ANNUAL REPORT 2022

INVESTOR COMPENSATION SCHEME

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Introduction

Pursuant to regulation 8 of the Investor Compensation Scheme Regulations ("the Regulations"), S.L. 370.09, the Management Committee ("the Committee") of the Investor Compensation Scheme ("the Scheme") hereby presents its report on the discharge of functions and operation of the Scheme for the year 2022.

The Scheme's audited financial statements as at 31 December 2022 are attached.

Management Committee

In accordance with regulation 3 of the Regulations, the Scheme is managed and administered by the Committee, appointed by the Malta Financial Services Authority (the MFSA). The Members of the Committee during 2022 were:

Chairman

Mr Robert Caruana

Members

Mr Ian Meli (appointed on 4th March 2022)

Mr Kenneth Farrugia (resigned on 4th November 2022)

Mr Silvio Galea

Mr Karol Gabarretta

Dr Mauro Magro

Dr Edmond Zammit Laferla

Mr Joseph Camilleri (appointed 23rd January 2023)

Secretary

Mr Aldo Giordano (resigned on 4th October 2022)

Dr Charlotte Gauci (appointed on 4th October 2022)

Meetings of the Committee

The Committee held fifteen meetings during 2022.

Participants

Subject to provisos specified in regulation 11 of the Regulations, every licence holder in possession of a Category 2 or Category 3 licence shall participate in and contribute to the Scheme.

List of participants in 2022:

ALB Ltd

Alpha Value Management Ltd

AKFX Financial Services Ltd

APS Bank Ltd

AQA Capital Ltd

Bank of Valletta plc

Deriv Investments (Europe) Ltd

Blue Suisse Ltd

Calamatta Cuschieri Investment Services Ltd

Citco Custody Ltd

CiliaFormosa Financial Advisors

Close Cross (Malta) Ltd (licence surrendered 2 May 2022)

Curmi & Partners Ltd

Diaman Partners Ltd

Dolfin Asset Services Ltd

Aria Capital Management Europe (Malta) Ltd

Finco Trust Group of Companies

Framont & Partners Management Ltd

FCS Asset Management Ltd

FX-CAM Consulting and Advertisement Ltd

FXDD Ltd

Gamma Capital Markets Ltd

Gamma Capital Trader Ltd

Global Capital Financial Management Ltd

Global Shares Execution Services Ltd

Growth Investments Ltd (licence surrendered 6th May 2022)

Heptagon Capital Ltd

Hogg Capital Investments Ltd

HSBC Bank (Malta) plc

Integra Private Wealth Ltd

Jesmond Mizzi Financial Advisors Ltd

LL Capital & Partners Ltd

Lombard Bank Malta plc

Manentia Wealth Consulting Group Ltd

Medina Asset Management Ltd

MeDirect Bank (Malta) plc

Michael Grech Financial Investment Services Ltd

MZ Investments Ltd

NBG Bank Malta Ltd Nextmarkets Trading Ltd (licence surrendered 6th May 2022)

Nextmarkets Trading Ltd

NSFX Ltd

OANDA Europe Markets Ltd

Pilatus Bank Ltd

Rigsave Capital Ltd

Rizzo, Farrugia & Co. (Stockbrokers) Ltd

Sparkasse Bank Malta plc

Timberland Invest Limited

Tendall Capital Markets Ltd (licence surrendered 15th February 2022)

Tradeview Europe Ltd

Van Sterling Capital Ltd

Zarattini International Ltd

Zenith Finance Ltd

Financial Statements as at 31 December 2022.

The Scheme registered a surplus of €9,110 in 2022 compared to a deficit of €34,274 registered in 2021 This change compared to 2021 was mainly due to lower legal and professional fees which in 2022 amounted to €6,112 while in 2021 they amounted to €49,612. Income amounted to €51,857 (2021: €49,393) while administration expenses amounted to €42,747 (2021: €83,667).

As at 31 December 2022, the accumulated funds and reserves amounted to €2,634,808 (2021: €3,048,739). Of the funds and reserves, the sum of €142,607 (2021: €147,913) is held on deposit as part of the variable contributions (see explanation below) of licence holders. A further sum of €97,249 (2021: €99,173) is held by participants in the Investor Compensation Scheme Reserve, which is pledged to the Scheme and may be availed of by the Scheme's should funds become inadequate.

Objective and functions of the Scheme

As specified in EU Directive 97/9/EC on Investor Compensation Schemes (the Directive), the purpose of the Scheme is the protection of investors and the maintenance of confidence in the financial system. This is achieved through a harmonised minimum level of protection, afforded by the Scheme, should an investment firm be unable to meet its obligations to its investor clients.

Once it appears to the Competent Authority that a participant to the Scheme is unable for the time being, for reasons which are directly related to its financial circumstances to meet its obligations arising from claims by its investors and to have no early or foreseeable prospect of being able to do so, or has otherwise suspended payment, or in respect of a participant which has its head office in Malta, an order has been made by the Courts in Malta for its winding-up or liquidation under the laws of Malta, the Competent Authority shall, as soon as practicable make a determination to that effect.

On being informed by the competent authority that a determination has been made, the Committee shall publish a notice in at least two local newspapers, informing investors of the licence holder concerned of such determination and of the manner in which claims supported by documentary evidence are to be submitted.

The Committee proceeds to pay compensation for verified claims, in accordance with the provisions set out in the Regulations. The limit of compensation paid out to an investor, as provided for in regulation 17, is the lesser of 90% of all claims which have been made by such investor, or up to a maximum of €20,000.

On a more specific level, the functions of the Scheme, as outlined in regulation 4 of the Regulations are:

a) to maintain a fund for the payment of claims for compensation by investors and the payment of other payments or expenses, in accordance with the Regulations;

b)to establish and maintain arrangements for the making of payments to investors;

c) to process claims for compensation by investors as expeditiously as possible and to ensure that compensation is paid out without undue delay;

d) to advise the Competent Authority on matters relating to compensation of investors.

Maintenance of the Funds

The principal source of funding for the Scheme is derived from contributions levied from participants of the Scheme.

Fixed Contribution

Participants of the Scheme are obliged to pay the fixed contribution on an annual basis. The amount, as established in the Second Schedule of the Regulations, is of €2,911.72 for Category 2 Investment Services Licence Holders, and €17,470.30 for Category 3 Investment Services Licence Holders.

The total of fixed contributions collected in 2022 amounted to €253,813 (2021: €311,853).

Variable Contribution

Participants of the Scheme are also obliged to pay a variable contribution, accounted for the financial year when the Fixed Contribution is paid. The variable contribution is held by the licence holder in a reserve, called the "Investor Compensation Scheme Reserve", to which the Scheme is acknowledged as being a pledgee. As specified in regulation 16 of the Regulations, whenever it appears to the Committee that the funds held by the Scheme for the time being are inadequate for the Committee to exercise its functions, the Committee may require a contribution to be made to the Scheme by licence holders, out of, but not exceeding, funds held on reserve by the licence holder as specified above.

The minimum amount that may be held as reserve or deposited with the Scheme shall never be less than €698.81. Licence holders shall adjust the variable contribution on an annual basis by applying a percentage rate of 0.1 to the total revenue as at the previous financial year end.

Alternatively, the licence holder may deposit the entire amount of the variable contribution directly with the Scheme, in which case such deposit shall be on account of the licence holder's liabilities should funds appear to be inadequate.

Protection of Funds

The Committee may place contributions made by licence holders on deposit or may invest such contributions, having regard to the need for prudence.

In carrying out this function, and in line with regulation 7 of the Regulations, the Committee appointed the Central Bank of Malta ("CBM") for investment management services in 2003 and has retained these services since. As the Investment Portfolio Manager, the CBM is tasked with financial, accounting and reporting services. The CBM charges the Scheme €5,015 for these services. Given the nature and scope of the Scheme, the parameters for the investment of funds are primarily safety and liquidity.

Investors' Claims

Following an application for compensation being made to the Committee by an investor, the Committee shall proceed to pay compensation for verified claims within three months of the date of the determination.

On 11 August 2014, the MFSA made a determination to the effect that an Investment Firm was unable to meet its obligations arising from claims by its investors for reasons which are directly related to its financial circumstances. The Scheme paid a total of €2,414,156 to claimants, subsequent to which the Scheme was subrogated into the rights and remedies of each one of those claimants against the said licence holder. The Committee continues to pursue its recovery action on the basis of such subrogation. During 2022, no new claims were registered pertaining to such case.

As a result of the subrogation made in favour of the Scheme and in order to recover said funds, the Scheme filed two separate cases, the first being filed in 2021 and another case in 2022.

On 4 October 2017, the MFSA made a determination to the effect that an Investment Firm was unable to meet its obligations arising from claims by its investors for reasons which are directly related to its financial circumstances. The total compensation payable was estimated at €1,293,017 (2021: €1,253,017), out of which €40,000 (2021: €29,270) were unpaid as at 31 December 2022. During 2022, the Scheme continued to accept claims made by investors following decisions by the Arbiter for Financial Services. The Scheme is subrogated into the rights and remedies of claimants against the licence holder.

ICS Regulations Amendments

In 2022, the Scheme issued a consultation document to all the interested parties in order to provide their feedback on the proposed amendments to the ICS Regulations till the 15th June 2022, following which no feedback or updates were received. The Scheme commenced the process to ultimately implement these amendments to the law by forwarding them to the Ministry of Finance and Employment (MFE) so that they could be forwarded for cabinet approval. In April of 2023, the Investor Compensation Scheme was approached by various industry stakeholders which raised several concerns on the amendments being proposed, particularly with regards to the revised contribution method. In light of the influx of concerns which were being received, the Scheme communicated with MFE to place the

amendments on hold in order to allow an extended period for the interested parties to provide additional feedback in this regard and to extend discussions.

Ian Meli

Member

For and on behalf of the

Compensation Schemes Management Committee

as approved by the Committee on 27th July 2023

Attachment: Audited Financial Statements of the Investor Compensation Scheme for 2022