DEPOSITOR COMPENSATION SCHEME

Annual Report
and
Financial Statements

31 December 2015

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GENERAL INFORMATION

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

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

MEMBERS OF THE MANAGEMENT COMMITTEE

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

The above members were re-appointed on 1 January 2016 for a period of three years.

COMMITTEE'S SECRETARY

Mr Geoffrey Bezzina ended his term of office as Secretary of the Committee on 29 April 2016.

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Notabile Road
Attard BKR 3000
MALTA

INVESTMENT MANAGERS

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
MALTA

BANKERS

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
MALTA

AUDITOR

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

The Management Committee of the Scheme submit their annual report together with the audited financial statements for the year ended 31 December 2015.

Principal activity

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

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

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

Results

The results are shown in the Statement of Comprehensive Income, set out on page 6.

As at year end, the total initial and supplementary contributions paid to the Scheme amounted to EUR23,766,859 (2014: EUR17,892,825). 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 EUR89,308,612 (2014: EUR81,444,091) and paid directly to the Scheme the amount of EUR2,122,234 (2014: EUR1,114,960).

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

Auditor

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

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

ANTON FELICE
Chairman

GEORGE FARRUGIA
Member

c/o Malta Financial Services Authority
Notabile Road
Attard

26 July 2016

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INDEPENDENT AUDITOR'S 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 2015 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.

Auditor's 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 auditor's 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 2015, 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

26 July 2016

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

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2015 EUR	2014 EUR
Income	6	**1,078,138**	870,269
Administrative expenses	7	**(76,760)**	(65,079)
Surplus for the year		**1,001,378**	805,190
Other comprehensive income to be reclassified to profit or loss in subsequant periods			
Net gain on available-for-sale financial assets		**1,334,946**	2,469,028
Total comprehensive income for the year		**2,336,324**	3,274,218

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

STATEMENT OF FINANCIAL POSITION

	Notes	2015 EUR	2014 EUR
ASSETS			
Non-current assets			
Financial assets	9	**35,208,129**	25,235,840
Current assets			
Financial assets	9	**197,810**	986,408
Receivables	10	**389,972**	338,066
Cash at bank		**31,384**	49,622
		619,166	1,374,096
TOTAL ASSETS		**35,827,295**	26,609,936
FUNDS AND LIABILITIES			
Funds and reserves			
Contributions fund	11	**23,766,859**	17,892,825
Special contribution fund	12	**2,122,234**	1,114,960
Revaluation reserve	9c/13	**5,200,576**	3,865,630
Accumulated fund	13	**4,729,723**	3,728,345
		35,819,392	26,601,760
Current liabilities			
Other payables	14	**7,903**	8,176
TOTAL FUNDS AND LIABILITIES		**35,827,295**	26,609,936
MEMORANDUM ITEMS			
Assets pledged in favour of the Scheme	12	**89,308,612**	81,444,091

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 26 July 2016 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 2015	17,892,825	1,114,960	3,865,630	3,728,345	26,601,760
Surplus for the year	-	-	-	1,001,378	1,001,378
Other comprehensive income	-	-	1,334,946	-	1,334,946
Contributions for the year	5,874,034	1,007,274	-	-	6,881,308
At 31 December 2015	**23,766,859**	**2,122,234**	**5,200,576**	**4,729,723**	**35,819,392**
At 1 January 2014	13,343,725	777,591	1,396,602	2,923,155	18,441,073
Surplus for the year	-	-	-	805,190	805,190
Other comprehensive income	-	-	2,469,028	-	2,469,028
Contributions for the year	4,549,100	337,369	-	-	4,886,469
At 31 December 2014	**17,892,825**	**1,114,960**	**3,865,630**	**3,728,345**	**26,601,760**

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

STATEMENT OF CASH FLOWS

	2015 EUR	2014 EUR
Operating activities		
Surplus for the year	**1,001,378**	805,190
Adjustment to reconcile surplus to net cash flow		
Non cash:		
Interest receivable	**(1,272,392)**	(960,922)
Amortisation of net premiums	**194,254**	90,653
Working capital adjustment		
(Decrease)/ increase in other payables	**(273)**	1,297
Decrease in other receivables		-
Interest received	**1,220,486**	856,099
Net cash flow from operating activities	**1,143,453**	792,317
Investing activities		
Payments to acquire financial assets	**(9,007,470)**	(6,924,513)
Proceeds on maturity of financial assets	**964,471**	429,526
Net cash flows used in investing activities	**(8,042,999)**	(6,494,987)
Financing activities		
Contributions received	**6,881,308**	4,886,469
Net movement in cash and cash equivalents	**(18,238)**	(816,201)
Cash and cash equivalents at 1 January	**49,622**	865,823
Cash and cash equivalents at 31 December	**31,384**	49,622

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.

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

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

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Standards, interpretations and amendments to published standards as endorsed by the European Union effective in 2015

The Scheme has adopted the following new and amended IFRS and IFRIC interpretations during the year.

- Improvements to IFRS (2010 - 2012 cycle)
- Improvements to IFRS (2011 - 2013 cycle)
- IAS 19 Amendment - Employee Benefits

The adoption of these standards, interpretations and amendments did not have a significant impact on the financial statements of the Scheme.

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

Up to the 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 have not been adopted early. None of these standards, interpretations and amendments is expected to have an impact on the financial position or performance of the Scheme.

- IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation (effective for financial years on or after 1 January 2016)
- IFRS 11 (Amendments) Accounting for acquisitions of interests in joint operations (effective for financial years on or after 1 January 2016)

NOTES TO THE FINANCIAL STATEMENTS

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

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

- IAS 27 (Amendments) - Equity method in separate financial statements (effective for financial years on or after 1 January 2016)
- IAS 16 and IAS 41 - Bearer Plants (effective for financial years on or after 1 January 2016)
- Annual Improvements to IFRSs 2012-2014 Cycle (effective for financial years on or after 1 January 2016)
- IAS 1 (Amendments) Disclosure initiative (effective for financial years beginning 1 January 2016)

IAS 1 (Amendments) Disclosure initiative, the amendments to IAS 1 are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements. The amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The amendments to IAS 1 can be applied immediately, and become mandatory for annual periods beginning on or after 1 January 2016. The Scheme will assess the effect that the standard will have on the financial statements in due course.

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

The following standards, interpretations and amendments have been issued by the IASB but not yet endorsed by the EU:

- IFRS 9 - Financial instruments (effective for financial years beginning on or after 1 January 2018)
- IFRS 14 - Regulatory deferral accounts (effective for financial years beginning on or after 1 January 2016)
- IFRS 15 - Revenue from contracts with customers (effective for financial years beginning on or after 1 January 2018)
- IFRS 16 – Leases (issued on 3 January 2016 and effective 1 January 2019)
- IFRS 10, IFRS 12 and IAS 28 (Amendments) Investment Entities: Applying the consolidation exception (effective for financial years beginning 1 January 2016)
- IFRS 10 and IAS 28 (Amendments) Sale or contributions of assets between an investor and its associate or joint venture (deferred indefinitely)
- IAS 12 (amendments) – Recognition of deferred tax assets for unreleased losses (effective 1 January 2017)
- IAS 7 (amendments) – Disclosure initiative (effective 1 January 2017)

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

IFRS 9, 'Financial Instruments' introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments. As part of IFRS 9 the IASB has introduced a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. IFRS 9 also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities. The standard is effective for periods beginning on or after 1 January 2018. The Scheme will assess the effect that the standard will have on the financial statements in due course.

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Other receivables

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

Cash and cash equivalents

Cash in hand and at banks are carried at cost.

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

Other payables

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

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In the opinion of the management committee, the accounting estimates, assumptions and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as significant in terms of the requirements of IAS 1 (revised)-'Presentation of financial statements'.

6. INCOME

	2015 EUR	2014 EUR
Interest on available-for-sale financial assets	**1,272,392**	960,922
Amortisation of net premiums	**(194,254)**	(90,653)
Effective interest	**1,078,138**	870,269

NOTES TO THE FINANCIAL STATEMENTS - continued

7. EXPENSES BY NATURE

	2015 EUR	2014 EUR
Committee members' honoraria	**27,120**	20,583
Salaries	**33,142**	26,454
Auditor's remuneration	**2,832**	2,832
Membership fees	**2,103**	1,000
Travelling expenses	**1,439**	2,669
Central Bank of Malta management fee	**1,000**	1,000
Other Staff costs	**2,221**	2,896
Conference	**-**	5,831
IT related expenses	**4,804**	-
Others	**2,099**	1,814
	76,760	65,079

8. TAXATION

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

9. FINANCIAL ASSETS

Available-for-sale financial assets

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

	2015 EUR	2014 EUR
Non-current		
Malta Government Stocks	**35,208,129**	25,235,840
Current		
Malta Government Stocks	**197,810**	986,408
Total financial assets	**35,405,939**	26,222,248

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

	2015 EUR	2014 EUR
Non-current		
Malta Government Stocks	**30,015,638**	21,395,180
Current		
Malta Government Stocks	**189,725**	961,438
Total financial assets	**30,205,363**	22,356,618

NOTES TO THE FINANCIAL STATEMENTS - continued

9. FINANCIAL ASSETS - continued

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

	2015 EUR	2014 EUR
Non-current		
Malta Government Stocks	**5,192,491**	3,840,660
Current		
Malta Government Stocks	**8,085**	24,970
Total financial assets	**5,200,576**	3,865,630

Fair value hierarchy

As at 31 December 2015 and 2014, 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 2015	**35,405,939**	**35,405,939**	-	-
31 December 2014	26,222,248	26,222,248	-	-

During the reporting years ended 31 December 2015 and 2014, 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

	2015 EUR	2014 EUR
Accrued income	**389,972**	338,066

NOTES TO THE FINANCIAL STATEMENTS - continued

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).

12. SPECIAL CONTRIBUTION FUND

As at 31 December 2015, the participants' obligations in terms of article 5 of Schedule 2 of the Regulations amounted to EUR91,430,846 (2014: EUR82,559,051). These obligations were based on eligible deposits as at year end 2014 (year of assessment 2015). The participant obligations have been met as follows:

- Deposits directly with the Scheme of EUR2,122,234 (2014: EUR1,114,960) (note i)
- Deposits with the Central Bank of Malta of EUR15,432,289 (2014: EUR24,241,085) pledged in favour of the Scheme
- Malta Government Stocks of EUR73,876,323 (2014: EUR57,203,006) 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 EUR77,195,101 (2014: EUR61,313,475).

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

	2015	2014
	EUR	EUR
Accruals	**7,903**	8,176

NOTES TO THE FINANCIAL STATEMENTS - continued

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 at 31 December 2015 in favour of the Scheme amounted to EUR 71,233,518 (2014: EUR52,950,120).

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.

18. EVENTS AFTER THE REPORTING PERIOD

In April 2016, the Malta Financial Services Authority has issued public notices (MFSA Ref. 42-2016 and MFSA Ref. 43-2016) in respect of a credit institution. As at the date of approval of these financial statements, the Scheme does not have any present obligations under the Depositor Compensation Scheme Regulations. Nevertheless, the Scheme is monitoring the situation for any development in this regard.