Scheme to concentrations of credit risk consist primarily of investment and cash at bank and in hand. Financial assets include held-to-maturity securities, such as Malta Government Stock and Treasury Bills. The Scheme's exposure to credit risk is limited to the carrying amounts of financial assets recognised.

With respect to investments, the Scheme limits its exposure to credit risk by only investing with counterparties/issuers who have a high credit rating.

The Scheme's cash is placed with quality credit institutions.

Notes to the financial statements (continued)

11 Financial instruments (continued)

(b) Liquidity risk

Liquidity risk is limited as the Scheme has sufficient funding resources to meet its financial obligations as these arise. The only contractual liabilities at the balance sheet date were accruals amounting to Lm 3,539 (2006 - Lm 3,420) which are all payable within 6 months of the year end. However, the Scheme may be required to seek substantial borrowings and extraordinary funding assistance from third party entities in the event of a claim by investors following a default by an investment services company.

(c) Interest rate risk

As in the previous year, all interest-bearing financial assets have fixed interest rates. The Scheme's incoming and operating cash flows are substantially independent of changes to market interest rates. Up to the balance sheet date, the Scheme did not have a hedging policy with respect to interest rate risk as exposure was not deemed to be significant by the Management Committee.

(d) Foreign currency risk

All of the Scheme's transactions are carried out in Maltese Liri and therefore there is no exposure to foreign exchange rate risk.

(e) Price risk

The Scheme is exposed to other price risks in respect of its holdings in listed securities. However, such instruments are held for strategic rather than trading purposes and the Scheme's Management Committee does not consider that its exposure to other price risk is significant.

12 Capital management policies and procedures

The Investor Compensation Scheme is set up by Regulation in terms of LN368 of 2003, as amended by LN 36 of 2006. The objective of the Scheme is to provide a means of protection for investors within the framework of the Regulation. The Management Committee, which manages and administers the Scheme, is required to work in the best interest of the Scheme and shall pursue and promote its objective.

The Scheme's capital management objectives are:

- to ensure the Scheme's ability to continue as a going-concern. For this purpose, it is required to maintain a fund or funds out of which payments shall be made to investors and to meet such other payments or expenses as may be paid out of the fund or funds in accordance with the Regulations.

Notes to the financial statements (continued)

12 Capital management policies and procedures (continued)

- to process claims for compensation by investors as expeditiously as possible and to ensure that compensation is paid out without undue delay. To this end, the Scheme is required to consult with the competent authority (i.e. Malta Financial Services Authority) as to arrangements for the making of payments to investors in terms of the Regulations.

The capital structure of the Scheme principally consists of a contributions fund and a deferred contributions fund. The contribution fund is made up of accumulated fixed contributions paid by participants since its inception in 2003.

In 2003, funds which had accumulated in the Malta Stock Exchange Compensation Fund were transferred to the Scheme in terms of the Third Schedule of the Regulations. A moratorium was allowed in favour of members of the Malta Stock Exchange who had contributed funds into the Compensation Fund up to the coming into force of the Regulations and their respective contributions are set-off against the fixed contribution due by them annually to the Scheme. The deferred contributions fund is made up of such set-off amounts accounted for annually as they come due.

The variable contributions represent funds deposited by participants with the Scheme on account of the licence holder's liabilities in terms of the Regulations and are repayable in the event of a licence holder's surrender of a licence, subject to confirmation from the competent authority.

The Committee is committed to strengthen the Scheme's capital base in line with European and international best practices. To this end, it will continue to advise the competent authority on methods related to the strengthening of the financing of the Scheme.

13 Comparative figures

Certain comparative figures have been reclassified to comply with the current year's presentation.

Income and expenditure account (detailed)

	2007 Lm	2006 Lm
Income		
Interest on held-to-maturity investments	14,086	12,634
Amortisation of discount	2,110	1,642
	16,196	14,276
Administrative expenses		
Committee Members' honoraria	5,750	5,750
Management fees	250	250
Auditors' remuneration	295	295
Professional fees	-	81
	6,295	6,376
Surplus for the year	9,901	7,900