# DEPOSITOR COMPENSATION SCHEME

## Annual Report and Financial Statements

## 31 December 2021

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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
Mr. George Farrugia (up to 31st December 2021)
Mr. Kenneth Farrugia
Mr. Silvio Galea
Mr. Karol Gabarretta
Dr. Mauro Magro
Dr. Edmond Zammit Laferla
Mr. Ian Meli (appointed 4th March 2022)

### COMMITTEE'S SECRETARY

Mr Aldo Giordano

### ADDRESS

c/o Malta Financial Services Authority
Triq L-Imdina
Zone 1, Central Business District
Birkirkara, CBD1010
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
MALTA

# 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 2021.

**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 was published in the Government Gazette. The legal notice replaced Legal Notice 369 of 2003 and transposed Directive 2014/49/EU, the recast Depositor Guarantee Scheme Directive. Legal notice 383 of 2015 was amended by legal notice 132 of 2017 and 43 of 2019.

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 business of banking.

**Results**

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

As at year end, the total contributions paid to the Scheme amounted to EUR64,485,947 (2020: EUR46,744,017). This is disclosed net of compensation paid during 2017 amounting to EUR35,097,015 (2020: EUR 39,097,015) (note 14). Furthermore, as at year end, the participants, as part of their obligations in terms of Regulation 25 of the Regulations, had pledged in favour of the scheme EUR 82,204,009 (2020: EUR83,805,184) and paid directly to the Scheme the amount of EUR 8,979,116 (2020: EUR7,852,517).

**Subsequent and other Significant Events**

Other than the matters disclosing in note 13 and note 14, there were no events or transactions which took place during or after the financial reporting date which would require disclosure or adjustment to the financial statements.

**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 as amended by legal notice 132 of 2017 and 43 of 2019 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.

## REPORT OF THE MANAGEMENT COMMITTEE OF THE SCHEME - continued

**Statement of committee members' responsibilities - continued**

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.

**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

**EDMOND ZAMMIT LAFERLA**
Member

c/o Malta Financial Services Authority
Triq L-Imdina
Zone 1, Central Business District
Birkirkara, CBD1010
Malta

28 June 2022

Building a better working world

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# INDEPENDENT AUDITOR'S REPORT
to the members of the Depositor 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 25, which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, the statement of changes in funds 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 2021, 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 Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board of 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.

### Emphasis of Matter

We draw attention to Note 14, Contributions Fund which describes the shortfall of Eur 35,097,015 in the cash contributions required at 31 December 2021, due to a payout which occurred in 2017 and the management committee's plans to address this shortfall by March 2023. Our opinion is not qualified in respect of this matter.

### 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.



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

**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.

**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 June 2022



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Registered in Malta No. C30252

## STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 2021 EUR | 2020 EUR |
|---|---|---|---|
| Income from available financial means | 6 | **630,198** | 376,643 |
| Management expenses | 7 | **(500,501)** | (522,102) |
| **Surplus/(deficit) for the year** | | **129,697** | (145,459) |
| **Other comprehensive income** | | | |
| Net (loss)/gain on fair value movement | | **(1,859,567)** | 313,307 |
| **Total comprehensive (loss)/surplus for the year** | | **(1,729,870)** | 167,848 |

*The accounting policies and explanatory notes on pages 11 to 25 form an integral part of the financial statements.*

## STATEMENT OF FINANCIAL POSITION

| | Notes | 2021 EUR | 2020 EUR |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Financial assets - Investments | 9 | **68,968,652** | 54,252,349 |
| Property, plant and equipment | 10 | **63,051** | 95,211 |
| Intangible assets | 11 | **503,915** | 575,675 |
| | | **69,535,618** | 54,923,235 |
| **Current assets** | | | |
| Financial assets - Investments | 9 | **5,117,344** | 2,963,838 |
| Receivables | 12 | **532,581** | 322,435 |
| Cash at bank | | **8,312,589** | 8,267,999 |
| | | **13,962,514** | 11,554,272 |
| **TOTAL ASSETS** | | **83,498,132** | 66,477,507 |
| **FUNDS AND LIABILITIES** | | | |
| **Funds and reserves** | | | |
| Contributions fund | 14 | **62,819,352** | 45,769,726 |
| Other contributions fund | 17 | **1,666,595** | 974,291 |
| Special contribution fund | 16 | **8,979,116** | 7,852,517 |
| Revaluation reserve | 9c/18 | **349,341** | 2,208,908 |
| Accumulated fund | 18 | **9,524,661** | 9,394,964 |
| | | **83,339,065** | 66,200,406 |
| **Current liabilities** | | | |
| Other payables | 19 | **33,367** | 151,401 |
| Compensation payable | 20 | **125,700** | 125,700 |
| | | **159,067** | 277,101 |
| **TOTAL FUNDS AND LIABILITIES** | | **83,498,132** | 66,477,507 |
| **MEMORANDUM ITEMS** | | | |
| Assets pledged in favour of the Scheme | 13 | **82,204,009** | 83,805,184 |

*The accounting policies and explanatory notes on pages 11 to 25 form an integral part of the financial statements.*

*The financial statements on pages 7 to 25 have been approved by the Management Committee on 28 June 2022 and were signed on its behalf by:*

**ROBERT CARUANA**
Chairman

**EDMOND ZAMMIT LAFERLA**
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 2021** | **45,769,726** | **974,291** | **7,852,517** | **2,208,908** | **-** | **9,394,964** | **66,200,406** |
| Surplus for the year | - | - | - | - | (500,501) | 630,198 | 129,697 |
| Other comprehensive income | - | - | - | (1,859,567) | - | - | (1,859,567) |
| Transfer between reserves (notes 13,15) | (692,304) | 692,304 | - | - | 500,501 | (500,501) | - |
| Contributions for the year | 17,741,930 | - | 1,126,599 | - | - | - | 18,868,529 |
| **At 31 December 2021** | **62,819,352** | **1,666,595** | **8,979,116** | **349,341** | **-** | **9,524,661** | **83,339,065** |
| **At 1 January 2020** | **31,025,087** | **897,388** | **7,798,127** | **1,895,601** | **-** | **9,540,422** | **51,156,625** |
| Deficit for the year | - | - | - | - | (522,101) | 376,643 | (145,458) |
| Other comprehensive income | - | - | - | 313,307 | - | - | 313,307 |
| Transfer between reserves (notes 13,15) | (76,903) | 76,903 | - | - | 522,101 | (522,101) | - |
| Contributions for the year | 14,821,542 | - | 54,390 | - | - | - | 14,875,932 |
| **At 31 December 2020** | **45,769,726** | **974,291** | **7,852,517** | **2,208,908** | **-** | **9,394,964** | **66,200,406** |

*The accounting policies and explanatory notes on pages 11 to 25 form an integral part of the financial statements.*

## STATEMENT OF CASH FLOWS

| | | 2021 EUR | 2020 EUR |
|---|---|---|---|
| **Operating activities** | | | |
| Surplus/(Loss) for the year | | **129,697** | (145,459) |
| *Adjustment to reconcile surplus to net cash flow* | | | |
| *Non cash.* | | | |
| Interest receivable | 6 | **(997,923)** | (923,599) |
| Amortisation of net premiums | 6 | **592,679** | 485,985 |
| Depreciation of property, plant and equipment | 10 | **32,160** | 32,160 |
| Amortisation of intangible asset | 11 | **71,760** | 71,760 |
| Gain on sale of investments | 6 | **(224,954)** | - |
| *Working capital adjustment:* | | | |
| Movement in other payables | | **(118,034)** | 96,736 |
| Movement in other receivables | | **(238,961)** | - |
| Interest received | | **1,026,739** | 802,442 |
| **Net cash flow generated from operating activities** | | **273,163** | 420,025 |
| **Investing activities** | | | |
| Payments to acquire financial assets | | **(23,219,534)** | (28,714,541) |
| Proceeds on maturity/sale of financial assets | | **4,122,432** | 420,000 |
| Purchase of Property, plant and equipment | 10 | **-** | 6,350 |
| Purchase of Intangible assets | 11 | **-** | (15,906) |
| **Net cash flows used in investing activities** | | **(19,097,102)** | (28,304,097) |
| **Financing activities** | | | |
| Contributions received | | **18,868,529** | 14,875,932 |
| **Net cash flows generated from financing activities** | | **18,868,529** | 14,875,932 |
| **Net movement in cash and cash equivalents** | | **44,590** | (13,008,140) |
| Cash and cash equivalents at 1 January | | **8,267,999** | 21,276,139 |
| **Cash and cash equivalents at 31 December** | | **8,312,589** | 8,267,999 |

*The accounting policies and explanatory notes on pages 11 to 25 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. Legal notice 383 of 2015 was amended by legal notice 132 of 2017 and 43 of 2019. 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 investments 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:

- Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021)
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020)
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS19 (issued on 25 June 2020)

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

## 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**

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 Scheme has not early adopted, but plans to adopt upon their effective date. The new and amended standards follow:

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021)
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)

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

- Amendments to IAS 12 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively)
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)

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

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*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.

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**Financial instruments - continued**

**Financial assets**

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Scheme's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Scheme has applied the practical expedient, the Scheme initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

*Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

*Financial assets at amortised cost (debt instruments)*

This category is the most relevant to the Scheme. The Scheme measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
  and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

*Financial assets at fair value through OCI (debt instruments)*

The Scheme measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
  and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**Financial instruments - continued**

**Financial assets – continued**

*Financial assets at fair value through OCI (debt instruments) – continued*

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

*Derecognition*

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

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

When the Scheme has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Scheme continues to recognise the transferred asset to the extent of its continuing involvement

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**Financial instruments - continued**

**Financial assets - continued**

*Impairment of financial assets*

The Scheme recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Scheme expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Scheme applies a simplified approach in calculating ECLs. Therefore, the Scheme does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the residual life of the exposure.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Scheme that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.
Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**Financial instruments - continued**

**Financial liabilities - continued**

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

**Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment less any residual value over the expected useful lives. The annual rate used for this purpose, which is consistent with that used in the previous year, is as follows:

| | |
|---|---|
| Computer equipment | 5 years |

The depreciation method applied and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting year. Depreciation of an asset ceases when the asset is either classified as held for sale or derecognised. Assets in the course of construction are not depreciated.

Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount of the asset. These are included in the statement of comprehensive income in the year of derecognition.

Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Scheme and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

**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 as follows:

| | |
|---|---|
| Computer software | 10 years |

**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'.

**Compensation payable**

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for claims. Estimates have to be made for the expected cost of claims reported at the reporting date. Given the nature of the Scheme, the cost of outstanding claims is based on case-by-case estimates. The Depositor Compensation Scheme Regulations determine the maximum compensation that may be payable by the Scheme. This amounts to EUR100,000 per depositor, and certain other amounts as specified.

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 6. INCOME

| | 2021 EUR | 2020 EUR |
|---|---|---|
| Interest on investments | **1,054,941** | 923,599 |
| Amortisation of net premiums | **(592,679)** | (485,985) |
| Gain on sale of investments | **224,954** | - |
| Interest expense | **(57,018)** | (60,971) |
| Income from available financial means | **630,198** | 376,643 |

### 7. EXPENSES BY NATURE

| | 2021 EUR | 2020 EUR |
|---|---|---|
| Committee members' honoraria | **33,120** | 33,120 |
| Salaries | **196,061** | 158,150 |
| Deprecation of property, plant and equipment | **32,160** | 32,160 |
| Amortization of intangible assets | **71,760** | 71,760 |
| Auditor's remuneration | **6,500** | 4,000 |
| Membership fees | **8,000** | 8,000 |
| Legal and professional fees | **13,228** | 12,080 |
| Travelling expenses | **-** | 1,131 |
| Central Bank of Malta management fee | **5,015** | 5,015 |
| I.T. related expenses | **127,250** | 184,423 |
| Other staff costs | **6,361** | 8,696 |
| Others | **1,046** | 3,567 |
| Total management expenses | **500,501** | 522,102 |

### 8. TAXATION

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

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 9. FINANCIAL ASSETS - INVESTMENTS

**Investments classified as fair value through OCI:**

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

| | 2021 EUR | 2020 EUR |
|---|---|---|
| *Non-current* | | |
| Malta Government Stocks | **68,968,652** | 54,252,349 |
| *Current* | | |
| Malta Government Stocks | **2,615,234** | 2,963,838 |
| Treasury Bills | **2,502,110** | - |
| | **5,117,344** | 2,963,838 |
| Total financial assets | **74,085,996** | 57,216,187 |

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

| | 2021 EUR | 2020 EUR |
|---|---|---|
| *Non-current* | | |
| Malta Government Stocks | **68,682,826** | 52,105,245 |
| *Current* | | |
| Malta Government Stocks | **2,551,639** | 2,902,034 |
| Treasury Bills | **2,502,190** | - |
| | **5,053,829** | 2,902,034 |
| Total financial assets | **73,736,655** | 55,007,279 |

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

| | 2021 EUR | 2020 EUR |
|---|---|---|
| *Non-current* | | |
| Malta Government Stocks | **285,777** | 2,129,957 |
| *Current* | | |
| Malta Government Stocks | **63,644** | 78,951 |
| Treasury Bills | **(80)** | - |
| | **63,564** | 78,951 |
| Total financial assets | **349,341** | 2,208,908 |

As at 31 December 2021, there were no securities sold under agreements to repurchase (2020: Nil).

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 9. FINANCIAL ASSETS - INVESTMENTS - continued

**Fair value hierarchy**

As at 31 December 2021 and 2020, 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 |
|---|---|---|---|---|
| **Financial assets – Investments** | | | | |
| **31 December 2021** | **74,085,996** | **74,085,996** | **-** | **-** |
| 31 December 2020 | 57,216,187 | 57,216,187 | - | - |

During the reporting years ended 31 December 2021 and 2020, 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. PROPERTY, PLANT AND EQUIPMENT

| | Computer hardware EUR |
|---|---|
| **Cost** | |
| At 1 January 2020 | 167,151 |
| Disposal | (6,350) |
| At 31 December 2020 | 160,801 |
| **At 31 December 2021** | **160,801** |
| **Amortisation** | |
| At 1 January 2020 | 33,430 |
| Amortisation for the year | 32,160 |
| At 31 December 2020 | 65,590 |
| Amortisation for the year | 32,160 |
| **At 31 December 2021** | **97,750** |
| **Net book value** | |
| **At 31 December 2021** | **63,051** |
| At 31 December 2020 | 95,211 |

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 11. INTANGIBLE ASSETS

| | Computer software EUR |
|---|---|
| **Cost** | |
| At 1 January 2020 | 701,699 |
| Additions | 15,906 |
| At 31 December 2020 | 717,605 |
| **At 31 December 2021** | **717,605** |
| **Amortisation** | |
| At 1 January 2020 | 70,170 |
| Amortisation for the year | 71,760 |
| At 31 December 2020 | 141,930 |
| Amortisation for the year | 71,760 |
| **At 31 December 2021** | **213,690** |
| **Net book value** | |
| **At 31 December 2021** | **503,915** |
| At 31 December 2020 | 575,675 |

The intangible asset was put into use during 2020.

### 12. RECEIVABLES

| | 2021 EUR | 2020 EUR |
|---|---|---|
| Accrued income | **285,738** | 314,554 |
| Other receivables | **21,843** | 7,881 |
| Contribution receivable | **225,000** | - |
| Total receivables | **532,581** | 322,435 |

### 13. COMPENSATION CONTRIBUTION

As at 31 December 2021, the total compensation contribution required in terms of Article 23 of S.L. 371.09 amounted to EUR184,747,862 (2020: EUR169,221,427). As per article 24(8) of the S.L. 371.09, this amount is required to be made up of cash contributions of EUR 97,916,367 (2020: EUR80,380,178) and payment commitments of EUR 86,831,495 (2020: EUR88,841,249). Cash contributions are allocated to the contribution fund (note 14).

As at 31 December 2021 the total payments commitments were met as follows:

- Deposits made directly with the Scheme of EUR8,979,116 (2020: EUR7,852,517) included in the special contribution fund (note 16)
- Deposits of EUR12,335,525 (2020: EUR8,350,943) pledged in favour of the Scheme
- Securities of EUR65,516,854 (2020: EUR72,637,789) pledged in favour of the Scheme. The market value of the Securities as at 31 December 2021 amounted to EUR 69,868,484 (2020: EUR75,454,241).

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 13. COMPENSATION CONTRIBUTION - continued

During September 2021, the European Commission informed the Government of Malta about a non-conformity issue with regards to the allocation of the compensation contribution between the cash contributions and payment commitment. Deposit Guarantee Scheme Directive EC/49/2015. The Government of Malta took immediate action vis a vis the respective Ministries and a reply was presented to the European Commission setting out the action plan with regards to the correct transposition.

### 14. CONTRIBUTIONS FUND

As at 31 December, the Contributions fund represented the total cash contributions required as disclosed in note 13, net of compensation paid following the determination of a particular credit institution during 2017. Compensation paid is disclosed net of payment commitments pledged and paid by this credit institution which were liquidated by the Scheme during 2017.

A shortfall amounting to EUR35,097,015 exists in the cash contribution required, due to the said pay-out effected. The Committee is taking the necessary action to reach the target level of the available financial means. In November 2021, a Controller was appointed by the MFSA, with whom the Scheme held a meeting to establish the way forward. As required by Regulation 23(2)(c) of the DCS Regulations (LN 383/2015), if funds are not recovered from the Controller of the particular credit institution by March 2023, the Scheme would need to recover the funds from its members through extraordinary contributions. Failure to recover the shortfall in cash contributions from either repayment from Controller of the particular credit institution or through additional cash contributions from the other members of the Scheme, would render the Scheme to be in breach of the provisions of the DCS regulations. Any potential obligations arising from this breach cannot be determined and reliably estimated up to date of approval of these financial statements.

Initial contributions made by participants until 31 December 2015, other contributions 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 2021 were reclassified to the other contributions fund (note 17).

### 15. MANAGEMENT EXPENSE CONTRIBUTION FUND

The management expenses contribution fund represents contributions from participants to meet management expenses in terms of Article 26 of S.L. 371.09. No management expense contribution was imposed in 2021 and 2020. An amount of EUR500,501 (2020: EUR522,101) was allocated from the accumulated fund to the Management expense contribution fund in terms of Article 32 (4) of S.L. 371.09.

### 16. SPECIAL CONTRIBUTION FUND

The special contribution fund represents special contributions from participants which have elected to deposit their payment commitment directly with the scheme (note 13).

### 17. OTHER CONTRIBUTIONS FUND

The other contributions fund includes initial contributions made by participants until 31 December 2015 and other contributions from credit institutions which are no longer part of the scheme. In 2021, the movement represents excess cash contributions paid by certain institutions over their required cash contribution, net of excess contributions made in the past by certain institutions which were utilised during the year.

### 18. OTHER RESERVES

**Revaluation reserve**
This reserve represents the unrealised gains or losses on the financial assets (investments) recognised in other comprehensive income.

**Accumulated fund**
The accumulated fund represents accumulated surpluses over the years. These are net of amounts allocated from the accumulated fund to the Management expense contribution fund in terms of Article 32 (4) of S.L. 371.09.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 19. OTHER PAYABLES

| | 2021 EUR | 2020 EUR |
|---|---|---|
| Accruals | **73,844** | 151,401 |

### 20. 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 EUR 35,222,715, out of which EUR125,700 remain unpaid at 31 December 2021.

### 21. 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 and pledged in favour of the Scheme over and above the requirements of the Regulations.

The Committee has been addressing this issue with the relevant participants and the Malta Financial Services Authority. The Committee is aware of the actions being taken by the Malta Financial Services Authority to have this matter resolved. Following action taken by the MFSA to amend the licences of the relevant banks, the DCS is targeting to dissolve any additional pledge requirements by end of 2022.

As a result, the outstanding balance of the additional pledge requirement which amounts to EUR 130,755,161 as at year end.

### 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

As at year end, the Scheme's main financial assets include investments, 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 investments and cash at bank. Investments include Malta Government Stock. The Scheme's exposure to credit risk is limited to the carrying amounts of financial assets recognised.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

**Risk management policies – continued**

*Credit risk – continued*

The credit risk relating to investments 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 investments. 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.

### 23. 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 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.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 24. RELATED PARTY TRANSACTIONS

Committee members' honoraria is disclosed in Note 7 to the financial statements.