DEPOSITOR COMPENSATION SCHEME

Annual Report and Financial Statements

31 December 2017

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GENERAL INFORMATION

The Depositor Compensation Scheme was established by virtue of the Depositor Compensation Scheme Regulations, Legal Notice 369 of 2003 (amended) of the Laws of Malta.

On 4 December 2015, Legal Notice 383 of 2015 has been published in the Government Gazette. The legal notice replaces legal notice 369 of 2003 and transposes directive 2014/49/EU, the recast Depositor Guarantee Scheme Directive.

MEMBERS OF THE MANAGEMENT COMMITTEE

Mr. Robert Caruana - Chairman (appointed member on 29 August 2017 and Chairman on 23 April 2018)
Dr Anton Felice - Chairman (resigned from member and Chairman on 29 March 2018)
Mr Benny Borg Bonello
Mr George Farrugia
Mr Kenneth Farrugia
Dr Massimo Vella
Mr James Bonello
Mr Oliver Bonello (resigned on 29 August 2017)
Mr. Silvio Galea (appointed on 23 April 2018)

COMMITTEE'S SECRETARY

Mr Aldo Giordano

ADDRESS

c/o Malta Financial Services Authority
Notabile Road
Attard BKR 3000
MALTA

INVESTMENT MANAGERS

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
MALTA

BANKERS

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
MALTA

AUDITOR

Ernst & Young Malta Limited
Certified Public Accountants
Regional Business Centre
Achille Ferris Street
Msida MSD 1751
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REPORT OF THE MANAGEMENT COMMITTEE OF THE SCHEME

The Management Committee of the Scheme submit their annual report together with the audited financial statements for the year ended 31 December 2017.

Principal activity

The Depositor Compensation Scheme was established by virtue of the Depositor Compensation Scheme Regulations (the "Regulations"), Legal Notice 369 of 2003 (amended) of the Laws of Malta for the purposes of carrying out the functions defined in the said Regulations.

On 4 December 2015, Legal Notice 383 of 2015 has been published in the Government Gazette. The legal notice replaces Legal Notice 369 of 2003 and transposes directive 2014/49/EU, the recast Depositor Guarantee Scheme Directive.

The main objective of the Scheme is to provide a means of protection for depositors within the framework of the Regulations. The Scheme maintains a fund out of which payments will be made to depositors where it appears that a participant to such Scheme is unable to repay money owed to or belonging to depositors and held on their behalf in connection with the banking business.

Results

The results are shown in the Statement of Comprehensive Income, set out on page 7.

As at year end, the total initial and supplementary contributions paid to the Scheme amounted to EUR10,006,004 (2016: EUR33,448,822). This is disclosed net of compensation payable amounting to EUR34,780,249 (note 19) Furthermore, as at year end, the participants, as part of their obligations in terms of Article 5 of Schedule 2 of the Regulations, had pledged in favour of the scheme EUR 92,550,066 (2016: EUR92,446,851) and paid directly to the Scheme the amount of EUR9,060,306 (2016: EUR3,039,767).

Members of the Management Committee

The Members who served during the year under review and any changes thereof, were as noted on page 2.

In accordance with Regulation 3 of the Regulations, the Scheme is managed and administered by the Management Committee. Such committee is appointed by the Malta Financial Services Authority for a maximum period of not less than three years but not more than five years. Every member of the Committee shall be eligible for re-appointment.

Statement of committee members' responsibilities

The committee members are required by the Regulations, Legal Notice 383 of 2015 of the Laws of Malta to prepare financial statements which give a true and fair view of the state of affairs of the Scheme as at the end of each financial year and of the income and expenditure for that year.

The Committee members are responsible to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable;
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Scheme will continue as a going concern;
- Account for income and charges relating to the accounting period on the accruals basis;
- Value separately the components of asset and liability items; and
- Report comparative figures corresponding to those of the preceding accounting period.

The committee members are also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud and error, and that comply with the Regulations, Legal Notice 383 of 2015 of the Laws of Malta. They are also responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE MANAGEMENT COMMITTEE OF THE SCHEME - continued

Auditor

Ernst & Young Malta Limited have expressed their willingness to continue in office.

The report of the Members was approved and signed on their behalf by:

ROBERT CARUANA
Chairman

JAMES BONELLO
Member

c/o Malta Financial Services Authority
Notabile Road
Attard

28 May 2018

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INDEPENDENT AUDITOR'S REPORT
to the members of the Investor Compensation Scheme

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Depositor Compensation Scheme ('the Scheme'), set on pages 7 to 19, which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Scheme as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the Depositor Compensation Scheme Regulations, Legal Notice 383 of 2015 (the "Regulations").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Scheme in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Management Committee are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Committee for the financial statements

The Management Committee is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Regulations, and for such internal control as the Management Committee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Committee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Committee either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

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INDEPENDENT AUDITOR'S REPORT
to the members of the Depositor Compensation Scheme - continued

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Scheme's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Committee.

- conclude on the appropriateness of the Management Committee' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Management Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The partner in charge of the audit resulting in this independent auditor's report is Christopher Balzan for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants

28 May 2018

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2017 EUR	2016 EUR
Income from available financial means	6	**2,912,266**	2,372,451
Management expenses	7	**(157,974)**	(132,485)
Surplus for the year		**2,754,292**	2,239,967
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net loss on available-for-sale financial assets		**(3,438,580)**	(86,391)
Total comprehensive loss/ (gain) for the year		**(684,288)**	2,153,576

The accounting policies and explanatory notes on pages 11 to 19 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	2017 EUR	2016 EUR
ASSETS			
Non-current assets			
Financial assets	9	**25,054,757**	45,738,934
Intangible assets	10	**105,758**	-
		25,160,515	45,738,934
Current assets			
Financial assets	9	**1,254,385**	1,154,683
Receivables	11	**340,131**	337,176
Cash at bank		**8,774,215**	1,360,257
		10,368,731	2,852,116
TOTAL ASSETS		**35,529,246**	48,591,050
FUNDS AND LIABILITIES			
Funds and reserves			
Contributions fund	13	**9,045,096**	32,683,339
Other contributions fund	16	**960,908**	765,483
Special contribution fund	15	**9,060,306**	3,039,767
Revaluation reserve	9c/17	**1,675,605**	5,114,185
Accumulated fund	17	**9,723,983**	6,969,691
		30,465,898	48,572,465
Current liabilities			
Other payables	18	**27,293**	18,585
Repurchase agreements	9	**4,870,919**	-
Compensation payable	19	**165,136**	-
		4,916,373	18,585
TOTAL FUNDS AND LIABILITIES		**35,529,246**	48,591,050
MEMORANDUM ITEMS			
Assets pledged in favour of the Scheme	12	**91,895,382**	93,926,450

The accounting policies and explanatory notes on pages 11 to 19 form an integral part of the financial statements.

The financial statements on pages 7 to 19 have been approved by the Management Committee on 28 May 2018 and were signed on its behalf by:

ROBERT CARUANA
Chairman

JAMES BONELLO
Member

STATEMENT OF CHANGES IN FUNDS

	Contributions fund EUR	Other contributions fund EUR	Special contribution fund EUR	Revaluation reserve EUR	Management expense contribution fund EUR	Accumulated fund EUR	Total EUR
At 1 January 2017	**32,683,339**	**765,483**	**3,039,767**	**5,114,185**	**-**	**6,969,691**	**48,572,465**
Surplus for the year	-	-	-	-	(157,974)	2,912,266	2,754,292
Other comprehensive income	-	-	-	(3,438,580)	-	-	(3,438,580)
Transfer between reserves (notes 13,16)	(195,425)	195,425	-	-	157,974	(157,974)	-
Contributions for the year	11,337,431	-	6,020,539	-	-	-	17,357,970
Compensation payable (note 19)	(34,780,249)	-	-	-	-	-	(34,780,249)
At 31 December 2017	**9,045,096**	**960,908**	**9,060,306**	**1,675,605**	**-**	**9,723,983**	**30,465,898**
At 1 January 2016	23,766,859	-	2,122,234	5,200,576	-	4,729,723	35,819,392
Surplus for the year	-	-	-	-	(132,485)	2,372,451	2,239,967
Other comprehensive income	-	-	-	(86,391)	-	-	(86,391)
Transfer between reserves (notes 13,16)	(765,483)	765,483	-	-	132,485	(132,485)	-
Contributions for the year	9,681,963	-	917,533	-	-	-	10,599,496
At 31 December 2016	**32,683,339**	**765,483**	**3,039,767**	**5,114,185**	**-**	**6,969,691**	**48,572,465**

The accounting policies and explanatory notes on pages 11 to 19 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

	2017 EUR	2016 EUR
Operating activities		
Surplus for the year	**2,754,292**	2,239,967
Adjustment to reconcile surplus to net cash flow		
Non cash:		
Interest receivable	**(1,495,343)**	(1,359,927)
Amortisation of net premiums	**856,201**	257,856
Gain on sale of available-for-sale financial assets	**(2,323,826)**	(1,270,381)
Working capital adjustment:		
Increase in other payables	**3,228**	10,683
Interest received	**1,518,018**	1,412,723
Net cash flow from operating activities	**1,312,570**	1,290,921
Investing activities		
Payments to acquire financial assets	**(268,658)**	(15,710,075)
Proceeds on maturity/sale of financial assets	**18,882,178**	5,148,531
Purchase of intangible assets	**(105,758)**	-
Net cash flows used in investing activities	**18,507,762**	(10,561,544)
Financing activities		
Repo	**4,870,919**	-
Interest paid on Repo	**(20,150)**	-
Contributions received	**17,357,970**	10,599,496
Compensation paid	**(34,615,113)**	-
Net cash flows used in financing activities	**(12,406,374)**	(10,599,496)
Net movement in cash and cash equivalents	**7,413,958**	1,328,873
Cash and cash equivalents at 1 January	**1,360,257**	31,384
Cash and cash equivalents at 31 December	**8,774,215**	1,360,257

The accounting policies and explanatory notes on pages 11 to 19 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SCOPE AND FUNCTIONS OF THE SCHEME

The Depositor Compensation Scheme ("the Scheme") was established on 23 November 2003 by virtue of the Depositor Compensation Regulations, ("the Regulations") Legal Notice 369 of 2003 (amended) of the Laws of Malta.

On 4 December 2015, Legal Notice 383 of 2015 has been published in the Government Gazette. The legal notice replaces legal notice 369 of 2003 and transposes directive 2014/49/EU, the recast Depositor Guarantee Scheme Directive. The scheme may require members to pay a Compensation Contribution and/or a Management Expenses Contribution commencing from the financial year ending 31 December 2016. The Compensation Contribution is allocated to the available financial means which shall amount to at least 1.3% of the covered deposits of its members.

The Scheme is intended to promote confidence in licensed banks by providing a means of protection for depositors within the framework of the Regulations. The Scheme shall also carry out various other related functions and duties as set out in Regulation 4(1) of the Regulations.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

These financial statements have been prepared under the historical cost convention except for available-for-sale financial assets that have been measured at fair value. These financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and comply with Legal Notice 369 of 2003 (amended) of the Laws of Malta.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective during the year:

- IAS 7 (Amendments) - Disclosure Initiative
- IAS 12 (Amendments) - Recognition of Deferred Tax Assets for Unrealized Losses

The adoption of these standards did not have significant impact on the financial statements or performance of the Scheme.

Standards, interpretations and amendments to published standards as adopted by the EU which are not yet effective

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective for the current reporting year and which the Company has not early adopted, but plans to adopt upon their effective date. The new and amended standards follow:

- IFRS 9 - Financial instruments (effective for financial year beginning on or after 1 January 2018)
- IFRS 16 - Leases (effective for financial year beginning on or after 1 January 2019)
- IFRS 15 - Revenue from Contracts with Customers including amendments to IFRS 15 (effective for financial year beginning on or after 1 January 2018)
- IFRS 15 (Clarifications) - Revenue from Contracts with Customers (effective for financial year beginning on or after 1 January 2018)
- IFRS 4 (Amendments) - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial year beginning on or after 1 January 2018)
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle - (effective for financial year beginning on or after 1 January 2017/1 January 2018)
- IFRS 2 (Amendments) - Classification and Measurement of Share-based Payment Transactions (effective for financial year beginning on or after 1 January 2018)
- IAS 40 (Amendments) – Transfers of Investment Property (effective for financial year beginning on or after 1 January 2018)

NOTES TO THE FINANCIAL STATEMENTS - continued

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – continued

Standards, interpretations and amendments to published standards as adopted by the EU which are not yet effective – continued

- IFRS 9 (Amendments) – Prepayment Features with Negative Compensation (effective for financial year beginning on or after 1 January 2019)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (effective for financial year beginning on or after 1 January 2018)

Except as explained below, the changes resulting from these standards are not expected to have a material effect on the financial statements of the Scheme.

IFRS 9 'Financial Instruments' standard replaces IAS 39 and is effective for reporting periods beginning on or after 1 January 2018. The standard introduces changes to the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. Specifically, the new Standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the business model in which an asset is held and based on cash flow characteristics. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities. IFRS 9 will also fundamentally change the loan loss impairment methodology. Debt securities classified as available-for-sale financial assets under IAS 39 will be classified at FVOCI under IFRS 9 given that the objective of the business model is achieved by both the collection of contractual cash flows and selling of the financial assets. There is no financial impact arising out of these changed classifications as the accounting measurements are principally the same as under IAS 39.

Standards, interpretations and amendments that are not yet endorsed by the EU

- IFRS 17 – Insurance Contracts (effective for financial year beginning on or after 1 January 2021)
- IFRIC 23 – Uncertainty over Income Tax Treatments (effective for financial year beginning on or after 1 January 2019)
- IAS 28 (Amendments) – Long-term Interests in Associates and Joint Ventures (effective for financial year beginning on or after 1 January 2019)
- Amendments to IAS19: Plan Amendment, Curtailment or Settlement (effective for financial year beginning on or after 1 January 2019)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective for financial year beginning on or after 1 January 2019)
- Amendments to references to the Conceptual framework in IFRS Standards (effective for financial year beginning on or after 1 January 2020)

The Scheme is still assessing the impact that these new standards will have on the financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income recognition

Income is recognised to the extent that it is probable that the economic benefits will flow to the Scheme and the income can be reliably measured.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in income in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS - continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets

Financial assets in the scope of IAS 39 are classified as, either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets, as appropriate. All financial assets are initially recognised at cost, being the fair value of the consideration given, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Scheme determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

The Scheme has classified its financial assets as 'available-for-sale' financial assets. The latter are debt securities which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity and in response to changes in market conditions.

After initial recognition, financial assets which are classified as 'available-for-sale' are measured at fair value, without any deduction for transaction costs that may be incurred on sale or other disposal. Unrealised gains or losses on available-for-sale securities are reported as a separate component of reserves until the financial asset is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is included in income.

For financial assets actively traded in organised financial markets, fair value is generally determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis based on the expected cash flows of the underlying net asset base of the investment and option pricing models.

Derecognition of financial assets

A financial asset is derecognised (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the right to receive cash flows from the asset has expired;
- the right to receive cash flows from the asset is retained, but the Scheme has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the rights to receive cash flows from the asset have been transferred and either the Scheme (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Amortisation is calculated on a straight line basis over the useful life of the intangible asset which is estimated at 10 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS - continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Other receivables

Other Receivables are recognised and carried at original invoice amount less an allowance or any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Cash and cash equivalents

Cash in hand and at banks are carried at cost.

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For purposes of the Statement of cash flows, cash and cash equivalents consist of cash in hand and deposits at banks.

Other payables

Liabilities for other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Scheme.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements, the management committee is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted for in the period the changes become known.

In the opinion of the management committee, the accounting estimates, assumptions 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 significant in terms of the requirements of IAS 1 (revised)- 'Presentation of financial statements'.

6. INCOME

	2017 **EUR**	2016 EUR
Interest on available-for-sale financial assets	**1,495,343**	1,359,927
Amortisation of net premiums	**(856,201)**	(257,856)
Gain on sale of available-for-sale financial assets	**2,323,826**	1,270,718
Interest expense	**(50,702)**	(338)
Income from available financial means	**2,912,266**	2,372,451

NOTES TO THE FINANCIAL STATEMENTS - continued

7. EXPENSES BY NATURE

	2017 EUR	2016 EUR
Committee members' honoraria	**27,752**	27,120
Salaries	**83,043**	80,461
Auditor's remuneration	**2,500**	2,832
Membership fees	**1,626**	3,929
Broker's Commission	**11,691**	-
Legal and professional fees	**11,501**	-
Travelling expenses	**666**	985
Central Bank of Malta management fee	**5,015**	5,015
Other Staff costs	**8,537**	3,397
I.T. related expenses	**2,313**	5,730
Others	**3,329**	3,016
Total management expenses	**157,974**	132,485

8. TAXATION

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

9. FINANCIAL ASSETS

Available-for-sale financial assets

a. The fair value of the financial assets is as follows:

	2017 EUR	2016 EUR
Non-current		
Malta Government Stocks	**25,054,757**	45,738,934
Current		
Malta Government Stocks	**1,254,385**	1,154,683
Total financial assets	**26,309,142**	46,893,617

b. The amortised cost of the financial assets is as follows:

	2017 EUR	2016 EUR
Non-current		
Malta Government Stocks	**23,413,699**	40,648,719
Current		
Malta Government Stocks	**1,219,838**	1,130,713
Total financial assets	**24,633,537**	41,779,432

NOTES TO THE FINANCIAL STATEMENTS - continued

9. FINANCIAL ASSETS - continued

c. The accumulated fair value movements of the financial assets is as follows:

	2017 EUR	2016 EUR
Non-current		
Malta Government Stocks	**1,641,058**	5,090,215
Current		
Malta Government Stocks	**34,547**	23,970
Total financial assets	**1,675,605**	5,114,185

The carrying amount of securities sold under agreements to repurchase as at 31 December 2017 amounted to EUR4.77m.

Fair value hierarchy

As at 31 December 2017 and 2016, the Scheme held the following financial instruments measured at fair value. The Scheme uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	Total EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
Available-for-sale financial assets				
31 December 2017	**26,309,142**	**26,309,142**	**-**	**-**
31 December 2016	46,893,617	46,893,617	-	-

During the reporting years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

10. INTANGIBLE ASSETS

During the year, the Scheme paid deposits amounting to EUR105,758 in respect of Computer Software. The asset is not yet put into use. The total committed expenditure as at 31 December 2017 amounted to EUR1.5m.

NOTES TO THE FINANCIAL STATEMENTS - continued

11. RECEIVABLES

	2017 EUR	2016 EUR
Accrued income	**340,131**	337,176

12. COMPENSATION CONTRIBUTION

As at 31 December 2017, the total compensation contribution required in terms of Article 25 of Legal notice 383 of 2015 amounted to EUR 141,372,082 (2016: EUR128,169,957). This amount is made up of cash contributions of EUR43,825,345 (2016: EUR32,683,339) which is included in the contribution fund (note 13) and payment commitments of EUR97,546,736 (2016: EUR95,486,618). As at 31 December 2017 the total payments commitments were met as follows:

- Deposits made directly with the Scheme of EUR9,060,306 (2016: EUR3,039,767) included in the special contribution fund (note 14)
- Deposits of EUR6,307,390 (2016: EUR7,296,473) pledged in favour of the Scheme
- Securities of EUR82,179,040 (2016: EUR85,150,378) pledged in favour of the Scheme

The market value of the Securities as at 31 December 2017 amounted to EUR85,587,992 (2016: EUR86,629,977).

13. CONTRIBUTIONS FUND

As at 31 December, the Contributions fund represented the total cash contributions as disclosed in note 12, net of compensation payable amounting to EUR34,780,249 (note 19).

Initial contributions made by participants until 31 December 2015, other contributions made until 31 December 2016 from credit institutions which are no longer part of the scheme and cash contributions in excess of the required cash contributions as at 31 December 2017 were reclassified to the other contributions fund (note 16).

14. MANAGEMENT EXPENSE CONTRIBUTION FUND

The management expenses contribution fund represents contributions from participants to meet management expenses in terms of Article 26 of Legal notice 383 of 2015. No management expense contribution was imposed in 2017. An amount of EUR 157,974 (2016: EUR132,485) was allocated from the accumulated fund to the Management expense contribution fund in terms of Article 32 (4) of Legal notice 383 of 2015.

15. SPECIAL CONTRIBUTION FUND

The special contribution fund represents special contributions from participants who have elected to deposit their payment commitment directly with the scheme (note 12).

16. OTHER CONTRIBUTIONS FUND

The other contributions fund includes initial contributions made by participants until 31 December 2015 and other contributions made until 31 December 2015 from credit institutions which are no longer part of the scheme. In 2017, an amount representing the cash contributions in excess of the required cash contributions as at 31 December 2017 were also reclassified from the contributions fund.

17. OTHER RESERVES

Revaluation reserve

This reserve represents the unrealised gains or losses on the available-for-sale financial assets recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS - continued

17. OTHER RESERVES - continued

Accumulated fund

The accumulated fund represents accumulated surpluses over the years. These are net of an amount of EUR 157,974 (20/16: EUR132,485) was allocated from the accumulated fund to the Management expense contribution fund in terms of Article 32 (4) of Legal notice 383 of 2015.

18. OTHER PAYABLES

	2017 EUR	2016 EUR
Accruals	**27,293**	18,585

19. COMPENSATION PAYABLE

On the 30 March 2017, the Malta Financial Services Authority ("MFSA") made a determination in terms of Article 8(1) of Legal Notice 383 of 2015 regarding the inability of a credit institution to repay deposits placed by its depositors.

On the basis of information disclosed by this credit institution to the Malta Depositor Compensation Scheme pursuant to regulation 20 of the Depositor Compensation Scheme Regulations, the Compensation payable was estimated at EUR35,222,715, out of which EUR165,136 remain unpaid. Compensation payable is disclosed net of payment commitments pledged by this credit institution which were liquidated by the Scheme amounting to EUR442,466.

20. ADDITIONAL PLEDGE REQUIREMENT

The Malta Financial Services Authority required a number of credit institutions to ensure that an amount calculated on credit institutions' covered deposits is deposited in account with the Central Bank of Malta and pledged in favour of the Scheme over and above the requirements of the Regulations. The amount required to be pledged in favour of the Scheme as at 31 December 2017 amounted to EUR103,682,524, out of which EUR97,633,194 were pledged in favour of the Scheme as at 31 December 2017 (2016: EUR73,697,321).

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

As at year end, the Scheme's main financial assets include available-for-sale financial assets, receivables and cash held at bank. Financial liabilities consist of other payables. As at year end, there were no off-balance sheet financial assets and financial liabilities.

The main risks arising from the Scheme's financial assets and liabilities are credit risk, liquidity risk, interest rate risk and fair value risk. The Management Committee reviews and agrees policies for managing each of these risks which are summarised below.

Risk management policies

Credit risk

Financial assets which potentially subject the Scheme to concentrations of credit risk consist primarily of available-for-sale financial assets and cash at bank. Available-for-sale financial assets include Malta Government Stock and Treasury Bills. The Scheme's exposure to credit risk is limited to the carrying amounts of financial assets recognised.

NOTES TO THE FINANCIAL STATEMENTS - continued

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Risk management policies - continued

Credit risk - continued

The credit risk relating to available-for-sale financial assets is considered to be low in view of management's policy of investing only in high quality sovereign securities which are listed on a recognised stock exchange. The Scheme's cash is placed with quality credit institutions.

Liquidity risk

Liquidity risk is limited as the Scheme has sufficient funding resources to meet its financial obligations as these arise. 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 depositors following a bank default.

Interest rate risk

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 reporting 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.

Fair value risk

The Scheme is exposed to fair value risk in respect of its available-for-sale financial assets. However, such instruments are held for strategic rather that trading purposes and the Scheme's Management Committee does not consider that its exposure to fair value risk is significant.

22. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The objective of the Scheme is to provide a means of protection for depositors within the framework of the regulation. The Managements 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 depositors and to meet such other payments or expenses as may be paid out of the fund or funds in accordance with the Regulations.

- to process claims for compensation by depositors 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 depositors in terms of the Regulations.

The capital structure of the Scheme consists of a contributions fund made up of accumulated contributions paid by participants since its inception in 2003. In terms of the Regulations, participants are required to maintain a fund "on call" either as a capital reserve or a contingent liability. The Management Committee may require participants to pay such amounts within 30 days of such funds being called for the proper discharge of its duties.

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.