

<p style="text-align:center">REPORT OF THE INVESTOR COMPENSATION SCHEME FOR 2003</p>

Introduction

In terms of regulation 8 of LN 368 of 2003, the Compensation Schemes Management Committee of the Investor Compensation Scheme (hereinafter referred to as “the Scheme”) is pleased to present its report on the discharge of its functions and its operations during 2003.

The Scheme’s audited financial statements for 2003 are also attached.

Establishment of the Scheme

The Scheme has been established by Legal Notice 6 of 2003 and came into effect on 3rd January 2003.

Those Regulations have been subsequently repealed and replaced by Legal Notice 368 of 2003, which came into effect on 21st November 2003. The repeal of Legal Notice 6 of 2003 has not affected the validity of any previous action taken by the Scheme, since any such previous action is deemed to have been taken under the new Regulations.

Management Committee

In accordance with regulation 3 of the Regulations, the Scheme is managed and administered by a Management Committee (hereinafter referred to as “the Committee”) appointed by the Malta Financial Services Authority. Under the old regulations, the Committee consisted of a chairperson and not more than six other persons, appointed by Malta Financial Services Authority. The following persons have served on the Committee during 2003:

Chairman

Mr Frank Xerri de Caro

[Mr Frank Xerri de Caro resigned from his post as Chairman of the Committee with effect from 1 June 2003.]

Dr Anton Felice

[Dr Anton Felice has been appointed Chairman of the Committee with effect from 1 June 2003.]

Members

Mr Charles Borg

Dr Louis Camilleri Preziosi

[Dr Louis Camilleri Preziosi resigned as member of the Committee on 3 September 2003.]

Mr George F Farrugia

Mr Rene Saliba

Mr Paul Vella

Mr Geoffrey Bezzina has served as Secretary of the Committee.

The Management Committee held 10 meetings during 2003.

Functions of the Scheme

In terms of regulation 4, the functions of the Scheme are:

- (a) To maintain a fund for the payment of claims for compensation by investors;
- (b) To place contributions to the fund on deposit or to invest such funds;
- (c) To establish procedures and arrangements for the payment of claims for compensation by investors;
- (d) To handle and pay claims for compensation by investors;
- (e) To advise the Malta Financial Services Authority on matters relating to compensation of investors.

Building the Fund

The first function of the Scheme is to build and maintain a fund for the payment of claims to investors.

Fixed Contributions

For the purpose of achieving this goal, the Second Schedule of Legal Notice 6 of 2003 provided that a call was to be made upon licence holders to pay their fixed contribution to the Fund “within four months from the licence holder's financial year end”.

Legal advice was sought on the interpretation of this provision. According to this advice, it was established that, since the Regulations had come into effect on 3rd January 2003, such contribution was to be paid within four months from the licence holder's financial year end following 3rd January 2003.

This advice implied that the payment of the fixed contribution could only start in 2004.

It was the view of the majority of members within the Management Committee that this interpretation, though technically correct, was contrary to the understandings that had led to the establishment of the Scheme. This was because the establishment of the Scheme was intended to substitute the Malta Stock Exchange Compensation Fund, and licence holders were not to make any payments to the Compensation Fund during 2003 on the understanding that they would, as from that same year, commence to contribute towards the new Investor Compensation Scheme.

The legal interpretation therefore meant that licence holders would be neither required to contribute to the Malta Stock Exchange Compensation Fund, nor to the new Investor Compensation Scheme.

The Management Committee therefore advised the Malta Financial Services Authority that the Second Schedule should be changed to enable payment of the fixed contribution for 2003 by the end of November 2003, whilst the fixed contribution for subsequent years should be made by 30th April of each year. This amendment was incorporated in Legal Notice 368 of 2003 and has enabled the Management Committee to make a call upon participating licence holders for their respective contributions in November of last year.

We report that all Category 2 and Category 3 licence holders as established by the Malta Financial Services Authority, and which provide investments services to private individuals have duly fulfilled their obligation to pay their fixed contribution to the Scheme.

The Fixed Contribution is established in the Second Schedule of Legal Notice 368 of 2003 at Lm1250 for Category 2 licence holders and at Lm7500 for Category 3 licence holders. The Fixed Contributions for 2003 amounted to Lm56,250.

MSE Compensation Fund – moratorium for payments of fixed contributions

The Third Schedule of Legal Notice 368 of 2003 provides inter alia that the Malta Stock Exchange Compensation Fund is to cease and become absorbed and an integral part of the Scheme. Furthermore, according to this Schedule, a moratorium has been allowed to the members of the Malta Stock Exchange who had paid into the Malta Stock Exchange Compensation Fund so that their respective contributions are to be set-off against contributions now due by them to the Scheme.

The Malta Stock Exchange Compensation Fund, which has been duly transferred to the Scheme in 2003, has amounted to Lm30,660 in cash and Lm79,000 (nominal) in Malta Government stock.

The Management Committee has relied on a statement issued by the Malta Financial Services Authority showing those members of the Malta Stock Exchange who were entitled to set off their previous MSE contributions against their contributions to the Scheme. On the basis of this list, the amount of the set-off effected in 2003 has been of Lm15,800.

Variable Contribution

The Second Schedule of Legal Notice 368 of 2003 also provides for the maintenance by participating licence holders of an Investor Compensation Scheme Reserve to be accounted for in the financial year when the Fixed Contribution is paid.

Participating licence holders are required to transfer to this Reserve a “variable contribution”, which is calculated annually at the rate of 0.1 % of the licence holder's total revenue. Moreover the Regulations also provide that the said Reserve can never be less than Lm300.

We report that based on information made available by the Malta Financial Services Authority, all participating licence holders were informed of their obligation in respect of 2003 to transfer their variable contribution to the Investor Compensation Scheme Reserve, which amounted to Lm9,832.

Protection of funds

The second function of the Scheme is to protect and safeguard the fixed and variable contributions that are transferred or transferable by participating licence holders to the Scheme.

Fixed Contributions

The Management Committee is required to deposit or invest the fixed contributions that are made to the fund, until such time as they are required for the payment of claims for compensation by investors.

In the performance of this task and in accordance with regulation 7 of Legal Notice 6 of 2003, the Committee appointed the Central Bank of Malta to provide investment management services including financial, accounting and other related support services. This appointment has been effected in terms of an agreement dated 2 April 2003 which established the parameters for the investment of funds of the Scheme.

These parameters apply prudent investment criteria that take account of both the short and long term liquidity requirements of the Scheme.

In the furtherance of this Agreement, Mr Charles Borg and Mr Rene Saliba have been nominated by the Committee to liaise with the Central Bank as appropriate from time to time, as an Investment Management sub-Committee.

The Committee has also appointed Grant Thornton as auditors of the Scheme. The audited financial statements of the Scheme for 2003 are attached as a Schedule to this report.

Variable Contribution

The Second Schedule of Legal Notice 6 of 2003 made no provision to safeguard the variable contributions transferred to the Investor Compensation Scheme Reserve in the event of the insolvency of a licence holder.

The Committee has made proposals to the Malta Financial Services Authority for the purposes of strengthening these provisions. It has proposed that this Reserve should be invested with third parties which are approved by the Committee, and that such funds should at all times be pledged in favour of the Scheme.

The Malta Financial Services Authority has agreed to this proposal and appropriate amendments have been incorporated in Legal Notice 368 of 2003. As a result, the Second Schedule has been amended so that funds transferred to the Investor Compensation Scheme Reserve are to be invested with third parties approved in writing by the Committee and held on pledge in favour of the Scheme.

In consultation with the Investment Management Subcommittee, guidelines have been drawn up setting out a list of approved potential third parties with whom licence holders can deposit or invest the variable contributions that are transferred to the Investor Compensation Scheme Reserve.

The Committee has also determined that participating licence holders should not be able to deposit or invest such contributions with connected companies.

These guidelines have been presented to Malta Financial Services Authority with a view of their implementation by means of a Directive or an appropriate amendment to the Second Schedule of the Regulations.

Meanwhile the Committee has directed that the variable contributions of participating licence holders should be held in a bank deposit.

We report that as at 31st December 2003, the Committee had not yet implemented the procedures for the pledging of these funds in favour of the Scheme.

Procedures for the payment of claims

The third function of the Scheme is to establish procedures for the payment of claims for compensation by investors.

Eligibility to compensation

According to regulation 18 of Legal Notice 6 of 2003 only investors could make a claim against the Scheme. Although the First Schedule contained a list of persons who were excluded from claiming against the Scheme, the Committee did experience certain doubts as to the correct interpretation of “investor” and in particular whether certain non-profit making entities were excluded from making a claim against the Scheme.

The Malta Financial Services Authority has issued appropriate amendments, incorporated in Legal Notice 368 of 2003, as a result of which regulation 18 has been reworded to ensure that “only persons being individuals falling within the definition of “investor” in Regulation 2 may make a claim against the Scheme.....”

Information booklet

The Committee is required to inform the general public about the procedures and arrangements for claiming against the Scheme. For this purpose it has set out to draft an information booklet that describes how investors may claim against the Scheme and in which circumstances. The text of this booklet has been completed and is awaiting publication on the website of the Scheme once this is established.

Claim- making Procedures

The Committee has also started deliberating on the need for establishing appropriate procedures and time limits governing the making and handling of claims.

Towards this goal, preliminary enquiries were made during 2003 with similar Schemes in other European territories with a view to sharing their experiences.

Compensation under foreign Schemes

Regulation 11 and 35 of Legal Notice 368 require the Committee to consult the relevant compensation schemes in other countries for the purpose of facilitating the procedures by which investors may claim against the respective Schemes.

Towards this goal, the Committee has obtained a specimen Memorandum of Understanding from the UK Financial Services Compensation Scheme and this is presently being studied by the Committee.

The conclusion of bilateral agreements with other schemes in EEA territories will be particularly relevant following Malta's accession to the European Union. This is because overseas EU-based providers of investment services will not be required to participate in the Scheme even though they may be providing their services to Maltese residents. The availability of such Memoranda of Understanding with the relevant Schemes in these EEA territories will facilitate the procedures to be followed by Maltese residents in the event of a claim against the Schemes of these territories.

Investors' Claims

The fourth function of the Scheme is to handle and pay claims to investors.

We are pleased to report that during 2003 there have been no defaults of payments by participating licence holders which give rise to a claim against the Scheme.

Consultation

The fifth function of the Scheme is to advise the Malta Financial Services Authority on matters relating to investors' compensation.

This report has already summarised some of the more important proposals which the Committee made for the strengthening of the Scheme. These have included:

- (a) a provision requiring payment of the fixed contribution for 2003 by the end of November 2003, whilst the fixed contribution for subsequent years should be made by 30th April of each year;
- (b) a provision requiring the investment of the variable contribution with third parties which are approved by the Committee, and that such contribution should at all times be pledged in favour of the Scheme;
- (c) a new guideline of approved potential third parties with whom licence holders can deposit or invest their variable contributions
- (d) an indemnity provided by the Malta Stock exchange in favour of the Scheme for claims that may arise with reference to events occurring prior to 3 January 2003.

These proposals have been accepted by the Malta Financial Services Authority and incorporated in Legal Notice 368 of 2003. However the Malta Financial Services Authority

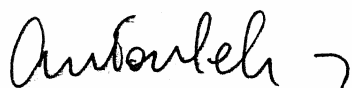
has not favoured other proposals which were made by the Management Committee including that:

- (a) the management committee of the Investor Compensation Scheme should be separate and distinct from the management committee of the Depositor Compensation Scheme; and
- (b) that the Scheme should assume liability for events occurring prior to 3 January 2003 only on condition that the Malta Stock Exchange Compensation Fund is transferred to the Scheme but that no moratorium on fixed contributions be given to participants.

List of Participants

APS Bank Ltd.
Atlas Investment Services Ltd.
Azzopardi Investment Management Ltd.
Bank of Valletta plc
Barclays International Investments (Malta) Ltd.
BOV Stockbrokers Ltd.
Calamatta Cuschieri & Co. Ltd.
Charts Investment Management Services Ltd.
Crystal Finance Investments Ltd.
Curmi & Partners Ltd.
D.B.R. Investments Ltd.
Elmo Investments Ltd.
Epic Stockbroking and Investment Services Ltd
Fexco Investment Services (Malta) Ltd.
Financial + Investment Services Ltd.
Financial Planning Services Ltd.
Finco Treasury Management Ltd.
First International Merchant Bank plc

Globe Financial Management plc
Growth Investments Ltd.
Hogg Capital Investments Ltd.
HSBC Bank (Malta) plc
HSBC Investment Services (Malta) Ltd.
HSBC Stockbrokers (Malta) Ltd.
Ivan Burridge Stockbroking Ltd.
Jesmond Mizzi Financial Services Ltd.
Lombard Bank Malta plc
Lombard Stockbrokers Ltd.
Michael Grech Financial Investment Services Ltd.
MZ Investments Ltd.
Rizzo, Farugia & Co. (Stockbrokers) Ltd.
Safin & Co. Ltd.
Sparkasse Bank Malta PLC
Valletta Fund Management Ltd.
Volksbank Malta Ltd.
W & J Coppini Investment Services Ltd.



Dr Anton Felice
Chairman – Compensation Schemes Management Committee

Monday, April 26, 2004