# INVESTOR COMPENSATION SCHEME

## Annual Report and Financial Statements

## 31 December 2017

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## GENERAL INFORMATION

The Investor Compensation Scheme was established by virtue of the Investor Compensation Scheme Regulations, Legal Notice 368 of 2003 (amended) of the Laws of Malta.

### MEMBERS OF THE MANAGEMENT COMMITTEE

Mr. Robert Caruana - Chairman (appointed member on 29 August 2017 and Chairman on 23 April 2018)
Dr Anton Felice - Chairman (resigned from member and Chairman on 29 March 2018)
Mr Benny Borg Bonello
Mr George Farrugia
Mr Kenneth Farrugia
Dr Massimo Vella
Mr James Bonello
Mr Oliver Bonello (resigned on 29 August 2017)
Mr. Silvio Galea (appointed on 23 April 2018)

### COMMITTEE'S SECRETARY

Mr. Aldo Giordano

### ADDRESS

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

### INVESTMENT MANAGERS

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
Malta

### BANKERS

Central Bank of Malta
Pjazza Kastilja
Valletta VLT 1060
Malta

### AUDITOR

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

# REPORT OF THE MANAGEMENT COMMITTEE OF THE SCHEME

The Management Committee of the Scheme submit their annual report together with the audited financial statements for the year ended 31 December 2017.

**Principal activity**

The Investor Compensation Scheme (the "Scheme") was established by virtue of the Investor Compensation Scheme Regulations (the "Regulations"), Legal Notice 368 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 investors within the framework of the Regulations. The Scheme maintains a fund out of which payments will be made to investors where it appears that a participant to such Scheme is unable, for reasons directly related to its financial circumstances to meet its obligations arising from claims, eligible for compensation under Regulation 19, by its investors.

**Results**

The results are shown in the statement of comprehensive income set out on page 7.

As at 31 December 2017, the total fixed and variable contributions funds of the Scheme amounted to EUR799,746 (2016: EUR758,720). In addition to the contributions received, as at 31 December 2017, the Scheme had assets totalling EUR130,317 (2016: EUR126,635) pledged in its favour.

**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 368 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 to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable;
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Scheme will continue as a going concern;
- Account for income and charges relating to the accounting period on the accruals basis;
- Value separately the components of asset and liability items; and
- Report comparative figures corresponding to those of the preceding accounting period.

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 368 of 2003 (amended) of the Laws of Malta. They are also responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## REPORT OF THE MANAGEMENT COMMITTEE OF THE SCHEME - continued

**Auditor**

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

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

**ROBERT CARUANA**
Chairman

**JAMES BONELLO**
Member

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

28 May 2018

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**INDEPENDENT AUDITOR'S REPORT**
to the members of the Investor Compensation Scheme

**Report on the audit of the financial statements**

**Opinion**
We have audited the financial statements of the Investor Compensation Scheme ('the Scheme'), set on pages 7 to 19, which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Scheme as at 31 December 2017, 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 ("IFRS") and the Investor Compensation Scheme Regulations, Legal Notice 368 of 2013 (amended) (the "Regulations").

**Basis for opinion**
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Scheme in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**
The Management Committee is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Management Committee for the financial statements**
The Management Committee is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Regulations, and for such internal control as the Management Committee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Committee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Committee either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

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**INDEPENDENT AUDITOR'S REPORT**
to the members of the Investor Compensation Scheme - continued

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Committee.

- conclude on the appropriateness of the Management Committee' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Management Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*The partner in charge of the audit resulting in this independent auditor's report is Christopher Balzan for and on behalf of*

Ernst & Young Malta Limited
Certified Public Accountants

28 May 2018

## STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 2017 EUR | 2016 EUR |
|---|---|---|---|
| Income | 5 | **49,665** | 48,752 |
| Administrative expenses | 6 | **(28,877)** | (31,954) |
| **Surplus for the year** | | **20,788** | 17,158 |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods** | | | |
| **Net (loss)/ gain on available-for-sale financial assets** | | **(46,627)** | 106,415 |
| **Total comprehensive (loss)/ income for the year** | | **(25,839)** | 123,573 |

*The accounting policies and explanatory notes on pages 11 to 19 form an integral part of the financial statements.*

## STATEMENT OF FINANCIAL POSITION
## as at 31 December 2017

| | Notes | 2017<br>EUR | 2016<br>EUR |
|---|---|---|---|
| **Non-current assets** | | | |
| Financial assets | 8 | **1,800,378** | 1,854,258 |
| **Current assets** | | | |
| Receivables | 9 | **36,051** | 17,343 |
| Cash at bank | | **382,671** | 68,557 |
| | | **418,722** | 85,900 |
| **TOTAL ASSETS** | | **2,219,100** | 1,940,158 |
| **FUNDS AND LIABILITIES** | | | |
| **Funds and reserves** | | | |
| Fixed contributions fund | 10 | **714,288** | 676,674 |
| Variable contributions fund | 10 | **85,458** | 82,046 |
| | | **799,746** | 758,720 |
| Revaluation reserve | 8c/11 | **323,029** | 369,656 |
| Accumulated fund | 11 | **783,147** | 762,359 |
| | | **1,905,922** | 1,890,735 |
| **Current liabilities** | | | |
| Other payables | 12 | **10,211** | 17,755 |
| Compensation payable | 13 | **302,967** | 31,668 |
| | | **313,178** | 49,423 |
| **TOTAL FUNDS AND LIABILITIES** | | **2,219,100** | 1,940,158 |
| **MEMORANDUM ITEMS** | | | |
| Assets pledged in favour of the Scheme | 10 | **130,317** | 126,635 |

*The accounting policies and explanatory notes on pages 11 to 19 form an integral part of the financial statements.*

*The financial statements on pages 7 to 19 have been approved by the Management Committee on 28 May 2018 and were signed on its behalf by:*

**ROBERT CARUANA**
Chairman

**JAMES BONELLO**
Member

## STATEMENT OF CHANGES IN FUNDS

| | Fixed contributions fund EUR | Variable contributions fund EUR | Revaluation reserve EUR | Accumulated Fund EUR | Total EUR |
|---|---|---|---|---|---|
| **At 1 January 2017** | **676,674** | **82,046** | **369,656** | **762,359** | **1,890,735** |
| Surplus for the year | - | - | - | 20,788 | 20,788 |
| Other comprehensive income | - | - | (46,627) | - | (46,627) |
| Contributions for the year | 364,254 | 3,412 | - | - | 367,666 |
| Compensation payable (note 13) | (326,640) | - | - | - | (326,640) |
| **At 31 December 2017** | **714,288** | **85,458** | **323,029** | **783,147** | **1,905,922** |
| | | | | | |
| **At 1 January 2016** | **315,700** | **62,387** | **263,241** | **745,201** | **1,386,529** |
| Surplus for the year | - | - | - | 17,158 | 17,158 |
| Other comprehensive income | - | - | 106,415 | - | 106,415 |
| Contributions for the year | 360,974 | 19,659 | - | - | 380,633 |
| **At 31 December 2016** | **676,674** | **82,046** | **369,656** | **762,359** | **1,890,735** |

*The accounting policies and explanatory notes on pages 11 to 19 form an integral part of the financial statements.*

## STATEMENT OF CASH FLOWS

| | 2017 EUR | 2016 EUR |
|---|---|---|
| **Operating activities** | | |
| Surplus for the year | **20,788** | 17,158 |
| Adjustment to reconcile surplus to net cash flow | | |
| Non-cash: | | |
| Interest receivable | **(56,917)** | (55,634) |
| Amortisation | **7,252** | 6,882 |
| Working capital adjustment: | | |
| Decrease/(increase) in other payables | **(7,543)** | 12,102 |
| Interest received | **59,829** | 54,479 |
| **Net cash flows from operating activities** | **23,409** | 34,987 |
| **Investing activities** | | |
| Payments to acquire financial assets | **-** | (345,355) |
| Proceeds on sale/ maturity of financial assets | **-** | - |
| **Net cash flows used in investing activities** | **-** | (345,355) |
| **Financing activities** | | |
| Contributions received | **346,046** | 377,720 |
| Compensation paid | **(55,341)** | (40,042) |
| **Net cash flows from financing activities** | **290,705** | 337,678 |
| **Net movement in cash and cash equivalents** | **314,114** | 27,310 |
| Cash and cash equivalents at 1 January | **68,557** | 41,247 |
| **Cash and cash equivalents at 31 December** | **382,671** | 68,557 |

*The accounting policies and explanatory notes on pages 11 to 19 form an integral part of the financial statements.*

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SCOPE AND FUNCTIONS OF THE SCHEME

The Investor Compensation Scheme (the "Scheme") was established by virtue of the Investor Compensation Scheme Regulations (the "Regulations"), Legal Notice 368 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 investors within the framework of the Regulations. The Scheme maintains a fund out of which payments will be made to investors where it appears that a participant to such Scheme is unable, for reasons directly related to its financial circumstances to meet its obligations arising from claims by its investors.

### 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 368 of 2003 (amended) of the Laws of Malta.

### 2.1 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 during the year:

- IAS 7 (Amendments) - Disclosure Initiative
- IAS 12 (Amendments) - Recognition of Deferred Tax Assets for Unrealized Losses

The adoption of these standards did not have significant impact on the financial statements or performance of the Scheme.

**Standards, interpretations and amendments to published standards as adopted by the EU which 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 Company has not early adopted, but plans to adopt upon their effective date. The new and amended standards follow:

- IFRS 9 - Financial instruments (effective for financial year beginning on or after 1 January 2018)
- IFRS 16 - Leases (effective for financial year beginning on or after 1 January 2019)
- IFRS 15 - Revenue from Contracts with Customers including amendments to IFRS 15 (effective for financial year beginning on or after 1 January 2018)
- IFRS 15 (Clarifications) - Revenue from Contracts with Customers (effective for financial year beginning on or after 1 January 2018)
- IFRS 4 (Amendments) - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial year beginning on or after 1 January 2018)
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle - (effective for financial year beginning on or after 1 January 2017/1 January 2018)
- IFRS 2 (Amendments) - Classification and Measurement of Share-based Payment Transactions (effective for financial year beginning on or after 1 January 2018)
- IAS 40 (Amendments) – Transfers of Investment Property (effective for financial year beginning on or after 1 January 2018)

**NOTES TO THE FINANCIAL STATEMENTS - continued**

## 2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – continued

**Standards, interpretations and amendments to published standards as adopted by the EU which are not yet effective – continued**

- IFRS 9 (Amendments) – Prepayment Features with Negative Compensation (effective for financial year beginning on or after 1 January 2019)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (effective for financial year beginning on or after 1 January 2018)

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

IFRS 9 'Financial Instruments' standard replaces IAS 39 and is effective for reporting periods beginning on or after 1 January 2018. The standard introduces changes to the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. Specifically, the new Standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the business model in which an asset is held and based on cash flow characteristics. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities. IFRS 9 will also fundamentally change the loan loss impairment methodology. Debt securities classified as available-for-sale financial assets under IAS 39 will be classified at FVOCI under IFRS 9 given that the objective of the business model is achieved by both the collection of contractual cash flows and selling of the financial assets. There is no financial impact arising out of these changed classifications as the accounting measurements are principally the same as under IAS 39.

**Standards, interpretations and amendments that are not yet endorsed by the EU**

- IFRS 17 – Insurance Contracts (effective for financial year beginning on or after 1 January 2021)
- IFRIC 23 – Uncertainty over Income Tax Treatments (effective for financial year beginning on or after 1 January 2019)
- IAS 28 (Amendments) – Long-term Interests in Associates and Joint Ventures (effective for financial year beginning on or after 1 January 2019)
- Amendments to IAS19: Plan Amendment, Curtailment or Settlement (effective for financial year beginning on or after 1 January 2019)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective for financial year beginning on or after 1 January 2019)
- Amendments to references to the Conceptual framework in IFRS Standards (effective for financial year beginning on or after 1 January 2020)

The Scheme is still assessing the impact that these new standards will have on the financial statements.

## 3. 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 costs 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.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**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 funds 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 have 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.

**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.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**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.

### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements, the management committee are 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.

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

**Compensation payable**

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Scheme will ultimately pay for claims. Estimates have to be made for the expected cost of claims reported at the reporting date. Given the nature of the Scheme, the cost of outstanding claims is based on case-by-case estimates. The Investor Compensation Scheme Regulations determine the maximum compensation that may be payable by the Scheme. This amounts to EUR20,000, or ninety per cent of an investor's eligible claims, whichever is the lower.

### 5. INCOME

| | **2017** | 2016 |
|---|---|---|
| | **EUR** | EUR |
| Interest on available-for-sale financial assets | **56,917** | 55,455 |
| Amortisation of net premiums | **(7,252)** | (6,882) |
| Effective interest | **49,665** | 48,573 |
| Other income | - | 179 |
| | **49,665** | 48,752 |

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 6. EXPENSES BY NATURE

| | 2017 EUR | 2016 EUR |
|---|---|---|
| Committee members' honoraria | **19,920** | 19,920 |
| Auditors' remuneration | **2,000** | 2,537 |
| Claims handling expenses | **1,942** | 4,050 |
| Central Bank of Malta management fee | **5,015** | 5,015 |
| Others | **-** | 72 |
| | **28,877** | 31,594 |

### 7. INCOME TAX

The Investor Compensation Scheme is exempt from the payment of income tax under section 12(1)(c) of the Investment Services Act, Cap. 370 of the Laws of Malta.

### 8. FINANCIAL ASSETS

**Available-for-sale financial assets**

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

| | 2017 EUR | 2016 EUR |
|---|---|---|
| *Non-current* | | |
| Malta Government Stocks | **1,800,378** | 1,854,258 |
| *Current* | | |
| Malta Government Stocks | **-** | - |
| Total financial assets | **1,800,378** | 1,854,258 |

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

| | 2017 EUR | 2016 EUR |
|---|---|---|
| *Non-current* | | |
| Malta Government Stocks | **1,477,349** | 1,484,601 |
| *Current* | | |
| Malta Government Stocks | **-** | - |
| Total financial assets | **1,477,349** | 1,484,601 |

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 8. FINANCIAL ASSETS - continued

**Available-for-sale financial assets - continued**

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

| | **2017** | 2016 |
|---|---|---|
| | **EUR** | EUR |
| *Non-current* | | |
| Malta Government Stocks | **323,029** | 369,557 |
| *Current* | | |
| Malta Government Stocks | - | - |
| Total financial assets | **323,029** | 369,557 |

**Fair value hierarchy**

As at 31 December 2017 and 2016, the Scheme held the following financial instruments measured at fair value. The Scheme uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

| | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** |
| **Available-for-sale financial assets** | | | | |
| **31 December 2017** | **1,800,378** | **1,800,378** | **-** | **-** |
| 31 December 2016 | 1,854,258 | 1,854,258 | - | - |

During the reporting years ended 31 December 2017 and 2016, 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.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 9. RECEIVABLES

| | 2017 EUR | 2016 EUR |
|---|---|---|
| Contributions receivable (note i) | **21,620** | 2,912 |
| Accrued income | **14,431** | 14,431 |
| | **36,051** | 17,343 |

i. Contributions receivable are non-interest bearing and are past due but not impaired.

### 10. CONTRIBUTION FUNDS

**Fixed contributions fund**

The fixed contributions fund represents fixed contributions paid directly to the Scheme annually by the licence holders by virtue of the Second Schedule item 2 under regulation 2.

**Variable contributions fund**

The variable contributions fund represents variable contributions received from licence holders who have elected to follow the guidelines issued by MFSA in September 2004 and pay the variable contribution directly to Scheme.

In addition to the amounts received, as at 31 December 2017 the Scheme had assets totalling EUR 130,317 (2016: EUR126,635) pledged in its favour relating to licence holders obligations for 2017, in terms of item 3, para. (b)(ii) of the Second Schedule of the Regulations. In terms of Regulation 16, the Management Committee may call upon such pledged assets.

### 11. OTHER RESERVES

**Revaluation reserve**

This reserve records fair value changes on available-for-sale financial assets, representing net unrealised gains or losses.

**Accumulated fund**

The accumulated fund represents accumulated surpluses over the years.

### 12. OTHER PAYABLES

| | 2017 EUR | 2016 EUR |
|---|---|---|
| Accruals | **10,211** | 17,755 |

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 13. COMPENSATION PAYABLE

On 11 August 2014, the Malta Financial Services Authority determined that one of the investment service providers participating in the Scheme 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 EUR2,414,156 (2016: EUR2,404,578), out of which EUR41,246 were unpaid as at 31 December 2017 (2016: EUR31,668).

On 4 October 2017, the Malta Financial Services Authority determined that another one of the investment service providers participating in the Scheme 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 EUR317,062, out of which EUR261,721 were unpaid as at 31 December 2017. It is possible, that further claims could arise as a result of this determination which, by the date of approval of these financial statements, could not be reliably estimated.

The movements in compensation payable were as follows:

| | **2017** | 2016 |
|---|---|---|
| | **EUR** | EUR |
| Balance as at 1 January | **31,668** | 31,668 |
| Increase in compensation payable | **326,640** | - |
| Compensation paid | **(55,341)** | - |
| Balance as at 31 December | **302,967** | 31,668 |

### 14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

As at year end, the Scheme's main financial assets include available-for-sale financial assets, other receivables and cash at bank. Financial liabilities mainly 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.

*Credit risk*

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

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

*Liquidity risk*

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

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - 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 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 fair value of available-for-sale financial assets is based on quoted market prices at the reporting date. The carrying amounts of cash at bank and other receivables approximated their fair values.

### 15. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The objective of the Scheme is to provide a means of protection for investors within the framework of the regulation. The Management 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 investors 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 investors 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 investors in terms of the Regulations.

The capital structure of the Scheme principally consists of a contributions fund and other reserves.

The fixed contributions fund is made up of accumulated fixed contributions paid by participants since its inception in 2003, net of compensation paid (Note 13).

The variable contributions represent funds deposited by participants with the Scheme on account of the licence holder's liabilities in terms of the Regulations and are repayable in the event of a licence holder's surrender of a licence, subject to confirmation from the competent authority.

The committee is committed to strengthen the Scheme's capital base in line with European and International best practices. The Committed analysed methods related to the strengthening of the financing of the Scheme, and made recommendations to the competent authority in this respect.