

Depositor Compensation Scheme  
Report and financial statements  
For the year ended 31 December 2006

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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 Depositor Compensation Scheme Regulations requires 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 Committee

We have audited the financial statements on pages 3 to 10. These financial statements are the responsibility of the Management Committee. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management Committee, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the state of affairs of the Scheme as at 31 December 2006 of its surplus, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Depositor Compensation Scheme Regulations.



**Austin Demajo  
f/Grant Thornton**

Certified Public Accountants

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Malta

10 May 2007

## Income and expenditure account

	Note	2006 Lm	2005 Lm
<b>Income</b>	3	62,636	37,907
<b>Administrative expenses</b>		(6,609)	(6,438)
<b>Surplus for the year</b>	4	<u>56,027</u>	<u>31,469</u>

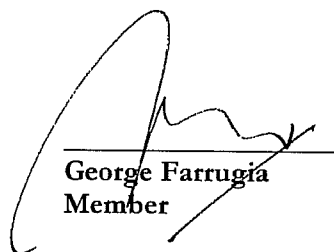
## Balance sheet at 31 December

	Note	2006 Lm	2005 Lm
<b>Non-current assets</b>			
Financial assets	6	1,746,687	1,294,167
<b>Current assets</b>			
Debtors	7	26,574	4,869
Cash at bank		7,251	3,125
		33,825	7,994
<b>Creditors: amounts falling due within one year</b>	8	(3,420)	(3,166)
<b>Net current assets</b>		30,405	4,828
<b>Net assets</b>		1,777,092	1,298,995
<b>Capital and reserves</b>			
Contributions fund		1,678,924	1,256,854
Income and expenditure account		98,168	42,141
		1,777,092	1,298,995

The financial statements on pages 3 to 10 were approved by the Management Committee on 10 May 2007 and were signed on their behalf by:



Dr. Anton Felice  
Chairman



George Farrugia  
Member

## Statement of changes in net assets/equity

	Contributions fund Lm	Income and expenditure account Lm	Total Lm
At 31 December 2004	855,940	10,672	866,612
Contributions during the year	400,914	-	400,914
Surplus for the year	-	31,469	31,469
	<hr/>	<hr/>	<hr/>
At 31 December 2005	1,256,854	42,141	1,298,995
Contributions during the year	422,070	-	422,070
Surplus for the year	-	56,027	56,027
	<hr/>	<hr/>	<hr/>
At 31 December 2006	<b>1,678,924</b>	<b>98,168</b>	<b>1,777,092</b>
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## Cash flow statement

	Note	2006 Lm	2005 Lm
<b>Operating activities</b>			
Cash generated from operations	10	18,031	4,741
<b>Investing activities</b>			
Payments to acquire financial assets		(2,818,792)	(2,952,035)
Proceeds on maturity of financial assets		2,382,817	2,550,567
<b>Net cash used in investing activities</b>			
		(435,975)	(401,468)
<b>Financing activities</b>			
Contributions received		422,070	400,914
<b>Net increase in cash at bank</b>			
		4,126	4,187
Cash at bank at beginning of year		3,125	(1,062)
Cash at bank at end of year		7,251	3,125



## Notes to the financial statements

### **1 Presentation of financial statements**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These financial statements are presented in Maltese Liri (Lm).

### **2 Summary of significant accounting policies**

The financial statements have been prepared on the historical cost basis. 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.

## Notes to the financial statements (continued)

### 2 Summary of significant accounting policies (continued)

#### *Investments in securities*

Investments 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.

Investments 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.

#### *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.

### 3 Income

	2006 Lm	2005 Lm
Earnings on investments	46,091	11,079
Amortisation of premium and discount	16,545	26,828
	<hr/>	<hr/>
	62,636	37,907
	<hr/>	<hr/>

### 4 Surplus for the year

	2006 Lm	2005 Lm
The surplus for the year is stated after charging:		
Committee Members' honoraria	5,750	5,240
Auditors' remuneration	295	177
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## Notes to the financial statements (continued)

### 5 Taxation

The Depositor Compensation Scheme is exempt from taxation under section 28A of the Banking Act, Cap. 371.

### 6 Financial assets

	2006 Lm	2005 Lm
5.1% Malta Government Stocks 2014	25,000	25,000
5.1% Malta Government Stocks 2022	40,900	40,900
5.5% Malta Government Stocks 2023	20,000	20,000
3.8% EIB Bond 2009	26,000	26,000
5% Malta Government Stocks 2021	150,000	150,000
4.8% Malta Government Stocks 2016	50,000	-
5.1% Malta Government Stocks 2014 F1	50,000	-
Treasury Bills	1,384,787	1,032,267
	<hr/>	<hr/>
	1,746,687	1,294,167
	<hr/>	<hr/>

Note -

The fair value of financial assets at 31 December 2006 amounted to Lm 1,768,006 (2005: Lm 1,313,510).

### 7 Debtors

	2006 Lm	2005 Lm
Amounts falling due within one year:		
Prepayments and accrued income	26,574	4,869
	<hr/>	<hr/>

### 8 Creditors: amounts falling due within one year

	2006 Lm	2005 Lm
Accruals	3,420	3,166
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## Notes to the financial statements (continued)

### 9 Financial instruments

Financial assets include securities, debtors and cash held at bank. Financial liabilities include creditors. At 31 December 2006 and 2005 the Scheme had no unrecognised financial instruments.

#### Risk management policies

- (a) Credit risk on amounts receivable is limited through the systematic monitoring of outstanding balances and the presentation of debtors net of allowances for doubtful debts, where applicable. Cash is placed with reputable banks.
- (b) Liquidity risk is limited as the Scheme has sufficient funding resources to meet its financial obligations as these arise.

#### Fair values

At 31 December 2006 and 2005 the fair values of financial assets, other than securities, and liabilities of the Scheme were not materially different from their carrying amounts except as disclosed in note 6.

### 10 Notes to the cash flow statement

#### Cash generated from operations

	2006	2005
	Lm	Lm
Surplus for the year	56,027	31,469
Adjustment for:		
Interest receivable	(26,574)	(4,869)
Amortisation of discount on Treasury Bills	(16,545)	(26,828)
Operating surplus/(deficit) before working capital changes	12,908	(228)
Decrease in debtors	4,869	2,230
Increase in creditors	254	2,739
	18,031	4,741

## Income and expenditure account (detailed)

	2006 Lm	2005 Lm
<b>Income</b>		
Earnings on investments	46,091	11,079
Amortisation of premium and discount	16,545	26,828
	<hr/> 62,636	<hr/> 37,907
<b>Administrative expenses</b>		
Committee Members' honoraria	5,750	5,240
Management fees	250	250
Auditors' remuneration	295	177
Travelling expenses	256	771
Professional fees	58	-
	<hr/> 6,609	<hr/> 6,438
<b>Surplus for the year</b>	<hr/> 56,027	<hr/> 31,469