DEPOSITOR COMPENSATION SCHEME

Annual Report
and
Financial Statements

31 December 2008

CONTENTS

GENERAL INFORMATION

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

MEMBERS OF THE MANAGEMENT COMMITTEE

Dr A Felice Chairman
Mr B Borg Bonello
Mr G Farrugia
Mr K Farrugia
Prof. A Muscat
Mr R Saliba
Dr M Vella

COMMITTEE'S SECRETARY

Mr Geoffrey Bezzina

HEAD OFFICE

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

INVESTMENT MANAGERS

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
Malta

BANKERS

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
Malta

AUDITORS

Ernst & Young
Certified Public Accountants
Regional Business Centre
Achille Ferris Street
Msida MSD 1751
MALTA

REPORT OF THE MANAGEMENT COMMITTEE OF THE SCHEME

The Management Committee of the Scheme submit their annual report together with the audited financial statements for the year ended 31 December 2008.

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 Income Statement, set out on page 6.

Members of the Management Committee

The Members who served during the year under review were as noted on page 2.

In accordance with Regulation 3 of the Regulations, the Scheme is managed and administered by the Management Committee. Such committee is appointed by the Malta Financial Services Authority for a maximum period of not less than three years but not more than five years. Every member of the Committee shall be eligible for re-appointment.

Statement of committee members' responsibilities

The committee members are required by the Depositor Compensation Scheme Regulations, Legal Notice 369 of 2003 (amended) of the Laws of Malta to prepare financial statements which give a true and fair view of the state of affairs of the Scheme as at the end of each financial year and of the income and expenditure for that year.

The Committee members are responsible for ensuring that:-

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

The committee members are also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud and error, and that comply with the Depositor Compensation Scheme Regulations, Legal Notice 369 of 2003 (amended) of the Laws of Malta. They are also responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE MEMBERS OF THE AUTHORITY - continued

Auditors

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

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

DR. ANTON FELICE
Chairman

GEORGE FARRUGIA
Member

c/o Malta Financial Services Authority
Notabile Road
Attard

26 June 2009

ERNST & YOUNG

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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 17, which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in funds and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Committee's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Scheme as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been properly prepared in accordance with the Depositor Compensation Scheme Regulations, Legal Notice 369 of 2003 (amended) of the Laws of Malta.

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

Ernst & Young
Certified Public Accountants

26 June 2009

INCOME STATEMENT

	Notes	2008 EUR	2007 EUR
Income	6	**305,379**	163,997
Administrative expenses	7	**(18,036)**	(17,824)
Surplus for the year		**287,343**	146,173

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

BALANCE SHEET
as at 31 December 2008

	Notes	2008 EUR	Restated 2007 EUR
ASSETS			
Non-current assets			
Financial assets	9	**7,303,170**	2,984,864
Current assets			
Financial assets	9	**90,450**	3,684,245
Receivables	10	**803,256**	146,154
Cash at bank		**19,006**	16,825
		912,712	3,847,224
TOTAL ASSETS		**8,215,882**	6,832,088
FUNDS AND LIABILITIES			
Funds and reserves			
Contributions fund	11	**7,169,067**	6,486,184
Revaluation reserve	12	**381,884**	(37,180)
Accumulated fund	12	**662,186**	374,843
		8,213,137	6,823,847
Current liabilities			
Other payables	13	**2,745**	8,241
TOTAL FUNDS AND LIABILITIES		**8,215,882**	6,832,088

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

The financial statements on pages 6 to 17 have been approved by the Management Committee on 26 June 2009 and were signed on its behalf by:

DR. ANTON FELICE
Chairman

GEORGE FARRUGIA
Member

STATEMENT OF CHANGES IN FUNDS

	Contributions fund EUR	Revaluation reserve EUR	Accumulated fund EUR	Total EUR
At 1 January 2007 (as previously reported)	3,910,841	-	228,670	4,139,511
Effects of restatement on prior years	-	(3,489)	-	(3,489)
At 1 January 2007 (restated)	3,910,841	(3,489)	228,670	4,136,022
Contributions during the year	2,575,343	-	-	2,575,343
Net loss on available-for-sale investments (restated)	-	(33,691)	-	(33,691)
Surplus for the year	-	-	146,173	146,173
At 31 December 2007 (restated)	**6,486,184**	**(37,180)**	**374,843**	**6,823,847**
Contributions during the year	682,883	-	-	682,883
Net gains on available-for-sale financial assets	-	419,064	-	419,064
Surplus for the year	-	-	287,343	287,343
At 31 December 2008	**7,169,067**	**381,884**	**662,186**	**8,213,137**

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

CASH FLOW STATEMENT

	2008 EUR	2007 EUR
Operating activities		
Surplus for the year	**287,343**	146,173
Adjustment to reconcile surplus to net cash flow		
Non cash:		
Interest receivable	**(384,246)**	(216,755)
Amortisation	**79,942**	52,758
Gain on disposal of financial assets	**(1,075)**	-
Working capital adjustment		
Decrease/(increase) in receivables	**31,246**	(31,246)
(Decrease)/increase in other payables	**(5,494)**	273
Interest received	**355,521**	163,748
Net cash flow from operating activities	**363,237**	114,951
Investing activities		
Payments to acquire financial assets	**(4,613,170)**	(6,332,269)
Proceeds on maturity of financial assets	**4,228,854**	3,641,910
Net cash flows used in investing activities	**(384,316)**	(2,690,359)
Financing activities		
Contributions received	**23,260**	2,575,343
Net movement in cash and cash equivalents	**2,181**	(65)
Cash and cash equivalents at 1 January	**16,825**	16,890
Cash and cash equivalents at 31 December	**19,006**	16,825

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

NOTES TO THE FINANCIAL STATEMENTS

1. SCOPE AND FUNCTIONS OF THE SCHEME

The Depositor Compensation Scheme ("the Scheme") was established on 23 November 2003 by virtue of the Depositor Compensation Regulations, ("the Regulations") Legal Notice 369 of 2003 (amended) of the Laws of Malta.

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

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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

Euro changeover

Following Malta's adoption of the Euro as its national currency on 1 January 2008, the Scheme's functional currency was changed from Maltese Lira to Euro. Consequently, the results and financial position were translated at the Irrevocably Fixed Conversion Rate of EUR1: Lm0.4293 as at that date.

Prior year adjustment

During the year ended 31 December 2008 the Scheme restated the opening balances and comparative amounts where applicable, to classify financial assets as available-for-sale investments which were previously classified as held to maturity (Note 3).

3. CHANGES IN ACCOUNTING POLICIES

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

Standards, interpretations and amendments to published standards adopted by the EU effective in 2008

The Scheme has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2008. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Scheme.

- IFRIC 11 - IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 - IAS 19 The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

IFRIC 11, 12 and 14 are not applicable to the Scheme's operations and hence had no impact on the financial position or performance of the Scheme.

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

Certain new standards, amendments and interpretations to existing standards have been published and endorsed by the EU that are not yet effective. The Scheme has not early adopted these standards and interpretations which are not relevant to its operation.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 CHANGES IN ACCOUNTING POLICIES - continued

These are as follows:

- IFRS 1 and IAS 27 Amendments - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for financial years beginning on or after 1 January 2009).
- IFRS 2 Amendment - Vesting Conditions and Cancellations (effective for financial years beginning on or after 1 January 2009).
- IFRS 3 Revised – Business Combinations (effective for financial years beginning on or after 1 July 2009)
- IFRS 8 - Operating Segments (effective for financial years beginning on or after 1 January 2009).
- IAS 1 Revised - Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2009).
- IAS 23 Revised - Borrowing Costs (effective for financial years beginning on or after 1 January 2009).
- IAS 32 and IAS 1 Amendment - Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009).
- IFRIC 13 - Customer Loyalty Programmes (effective for financial years beginning on or after 1 July 2009).
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective for financial years beginning on or after 1 October 2008).
- 2008 Annual Improvements to IFRS (effective for financial years beginning on or after 1 January 2009).

Prior Year Adjustment

During 2008, the Scheme changed its accounting policy on the classification and the subsequent measurement of the financial assets. Previously the Scheme had classified financial assets as held-to-maturity measured at amortised cost using the effective interest method. The Scheme decided to reclassify such financial assets as available for sale investments. The Committee judges that this policy provides reliable and more relevant information since the Scheme is subject to a legal obligation to meet potential depositors' claims in the case of a credit institution default, hence making it difficult for the Scheme to demonstrate its ability to hold such instruments to maturity.

This change in accounting policy has been accounted for retrospectively and the effect of the above restatement on the 2007 financial statements is a decrease in financial assets of EUR37,180 and a decrease in the revaluation reserve of EUR37,180 . The restatement did not have an effect on the income statement.

The effect of the above restatements on the comparative figures is analysed as follows:

	Effect on 2007 EUR
Effect of restatement on prior years	(3,489)
Net loss on available-for-sale investments	(33,691)
Net decrease in revaluation reserve	(37,180)
Decrease in financial assets	(37,180)

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

Interest income is recognised as interest accrues (using the effective interest method).

Financial assets

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

The Scheme has classified its financial assets as 'available-for-sale' investments.

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

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

Derecognition of financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Receivables

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

Cash and cash equivalents

Cash in hand and at banks are carried at cost.

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For purposes of the Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits at banks.

Other payables

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

6. INCOME

	2008	2007
	EUR	EUR
Interest on available-for-sale investments	**381,655**	212,921
Amortisation of net premiums	**(79,942)**	(52,758)
Effective interest	**301,713**	160,163
Bank interest	**2,591**	3,834
Gains on disposal of financial assets	**1,075**	-
	305,379	163,997

NOTES TO THE FINANCIAL STATEMENTS - continued

7. EXPENSES BY NATURE

	2008 EUR	2007 EUR
Committee members' honoraria	**13,394**	13,394
Professional fees	**-**	1,099
Auditors' remuneration	**1,888**	687
Membership fees	**850**	-
Travelling expenses	**1,095**	1,786
Central Bank of Malta management fee	**582**	582
Other expenses	**227**	276
	18,036	17,824

8. TAXATION

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

9. FINANCIAL ASSETS

Available-for-sale investments (at fair value)

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

	2008 EUR	Restated 2007 EUR
Non-current		
Malta Government Stocks	**7,303,170**	2,984,864
Current		
Malta Government Stocks	**60,564**	1,960,545
Treasury Bills	**29,886**	1,723,700
	90,450	3,684,245
Total financial assets	**7,393,620**	6,669,109

NOTES TO THE FINANCIAL STATEMENTS - continued

9. FINANCIAL ASSETS - continued

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

	2008 EUR	Restated 2007 EUR
Non-current		
Malta Government Stocks	**6,921,372**	3,007,990
Current		
Malta Government Stocks	**60,564**	1,972,828
Treasury Bills	**29,800**	1,725,471
	90,364	3,698,299
Total financial assets	**7,011,736**	6,706,289

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

	2008 EUR	Restated 2007 EUR
Non-current		
Malta Government Stocks	**381,798**	(23,126)
Current		
Malta Government Stocks	**-**	(12,283)
Treasury Bills	**86**	(1,771)
	86	(14,054)
Total financial assets	**381,884**	(37,180)

10. RECEIVABLES

		2008 EUR	Restated 2007 EUR
Contributions receivable	(note i)	**659,623**	-
Other debtor		**-**	31,246
Accrued income		**143,633**	114,908
		803,256	146,154

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

NOTES TO THE FINANCIAL STATEMENTS - continued

11. CONTRIBUTIONS FUND

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

12. OTHER RESERVES

Revaluation reserve

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

Accumulated fund

The accumulated fund represents accumulated surpluses over the years.

13. OTHER PAYABLES

	2008 EUR	Restated 2007 EUR
Accruals	**2,745**	8,241

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Risk management policies

Credit risk

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

14. FINANCIAL INSTRUMENTS - continued

Interest rate risk

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

Fair value risk

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

15. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The objective of the Scheme is to provide a means of protection for depositors within the framework of the regulation. The Managements Committee, which manages and administers the Scheme, is required to work in the best interest of the Scheme and shall pursue and promote its objective.

The Scheme's capital management objectives are:

- to ensure the Scheme's ability to continue as a going-concern. For this purpose, it is required to maintain a fund or funds out of which payments shall be made to depositors and to meet such other payments or expenses as may be paid out of the fund or funds in accordance with the Regulations.

- to process claims for compensation by depositors as expeditiously as possible and to ensure that compensation is paid out without undue delay. To this end, the Scheme is required to consult with the competent authority (i.e. Malta Financial Services Authority) as to arrangements for the making of payments to depositors in terms of the Regulations.

The capital structure of the Scheme consists of a contributions fund made up of accumulated contributions paid by participants since its inception in 2003. In terms of the Regulations, participants are required to maintain a fund "on call" either as a capital reserve or a contingent liability. The Management Committee may require participants to pay such amounts within 30 days of such funds being called for the proper discharge of its duties.

The Committee is committed to strengthen the Scheme's capital base in line with European and international best practices. To this end, it will continue to advise the competent authority on methods related to the strengthening of the financing of the Scheme.

16. COMPARATIVE FIGURES

Where applicable, certain comparatives have been adjusted to conform with the current year's presentation.