

Investor 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 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:

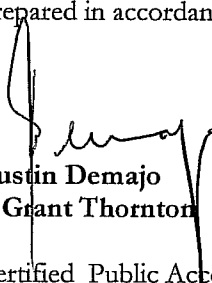
- adopts the going concern basis unless it is considered inappropriate;
- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- accounts for income and charges relating to the accounting period on the accruals basis;
- 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 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 Investor Compensation Scheme Regulations.



**Austin Demajo**  
f/Grant Thornton

Certified Public Accountants

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Princess Elizabeth Street  
Ta' Xbiex MSD 11  
Malta

10 May 2007

## Income and expenditure account

	Note	2006 Lm	2005 Lm
<b>Income</b>	3	14,276	12,101
<b>Administrative expenses</b>		(6,376)	(5,667)
		<hr/>	<hr/>
<b>Surplus for the year</b>	4	7,900	6,434
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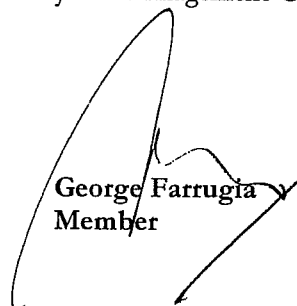
## Balance sheet at 31 December

	Note	2006 Lm	2005 Lm
<b>Non-current assets</b>			
Financial assets	6	295,017	234,185
<b>Current assets</b>			
Debtors	7	5,075	6,479
Cash at bank		8,079	12,869
		13,154	19,348
<b>Creditors: amounts falling due within one year</b>	8	(3,420)	(3,168)
<b>Net current assets</b>		9,734	16,180
<b>Net assets</b>		304,751	250,365
<b>Capital and reserves</b>			
Contributions fund		220,996	164,746
Deferred contributions fund		63,860	73,860
Variable contributions		3,882	3,646
Income and expenditure account		16,013	8,113
		304,751	250,365

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	Variable contributions fund Lm	Deferred contributions fund Lm	Income and expenditure account Lm	Total Lm
At 31 December 2004	108,881	3,152	83,860	1,679	197,572
Contributions during the year	45,865	494	-	-	46,359
Transfer of deferred contributions to current year	10,000	-	(10,000)	-	-
Surplus for the year	-	-	-	6,434	6,434
At 31 December 2005	164,746	3,646	73,860	8,113	250,365
Contributions during the year	46,250	236	-	-	46,486
Transfer of deferred contributions to current year	10,000	-	(10,000)	-	-
Surplus for the year	-	-	-	7,900	7,900
At 31 December 2006	220,996	3,882	63,860	16,013	304,751

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 16,636 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	2006 Lm	2005 Lm
<b>Operating activities</b>			
Cash generated from operations	10	9,556	8,055
<b>Investing activities</b>			
Payments to acquire financial assets		(68,832)	(100,000)
Proceeds on maturity of financial assets		8,000	56,802
<b>Net cash used in investing activities</b>			
		(60,832)	(43,198)
<b>Financing activities</b>			
Contributions received		46,486	46,359
<b>(Decrease)/increase in cash at bank</b>			
		(4,790)	11,216
Cash at bank at beginning of year		12,869	1,653
Cash at bank at end of year		8,079	12,869



# 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 except for the revaluation of certain financial assets. 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.

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.

### 3 Income

	2006	2005
	Lm	Lm
Earnings on investments	12,634	11,911
Amortisation of discount	1,642	190
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	14,276	12,101
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## Notes to the financial statements (continued)

### 4 Surplus for the year

	2006	2005
	Lm	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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### 5 Taxation

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

### 6 Financial assets

	2006	2005
	Lm	Lm
7.25% Malta Government Stocks 2006	-	8,000
7.35% Malta Government Stocks 2007	10,300	10,300
7.2% Malta Government Stocks 2008	11,000	11,000
6.25% Malta Government Stocks 2011	11,800	11,800
6.35% Malta Government Stocks 2013	11,800	11,800
6.6% Malta Government Stocks 2014	13,300	13,300
6.6% Malta Government Stocks 2019	12,800	12,800
5.1% Malta Government Stocks 2022	32,700	32,700
5% Malta Government Stocks 2021	100,000	100,000
3.8% EIB Bond 2009	18,500	18,500
Treasury Bills	72,817	3,985
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	295,017	234,185
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Note -

The fair value of the above financial assets at 31 December 2006 amounted to Lm 310,810 (2005: Lm 255,060).

### 7 Debtors

	2006	2005
	Lm	Lm
Amounts falling due within one year:		
Unpaid contributions	-	1,250
Prepayments and accrued income	5,075	5,229
	<hr/>	<hr/>
	5,075	6,479
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## Notes to the financial statements (continued)

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

	2006 Lm	2005 Lm
Accruals	3,420	3,168
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### 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

#### (a) Cash generated from operations

	2006 Lm	2005 Lm
Surplus for the year	7,900	6,434
Adjustments for:		
Interest receivable	(5,075)	(5,229)
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Operating surplus before working capital changes	2,825	1,205
Decrease in debtors	6,479	4,109
Increase in creditors	252	2,741
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	9,556	8,055
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## Income and expenditure account (detailed)

	2006 Lm	2005 Lm
<b>Income</b>		
Earnings on investments	12,634	11,911
Amortisation of discount	1,642	190
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	14,276	12,101
	<hr/>	<hr/>
<b>Administrative expenses</b>		
Committee Members' honoraria	5,750	5,240
Management fees	250	250
Auditors' remuneration	295	177
Professional fees	81	-
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	6,376	5,667
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<b>Surplus for the year</b>	7,900	6,434
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