

REPORT OF THE DEPOSITOR COMPENSATION SCHEME FOR 2004

Introduction

In terms of regulation 8 of LN 369 of 2003, the Compensation Schemes Management Committee of the Depositor Compensation Scheme (hereinafter referred to as “the Scheme”) is pleased to present its report on the discharge of its functions and its operations during 2004.

The Scheme’s audited financial statements for 2004 are also attached.

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. In terms of article 12 of the Investment Services Act and regulations 3 and 5 of LN 368 of 2003 (the Investor Compensation Scheme Regulations, 2003), the Malta Financial Services Authority appointed the Compensation Schemes Management Committee for a period of three years commencing on 1 January 2004. The following persons have served on the Management Committee during 2004:

Chairman

Dr Anton Felice

Members

Mr Charles Borg

Prof Andrew Muscat

Mr Benny Borg Bonello

Mr George F Farrugia

Mr Rene Saliba

Dr Massimo Vella [appointed on 5 April 2004)

Mr Geoffrey Bezzina has served as Secretary of the Committee.

The Management Committee held 6 meetings during 2004.

Financial Statements as at 31 December 2004

The Scheme registered a surplus of Lm10,928 in 2004 compared to a deficit in 2003 of Lm256. Investment income amounted to Lm17,657, from which Lm6729 have been

spent in management and administration expenses. Accumulated capital and reserves amounted to Lm866,612.

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 depositors;
- (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 depositors;
- (d) To handle and pay claims for compensation by depositors;
- (e) To advise the Malta Financial Services Authority on matters relating to compensation of depositors.

Building the Fund

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

The Regulations provide that a minimum amount of Lm1 million is to be contributed proportionately over a period not exceeding five years in accordance with each participants' share of the total eligible deposits.

As at 31 December 2004 all participating licence holders had duly fulfilled their obligation in respect of 2004 to transfer their supplementary contribution to the Fund, and as at 31 December 2004, the total accumulated Supplementary Contribution amounted to Lm411,147. Moreover there was no special commitment of the Scheme for which it was necessary to raise a Special Contribution.

The Committee has entered into discussions with the Malta Bankers' Association in connection with their proposals for a restructuring of the contributions of participants. Within the ambit of these discussions the Committee has raised the need for adequate funding which satisfies all EU requirements which will widen the protection and scope of benefit. Negotiations are still in progress.

Protection of funds

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

In the performance of this task and in accordance with regulation 7, 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 (which was signed in 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.

Procedures for the payment of claims

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

In this connection, 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 up a website (www.compensationschemes.org.mt), from where users can obtain information about the scheme, as well as access to an information booklet that describes how depositors may claim against the Scheme and in which circumstances.

Regulation 11 and 34 require the Committee to consult the relevant compensation schemes in other countries for the purpose of facilitating the procedures by which depositors may claim against the respective Schemes. Claims against foreign schemes may follow defaults by branches of a credit institution, which is situated overseas. The EU Directive 94.19/EC sets out different procedures according to whether the defaulting institution is incorporated in a EU country or a third party state. The Committee has considered the procedures which will have to be put in place, and has proposed to MFSA appropriate amendments to the Regulations.

Depositors' Claims

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

The Committee is pleased to report that during 2004 there have been no defaults of payments by participating credit institutions, 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 depositors' compensation.

Proposed Changes to Regulations

Following Malta's membership in the EU, it was considered necessary to amend the Regulations setting up the Scheme to ensure that they were fully in line with the principles of the EU Directive 94/19/EC on deposit guarantee schemes. The Committee has submitted its proposals for the draft amendment of Legal Notice 369 to MFSA for consideration.

Towards this goal, the Management Committee has recommended a number of changes to the Regulations. These include (i) a redefinition of "depositor" to include both individuals and legal persons, (ii) a redefinition of the entities which may be excluded from the scope of protection that is in conformity with the requirements of the EU Directive, (iii) a deletion of the pro rata reduction in compensation whenever funds are insufficient to meet claims, and (iv) an extension of the currency of denomination of eligible deposits to all EU and EEA currencies.

It has been mentioned earlier in this report that the extension in the scope of benefits will require additional commitment from participants. This latter aspect is still the subject of consultation.

European Forum of Deposit Insurers (EFDI)

During the year, the Scheme became a full member of the European Forum of Deposit Insurers. EFDI was launched in Vienna in October 2002 and now has 40 members representing 32 European countries. It was established with the aim of contributing to the stability of financial systems by promoting European co-operation in the field of deposit insurance. In furtherance of this aim, EFDI members facilitate discussion and exchange of expertise and information on issues that are of mutual interest and concern (e.g. protection of cross-border services, financial customers' protection in the single market etc.).

Member countries of EFDI include Austria, Belgium, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Lithuania, Luxembourg, Macedonia, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

During 2004, the Secretary attended two meetings organised by EFDI on behalf of the Management Committee.

In September, EFDI, with the collaboration of the National Deposit Insurance Fund of Hungary, held its first regional seminar with the new EU countries in Budapest. The title of the seminar was: *Adaptation of the Directive on Deposit Insurance 94/19/EEC in the legislation of the new member countries of the EU – Are there any problems?* The intention of the conference was to contribute to a clearer understanding of each countries' deposit guarantee system, and discuss the implementation of the Directive on Deposit Insurance 94/19/EEC in the legislation of the new EU member countries.

The Secretary also attended the second bi-annual meeting of EFDI which was held in Padova, Italy on 8 and 9 of November 2004. A wide range of issues were discussed, including the role of EFDI to become *interlocuteur* with the European Commission on matters relating to the Depositor Guarantee Scheme Directive. The meeting was a unique opportunity to network with representatives of other Schemes in the EU and share experiences on issues of mutual interest.

EFDI does not charge a membership fee but it draws funds from sponsors to finance its activities.

List of Participants

APS Bank Limited
Bank of Valletta plc
HSBC Bank Malta plc
Lombard Bank Malta plc
Volksbank Malta Limited
HSBC Home Loans Limited



Dr Anton Felice
Chairman – Depositor Compensation Scheme Management Committee

31 May 2005

Attachment: Audited Financial Statements of the Depositor Compensation Scheme for 2004

Depositor Compensation Scheme
Report and financial statements
For the year ended 31 December 2004

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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, LN369 of 2003 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:

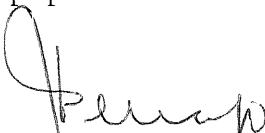
- adopts the going concern basis unless it is considered inappropriate;
- selects suitable accounting policies and then applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- accounts for income and charges relating to the accounting period on the accruals basis;
- 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 2004 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, LN369 of 2003.



Austin Demajo
f/Grant Thornton

Certified Public Accountants

Grant Thornton House
Princess Elizabeth Street
Ta' Xbiex MSD 11
Malta

24 March 2005

Income and expenditure account

	Note	2004 Lm	2003 Lm
Income	4	17,657	2,004
Administrative expenses		6,729	2,260
		<hr/>	<hr/>
Surplus/(deficit) for the year/period	5	10,928	(256)
		<hr/>	<hr/>

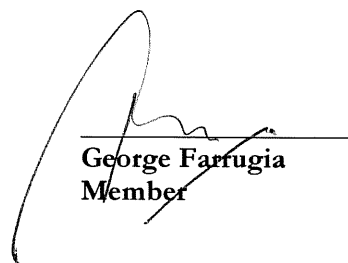
Balance sheet at 31 December

	Note	2004 Lm	2003 Lm
Non-current assets			
Financial assets	7	865,871	45,000
Current assets			
Debtors	8	2,230	1,113
Cash at bank and in hand		(1,062)	398,851
		1,168	399,964
Creditors : amounts falling due within one year	9	427	427
Net current assets		741	399,537
Net assets		866,612	444,537
Capital and reserves			
Contributions fund		855,940	444,793
Income and expenditure account		10,672	(256)
		866,612	444,537

The financial statements on pages 3 to 10 were approved by the Management Committee on 24 March 2005 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
Contributions during the period	444,793	-	444,793
Deficit for the period	-	(256)	(256)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	444,793	(256)	444,537
Contributions during the year	411,147	-	411,147
Surplus for the year	-	10,928	10,928
	<hr/>	<hr/>	<hr/>
At 31 December 2004	855,940	10,672	866,612
	<hr/>	<hr/>	<hr/>

Cash flow statement

	Note	2004 Lm	2003 Lm
Operating activities			
Cash generated from/(used in) operations	11(a)	4,415	(932)
Investing activities			
Payments to acquire financial assets		(815,475)	(45,000)
Financing activities			
Contributions received		411,147	444,783
Cash and cash equivalents			
Cash and cash equivalents at beginning of year/period	11(b)	398,851	-
Cash and cash equivalents at end of year/period	11(b)	(1,062)	398,851

Notes to the financial statements

1 General

The scheme was established by LN7 of 2003 as superseded by LN369 of the same year.

2 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).

3 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)

3 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, originated 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.

Creditors

Creditors are stated at their nominal value.

4 Income

	2004 Lm	2003 Lm
Earnings on investments	5,518	2,004
Amortisation of premium and discount	12,139	-
	<hr/>	<hr/>
	17,657	2,004
	<hr/>	<hr/>

5 Surplus/(deficit) for the year/period

	2004 Lm	2003 Lm
The surplus/(deficit) for the year/period is stated after charging:		
Committee Members' honoraria	5,562	1,833
Auditors' remuneration	177	177
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Notes to the financial statements (continued)

6 Taxation

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

7 Financial assets

	2004 Lm	2003 Lm
5.1% Malta Government Stocks 2014	25,000	25,000
5.1% Malta Government Stocks 2022	40,900	-
5.5% Malta Government Stocks 2023	20,000	20,000
3.8% EIB Bond 2009	26,000	-
Treasury Bills	753,971	-
	<hr/>	<hr/>
	865,871	45,000
	<hr/>	<hr/>
Note -		

The fair value of financial assets at 31 December 2004 amounted to Lm 867,649.

8 Debtors

	2004 Lm	2003 Lm
Amounts falling due within one year:		
Other debtor	10	10
Prepayments and accrued income	2,220	1,103
	<hr/>	<hr/>
	2,230	1,113
	<hr/>	<hr/>

9 Creditors : amounts falling due within one year

	2004 Lm	2003 Lm
Accruals	427	427
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Notes to the financial statements (continued)

10 Financial instruments

Financial assets include securities, debtors and cash held at bank and in hand. Financial liabilities include creditors. At 31 December 2004 and 2003 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 and the ability to raise finance to meet its financial obligations as these arise.

Fair values

At 31 December 2004 and 2003 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 7.

11 Notes to the cash flow statement

(a) Cash used in operations

	2004 Lm	2003 Lm
Surplus for the period	10,928	(256)
Adjustment for:		
Interest receivable	(2,220)	(1,103)
Amortisation of discount on Treasury Bills	(5,396)	-
	<hr/>	<hr/>
Operating surplus/(deficit) before working capital changes	3,312	(1,359)
Increase in creditors	-	427
Increase in debtors	1,103	-
	<hr/>	<hr/>
	4,415	(932)
	<hr/>	<hr/>

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amount:

	2004 Lm	2003 Lm
Cash in hand and balances with banks	(1,062)	398,851
	<hr/>	<hr/>

Income and expenditure account (detailed)

	2004 Lm	2003 Lm
Income		
Earnings on investments	5,518	2,004
Amortisation of premium and discount	12,139	-
	<hr/> 17,657	<hr/> 2,004
Administrative expenses		
Committee Members' honoraria	5,562	1,833
Management fees	250	250
Auditors' remuneration	177	177
Travelling expenses	730	-
Postage	10	-
	<hr/> 6,729	<hr/> 2,260
Surplus/(deficit) for the year/period	<hr/> 10,928	<hr/> (256)