REPORT OF THE DEPOSITOR COMPENSATION SCHEME FOR 2012

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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 2012.

The Scheme's audited financial statements as at 31st December 2012 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 2010 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 is the secretary of the Committee.

As the appointment of the Management Committee expired on 31 December 2012, the MFSA appointed the Compensation Schemes Management Committee for a

period of three years commencing 1 January 2013, 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. 19016 of 11 January 2013.

Meetings of the Committee

The Management Committee held nine meetings during 2012.

Financial Statements as at 31 December 2012

The Scheme registered a surplus of €513,587 in 2012 compared to €434,790 in the previous year. Net Finance Income amounted to €553,479 (2011: €457,975). An amount of €39,892 has been spent in management and administration expenses (2011: €23,185). Accumulated capital and reserves amounted to €15,953,167 (2011: €11,382,214).

Participants of the Scheme

The following is a list of participant banks in the Scheme as at 31 December 2012:

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 previously called *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

In 2012, Legal Notice 369 of 2003 (the principal Regulations) were amended on two occasions.

Legal Notice 159 of 2012

On 22 May 2012, the Government published Legal Notice 159 of 2012 – Depositor Compensation Scheme (Amendment) Regulation, 2012 – which amended the principal regulations.

The Second Schedule of the principal Regulations was amended such that Supplementary Contributions increased from 0.1% to 0.2% of eligible deposits, while Special Contributions (pledged reserves) increased from 0.67% to 0.8% of eligible deposits. The increases were proportionately spread over three years and became effective as of 1 January 2012.

In addition, banks were allowed more flexibility in regard to pledging of admissible assets in favour of the DCS. As a result, banks whose Reserve is more than €100,000 may select to place at least 60% or more of admissible assets in the form of deposits with the Central Bank of Malta. Prior to this amendment, the maximum amount which a participant was allowed to place was 40%.

Legal Notice 340 of 2012

On 9 October 2012, the Government published Legal Notice 340 of 2012 – Depositor Compensation Scheme (Amendment) Regulation (No. 2) , 2012 – which amended the principal regulations.

The Amendment regulations extended the implementation process by one year in regard to supplementary contributions.

The table below gives an overview of the changes to the supplementary and special contributions following the two amendments to the principal Regulations.

Year of Assessment	Accumulated Supplementary Contributions *	Accumulated Special Contributions *	Accumulated Aggregate Contributions *
2012	0.133%	0.713%	0.846%
2013	0.133%	0.757%	0.89%
2014	0.166%	0.8%	0.966%
2015 and each subsequent year of assessment thereafter	0.2%	0.8%	1%

** Percentage of eligible deposits*

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 2012, a level of 0.133% of eligible deposits outstanding at the end of 2011.

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 €12,100,209 (2011: €8,733,026).

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 2012, amounted to 0.713% of each Bank's respective eligible deposits outstanding at the end of the previous year.

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 2012, the Banks' obligations in terms of paragraph 5 of the Second Schedule amounted to €60,949,384 (2011: €53,899,434).

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 €589,547 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 €54,122,512 in Malta Government Stocks were pledged in favour of the Scheme to secure banks' obligations of €44,068,872 ; 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, €16,290,916 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).

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.

(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 became applicable as on 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.

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

The Scheme issued a consultation document to all stakeholders on measures and systems which it intends to implement during 2012 and 2013. The main objective underlying this initiative is the creation of a framework for timely payout of compensation to eligible depositors 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, which is currently 20 working days from the date of determination.

As outlined in the consultation document, the Scheme plans to develop an internal electronic system which will serve as a hub for the collection of data on every depositor of a failed credit institution by means of standardised reporting criteria. To enable the Scheme to process payments, generate reporting and facilitate any administrative aspects relating to such payout, banks will be required to report depositor information to the Scheme in a standardised and unified format for each depositor – referred to as 'Single Customer View' (SCV) data. 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. A failed credit institution will be obliged to transmit its SCV data into the system within three business days from the date of determination of failure.

To this end, every credit institution will be required to develop or modify its 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.

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.

The planned SCV system is foreseen to be part of a holistic project, which will incorporate other plans related to funding requirements, compensation payment methods and information provision to depositors. In view of the resources required, the Scheme intends to engage with third parties for the provision of the required services or resources. Therefore, the SCV system will be designed to facilitate the connection with any systems operated by third party service providers, such as payment services systems or call centres.

The consultation document, together with the responses received, are available from the Scheme's website.

Following receipt of the response to the consultation document, the Scheme commenced preparations to draft a detailed specifications document which will serve as basis for a tender document. The tender will not only seek to procure information about the systems which are needed to process SCV data that will eventually be provided by the bank, but would also request interested firms to

come forward with their proposal as to the best way payments can be made to eligible depositors within the time-frames envisaged by the rules. The supplier would also need to provide for adequate reporting structures.

The Scheme expects the tender process to commence during the first semester of 2013.

In addition, Regulation 11 and 34 require the Committee to consult the relevant compensation schemes in other countries for the purpose of assessing appropriate and feasible 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 2012 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 2012, 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

In 2010, the Commission adopted a legislative proposal for a thorough revision of the Directive on Deposit Guarantee Schemes. During the year, various attempts were made at European level for a compromise text of the directive to be adopted by the European Council, the Commission and the European Parliament. However, discussions are expected to continue until the end of 2013.

In 2012, the Commission adopted another legislative proposal for the introduction of a Bank Recovery and Resolution Directive (BRRD), with the aim of ensuring minimum harmonisation at EU level for the recovery and resolution of credit institutions experiencing financial difficulties. The proposed Directive provides for three stages of crisis prevention and management: a preventative stage, an early intervention stage and a resolution stage. It also provides for national resolution financing arrangements and arrangements for co-operation with third country authorities. A key objective is to remove the "too big to fail" concept and thus minimise recourse to public funds in relation to institutions which are failing or likely to fail. An important element of the directive is resolution funding and its link with the funding of deposit guarantee schemes. Member States may decide to have a single fund, for use in resolution and for the deposit guarantee scheme, or

two separate funds. The directive is expected to be enacted by the end of 2013.

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.

As of 2013, all banks will be required to submit quarterly updated data about their eligible deposits.

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 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.).

Dr Anton Felice
Chairman – Depositor Compensation Scheme Management Committee

8 May 2013

Attachment: Audited Financial Statements of the Depositor Compensation Scheme for 2012

DEPOSITOR COMPENSATION SCHEME

Annual Report
and
Financial Statements

31 December 2012

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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 A Felice (Chairman)
Mr B Borg Bonello
Mr G Farrugia
Mr K Farrugia
Mr R Saliba
Dr M Vella
Mr J 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

AUDITORS

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 2012.

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 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:

DR. ANTON FELICE
Chairman

GEORGE FARRUGIA
Member

c/o Malta Financial Services Authority
Notabile Road
Attard

8 May 2013

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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 2012 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 2012, 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
Emanuel Azzopardi for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants

8 May 2013

A member firm of Ernst & Young Global Limited
Registered in Malta No: C30252
Registered Address: 4th Floor, Regional Business Centre, Achille Ferris Street, Msida MSD 1751, Malta

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2012 EUR	2011 EUR
Income	6	**553,479**	457,975
Administrative expenses	7	**(39,892)**	(23,185)
Surplus for the year		**513,587**	434,790
Other comprehensive income			
Net gain on available-for-sale financial assets		**495,670**	114,100
Total comprehensive income for the year		**1,009,257**	548,890

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

STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

	Notes	2012 EUR	2011 EUR
ASSETS			
Non-current assets			
Financial assets	9	**14,041,790**	10,418,394
Current assets			
Financial assets	9	**996,387**	313,519
Receivables	10	**229,726**	195,653
Cash at bank		**692,664**	459,826
		1,918,777	968,998
TOTAL ASSETS		**15,960,567**	11,387,392
FUNDS AND LIABILITIES			
Funds and reserves			
Contributions fund	11	**12,100,209**	8,733,026
Special contribution fund	12	**589,547**	395,034
Revaluation reserve	9c/13	**975,662**	479,992
Accumulated fund	13	**2,287,749**	1,774,162
		15,953,167	11,382,214
Current liabilities			
Other payables	14	**7,400**	5,178
TOTAL FUNDS AND LIABILITIES		**15,960,567**	11,387,392

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 8 May 2013 and were signed on its behalf by:

DR. 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 2011	8,068,085	1,002,353	365,892	1,339,372	10,775,702
Surplus for the year	-	-	-	434,790	434,790
Other comprehensive income	-	-	114,100	-	114,100
	-	-	114,100	434,790	548,890
Contributions/(refunds) for the year	664,941	(607,319)	-	-	57,622
At 31 December 2011	**8,733,026**	**395,034**	**479,992**	**1,774,162**	**11,382,214**
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**

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

STATEMENT OF CASH FLOWS

	2012 EUR	2011 EUR
Operating activities		
Surplus for the year	**513,587**	434,790
Adjustment to reconcile surplus to net cash flow		
Non cash:		
Interest receivable	**(638,024)**	(527,254)
Amortisation	**84,545**	69,279
Working capital adjustment		
Increase in other payables	**2,222**	2,315
Interest received	**627,251**	502,596
Net cash flow from operating activities	**589,581**	481,726
Investing activities		
Payments to acquire financial assets	**(4,259,702)**	(2,081,886)
Proceeds on maturity of financial assets	**364,563**	859,000
Net cash flows used in investing activities	**(3,895,139)**	(1,222,886)
Financing activities		
Contributions received	**3,538,396**	57,622
Net movement in cash and cash equivalents	**232,838**	(683,538)
Cash and cash equivalents at 1 January	**459,826**	1,143,364
Cash and cash equivalents at 31 December	**692,664**	459,826

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 adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2012:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets;
- IFRS 7 Financial Instruments: Disclosures (Amendments) - Enhanced Derecognition Disclosure Requirements. The effective date is for annual periods beginning on or after 1 July 2011.

The amended standards did not have an impact on the financial statements or performance of the Scheme.

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

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

- IAS 1 Amendments – Presentation of items of other comprehensive income, effective for financial years beginning on or after 1 July 2012.
- IAS 19 Amendments – Employee Benefits, effective for financial years beginning on or after 1 January 2013.
- IAS 27 Revised –Separate financial statements, effective for financial years beginning on or after 1 January 2014.
- IAS 28 Revised – Investments in associates and joint ventures, effective for financial years beginning on or after 1 January 2014.
- IAS 32 Amendments – Offsetting of financial assets and financial liabilities presentation, effective for financial years beginning on or after 1 January 2014.
- IFRS 7 Amendments –Financial instruments: Disclosures – Offsetting of financial assets and financial liabilities, effective for financial years beginning on or after 1 January 2013.
- IFRS 10 – Consolidated financial statements, effective for financial years beginning on or after 1 January 2014.

NOTES TO THE FINANCIAL STATEMENTS – continued

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

- IFRS 11 – Joint Arrangements, effective for financial years beginning on or after 1 January 2014.
- IFRS 12 – Disclosures of interests in other entities (effective for financial years beginning on or after 1 January 2014.
- IFRS 13- Fair Value Measurement, effective for financial years beginning on or after 1 January 2013.
- IFRIC 20 – Stripping costs in the production phase of a surface mine, effective for financial years beginning on or after 1 January 2013.
- IFRS 7 Amendments – Disclosure for initial application of IFRS 9, effective for financial years on or after 1 January 2013
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12, effective for financial years beginning on or after 1 January 2013
- Improvements to IFRSs issued May 2012 (various effective dates).

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 13 - Fair Value Measurement, effective for financial years beginning on or after 1 January 2013. The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements. Adoption of the standard is not expected to have a material 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 endorsed by the European Union:

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet endorsed by the European Union. The Scheme plans to adopt upon their effective date. The new and amended standards are as follows:

- IFRS 9 – Financial Instruments, effective for financial years beginning on or after 1 January 2015.
- Investment entities Amendments to IFRS 10, IFRS 12 and IAS 27, effective for financial years beginning on or after 1 January 2014.

IFRS 9 – Financial Instruments, effective for financial years beginning on or after 1 January 2015. IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Scheme will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

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. 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'.

6. INCOME

	2012 **EUR**	2011 EUR
Interest on available-for-sale financial assets	**632,469**	503,921
Amortisation of net premiums	**(84,545)**	(69,279)
Effective interest	**547,924**	434,642
Bank interest	**5,555**	23,333
	553,479	457,975

NOTES TO THE FINANCIAL STATEMENTS - continued

7. EXPENSES BY NATURE

	2012 EUR	2011 EUR
Committee members' honoraria	**13,394**	13,394
Salaries	**17,174**	4,100
Auditors' remuneration	**3,658**	2,006
Membership fees	**850**	850
Travelling expenses	**805**	1,207
Central Bank of Malta management fee	**1,418**	582
Professional fees	**1,941**	1,046
Others	**652**	-
	39,892	23,185

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 (at fair value)

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

	2012 EUR	2011 EUR
Non-current		
Malta Government Stocks	**14,041,790**	10,418,394
Current		
Malta Government Stocks	**996,387**	313,519
Treasury Bills	**-**	-
	996,387	313,519
Total financial assets	**15,038,177**	10,731,913

NOTES TO THE FINANCIAL STATEMENTS - continued

9. FINANCIAL ASSETS - continued

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

	2012 EUR	2011 EUR
Non-current		
Malta Government Stocks	**13,082,395**	9,945,472
Current		
Malta Government Stocks	**980,120**	306,449
Treasury Bills	**-**	-
	980,120	306,449
Total financial assets	**14,062,515**	10,251,921

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

	2012 EUR	2011 EUR
Non-current		
Malta Government Stocks	**959,395**	472,922
Current		
Malta Government Stocks	**16,267**	7,070
Treasury Bills	**-**	-
	16,267	7,070
Total financial assets	**975,662**	479,992

Fair value hierarchy

As at 31 December 2012 and 2011, 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

9. FINANCIAL ASSETS - continued

	Total EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
Available-for-sale financial assets				
31 December 2012	**15,038,177**	**15,038,177**	-	-
31 December 2011	10,731,913	10,731,913	-	-

During the reporting years ended 31 December 2012 and 2011, 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

	2012 EUR	2011 EUR
Contribution Receivable	**23,300**	-
Accrued income	**206,426**	195,653
	229,726	195,653

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 2012, the participants' obligations in terms of article 5 of Schedule 2 of the Regulations amounted to EUR60,949,384 (2011: EUR53,899,434). These obligations were based on eligible deposits as at year end 2011. The participant obligations have been met as follows:

- Deposits directly with the Scheme of EUR589,547 (2011: EUR395,034) (note i)
- Deposits with the Central Bank of Malta of EUR16,290,916 (2011: EUR14,785,590) pledged in favour of the Scheme
- Malta Government Stocks of EUR44,068,921 (2011: EUR38,718,810) 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 EUR54,122,512 (2011: EUR49,396,652).

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

NOTES TO THE FINANCIAL STATEMENTS - continued

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

	2012 EUR	2011 EUR
Accruals	**7,400**	5,178

15. ADDITIONAL PLEDGE REQUIREMENT

During the year under review, the Malta Financial Services Authority required a particular 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 2012 was EUR28,853,269 whilst as at 8 May 2013 the balance pledged in favour of the Scheme stood at EUR15,133,020.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Risk management 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 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.

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.