REPORT OF THE DEPOSITOR COMPENSATION SCHEME FOR 2013

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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 2013.

The Scheme's audited financial statements as at 31st December 2013 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. The Management Committee, which was appointed on 1 January 2013 for a period of three years, is made up of:

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.

Meetings of the Committee

The Management Committee held eight meetings during 2013.

Financial Statements as at 31 December 2013

The Scheme registered a surplus of €635,406 in 2013 compared to €513,587 in the previous year. Net Finance Income amounted to €687,827 (2012: 553,479). An amount of €52,421 has been spent in management and administration expenses (2012: €39,892). Accumulated capital and reserves amounted to €18,441,073 (2012: €15,953,167).

Participants of the Scheme

The following is a list of participant banks in the Scheme as at 31 December 2013:

AgriBank plc ***
Akbank T.A.S.
APS Bank Limited
Banif Bank (Malta) plc
Bank of Valletta plc
BAWAG Malta Bank Ltd
CommBank Europe Limited
Deutsche Bank (Malta) Limited
Erste Bank (Malta) Limited
FCM Bank Limited
Ferratum Bank Limited ***
FIMBank plc
Fortis Bank Malta Ltd*
HSBC Bank Malta plc
IIG Bank (Malta) Ltd
Investkredit International Bank plc
Izola Bank plc
Lombard Bank Malta plc
Mediterranean Bank plc
NBG Bank Malta Limited
Nemea Bank Ltd
Novum Bank Limited **
Raiffeisen Malta Bank plc
Saadgroup Bank Europe Limited ****
Sparkasse Bank Malta plc
Turkiye Garanti Bankasi A S
Volksbank Malta Limited

** Fortis Bank Malta Ltd surrendered its banking licence in February 2013.*
*** Until February 2013, Novum Bank Limited was licenced under the name VoiceCash Bank Limited.*
**** The bank is not authorised to accept deposits from depositors eligible for compensation under the Scheme.*
***** The bank's licence has been suspended since August 2009.*

Amendments to the Depositor Compensation Scheme Regulations

No changes were made to the DCS Regulations in 2013.

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; and
(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 by depositors of credit institutions.

Initial and Supplementary Contributions

Any bank joining the Scheme is required to pay an Initial Contribution. Banks are also required to pay a Supplementary Contribution. Following the publication of LN 340 of 2012, banks were required to maintain with the Scheme, as at 31 December 2013, a level of 0.133%% of eligible deposits outstanding at the end of 2012.

As at the end of the reporting year of the Scheme, the aggregate amount of initial and supplementary contributions which have been paid to the Scheme amounted to €13,343,725 (2012: €12,100,209).

Special Contribution

In terms of paragraph 5(a) of the Second Schedule of the Regulations, every Bank is required to establish a Depositor Compensation Scheme Reserve for the payment of its Special Contribution in accordance with regulation 16 of the Regulations. The Reserve, which banks were required to maintain with the Scheme as at 31 December 2013, amounted to 0.757% of each Bank's respective eligible deposits outstanding at the end of 2012.

Pursuant to paragraph 5(c) of the same Schedule, funds in the Reserve are required to be held in admissible assets and shall be pledged in favour of the Scheme in guarantee of the participant's liabilities under regulation 16 at no cost to, and to the full satisfaction of the Scheme.

The Special Contribution is subject to the following requirements:

(a) Investment or placement requirements;
(b) Pledge requirements; and
(c) Valuation requirements.

(a) Investment or placement of the Special Contribution

The amount of the Special Contribution is required to be held in a "Depositor Compensation Scheme Reserve". Funds making up this reserve are to be invested/deposited in accordance with the Second Schedule of the Regulation and "Additional conditions for the admissibility of assets" issued in terms of subparagraph (e)(iii) of paragraph 5 of the same Schedule (available on-line from www.compensationschemes.org.mt). As at 31st December 2013, the Banks' obligations in terms of paragraph 5 of the Second Schedule amounted to €71,751,458 (2012: €60,949,384).

Depending on the respective amount of the Special Contribution, a bank may:

i. deposit the entire amount of the "Depositor Compensation Scheme Reserve" with the Scheme (in which case no interest is payable by the Scheme to the licence holder for such funds). As at the end of the reporting year of the Scheme, an amount of €777,591 had been deposited by participant banks directly with the Scheme;

ii. pledge a deposit which it holds with another bank established in the EEA as security in favour of the Scheme. Such a deposit is only eligible for this purpose if the bank with whom it is placed has a long term credit rating of not less than A;

iii. pledge securities listed on the Malta Stock Exchange or any foreign recognised investment exchange with a minimum rating of A as security in favour of the Scheme. As at the end of the reporting year of the Scheme, the market value of €56,927,021 in Malta Government Stocks were pledged in favour of the Scheme to secure banks' obligations of €49,751,452 ; and/or

iv. deposit part or all of its admissible assets with the Central Bank of Malta. The eligibility of deposits held with the Central Bank of Malta has been determined by the Malta Financial Services Authority in terms of paragraph 5(d)(v)(I)(c) and paragraph 5(d)(v)(II)(d) of the Second Schedule of the Regulations. As at the end of the reporting year of the Scheme, €21,222,415 were deposited with the Central Bank of Malta and pledged in favour of the Scheme.

(b) Pledge requirements

If the participant has not placed the entire amount of the "Depositor Compensation Scheme Reserve" with the Scheme, the investment making up the Special Contribution is required to be pledged in favour of the Scheme.

As at reporting year end, all banks were in compliance with the requirements of the Second Schedule regarding pledging of admissible assets. A number of banks placed deposits directly with the Scheme or opened an account with the Central Bank of Malta and pledged the entire amount in favour of the Scheme. A few banks pledged Malta Government Stock in favour of the Scheme, in addition to deposit accounts with the Central Bank of Malta (held directly in the name or pledged in favour of the Scheme).

The Authority has required a local bank to place an equivalent amount of its covered deposits (that part of eligible deposits which does not exceed €100,000) into an account with the Central Bank of Malta pledged specifically in favour the DCS. The amount that this bank has been required to place in this account was in addition to its obligations in terms of the Second Schedule of the Regulations.

None of the banks pledged deposits with banks outside Malta and none have offered, as security, pledges of securities listed on any foreign investment exchange. However, discussions with the Malta Stock Exchange have been initiated to explore how foreign securities could be pledged in favour of the DCS.

(c) Valuation requirements

The value of assets in the Reserve shall be the market value of such assets less "Valuation Haircuts" determined by the Malta Financial Services Authority, in consultation with the Management Committee, in terms of sub-paragraph (f) of paragraph 5 of the Second Schedule of such Regulations (also available on-line). Revised Valuation Haircuts were approved by the MFSA and have been applicable as of 1 January 2012.

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.

Annually, a Bank is required to provide a detailed statement regarding its contributions and Reserve and certified by its appointed auditors. In respect of the Reserve, the statement includes the nominal and market value of the Reserve assets, their composition, as well as a maturity and liquidity date schedule according to the type of each asset.

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. The agreement with the Central Bank, in force since 2003 and revised in 2011, includes parameters for the investment of funds by the Central Bank of Malta on behalf 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.

Handbook of Procedures

A detailed handbook of procedures has been drafted to provide guidance to the Management Committee on the rules and procedures established for protecting eligible depositors of a failed credit institution by paying out any compensation due to depositors in terms of regulation 14 of the Regulations.

Information to depositors

All banks are obliged to inform current or prospective depositors of the provisions of the Deposit Compensation Scheme, including the amount, scope and conditions of the cover offered by the Scheme. On request, the participant banks shall make available to current depositors information about the conditions for compensation and the formalities which must be completed to obtain compensation from the Scheme. All banks have published detailed information on their respective websites regarding the level and extent of the Scheme's coverage.

The Committee is also required to inform the general public about the Scheme's workings, including procedures and arrangements for claiming against the Scheme. For this purpose it maintains a website (www.compensationschemes.org.mt), from where users can obtain information about the Scheme. Information on the website is available in English and Maltese.

In order to address a growing number of recurring questions which are made by depositors as to eligibility and extent of payment, further examples outlining different scenarios in relation to compensation limits were added during the reporting year.

Modalities of payout

Following the issue of a consultation document in 2012 – prompted by the requirements in the draft Recast DGS Directive published in June 2011 which was still being discussed – the Scheme focused on the preparation of a detailed requirements document outlining the framework which it is required to setup and maintain in the event of a determination by the Competent Authority triggered by the failure of a credit institution.

The framework will enable the Scheme to process compensation payments within the statutory compensation pay-out period based on information on each eligible depositor of the failed credit institution. Indeed, all banks will be required to provide the Scheme, in a standardised and unified format, information about each depositor and respective account balances, a requirement termed "Single Customer View" or "SCV".

In 2014, the DCS identified three components which will constitute the overall compensation framework:

(i) A Data Exchange Mechanism. *The objective of a Data Exchange Mechanism is to develop an electronic system to enable the DCS to receive, load and verify SCV data files and associated implementation reports from banks. The Data Exchange Mechanism will accept the SCV data directly from the bank via a secure transmission mechanism.*

(ii) A Payment Generation Mechanism. *In the event of a simulated or a real compensation event, the DCS will trigger the Data Exchange Mechanism and request the bank's SCV data. The SCV data will need to be generated and transmitted by the bank concerned within 72 hours of the request being made. The Data Exchange Mechanism will divide the SCV data into those eligible deposits that are fit for "straight through pay-out" (STP), and those that are termed "complex cases", which require further investigation before a compensation payment to the depositor concerned can be authorised.*

(iii) A Compensation Management Mechanism. *Upon a compensation event, the DCS is obliged to pay compensation within 20 working days to depositors who are eligible under the rules of the scheme. The Compensation Management Mechanism will also need to provide public support and information help lines in the event of a compensation event.*

The SCV reporting requirement will enable the Scheme to process payments through the Payment Generation Mechanism, generate reporting and facilitate any administrative aspects in the event that it is called to make a payout. The Scheme's system will also provide a channel for the secure transmission of data by allowing credit institutions to interface with the system and upload their data files onto the Scheme's system with full respect for confidentiality.

The DCS has determined that external suppliers would need to be appointed to assist in the procurement of any or all of these three components. To this end, the

DCS will be issuing a public call for tenders in due course.

All credit institutions have been required to develop or modify their respective internal electronic systems to be able to generate the SCV data files as and when required. In order to facilitate the automation of the SCV system, credit institutions will be responsible to provide their electronic files in a standard format according to pre-defined rules and codes contained in data templates provided by the Scheme. Specific account codes shall be applied to indicate whether an account is fit for straight-through pay-out (whereby payment will be made within the statutory payment period of 20 days) or requires more processing before the relevant compensation is paid (in regard to accounts held under nominee, for example). In addition, the SCV system will have automated verification processes to ensure that the SCV data is reliable enough to enable the correct processing of compensation payments.

According to the Recast DGS Directive (see "EU Developments" below), credit institutions will be obliged to participate in periodic testing of the system to verify their ability to comply on an on-going basis with the SCV information requirements. Rigorous testing of the SCV platform is also planned to ensure that the system is resilient and can manage the maximum volume of data required. Moreover, the SCV system should be flexible to allow any modifications in accordance with the changing environment.

In view of the public procurement obligations as well as requirements outlined in the Recast DGS Directive, the Scheme engaged with third parties for the provision of the required services or resources to ensure that the tender document is exhaustive and clear in the description of the DCS requirements.

Branches outside Malta

During the year, a credit institution opened a branch outside Malta. Depositors of that branch are covered by the DCS in 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 2013 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.

During 2013, the Scheme was requested by the Authority to prepare opinions and reports about issues which concern depositor compensation and implications for the stability of the financial systems in view of the European Commission's proposal to amend the directive on depositor guarantee schemes.

EU Developments

Discussions on a thorough revision of the current DGS Directive intensified during 2013 and a new Recast Directive has been approved during the first quarter of 2014.

Discussions on the new directive have been ongoing since 2010.

The recast directive will continue to cover deposits by up to €100,000 and will extend cover for deposits in all currencies. In addition, coverage is not only limited to individuals and small companies, but also extended to all non-financial corporates. The directive will also provide additional compulsory protection above €100,000, for a period between three and 12 months from the date of the transaction, for deposits resulting from private residential real estate transaction as well as deposits serving a social purpose or linked to private life events. Banks will be required to provide actual and prospective depositors standardised information about the extent of cover and eligibility of the deposits. The Scheme will pay compensation to eligible depositors of a failed bank without the need for such depositors to submit an official claim. Payment to depositors will not be set off against any outstanding liabilities, except for any arrears in payments. DGSs will have to implement systems such that the payout period, following a bank default, will reduce from the current 20 working days to a seven working day payout period by 1 January 2024. The Recast Directive is also prescriptive on the amount of contributions banks will be obliged to pay DGS to ensure adequate financing of such schemes. Indeed, DGS are required to build a minimum target fund of 0.8% of covered deposits over a period of ten years.

Member States have until mid-2015 to transpose the new directive into their laws.

During the first quarter of 2014, the European Parliament and the Council reached agreement on the Bank Recovery and Resolution Directive (BRRD). This directive sets a common framework across all 28 countries of the EU on how to deal with troubled banks. It foresees a phased approach to supporting such banks, encompassing precautionary, early intervention and measures designed to prevent bank failures. Where bank failure is unavoidable, the BRRD aims to ensure orderly resolutions, even for banks operating across national borders. Along with the revisions to the DGS Directive, this further harmonises the approach to protecting retail depositors in the EU. The BRRD is scheduled to come into operation in 2015.

The BRRD will be complemented by the Single Resolution Mechanism (SRM) which shall come into force in all EU Member States in 2014 and is expected to become operational in 2016. The SRM shall provide for a central integrated decision-making structure backed by a single resolution fund geared to ensure the orderly resolution of banks within the participating EU Member States, initially euro-zone members. The SRM will be accompanied by an Inter-governmental Agreement (IGA) whereby contributions by banks raised at a national level under the BRRD will be transferred gradually to the single fund over a period of 8 years. The SRM is one of the three important pillars for the foundation of a European Banking Union, together with the Single Supervisory Mechanism (SSM) and a harmonised Deposit Guarantee Scheme (DGS).

The SSM, which was adopted in October 2013 and will come into operation in November 2014, shall confer powers on the European Central Bank (ECB) to supervise all banks in participating Member States, initially euro-zone members. Systematically important banks

will be supervised directly by the ECB while less systemically important banks will be supervised indirectly by the ECB through the national competent authorities. As for the Single DGS Mechanism, this is a longer-term objective.

Bank Reporting Obligations

On an annual basis, all participant banks compile and report 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.

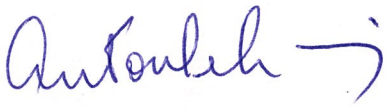
As of 2014, banks will be required to compile data on the basis of requirements set in the Recast DGS Directive.

European Forum of Deposit Insurers

The European Forum of Deposit Insurers (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 55 deposit guarantee schemes from 44 countries of the European Area. 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.).

During the first quarter of 2014, the DCS hosted a meeting of the EFDI EU Committee. All deposit guarantee schemes in the EU and EEA form part of this Committee. Among its objectives, the EU Committee deals with EFDI's policy concerning EU legislation on deposit insurance and makes representations to the European Commission, as well as other EU bodies, on such aspects. At the meeting in Malta, the Committee discussed in detail various provisions of the new Recast DGS Directive. An official from the European Commission's Internal Market Directorate responsible for the implementation of the Recast DGS Directive was also present at the meeting.



Anton Felice
Chairman – Compensation Schemes Management Committee

28 May 2014

Attachment: Audited Financial Statements of the Depositor Compensation Scheme for 2013

DEPOSITOR COMPENSATION SCHEME

Annual Report
and
Financial Statements

31 December 2013

DEPOSITOR COMPENSATION SCHEME
Annual Financial Statements for the year ended 31 December 2013

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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.

MEMBERS OF THE MANAGEMENT COMMITTEE

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

The above members were re-appointed on 11 January 2013 for a period of three years commencing on 1 January 2013.

COMMITTEE'S SECRETARY

Mr G. Bezzina

ADDRESS

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

INVESTMENT MANAGERS

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
Malta

BANKERS

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
Malta

AUDITOR

Ernst & Young Malta Limited
Certified Public Accountants
Regional Business Centre
Achille Ferris Street
Msida MSD 1751
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 2013.

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.

As at year end, the total initial and supplementary contributions paid to the Scheme amounted to EUR13,343,725 (2012: EUR12,100,209). Furthermore, as at year end, the participants, as part of their obligations in terms of Article 5 of Schedule 2 of the Regulations, had pledged in favour of the scheme EUR70,973,867 (2012: EUR60,359,837) and paid directly to the Scheme the amount of EUR777,591 (2012: EUR589,547).

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 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 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 MANAGEMENT COMMITTEE OF THE SCHEME - continued

Auditors

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:

ANTON FELICE
Chairman

GEORGE FARRUGIA
Member

c/o Malta Financial Services Authority
Notabile Road
Attard

28 May 2014

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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 18, which comprise the statement of financial position as at 31 December 2013 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 information.

Management Committee's Responsibility for the Financial Statements

As described in the Management Committee's Report set out on page 3 to 4, the Management Committee is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Depositor Compensation Scheme Regulations, Legal Notice 369 of 2003 (amended), and for such internal control as management committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud and error.

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 Depositor Compensation Scheme as at 31 December 2013, 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 European Union; and
- have been properly prepared in accordance with the requirements of the Depositor Compensation Scheme Regulations, Legal Notice 369 of 2003 (amended).

This copy of this audit report has been signed by Christopher Balzan for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants

28 May 2014

A member firm of Ernst & Young Global Limited.
Registered in Malta No: C30252

STATEMENT OF COMPREHENSIVE INCOME

	Notes	**2013 EUR**	2012 EUR
Income	6	**687,827**	553,479
Administrative expenses	7	**(52,421)**	(39,892)
Surplus for the year		**635,406**	513,587
Other comprehensive income			
Net gain on available-for-sale financial assets		**420,940**	495,670
Total comprehensive income for the year		**1,056,346**	1,009,257

The accounting policies and explanatory notes on pages 10 to 18 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	2013 EUR	2012 EUR
ASSETS			
Non-current assets			
Financial assets	9	**16,909,452**	14,041,790
Current assets			
Financial assets	9	**439,434**	996,387
Receivables	10	**233,243**	229,726
Cash at bank		**865,823**	692,664
		1,538,500	1,918,777
TOTAL ASSETS		**18,447,952**	15,960,567
FUNDS AND LIABILITIES			
Funds and reserves			
Contributions fund	11	**13,343,725**	12,100,209
Special contribution fund	12	**777,591**	589,547
Revaluation reserve	9c/13	**1,396,602**	975,662
Accumulated fund	13	**2,923,155**	2,287,749
		18,441,073	15,953,167
Current liabilities			
Other payables	14	**6,879**	7,400
TOTAL FUNDS AND LIABILITIES		**18,447,952**	15,960,567
MEMORANDUM ITEMS			
Assets pledged in favour of the Scheme	12	**70,973,867**	60,359,837

The accounting policies and explanatory notes on pages 10 to 18 form an integral part of the financial statements.

The financial statements on pages 6 to 18 have been approved by the Management Committee on 28 May 2014 and were signed on its behalf by:

ANTON FELICE
Chairman

GEORGE FARRUGIA
Member

STATEMENT OF CHANGES IN FUNDS

	Contributions fund EUR	Special contribution fund EUR	Revaluation reserve EUR	Accumulated fund EUR	Total EUR
At 1 January 2012	8,733,026	395,034	479,992	1,774,162	11,382,214
Surplus for the year	-	-	-	513,587	513,587
Other comprehensive income	-	-	495,670	-	495,670
	-	-	495,670	513,587	1,009,257
Contributions for the year	3,367,183	194,513	-	-	3,561,696
At 31 December 2012	**12,100,209**	**589,547**	**975,662**	**2,287,749**	**15,953,167**
At 1 January 2013	12,100,209	589,547	975,662	2,287,749	15,953,167
Surplus for the year	-	-	-	635,406	635,406
Other comprehensive income	-	-	420,940	-	420,940
	-	-	420,940	635,406	1,056,346
Contributions for the year	1,243,516	188,044	-	-	1,431,560
At 31 December 2013	**13,343,725**	**777,591**	**1,396,602**	**2,923,155**	**18,441,073**

The accounting policies and explanatory notes on pages 10 to 18 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

	2013 EUR	2012 EUR
Operating activities		
Surplus for the year	**635,406**	513,587
Adjustment to reconcile surplus to net cash flow		
Non cash:		
Interest receivable	**(774,464)**	(638,024)
Amortisation of net premiums	**86,637**	84,545
Working capital adjustment		
(Decrease)/Increase in other payables	**(521)**	2,222
Decrease in other receivables	**23,300**	-
Interest received	**747,647**	627,251
Net cash flow from operating activities	**718,005**	589,581
Investing activities		
Payments to acquire financial assets	**(2,949,846)**	(4,259,702)
Proceeds on maturity of financial assets	**973,440**	364,563
Net cash flows used in investing activities	**(1,976,406)**	(3,895,139)
Financing activities		
Contributions received	**1,431,560**	3,538,396
Net movement in cash and cash equivalents	**173,159**	232,838
Cash and cash equivalents at 1 January	**692,664**	459,826
Cash and cash equivalents at 31 December	**865,823**	692,664

The accounting policies and explanatory notes on pages 10 to 18 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 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 are consistent with those of the previous financial year, except for the following standard which was effective as of 1 January 2013.

- IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Scheme re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Scheme. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 9.

Several other new standards, amendments and interpretations to existing standards, apply for the first time in 2013, whose adoption to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Scheme's accounting policies and did not impact the financial statements.

Standards, interpretations and amendments to published standards as endorsed by the European Union that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Scheme's accounting periods beginning after 1 January 2014. The Scheme has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Scheme's management committee is of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant impact on the Scheme's financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

Standards, interpretations and amendments to published standards as endorsed by the European Union that are not yet effective - continued

IFRS 9, 'Financial Instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. IFRS 9, 'Financial Instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. Subject to adoption by the EU, IFRS 9 (2013) does not have a mandatory effective date, but it is available for adoption now. A new mandatory effective date will be set when the IASB completes the impairment phase of the project, but will be no earlier than 1 January 2017. The Scheme is considering the implications of the standard and its impact on the Scheme's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income recognition

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

Interest income

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

Financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets - continued

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

Derecognition of financial assets

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

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

Other receivables

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

Cash and cash equivalents

Cash in hand and at banks are carried at cost.

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

Other payables

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

5. 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 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 critical in terms of the requirements of IAS 1 (revised)- 'Presentation of financial statements'.

NOTES TO THE FINANCIAL STATEMENTS - continued

6. INCOME

	2013 EUR	2012 EUR
Interest on available-for-sale financial assets	**771,939**	632,469
Amortisation of net premiums	**(86,637)**	(84,545)
Effective interest	**685,302**	547,924
Bank interest	**2,525**	5,555
	687,827	553,479

7. EXPENSES BY NATURE

	2013 EUR	2012 EUR
Committee members' honoraria	**19,427**	13,394
Salaries	**25,522**	17,174
Auditor's remuneration	**2,832**	3,658
Membership fees	**850**	850
Travelling expenses	**1,904**	805
Central Bank of Malta management fee	**1,000**	1,418
Professional fees	**-**	1,941
Others	**886**	652
	52,421	39,892

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

Available-for-sale financial assets (at fair value)

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

	2013 EUR	2012 EUR
Non-current		
Malta Government Stocks	**16,909,452**	14,041,790
Current		
Malta Government Stocks	**439,434**	996,387
Total financial assets	**17,348,886**	15,038,177

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

	2013 EUR	2012 EUR
Non-current		
Malta Government Stocks	**15,521,030**	13,082,395
Current		
Malta Government Stocks	**431,254**	980,120
Total financial assets	**15,952,284**	14,062,515

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

	2013 EUR	2012 EUR
Non-current		
Malta Government Stocks	**1,388,422**	959,395
Current		
Malta Government Stocks	**8,180**	16,267
Total financial assets	**1,396,602**	975,662

NOTES TO THE FINANCIAL STATEMENTS - continued

9. FINANCIAL ASSETS - continued

Fair value hierarchy

As at 31 December 2013 and 2012, the Scheme held the following financial instruments measured at fair value. The Scheme uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

	Total EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
Available-for-sale financial assets				
31 December 2013	**17,348,886**	**17,348,886**	-	-
31 December 2012	15,038,177	15,038,177	-	-

During the reporting years ended 31 December 2013 and 2012, 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

	2013 EUR	2012 EUR
Contribution receivable	-	23,300
Accrued income	**233,243**	206,426
	233,243	229,726

11. CONTRIBUTIONS FUND

The contributions fund represents initial and supplementary contributions, that are either 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).

NOTES TO THE FINANCIAL STATEMENTS - continued

12. SPECIAL CONTRIBUTION FUND

As at 31 December 2013, the participants' obligations in terms of article 5 of Schedule 2 of the Regulations amounted to EUR71,751,458 (2012: EUR60,949,384). These obligations were based on eligible deposits as at year end 2012 (year of assessment 2013). The participant obligations have been met as follows:

- Deposits directly with the Scheme of EUR777,591 (2012: EUR589,547) (note i)
- Deposits with the Central Bank of Malta of EUR21,222,415 (2012: EUR16,290,916) pledged in favour of the Scheme
- Malta Government Stocks of EUR49,751,452 (2012: EUR44,068,921) pledged in favour of the Scheme (note ii)

In terms of Regulation 16, the Management Committee may call upon such pledged assets.

i. The Special Contribution Fund represents special contributions from participants who have elected to deposit their contribution directly with the Scheme.
ii. The market value of Malta Government Stocks pledged in favour of the Scheme as at year end amounted to EUR56,927,021 (2012: EUR54,122,512).

Special contributions may need to be increased or refunded in terms of the Regulations.

13. 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.

14. OTHER PAYABLES

	2013	2012
	EUR	EUR
Accruals	**6,879**	7,400

15. ADDITIONAL PLEDGE REQUIREMENT

During the year under review, the Malta Financial Services Authority required a bank to ensure that an amount equivalent to the level of the Bank's insured deposits referred to in Regulation 17 is deposited in account with the Central Bank of Malta and pledged in favour of the Scheme over and above the requirements of the Regulations. The amount pledged by this Bank as at 31 December 2013 was EUR13,633,020 whilst as at 28 May 2014 the balance pledged in favour of the Scheme remained at EUR13,633,020.

NOTES TO THE FINANCIAL STATEMENTS - continued

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Risk management policies

Credit risk

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

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

Liquidity risk

Liquidity risk is limited as the Scheme has sufficient funding resources to meet its financial obligations as these arise. However, the Scheme may be required to seek substantial borrowings and extraordinary funding assistance from third party entities in the event of a claim by depositors following a bank default.

Interest rate risk

All interest-bearing financial assets have fixed interest rates. The Scheme's incoming and operating cash flows are substantially independent of changes to market interest rates. Up to the reporting date, the Scheme did not have a hedging policy with respect to interest rate risk as exposure was not deemed to be significant by the Management Committee.

Fair value risk

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

NOTES TO THE FINANCIAL STATEMENTS - continued

17. 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.