REPORT OF THE DEPOSITOR COMPENSATION SCHEME FOR 2009

INTRODUCTION

In terms of regulation 8 of LN 369 of 2003, the Compensation Schemes Management Committee of the Depositor Compensation Scheme (hereinafter referred to as "the Scheme") is pleased to present its report on the discharge of its functions and its operations during 2009.

The Scheme's audited financial statements for 2009 are also attached.

MANAGEMENT COMMITTEE

In accordance with regulation 3 of the Regulations, the Scheme is managed and administered by a Management Committee (hereinafter referred to as "the Committee") appointed by the Malta Financial Services Authority. By means of a publication in Government Gazette No. 18,017 of 9 January 2007, the Authority in terms of article 12 of the Investment Services Act and regulations 3 and 5 of LN 368 of 2003, the Malta Financial Services Authority appointed the Compensation Schemes Management Committee for a period of three years commencing on 1 January 2007, as follows:

Chairman
Dr Anton Felice

Members
Prof Andrew Muscat
Mr Benny Borg Bonello
Mr George F Farrugia
Mr Kenneth Farrugia
Mr Rene Saliba
Dr Massimo Vella

Mr Geoffrey Bezzina served as Secretary of the Committee.

As the appointment of the Management Committee expired on 31 December 2009, the MFSA appointed the Compensation Schemes Management Committee for a period of three years commencing 1 January 2010, as follows:

Chairman
Dr Anton Felice
Members
Mr Benny Borg Bonello
Mr James Bonello
Mr George F Farrugia
Mr Kenneth Farrugia
Mr Rene Saliba
Dr Massimo Vella

Mr Geoffrey Bezzina was appointed Secretary of the Committee.

The appointment of the Management Committee was published in the Government Gazette No. 18,532 of 12 January 2010,

Meetings of the Committee

The Management Committee held three meetings during 2009.

Financial Statements as at 31 December 2009

The Scheme registered a surplus of €325,855 in 2009 compared to €287,343 in the previous year. Net Finance Income amounted to €345,071 (2008: €305,379). An amount of €17,216 has been spent in management and administration expenses (2008: €18,036). Accumulated capital and reserves amounted to €8,444,662 (2008: €8,213,137).

Participants of the Scheme

The following is a list of participant banks in the Scheme as at 31 December 2009:

Akbank T.A.S.
APS Bank Limited
Banif Bank (Malta) plc
Bank of Valletta plc
BAWAG Malta Bank Ltd
CommBank Europe Ltd
Erste Bank (Malta) Limited
FIMBank plc
Fortis Bank Malta Ltd
HSBC Bank Malta plc
Investkredit International Bank plc

Izola Bank Limited
Lombard Bank Malta plc
Mediterranean Bank plc
NBG Bank Malta Limited
Nemea Bank Limited
Raiffeisen Malta Bank plc
Sparkasse Bank Malta plc
Turkiye Garanti Bankasi A S
VoiceCash Bank Limited
Volksbank Malta Limited

*The International Banking Corporation (Malta) plc**
*Saadgroup Bank Europe Ltd**

** The licence of these two institutions was suspended/restricted by the Authority.*

Amendments to the Depositor Compensation Scheme Regulations

On 11 March 2009, Directive 2009/14/EC of the European Parliament and of the Council was published, amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay.

All Member States were required to implement this Directive by not later than end June 2009.

The required legislative changes which amended LN369 of 2003 — the Depositor Compensation Scheme Regulations, 2003 ("principal regulations") — came into force on 7 August 2009 by means of LN 227 of 2009 (the "amendment regulations").

The amendment regulations:

- increased depositor compensation from €20,000 to €100,000 with immediate effect. The Maltese Government had anticipated this measure and had made a public statement on 8th October 2008, undertaking to "raise the deposit protection scheme to €100,000 with immediate effect";
- removed co-insurance and, as a result, depositors will no longer have to bear the initial 10% of their losses;
- reduced the payout period from three months to 20 working days that are reckoned from the date when the competent authorities determine that a credit institution is unable to repay its deposit liabilities – with a possible extension of 10 working days in exceptional circumstances;
- require the Scheme to perform regular stress testing of its ability to compensate depositors. The regulations also provide that credit institutions

must ensure that they have electronic information systems in place to enable the Scheme to process claims for compensation by depositors;

- require participants in the Scheme (i.e. banks) to be more transparent with regard to the information they are obliged to provide to current or prospective depositors in connection with the Scheme; and
- aim to gradually build up the Scheme's available funding through a mix of pre and post funding mechanisms which would see the coverage ratio (percentage of available funds to total eligible deposits) increase to 0.77% by 2012.

In addition a number of minor amendments that improve the legislation were also made.

Following publication of the amendment regulations, the Minister of Finance, the Economy and Investment instructed the Authority to amend the regulations such that banks would be required to:

(a) maintain 0.1% of their eligible deposits with the Scheme by way of a cash contribution at all times
(b) create and maintain a Depositor Compensation Scheme Reserve which will be equivalent to 0.67% of their eligible deposits. This Reserve is to be created immediately upon the entry into force of the proposed amendments, and the funds constituting it shall become payable to the Scheme upon cessation of licensable activities for whatsoever reason.

These amendments were subsequently published in March 2010 by way of LN 109 of 2010.

FUNCTIONS OF THE SCHEME

In terms of regulation 4, the functions of the Scheme are:

(a) To maintain a fund for the payment of claims for compensation by depositors;
(b) To place contributions to the fund on deposit or to invest such funds;
(c) To establish procedures and arrangements for the payment of claims for compensation by depositors;
(d) To handle and pay claims for compensation by depositors;
(e) To advise the Malta Financial Services Authority on matters relating to compensation of depositors.

BUILDING THE FUND

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

Prior to the amendments made by LN 227 of 2009, the Regulations provided that participants needed to ensure that their aggregate proportional contributions to the Scheme amount to 0.1% of their respective eligible deposits as at the previous financial year end. Furthermore, the Regulations required participants to adjust (that is to top-up as appropriate) their contributions from 2008 onwards to ensure that their aggregate proportional contribution amounted to 0.1% of their respective eligible deposits as at the previous financial year end. However, no supplementary contributions were effected in 2009 due to ongoing discussions regarding changes in the regulations, which were concluded in 2010.

The publication of Directive 2009/14/EC extended considerably the scope of protection to depositors of insolvent credit institutions and removed the co-insurance aspect. Moreover, the payout period was reduced from three months to 20 days, essentially putting more pressure on the Scheme to have resources (funding and systems) in place to ensure compliance should a bank in Malta ever had to fail.

Accordingly, the Management Committee recommended to MFSA that the financial resources at the disposal of the Scheme should be increased over the medium term to the European average coverage ratio of 0.77% of eligible deposits prevailing in 2007.

LN 227 of 2009 required banks to make ex-ante payments up to a limit of 0.45% of eligible deposits by 2012. Moreover, they were required to setup and maintain a Depositor Compensation Scheme Reserve in security for ex-post payments up to 0.32% of eligible deposits by 2012. In this way the funding of the Scheme was intended to reach a combined ex-ante and ex-post coverage ratio of 0.77% of eligible deposits by the said year.

Following publication of LN227 of 2009, the Authority in consultation with the Management Committee issued "Valuation Haircuts" in terms of sub-paragraph (f) of paragraph 5 of the Second Schedule of the principal regulations for the purpose of assets valuation held in the Depositor Compensation Scheme Reserve. The valuation haircuts are aimed to protect against the risk of financial loss if assets pledged in favour of the Scheme had to be realised owing to circumstances mentioned in regulation 16 of the principal regulations. The Authority also issued "Additional conditions for the admissibility of assets" in terms of subparagraph (e)(iii) of paragraph 5 of the same Schedule.

In October 2009, the Minister of Finance, the Economy and Investment re-assessed the likely impact which additional ex-ante funding would have had on the banks over the short term. The objective of building available financial resources equivalent to a coverage ratio of 0.77% of eligible deposits was retained. However, the Minister agreed that future cash contributions beyond 0.1% of eligible deposits would be substituted by an immediate pledge of admissible assets in favour of the Scheme to the extent of 0.67% of eligible deposits. Moreover, such pledged assets were to be

made payable to the Scheme upon cessation of licensable activities by a bank for whatever reason. Otherwise, all the other changes implemented by LN 227 of 2009 were retained.

These amendments were subsequently published in March 2010 by way of LN109 of 2010.

PROTECTION OF FUNDS

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

In the performance of this task and in accordance with regulation 7, the Committee appointed the Central Bank of Malta to provide investment management services including financial, accounting and other related support services. This appointment has been effected in terms of an agreement (signed in 2003) which established the parameters for the investment of funds of the Scheme.

These parameters apply prudent investment criteria that take account of both the short and long term liquidity requirements of the Scheme.

PROCEDURES FOR THE PAYMENT OF CLAIMS

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

In this connection, the Committee is required to inform the general public about the procedures and arrangements for claiming against the Scheme. For this purpose it has set up a website (*www.compensationschemes.org.mt*), from where users can obtain information about the Scheme.

Regulation 11 and 34 require the Committee to consult the relevant compensation schemes in other countries for the purpose of facilitating the procedures by which depositors may claim against the respective Schemes. Claims against foreign schemes may follow defaults by branches of a credit institution, which are situated overseas. The EU Directive 94/19/EC sets out different procedures according to whether the defaulting institution is incorporated in a EU country or a third party state.

During the year, there were no participants with branches outside Malta.

Depositors' Claims

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

The Committee is pleased to report that during 2009 there have been no defaults of payments by participating credit institutions, which give rise to a claim against the Scheme.

Advisory Function

The fifth function of the Scheme is to advise the MFSA on matters relating to compensation of depositors.

As already reported, the Management Committee has examined closely the financial sustainability of the Scheme in regard to which it has made detailed recommendations to the MFSA.

During 2009, the Scheme was requested by the Authority to prepare draft regulations intended to align the Scheme regulations to the EU Directive 2009/14/EC and implement Minister's instructions regarding the funding aspect of the Scheme..

Discussions with the Ministry of Finance, the MFSA and the MBA will continue not only in relation to the methodology and procedural aspects relating to the pledging of admissible assets in favour of the Scheme but also on the onerous obligations placed by the Directive, including systems which need to be setup for secure exchange of depositor details in the event of a bank default and information which banks are required to provide depositors about eligibility of depositors and deposits under the Scheme.

Bank Reporting Obligations

On an annual basis, all participant banks are required to compile data in respect of all eligible deposits, the number of deposit accounts and their aggregate liability to depositors who hold such deposits, whether held in Euro, Sterling or other EEA currency.

European Forum of Deposit Insurers (EFDI)

The EFDI is recognised by the European Commission as an important and representative point of reference to the development of deposit guarantee schemes in Europe.

The Maltese Scheme is a full member of EFDI which has over 40 members representing 32 European countries. It is established with the aim of contributing to the stability of financial systems by promoting European co-operation in the field of deposit insurance. In furtherance of this aim, EFDI members facilitate discussion and exchange of expertise and information on issues that are of mutual interest and concern (e.g. protection of cross-border services, financial customers' protection in the single market etc.).

In 2009, the Scheme participated in an EFDI conference in Paris on "Deposit Insurance System During and after a systemic crisis".

The secretary was also invited to deliver a presentation during a meeting of the EU Committee of EFDI, held in Vienna, titled: "*Directive 2009/14/EC: Should depositors be happier, neutral or disappointed with the result?*" The presentation compared a number of key provisions from the European Commission's proposal of October 2009, the amendments made by the European Parliament and the European Council, and the published directive.

Dr Anton Felice
Chairman – Depositor Compensation Scheme Management Committee

2 August 2010

Attachment: Audited Financial Statements of the Depositor Compensation Scheme for 2009

DEPOSITOR COMPENSATION SCHEME

Annual Report
and
Financial Statements

31 December 2009

CONTENTS

	Pages
General information	2
Report of the management committee of the scheme	3 - 4
Independent auditors' report	5
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in funds	8
Statement of cash flows	9
Notes to the financial statements	10 - 17

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.

MEMBERS OF THE MANAGEMENT COMMITTEE

Dr A Felice	(Chairman)
Mr B Borg Bonello	
Mr G Farrugia	
Mr K Farrugia	
Prof. A Muscat	(resigned on 31 December 2009)
Mr R Saliba	
Dr M Vella	
Mr J Bonello	(appointed on 1 January 2010)

COMMITTEE'S SECRETARY

Mr G. Bezzina

HEAD OFFICE

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

AUDITORS

Ernst & Young
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 2009.

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.

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 6.

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 Depositor Compensation Scheme Regulations, Legal Notice 369 of 2003 (amended) 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 for ensuring that:-

- appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgements and estimates
- the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU, subject to any material departures disclosed and explained therein;
- the financial statements are prepared on the basis that the Scheme must be presumed to be carrying on its business as a going concern; and
- account has been taken of income and charges relating to the accounting period, irrespective of the date of receipt or payment.

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 Depositor Compensation Scheme Regulations, Legal Notice 369 of 2003 (amended) 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 MEMBERS OF THE AUTHORITY - continued

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the board member's meeting.

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

DR. ANTON FELICE
Chairman

GEORGE FARRUGIA
Member

c/o Malta Financial Services Authority
Notabile Road
Attard

2 August 2010

ERNST & YOUNG

Ernst & Young
Regional Business Centre
Achille Ferris Street
Msida MSD 1751, Malta

Tel: +356 2134 2134
Fax: +356 2133 0280
Email: ey.malta@mt.ey.com
Web: www.ey.com

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEPOSITOR COMPENSATION SCHEME

We have audited the financial statements of Depositor Compensation Scheme, set on pages 6 to 17, which comprise the statement of financial position as at 31 December 2009 and the statement of comprehensive income, statement of changes in funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Committee's Responsibility for the Financial Statements

The committee is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. As described in the statement of committee member responsibilities on page 3, this responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the committee, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Scheme as of 31 December 2009, 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 and have been properly prepared in accordance with the Depositor Compensation Scheme Regulations, Legal Notice 369 of 2003 (amended) of the Laws of Malta.

This copy of this audit report has been signed by Mario P. Galea (Partner) for and on behalf of

Ernst & Young
Certified Public Accountants

2 August 2010

A member firm of Ernst & Young Global Limited
Certified Public Accountants
Partners: Mario P. Galea, Ronald Attard, Emanuel Azzopardi, Anthony Doublet, Christopher J. Naudi

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2009 EUR	2008 EUR
Income	6	**345,071**	305,379
Administrative expenses	7	**(17,216)**	(18,036)
Surplus for the year		**325,855**	287,343
Other comprehensive income			
Net (loss)/gain on available-for-sale financial assets		**(117,629)**	419,064
Total comprehensive income for the year		**208,226**	706,407

The accounting policies and explanatory notes on pages 10 to 17 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2009

	Notes	2009 EUR	2008 EUR
ASSETS			
Non-current assets			
Financial assets	9	**7,968,040**	7,303,170
Current assets			
Financial assets	9	**276,249**	90,450
Receivables	10	**173,507**	803,256
Cash at bank		**29,729**	19,006
		479,485	912,712
TOTAL ASSETS		**8,447,525**	8,215,882
FUNDS AND LIABILITIES			
Funds and reserves			
Contributions fund	11	**7,192,366**	7,169,067
Revaluation reserve	12	**264,255**	381,884
Accumulated fund	12	**988,041**	662,186
		8,444,662	8,213,137
Current liabilities			
Other payables	13	**2,863**	2,745
TOTAL FUNDS AND LIABILITIES		**8,447,525**	8,215,882

The accounting policies and explanatory notes on pages 10 to 17 form an integral part of the financial statements.

The financial statements on pages 6 to 17 have been approved by the Management Committee on 2 August 2010 and were signed on its behalf by:

DR. ANTON FELICE
Chairman

GEORGE FARRUGIA
Member

STATEMENT OF CHANGES IN FUNDS

	Contributions fund EUR	Revaluation reserve EUR	Accumulated fund EUR	Total EUR
At 1 January 2008	6,486,184	(37,180)	374,843	6,823,847
Other comprehensive income	-	419,064	-	419,064
Surplus for the year	-	-	287,343	287,343
		419,064	287,343	706,407
Contributions during the year	682,883	-	-	682,883
At 31 December 2008	**7,169,067**	**381,884**	**662,186**	**8,213,137**
At 1 January 2009	7,169,067	381,884	662,186	8,213,137
Other comprehensive income	-	(117,629)	-	(117,629)
Surplus for the year	-	-	325,855	325,855
	-	(117,629)	325,855	208,226
Contributions during the year	23,299	-	-	23,299
At 31 December 2009	**7,192,366**	**264,255**	**988,041**	**8,444,662**

The accounting policies and explanatory notes on pages 10 to 17 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

	2009 EUR	2008 EUR
Operating activities		
Surplus for the year	**325,855**	287,343
Adjustment to reconcile surplus to net cash flow		
Non cash:		
Interest receivable	**(396,239)**	(384,246)
Amortisation	**51,377**	79,942
Gain on disposal of financial assets	**(209)**	(1,075)
Working capital adjustment		
Decrease in receivables	**-**	31,246
Increase/(Decrease) in other payables	**118**	(5,494)
Interest received	**389,665**	355,521
Net cash flow from operating activities	**370,567**	363,237
Investing activities		
Payments to acquire financial assets	**(2,269,144)**	(4,613,170)
Proceeds on maturity of financial assets	**1,249,678**	4,228,854
Net cash flows used in investing activities	**(1,019,466)**	(384,316)
Financing activities		
Contributions received	**659,622**	23,260
Net movement in cash and cash equivalents	**10,723**	2,181
Cash and cash equivalents at 1 January	**19,006**	16,825
Cash and cash equivalents at 31 December	**29,729**	19,006

The accounting policies and explanatory notes on pages 10 to 17 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.

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 investments 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 adopted by the European Union effective in 2009

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Scheme has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

IFRS 1	First-time Adoption of International Financial Reporting Standards (Amended) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 January 2009
IFRS 2	Share-based Payment: Vesting Conditions and Cancellations (Amended) effective 1 January 2009
IFRS 7	Financial Instruments: Disclosures (Amended) effective 1 January 2009
IFRS 8	Operating Segments effective 1 January 2009
IAS 1	Presentation of Financial Statements (Revised) effective 1 January 2009
IAS 23	Borrowing Costs (Revised) effective 1 January 2009
IAS 32	Financial Instruments: Presentation (Amended) and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (Amended) effective 1 January 2009
IAS 39	Reclassification of Financial Assets (Amended) effective 1 July 2008
IFRIC 9	Remeasurment of Embedded Derivatives (Amended) and IAS 39 Financial Instruments: Recognition and Measurement (Amended) effective for periods ending on or after 30 June 2009
IFRIC 13	Customer Loyalty Programmes effective 1 July 2008
IFRIC 15	Agreements for the Construction of Real Estate effective 1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
IFRIC 18	Transfer of Assets from Customers effective 1 July 2009

Improvements to IFRSs (May 2008)

When the adoption of the standard or interpretation was deemed to have an impact on the financial statements or performance of the Scheme, its impact is described below:

NOTES TO THE FINANCIAL STATEMENTS - continued

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

IFRS 7 requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by the source of inputs, using a three-level hierarchy, by class, for all financial instruments recognised for fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is required, as well as significant transfers between the levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. Such amendments were reflected by additional disclosures in the financial statements.

IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. The statement of changes in equity includes only transactions with shareholders. In addition, the standard introduces the statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with "other comprehensive income". The Scheme has made the necessary changes to the presentation of its financial statements.

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which the Scheme has not early adopted. None of the below mentioned standards will have an effect on the Scheme's financial position and performance. These are as follows:

- IFRS 1 Revised 'First Time Adoption of IFRS' (*effective for annual periods beginning on or after 1 July 2009*).
- IFRS 2 Amendments 'Group cash-settled share-based payment transactions' (*effective for annual periods beginning on or after 1 January 2010*).
- IFRS 3 Revised 'Business Combinations' and IAS 27 Revised 'Consolidated and Separate Financial Statements' (*effective for annual periods beginning on or after 1 July 2009*).
- IAS 32 Amendment ' Classification of Rights Issue' *(effective for financial years beginning on or after 1 February 2010).*
- IAS 39, 'Financial Instruments: Recognition and Measurement - Eligible Hedged Items' (*effective for financial years beginning on or after 1 July 2009*).
- IFRIC 17 'Distributions of Non-Cash Assets to Owners' (*effective for annual periods beginning on or after 1 July 2009*).

In April 2009 the IASB issued the second omnibus improvements to IFRSs, primarily with a view of removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of these amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Scheme.

Standards, interpretations and amendments issued by the International Accounting Standards Board (IASB) but not yet adopted by the European Union:

The following standards, interpretations and amendments have been issued by the IASB but not yet adopted by the European Union:

- IFRS 1 Amendments – Additional exemptions for First Time Adopters
- IFRS 9 – Financial Instruments
- IAS 24 Revisions – Related Party Disclosures
- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 disclosures for First-time Adoption
- IFRIC 14 Amendments – Prepayment of a Minimum Funding Requirement
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

NOTES TO THE FINANCIAL STATEMENTS - continued

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 or expense 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 finance income in the income statement.

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 investments 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' investments.

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 balance sheet 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Receivables

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 Cash Flow Statement, 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. CRITICAL 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 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 critical in terms of the requirements of IAS 1 (revised)- 'Presentation of financial statements'.

6. INCOME

	2009	2008
	EUR	EUR
Interest on available-for-sale investments	**395,837**	381,655
Amortisation of net premiums	**(51,377)**	(79,942)
Effective interest	**344,460**	301,713
Bank interest	**402**	2,591
Gains on disposal of financial assets	**209**	1,075
	345,071	305,379

NOTES TO THE FINANCIAL STATEMENTS - continued

7. EXPENSES BY NATURE

	2009 EUR	2008 EUR
Committee members' honoraria	**13,394**	13,394
Auditors' remuneration	**2,006**	1,888
Membership fees	**850**	850
Travelling expenses	**2,384**	1,095
Central Bank of Malta management fee	**582**	582
Other expenses	**-**	227
	19,216	18,036

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 investments (at fair value)

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

	2009 EUR	2008 EUR
Non-current		
Malta Government Stocks	**7,968,040**	7,303,170
Current		
Malta Government Stocks	**-**	60,564
Treasury Bills	**276,249**	29,886
	276,249	90,450
Total financial assets	**8,244,289**	7,393,620

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

	2009 EUR	2008 EUR
Non-current		
Malta Government Stocks	**7,703,563**	6,921,372
Current		
Malta Government Stocks	**-**	60,564
Treasury Bills	**276,502**	29,800
	276,502	90,364
Total financial assets	**7,780,065**	7,011,736

NOTES TO THE FINANCIAL STATEMENTS - continued

9. FINANCIAL ASSETS - continued

c. The fair value of the financial assets (recognised in reserves) is as follows:

	2009 EUR	2008 EUR
Non-current		
Malta Government Stocks	**264,477**	381,798
Current		
Malta Government Stocks	-	-
Treasury Bills	**(222)**	86
	(222)	86
Total financial assets	**264,255**	381,884

Fair value hierarchy

As at 31 December 2009, 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.

	31 Dec 2009 EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
Available-for-sale investments				
Debt securities	**8,244,289**	8,224,289	-	-

During the reporting period ending 31 December 2009, 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. RECEIVABLES

	2009 EUR	2008 EUR
Contributions receivable (note i)	**23,300**	659,623
Accrued income	**150,207**	143,633
	173,507	803,256

i. Contributions receivable are non-interest bearing and are neither past due nor impaired.

NOTES TO THE FINANCIAL STATEMENTS - continued

11. CONTRIBUTIONS FUND

The Contributions fund represents initial and supplementary contributions paid directly to the Scheme or a valid expectation exist that they are receivable by the Scheme. These are paid annually by the credit institutions participants by virtue of the Second Schedule in terms of regulation 12 of Legal Notice 369 of 2003 (amended).

No supplementary contributions by banks were effected in 2009, due to ongoing discussions regarding changes in the Scheme Regulations, which were concluded in 2010. The supplementary contributions' position of the banks was regularised in the first half of 2010. The pledge requirements arising from Legal Notice 227 of 2009 were not implemented in view of the imminent revision which in fact took place by virtue of Legal Notice 109 of 2010.

12. OTHER RESERVES

Revaluation reserve

This reserve represents the unrealised gains or losses on the available-for-sale financial assets recognised directly in reserves.

Accumulated fund

The accumulated fund represents accumulated surpluses over the years.

13. OTHER PAYABLES

	2009	2008
	EUR	EUR
Accruals	**2,863**	2,745

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The credit risk relating to available-for-sale investments 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES -continued

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 balance sheet 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.

15. 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.