IIG BANK (MALTA) LTD.

Annual Report and Financial Statements
31 December 2010

Company Registration Number: C48767

Directors' report

The directors present their annual report and the audited financial statements for the period ended 31 December 2010.

Principal activities

The Company's principal activity is the operation of a credit institution under the Banking Act, Cap 371 of the Laws of Malta, in accordance with the credit institution licence granted by the Malta Financial Services Authority.

Incorporation

The Company was incorporated on 28 January 2010. Accordingly, these financial statements cover the period from the date of incorporation to 31 December 2010.

Change in name

By virtue of a shareholders' resolution dated 22 March 2010, the shareholders of the Company resolved to change the name of the company from IIG Ltd. to IIG Bank (Malta) Ltd.

Review of the business

The Bank registered a profit of US$100,337 during the financial period under review. The Bank's systems became fully operational in the 4th quarter and the directors expect that the Bank's trading activity will gain impetus over the forthcoming financial period. The Bank's financial position is satisfactory and the directors expect that the current position will be sustained in the foreseeable future.

In the current environment of volatility in the global financial markets, the Bank recognises the need to conduct business in a prudent manner and to maintain a strong capital base.

Results and dividends

The statement of comprehensive income is set out on page 6. The directors do not recommend the payment of a final dividend.

Directors

The directors of the Bank who held office since incorporation were:

Joseph Grioli - Chairman
Raymond Busuttil
David Hu
James Douglas Nelson
Martin S. Silver
Karl Vella

In accordance with the Bank's articles of association, the directors remain in office until they resign or are otherwise removed from office.

Directors' report - continued

Statement of directors' responsibilities for the financial statements

The directors are required by the Banking Act,1994 and the Companies Act, 1995 to prepare financial statements that give a true and fair view of the state of affairs of the Bank as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of IIG Bank (Malta) Ltd. for the period ended 31 December 2010 are included in the Annual Report 2010, which is published in hard-copy printed form and may be made available on the Bank's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board

Raymond Busuttil
Director

James Douglas Nelson
Director

Registered Office
Level 20
Portomaso Business Tower
Portomaso
Malta

Company Secretary:
Karl Vella

Telephone number: 22484500

13 April 2011

Independent auditor's report

To the Shareholders of IIG Bank (Malta) Ltd.

Report on the Financial Statements

We have audited the financial statements of IIG Bank (Malta) Ltd. on pages 5 to 35 which comprise the statement of financial position as at 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the period then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As explained more comprehensively in the Statement of directors' responsibilities for the financial statements on page 2, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Banking Act, 1994 and the Maltese Companies Act, 1995, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including 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 in 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 directors, 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 Bank as at 31 December 2010, 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 requirements of the Maltese Banking Act, 1994 and the Maltese Companies Act, 1995.

Independent auditor's report - continued

Report on Other Legal and Regulatory Requirements

In our opinion:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
ii) proper books of account have been kept by the Bank, so far as appears from our examination of those books;
iii) the Bank's financial statements are in agreement with the books of account; and
iv) to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law in force in the manner so required.

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion:

- the information given in the directors' report is not consistent with the financial statements.
- proper returns adequate for our audit have not been received from branches not visited by us.
- if certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta

F Axisa

Fabio Axisa
Partner

13 April 2011

Statement of financial position

	Notes	As at 31 December 2010 US$
ASSETS		
Cash		665
Financial assets at fair value through profit or loss	4	116,328
Loans and advances to banks	5	205,823
Loans and advances to customers	6	10,108,408
Property, plant and equipment	7	156,629
Intangible assets	8	181,046
Accrued income and other assets	9	323,371
Total assets		11,092,270
Equity		
Share capital	10	10,502,000
Retained earnings		100,337
Total equity		10,602,337
Liabilities		
Amounts owed to customers	11	401,596
Derivative financial instruments	12	4,576
Other liabilities	13	83,761
Total liabilities		489,933
Total equity and liabilities		11,092,270
MEMORANDUM ITEMS		
Commitments	14	703,761

The official closing middle rate of exchange applicable between US dollar and euro published by the European Central Bank as at 31 December 2010 was 1.3362.

The notes on pages 9 to 35 are an integral part of these financial statements.

The financial statements on pages 5 to 35 were authorised for issue by the board on 13 April 2011 and were signed on its behalf by:

Raymond Busuttil
Director

James Douglas Nelson
Director

Statement of comprehensive income

	Notes	Period from 28 January to 31 December 2010 US$
Interest receivable and similar income	15	796,141
Interest expense and similar charges	16	(1,013)
Net interest income		795,128
Fee and commission income	17	21,274
Fee and commission expense		(3,642)
Net fee and commission income		17,632
Net trading gains	18	7,993
Operating income		820,753
Other income		172,533
Administrative expenses	19	(892,949)
Profit for the period – total comprehensive income		100,337

The notes on pages 9 to 35 are an integral part of these financial statements.

Statement of changes in equity

	Note	Share capital US$	Retained earnings US$	Total equity US$
Comprehensive income				
Profit for the period		-	100,337	100,337
Transactions with owners				
Issue of ordinary share capital	10	10,502,000	-	10,502,000
Balance at 31 December 2010		10,502,000	100,337	10,602,337

The notes on pages 9 to 35 are an integral part of these financial statements.

Statement of cash flows

	Notes	Period from 28 January to 31 December 2010 US$
Operating activities		
Interest and commission income received		530,465
Interest and commission expense paid		(3,650)
Net trading income		12,569
Cash payments to employees and suppliers		(741,511)
Cash flows used in operating activities before changes in operating assets and liabilities		(202,127)
Changes in operating assets and liabilities:		
Net increase in loans and advances to customers	6	(8,308,408)
Net increase in amounts owed to customers	11	401,596
Net cash used in operating activities		(8,108,939)
Investing activities		
Purchase of property, plant and equipment	7	(122,419)
Purchase of intangible assets	8	(147,826)
Net cash used in investing activities		(270,245)
Financing activities		
Issue of ordinary share capital	10	10,502,000
Cash and cash equivalents at end of period	21	2,122,816

The notes on pages 9 to 35 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1.1 Basis of preparation

The Bank's financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Banking Act, 1994 and the Maltese Companies Act, 1995. These financial statements are prepared under the historical cost convention, as modified by the fair valuation of financial assets and financial liabilities at fair value through profit or loss, including derivative financial instruments.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors to exercise their judgment in the process of applying the Bank's accounting policies (see Note 3 – Critical accounting estimates, and judgments in applying accounting policies).

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for accounting periods beginning after 31 December 2010. The Bank has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Bank's management are of the opinion that, with the exception of IFRS 9, 'Financial instruments', there are no requirements that will have a possible significant impact on the Bank's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. Subject to adoption by the EU, IFRS 9 is effective for financial periods beginning on, or after, 1 January 2013. The Bank is considering the implications of the standard together with its impact on the Bank's financial results and position, and also the timing of its adoption taking cognisance of the endorsement process by the European Commission.

1.2 Foreign currency transactions and balances

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in US Dollars, which is the Bank's functional and presentation currency.

1. **Summary of significant accounting policies** - continued

1.2 Foreign currency transactions and balances - continued

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.3 Financial assets

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to maturity financial assets and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Initial recognition and derecognition

The Bank recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Accordingly, the Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership or the Bank has not retained control of the asset.

Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the profit or loss. Gains and losses arising from changes in fair value are included directly in the profit or loss and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest income and dividend income on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively.

The Bank may designate certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed.

1. **Summary of significant accounting policies** - continued

1.3 Financial assets

Financial assets at fair value through profit or loss - continued

According to IAS 39, the fair value option is only applied when the following conditions are met:
• the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
• the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
• the financial assets consist of debt hosts and embedded derivatives that must be separated.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(b) those that the Bank upon initial recognition designates as available-for-sale; or
(c) those for which the holder may not recover substantially all of their initial investment, other than because of credit deterioration.

Loans and receivables arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets except for maturities greater than twelve months after the end of the reporting period. The latter are classified as non-current assets. Loans and receivables mainly consist of loans and advances to banks and customers and accrued income and other assets.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. Interest on loans and receivables is included in profit or loss and is reported as 'Interest and similar income'.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than:

(a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
(b) those that the Bank designates as available-for-sale; and
(c) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in profit or loss and reported as 'Interest receivable and similar income'. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in profit or loss as 'Net gains/(losses) on investment securities'.

1. **Summary of significant accounting policies** - continued

1.3 Financial assets

Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. They are included in non-current assets unless the asset matures or management intends to dispose of it within twelve months of the end of the reporting period.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in profit or loss. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss in 'Dividend income' when the Bank's right to receive payment is established.

1.4 Impairment of financial assets

Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or

1. **Summary of significant accounting policies** - continued

1.4 Impairment of financial assets - continued

Assets carried at amortised cost - continued

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   (i) adverse changes in the payment status of borrowers in the portfolio; and
   (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

1. **Summary of significant accounting policies** - continued

1.4 Impairment of financial assets - continued

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors as applicable which are indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Assets classified as available-for-sale

The Bank assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

1.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.6 Derivative financial instruments

Derivative financial instruments, including currency forwards, are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. Fair values for currency forwards are determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

1.7 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use specific software. Thus costs are amortised over their estimated useful lives of four to five years. Costs associated with maintaining computer software programme are recognised as an expense as incurred.

1. **Summary of significant accounting policies** - continued

1.8 Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, as follows:

	%
Leasehold improvements	20
Furniture and fittings	20
Computer hardware	20
Office equipment	33

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

1.9 Impairment of non-financial assets

Assets that have an indefinite useful life, for example, certain intangible assets, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.10 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

1. **Summary of significant accounting policies** - continued

1.10 Current and deferred tax – continued

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

1.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1.12 Financial liabilities

The Bank recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Bank's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Bank derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

Financial liabilities measured at amortised cost comprise principally amounts owed to banks, amounts to customers, trade and other payables (Note 1.13) together with other liabilities.

1.13 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1. **Summary of significant accounting policies** - continued

1.14 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a Bank of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.15 Fee and commission income and expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees received by the Bank for loans which are probable of being drawn down, are an integral part of generating an involvement with the resulting financial instrument and, together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate on the loan using the effective interest method. Commissions and fees arising from negotiating a transaction are recognised on completion of the underlying transaction.

1.16 Leases

A company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2. **Financial risk management**

2.1 Financial risk factors

The Bank's activities expose it to a variety of financial risks and these activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the entity's financial performance.

The Board of directors oversees credit, market, funding and liquidity, operational and strategic business risks. The Bank has developed an integrated risk management framework to identify, assess, manage and report risks and risk adjusted returns.

2. Financial risk management - continued

2.1 Financial risk factors - continued

The Bank's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date information systems. The Board is responsible for the overall effectiveness of the risk management function, which function is however carried out by all the members of the Bank's management.

The Bank's treasury function is responsible for managing assets, liabilities and the overall financial position and is also responsible for the management of funding and liquidity risks. The Bank's risk management function has the overall responsibility for the development of the entity's risk strategy and the implementation of risk principles, framework, policies and related limits.

The Bank's business activities during the financial period under review principally consisted of participations in financing transactions through a master participation agreement with the related parties IIG Trade Opportunities Fund N.V. and IIG Capital LLC. Since the Bank became fully operational in the fourth quarter, when it commenced deposit taking activities, the transactions referred to above were mainly funded through equity injections.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; accordingly management carefully manages its exposure to this risk. Credit exposures arise principally through the Bank's participation in trade financing transactions and through the Bank's transactions with correspondent bankers. In order to manage its principal risk exposures arising from its lending activities, the Bank compiles and updates due diligence reports in respect of these financial assets, in most circumstances referring to external reviews of the primary borrowers and the respective assignees of export receivables carried out by such agencies as Dun and Bradstreet or their equivalents.

The creditworthiness of counterparties or customers is formally evaluated and appropriate exposure limits are established. Credit review procedures are designed to identify at an early stage exposures which require more detailed monitoring and review. Exposure to credit risk is managed through regular analysis of the ability of counterparties and potential counterparties to meet interest and capital repayment obligations and by changing the exposure limits where deemed appropriate. The Bank manages adherence to limits by reference to reporting mechanisms covering exposures and controls concentrations of risk wherever they are identified.
The Bank's principal credit risk exposures relating to on-balance sheet financial assets analysed by IAS 39 categorisation, reflecting the maximum exposure to credit risk before collateral held or other credit enhancements, are as follows:

	2010 US$
Financial assets at fair value through profit or loss:	
Funds placed under correspondent bank overnight sweep facilities (invested in units in collective investment schemes)	116,328
Loans and receivables:	
Loans and advances to banks	205,823
Loans and advances to customers	10,108,408
Accrued income and other assets	286,950
	10,717,509

2. Financial risk management - continued

2.1 Financial risk factors - continued

The exposures set out in the table above are based on carrying amounts as reported in the statement of financial position for on-balance sheet financial assets. The table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2010, without taking account of any collateral held or any other credit enhancements attached.

The geographical concentration of the Bank's financial assets as at the end of the reporting period is analysed below. For the purposes of this table, the Bank has allocated exposures to regions based on the country of domicile of the respective counterparties or customers.

	2010 US$
Financial assets at fair value through profit or loss:	
United States of America	116,328
Loans and advances to banks:	
Malta	179,560
Other European Union countries	26,263
Loans and advances to customers:	
Latin America	10,108,408
Accrued income and other assets:	
Latin America	286,950
	10,717,509

Loans and advances to customers – information on credit quality

Loans and advances to corporate customers are analysed by industry concentration as follows:

	2010 US$
Agriculture, forestry and fishing	3,499,896
Mining and quarrying	2,740,262
Manufacture/Processed commodity products	3,868,250
	10,108,408

As outlined previously, the Bank monitors these exposures on an individual basis throughout the different stages of the cycle from approval upon origination to ongoing monitoring until maturity. The Bank focuses on the compilation, together with ongoing and event-driven updating, of due diligence analyses taking cognisance of actual account developments, repayment history, ability to meet commitments and collateral measurement. Loans and advances to customers are primarily secured via an assignment of export receivables of the borrower and through a cross-collateral in the form of a floating charge over assets.

As at 31 December 2010, loans and advances to corporate customers, based in Latin America, were deemed to be fully performing with the exception of assets amounting to US$1,473,116 which were past due but not impaired. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

The past due amounts referred to above were past due by less than a month and were settled shortly after the end of the reporting period. The Bank does not hold renegotiated financial assets as at the end of the reporting period.

The Bank is exposed to a significant concentration of credit risk with respect to its loans and advances to customers since an amount of US$8,326,686 of the total loans and advances amounting to US$10,108,408 are due from a limited number of customers. As at 31 December 2010, these loans and advances to customers amounting to US$8,326,686 were deemed to be large exposures for regulatory reporting purposes, prior to any eligible exemptions, in accordance with the requirements of the Banking Rule BR/02 "Large Exposures of Credit Institutions Authorised under the Banking Act 1994".

Loans and advances to banks and other assets

In the normal course of business, the Bank places funds, carries out transactions through correspondent accounts and enters into forward foreign exchange contracts with high credit quality local listed banks and international banks having a very high credit rating. These transactions are monitored through the practical use of exposure limits.

In the case of US Dollar funds held with US based correspondents, liquidity in excess of operational requirements is placed within an institutional money market fund, which seeks to invest mainly in US Government securities and repurchase agreements covering such securities. The fund is AAA rated by both Moody's and Standard & Poor's.

(b) Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies which are different from the Bank's functional currency.

During this initial reporting period, the Bank financed its loans and advances to customers denominated in U.S. Dollars primarily through equity injections. However, the Bank also accepted deposits denominated in the UK Pound (GBP). The Bank intends to manage currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. However during the period under review assets have not been maintained in GBP. Accordingly, the open foreign exchange exposures arising from customer deposits were hedged by entering into forward foreign exchange contracts with terms which matched those of the hedged items.

In view of the Bank's policy for managing currency risk and its foreign currency exposures as at the end of the reporting period, the Board does not deem necessary a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at end of the reporting period.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Foreign exchange risk - continued

The following table summarises the Bank's exposure to foreign currency risk at 31 December 2010. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

As at 31 December 2010	US$	GBP US$	Euro US$	Total US$
Financial assets				
Cash	-	-	665	665
Financial assets at fair value through profit or loss	116,328	-	-	116,328
Loans and advances to banks	136,514	-	69,309	205,823
Loans and advances to corporate customers	10,108,408	-	-	10,108,408
Accrued income and other assets	286,950	-	-	286,950
Total financial assets	10,648,200	-	69,974	10,718,174
Financial liabilities				
Amounts owed to customers	-	401,596	-	401,596
Other liabilities	45,000	1,005	37,756	83,761
Total financial liabilities	45,000	402,601	37,756	485,357
Net on balance sheet position	10,603,200	(402,601)	32,218	
Off-balance sheet net notional position	(404,092)	401,596	-	
Net currency exposure	10,199,108	(1,005)	32,218	

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank's principal interest bearing assets and liabilities, comprising loans and advances to customers and customer deposits, are subject to fixed interest rates. These instruments are measured at amortised cost and are therefore not subject to fair value interest rate risk. The Bank's instruments that are fair valued comprise solely the entity's overnight investments in a money market fund which are fair valued through profit or loss (see Note 4); considering the nature and magnitude of such investments exposure to fair value interest rate risk in this respect is not deemed to be significant.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

During the financial period the Bank did not take on exposures to cash flow interest rate risk i.e. to the effects of fluctuations in the prevailing levels of market interest rates in view of the fixed interest nature of the Bank's principal financial assets and liabilities.

The table below summarises the Bank's exposures to interest rate risk. It includes the entity's financial instruments at carrying amounts, categorised by re-pricing dates, taking cognisance of the instruments' interest rate terms. Since the entity's interest bearing assets and liabilities are subject to fixed interest rates, the re-pricing periods are generally equivalent to the remaining period to maturity.

As at 31 December 2010	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	Total US$
Financial assets				
Financial assets at fair value through profit or loss	116,328	-	-	116,328
Loans and advances to banks	205,823	-	-	205,823
Loans and advances to customers	2,982,170	1,864,094	5,262,144	10,108,408
	3,304,321	1,864,094	5,262,144	10,430,559
Financial liabilities				
Amounts owed to customers	-	-	401,596	401,596
Interest rate gap	3,304,321	1,864,094	4,860,548	
Cumulative gap	3,304,321	5,168,415	10,028,963	

(c) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments.

The Bank manages this risk, by maintaining a strong base of shareholders' capital considering the initial stages of its operations. The Bank manages its asset base with liquidity in mind, and monitors future cash flows and changes in available liquidity on a regular basis. The Bank's liquid assets consist of short term bank placements and overnight investments in a AAA rated money market fund. The Bank's financial liabilities consist of customer deposits which as at 31 December 2010 constitute a minimal proportion of the Bank's asset base.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

The Bank's liquidity management process, includes:

- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes plans for replenishment of funds as they mature. The Bank maintains an active presence in money markets to enable this to happen;
- placing a portion of assets as short-term deposits with other banks and financial institutions in relation to the level of financial liabilities.

The following table discloses financial assets and liabilities at the end of the reporting period by remaining period to maturity.

As at 31 December 2010	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	Total US$
Financial assets				
Financial assets at fair value through profit or loss	116,328	-	-	116,328
Loans and advances to banks	205,823	-	-	205,823
Loans and advances to corporate customers	2,982,170	1,864,094	5,262,144	10,108,408
Accrued income and other assets	52,658	40,509	193,783	286,950
	3,356,979	1,904,603	5,455,927	10,717,509
Financial liabilities				
Amounts owed to customers	-	-	401,596	401,596
Derivative financial instruments	-	-	4,576	4,576
Other liabilities	15,131	67,625	1,005	83,761
	15,131	67,625	407,177	489,933
Maturity gap	3,341,848	1,836,978	5,048,750	
Cumulative gap	3,341,848	5,178,826	10,227,576	

2. Financial risk management - continued

2.1 Financial risk factors - continued

The table below analyses the Bank's principal non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

As at 31 December 2010	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	Total US$	Carrying amount US$
Financial liabilities					
Amounts owed to customers	-	-	414,415	414,415	401,596
Other liabilities	15,131	67,625	1,005	83,761	83,761
	15,131	67,625	415,420	498,176	485,357

The following table analyses all the Bank's principle derivative financial instruments into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

As at 31 December 2010	Within one year but over three months US$
Inflows	401,596
Outflows	406,172
	(4,576)

d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Bank's Board of directors is primarily responsible for the development and implementation of policies and procedures to ensure that operational risks are managed effectively. The Bank mitigates the possibility of impact risk events impacting the entity through the implementation of a business continuity plan, which encompasses risk mitigation achieved through back-up information security infrastructures, back-up disaster recovery sites and insurance covers over particular business risks. Such systems enable the Bank to operate on an ongoing basis and limit losses in the event of severe business disruption.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

d) Operational risk- continued

The Bank currently uses the Basic Indicator Approach to assessment of operational risk capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with Basel II guidelines. Since this is the first financial year of operations, average gross income in this respect was based on business plan estimates submitted to the MFSA, upon application for the Bank's licence. The operational risk regulatory capital requirement as at December 2010 amounted to US$236,231 which, in the opinion of the directors, adequately covers both expected and unexpected losses.

2.2 Capital risk management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' as disclosed in the statement of financial position, are:

- to comply with the capital requirements set by the Malta Financial Services Authority (MFSA);
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on an ongoing basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives, as implemented by the MFSA for supervisory purposes. The Authority requires a bank to maintain a ratio of total regulatory capital to risk-weighted assets and instruments (the Capital requirements ratio) at or above the prescribed minimum of 8%.

The Capital requirements ratio expresses own funds as a proportion of risk weighted assets and off-balance sheet items in relation to credit risk together with notional risk weighted assets in respect of operational risk and market risk.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The following table shows the components of own funds and accordingly the basis of calculation of the Bank's capital adequacy ratio:

	2010 US$
Share capital	10,502,000
Retained earnings	100,337
Deductions	(2,690)
Total original own funds	10,599,647

2. Financial risk management - continued

2.2 Capital risk management - continued

The deductions relate to the commitment to pledge US$2,690 in favour of the Depositor Compensation Scheme, which is excluded from the Own Funds calculation in accordance with the requirements of Banking Rule BR/03, "Own Funds of Credit Institutions Authorised under the Banking Act, 1994".

The table below summarises the computation of the regulatory capital ratio of the Bank as at the end of the reporting period. During the financial period under review, the Bank complied with all the externally imposed capital requirements to which it was subject with a significant buffer over and above the prescribed minimum.

	Notional amount US$	Risk weighted assets US$
As at 31 December 2010		
Cash	665	-
Financial assets at fair value through profit or loss	116,328	23,266
Loans and advances to banks	205,823	205,823
Loans and advances to corporate customers	10,108,408	10,108,408
Other assets	661,046	661,046
	11,092,270	10,998,543
Foreign exchange risk (Capital requirement)		32,274
Operational risk (Capital requirement)		2,941,171
Total risk weighted assets		13,971,988
Own funds		10,599,647
Capital requirements ratio		76%

2. Financial risk management - continued

2.3 Fair value of financial instruments

Financial instruments not carried at fair value

Loans and advances to banks and customers and amounts owed to customers are carried at amortised cost in the statement of financial position. The directors consider the carrying amounts of loans and advances to customers and banks to be a reasonable estimate of their fair value principally in view of the relatively short periods to repricing or maturity from the end of the reporting periods.

The fair value of fixed interest deposits, is not deemed to be significantly different from their carrying amounts, based on discounted cash flows, particularly due to the short periods to maturity.
Financial instruments carried at fair value

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of the Bank's investments in a money market fund is determined by reference to the market values of the underlying assets which are observable. Fair values for the Bank's derivative contracts are determined utilising valuation techniques, involving primarily the use of discounted cash flow techniques. The fair values referred to are determined by reference to market prices or rates quoted at the end of the reporting period. The valuation techniques used are supported by observable market prices or rates since their variables include only data from observable markets. The Bank's investments in a money market fund and its derivative financial instruments are accordingly categorised as level 2 instruments.

3. Critical accounting estimates, and judgments in applying accounting policies

Estimates and judgments are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgments 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. The directors believe there are no areas involving a higher degree of judgment that have the most significant effect on the amounts recognised in the financial statements; and there are no key assumptions and other key sources of estimation uncertainty relating to estimates that require directors' most difficult, subjective or complex judgments.

4. Financial assets at fair value through profit or loss

	2010 US$
Units in collective investment schemes	116,328

Financial assets at fair value through profit or loss consist of overnight placements in the form of investments in a collective investment scheme that mainly invests in U.S. Government securities and repurchase agreements in relation to such securities. These financial assets have been designated as assets at fair value through profit or loss in view of the fact they are risk managed and reported to senior management on a fair value basis.

5. Loans and advances to banks

	2010 US$
Repayable on call and at short notice	205,823

Loans and advances to banks as at 31 December 2010 represent non-interest bearing call accounts.

Loans and advances with a contractual maturity of three months or less are included in cash and cash equivalents for the purposes of the statement of cash flows (Note 21).

6. Loans and advances to customers

	2010 US$
Term loans and advances to customers	10,108,408

Loans and advances to customers consist of participations in financing transactions, initiated by IIG Capital LLC, a related party (Note 22). These participations are subject to fixed interest rates ranging from 10.54% to 14%, and the weighted average interest rate as at 31 December 2010 was 12.11%.

Loans and advances with a contractual maturity of three months or less are included in cash and cash equivalents for the purposes of the statement of cash flows (Note 21).

Loans and advances to customers are primarily secured via an assignment of export receivables of the borrower and through a cross-collateral in the form of a floating charge over assets.

7. Property, plant and equipment

	Leasehold improvements US$	Furniture and fittings US$	Computer hardware US$	Office equipment US$	Total US$
Period ended 31 December 2010					
Additions	38,333	72,587	53,998	30,034	194,952
Depreciation charge	(7,028)	(13,308)	(8,810)	(9,177)	(38,323)
Closing net book amount	31,305	59,279	45,188	20,857	156,629
At 31 December 2010					
Cost	38,333	72,587	53,998	30,034	194,952
Accumulated depreciation	(7,028)	(13,308)	(8,810)	(9,177)	(38,323)
Net book amount	31,305	59,279	45,188	20,857	156,629

8. Intangible assets

	Computer software US$
Period ended 31 December 2010	
Additions	192,826
Amortisation charge	(11,780)
Closing net book amount	181,046
At 31 December 2010	
Cost	192,826
Accumulated amortisation	(11,780)
Net book amount	181,046

9. Accrued income and other assets

	2010 US$
Accrued interest income	286,950
Indirect taxation	17,150
Prepayments	19,271
	323,371

10. Share capital

	2010
	US$
Authorised	
99,999,999 Ordinary 'A' shares of US$1 each	99,999,999
1 Ordinary 'B' Share of US$1 each	1
	100,000,000
Issued and fully paid up	
10,501,999 Ordinary 'A' shares of US$1 each	10,501,999
1 Ordinary 'B' Share of US$1 each	1
	10,502,000

The Ordinary 'B' share, which is held by a director, does not carry any voting rights and is not entitled to receive dividends.

By virtue of an extraordinary resolution dated 18 March 2010, the Bank's shareholders approved an increase in the issued share capital from US$2,000 to US$10,502,000 through the allotment of 10,500,000 fully paid up Ordinary 'A' shares of US$1.

11. Amounts owed to customers

	2010
	US$
Term deposits	401,596

These liabilities comprise deposits with a contractual maturity of one year and are subject to fixed interest rates.

12. Derivative financial instruments

	2010
	US$
Financial liabilities at fair value through profit or loss	
Derivative contracts	4,576

Derivative financial liabilities consists of forward foreign exchange contracts utilised by the Bank to manage its foreign currency exposure arising from term deposits denominated in a currency other than the functional currency. The derivative financial instruments relate to the forward purchase of GBP260,000 against US$ maturing within one year from the end of the reporting period at the average contractual rate of 1.5622.

13. Other liabilities

	2010 US$
Accrued interest expense	1,005
Other payables and accrued expenses	82,756
	83,761

14. Commitments

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Bank is a lessee are as follows:

	2010 US$
- Not later than one year	373,318
- Later than one year and not later than five years	330,443
	703,761

Other commitments

At the end of the reporting period, the Bank has a commitment to pledge US$2,690 in favour of the Depositor Compensation Scheme.

15. Interest receivable and similar income

	Period from 28 January to 31 December 2010 US$
On financial assets held at fair value through profit or loss	2,193
On loans and advances to banks	33
On loans and advances to customers	793,915
	796,141

16. Interest expense and similar charges

	Period from 28 January to 31 December 2010 US$
On amounts owed to customers	1,013

17. Fee and commission income

	Period from 28 January to 31 December 2010 US$
Early termination fees on loans and advances to customers	21,274

18. Net trading gains

	Period from 28 January to 31 December 2010 US$
Foreign exchange differences	12,569
Fair value losses on foreign exchange derivative contracts	(4,576)
	7,993

19. Administrative expenses

	Period from 28 January to 31 December 2010 US$
Staff costs	
- Directors' remuneration	346,412
- Other staff salaries	129,185
- Social security costs	18,455
Directors' fees	44,267
Depreciation of property, plant and equipment (Note 7)	38,323
Amortisation of intangible assets (Note 8)	11,780
Other administrative expenses	304,527
	892,949

Other administrative expenses mainly comprise maintenance expenditure, professional fees and other services or expense items which are incurred in the course of the Bank's operations.

Number of persons employed by the Bank:

	Period from 28 January to 31 December 2010 US$
- Managerial	3
- Clerical	1
	4

Auditor's remuneration

Fees charged by the auditor for services rendered during the financial period relates to the following:

	Period from 28 January to 31 December 2010 US$
Annual statutory audit	19,964
Other non-audit services	2,595

20. Tax expense

No provision for current taxation has been made in these accounts since there was no chargeable income during the financial period.

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the effective tax rate applicable to the Bank as follows:

	Period from 28 January to 31 December 2010 US$
Profit before tax	100,337
Tax on profit at 35%	35,118
Tax effect of:	
Disallowable expenses	8,618
Income not subject to tax	(35,000)
Unrecognised temporary differences arising on property, plant and equipment and intangible assets	(8,736)
	-

21. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with contractual maturity of not more than three months, which form an integral part of the Bank's cash management:

	2010 US$
Cash	665
Financial assets at fair value through profit or loss (Note 4)	116,328
Loans and advances to banks (Note 5)	205,823
Loans and advances to customers (Note 6)	1,800,000
	2,122,816

22. Related party transactions

IIG Malta Ltd. is the Bank's immediate parent company (refer to Note 23). This immediate parent is wholly owned by IIG Malta Holdings N.V. and ultimately controlled by IIG Trade Opportunities Fund N.V. (Note 23). All entities which are ultimately controlled by IIG Trade Opportunities Fund N.V. are considered related parties.

As part of its operations, the Bank enters into participation transactions initiated by related parties in the normal course of business. All transactions with related parties were carried out on commercial terms and at market rates in accordance with the Bank's policy. There are no outstanding balances with related parties as at the end of the reporting period.

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in note 19.

23. Statutory information

IIG Bank (Malta) Ltd. is a limited liability company and is incorporated in Malta.

The immediate parent company of IIG Bank (Malta) Ltd. is IIG Malta Ltd., a company registered in Malta, that owns all the shares of IIG Bank (Malta) Ltd. with the exception of one share. Its registered address is Level 20, Portomaso Business Tower, Portomaso, St Julians. The immediate parent is exempt from the preparation of consolidated financial statements.

IIG Bank (Malta) Ltd. is ultimately owned by IIG Trade Opportunities Fund N.V., a fund registered in Netherlands Antilles with its registered office at ANT Management (Curacao) N.V., Kaya W.F.G. (Jombi) Mensing 36, Curacao. The Fund's Investor shares are listed on the Irish Stock Exchange. The Fund's Investment Manager is IIG LLC, a company registered in New York and licenced by the US Securities and Exchange Commission.

The financial statements of IIG Bank (Malta) Ltd. are included in the consolidated financial statements of IIG Trade Opportunities Fund N.V., which are prepared in accordance with International Financial Reporting Standards.

Additional Regulatory Disclosures
31 December 2010

1. Risk management

1.1 Overview of risk disclosures

The Additional Regulatory Disclosures were prepared in accordance with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07, "Publication of Annual report and Audited Financial Statements of Credit Institutions authorised under the Banking Act 1994" issued by the Malta Financial Services Authority. This Banking Rule is based on the disclosure requirements of the EU Directive 2006/48/EC especially the disclosure requirements of Chapter 5 of the Directive (Articles 145 to 149 – Disclosures by credit institutions) and Annex XII (Technical criteria on disclosure). These disclosures will be published on an annual basis as part of the Annual Report of the Bank and seek to increase public disclosure relative to a Bank's capital structure and adequacy as well as its risk management policies and practices.

In line with the banking regulatory requirements, these Additional Regulatory Disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements which are prepared in accordance with the requirements of International Financial Reporting Standards (IFRS) as adopted by the EU. Through internal verification procedures the Bank ensures that these Additional Regulatory Disclosures are presented fairly.

1.2 Risk management framework

The Board of directors is ultimately responsible for the establishment and oversight of the Bank's risk management framework through the development and monitoring of compliance with the Bank's risk management policies. The aim of the risk management framework is to support the Bank in achieving its goals and objectives and ensure that the risks are commensurate with the rewards.

An understanding of risk-taking and transparency in risk-taking are key elements in the Bank's business strategy and thus in its ambition to be a strong financial institution. The Bank's internal risk management processes support this objective.

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The Bank aims to manage all major types of risk by applying methods that meet best practice. One of the main tasks of the Bank's executive management is to set the framework for this area of entity wide risk management. The core functions of the Bank's risk management processes are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The risk management framework of the Bank is based on local and international guidelines, such as the Basel II Accord and corresponding Directives of the European Union (Capital Requirements Directive), as well as contemporary international banking practices. The Bank implemented and adopted the Basel II (Pillar I) requirements, the Malta Financial Services Authority (MFSA) Banking Rules and accordingly the Capital Requirements Directive of the E.U. The Bank has adopted the Standardised Approach with respect to the calculation of capital requirements in relation to credit and market risks and the Basic Indicator Approach with respect to operational risk.

1. Risk management - continued

1.2 Risk management framework - continued

The Audit Committee of the Bank will assist the Board of Directors in fulfilling its governance, supervisory and monitoring responsibilities by reviewing:

- the Bank's financial statements and all related disclosures; and
- systems of internal controls established by Management together with the External audit process.

The Audit Committee is appointed to oversee the formulation of the Bank's overall risk management policy, to review risk measurement and monitoring mechanisms within the Bank and to monitor the effectiveness of the Bank's risk management practices. In the course of managing this framework the Audit Committee would focus on four key infrastructure components of effective risk management programmes with specific control activities:

- active Senior Management oversight;
- adequate detailed policies, procedures and discretionary limits;
- adequate risk-measurement, monitoring and management information systems;
- comprehensive automated and manual internal controls.

The Bank has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Bank's objectives. Authority to operate the Bank is delegated to the Chief Executive Officer within the limits set by the Board.

The Bank's internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable, and not absolute, assurance against material misstatement or loss. The Board is ultimately responsible for the Bank's system of internal control and for reviewing its effectiveness.

The Bank is committed to the highest standards of business conduct and seeks to maintain these standards across its operations. The Bank's policies and procedures are in place for the reporting and resolution of fraudulent activities.

1.3 Key risk components

As outlined previously, the Board decides on the general principles for managing and monitoring risks and the Board is responsible to determine the overall risk policies and limits for all material risk types.

The Board establishes the risk appetite of the Bank which is the maximum risk that the Bank is willing to assume to meet business targets. The risk appetite is set in a process based on a thorough analysis of its current risk profile. The Bank identifies a number of key risk components and for each, determines a target that represents the Bank's perception of the component in question. The Bank's risk appetite is a key tool to ensure coherence between the Bank's strategic considerations regarding risk-taking and day-to-day decisions.

In terms of MFSA Banking Rule 02/2010/01, "an exposure" is the amount at risk arising from the Bank's assets and off-balance sheet items. Consistent with this, an exposure would include the amount at risk arising from the Bank's:

(a) claims on a customer including actual and potential claims which would arise from the drawing down in full of undrawn advised facilities, which the Bank has committed itself to provide;

(b) contingent liabilities arising in the normal course of business, and those contingent liabilities which would arise from the drawing down in full of undrawn advised facilities which the Bank has committed itself to provide; and

(c) other on and off-balance sheet financial assets and commitments.

1. **Risk management** - continued

1.3 **Key risk components** - continued

The Bank is exposed to a number of risks, which it manages at different levels.

The main categories of risk are:

- Credit risk: Credit risk stems from the loss of equity and profit as a result of the possible non-prompt repayment or non-payment of existing and contingent obligations by the Bank's counterparties. Therefore this represents the risk that the deterioration in the financial condition of a borrower will cause the asset value to decrease or be extinguished. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country in which the asset is originated. Settlement risk refers to the risk of losses through failure of the counterparty to settle outstanding dues on the settlement date owing to bankruptcy or other causes.

- Market risk: Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.

- Liquidity risk: Liquidity risk may be divided into two sub-categories:

  - Market (product) liquidity risk: risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.
  - Funding liquidity risk: risk of losses arising from a timing mismatch between investing, placements and fund raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

- Operational risk: Risk of damage resulting from the lack of skilful management or good governance within the Bank and the inadequacy of proper control, which might involve internal operations, personnel, system or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks.

2. Credit risk

2.1 Introduction to Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit exposures arise principally through the Bank's participation in trade financing transactions. The Bank's business activities during the financial period under review principally consisted of participations in financing transactions through a master participation agreement with the related parties IIG Trade Opportunities Fund N.V. and IIG Capital LLC.

Credit risk constitutes the Bank's largest risk in view of its lending activities and therefore the Bank is fully aware of the connotations of such risk and places great importance on its effective management. The Bank's portfolio of loans and advances to customers is monitored on an ongoing basis and the relevant management bodies, including the Board of Directors and the Executive Committee, are kept informed on an ongoing basis of developments in the credit portfolio, non-performing loans and other relevant information.

2. Credit risk - continued

2.2 Credit risk management

The granting of a credit facility is based on the Bank's insight into the customer's financial position, which is reviewed regularly to assess whether the basis for the granting of credit has changed. Furthermore, the customer must be able to demonstrate, in all probability, the ability to repay the debt.

In order to measure its principal risk exposures, the Bank compiles due diligence reports and in most circumstances refers to external reviews of the primary borrowers and their respective assignees of export receivables carried out by such agencies as Dun and Bradstreet or their equivalents.

In order to minimise the credit risk undertaken, counterparty credit limits may be defined, which consider a counterparty's creditworthiness, the value of collateral, which can reduce the overall credit risk exposure, as well as the type and the duration of the credit facility. In order to examine a counterparty's creditworthiness, country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates are considered. The Bank has set limits of authority and has segregation of duties in place so as to maintain impartiality and independence during the approval process and to control new and existing credit facilities. Credit review procedures are designed to identify at an early stage exposures which require more detailed monitoring and review.

The Bank's main credit risk exposures relating to on-balance sheet financial assets analysed by IAS 39 categorisation, reflecting the maximum exposure to credit risk before collateral held or other credit enhancements, are as follows:

	2010 US$
Financial assets at fair value through profit or loss:	
Correspondent bank overnight sweep facilities (Units in collective investment schemes)	116,328
Loans and receivables:	
Loans and advances to banks	205,823
Loans and advances to customers	10,108,408
Accrued income	286,950
	10,717,509

The exposures set out in the table above are based on carrying amounts as reported in the statement of financial position for on-balance sheet financial assets. The table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2010, without taking account of any collateral held or any other credit enhancements attached.

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical locations, industry sector or counterparty type. These risks are managed through adherence to Board approved lending criteria.

2. Credit risk - continued

2.2 Credit risk management - continued

The Bank is exposed to a significant concentration of credit risk with respect to loans and advances to customers since US$8,326,686 of the total loans and advances to customers of US$10,108,408 are due from 6 customers. As at 31 December 2010, these loans and advances to customers amounting to US$8,326,686 were deemed to be large exposures for regulatory reporting purposes, prior to any eligible exemptions, in accordance with the requirements of the Banking Rule BR/02 "Large Exposures of Credit Institutions Authorised under the Banking Act 1994".

Exposures analysed by location

The Bank monitors concentrations of credit risk by location. The geographical concentration of the Bank's financial assets as at the end of the reporting period is analysed below. For the purposes of this table, the Bank has allocated exposures to regions based on the country of domicile of the counterparties or customers.

As at 31 December 2010

	Institutions US$	Collective investment undertakings US$	Corporates US$	Other items US$
Financial assets at fair value through profit or loss:				
United States of America	-	116,328	-	-
Loans and advances to banks:				
Malta	179,560	-	-	-
Other European Union countries	26,263	-	-	-
Loans and advances to customers:				
Latin America	-	-	10,108,408	-
Accrued income and other assets:				
Latin America	-	-	-	286,950
	205,823	116,328	10,108,408	286,950

2. Credit risk - continued

2.2 Credit risk management - continued

Exposures analysed by industry

The following is an analysis of the industry concentrations relating to loans and advances to corporate customers:

	2010 US$
Agriculture, forestry and fishing	3,499,896
Mining and quarrying	2,740,262
Manufacture/Processed commodity products	3,868,250
	10,108,408

As outlined previously, the Bank monitors these exposures on an individual basis throughout the different stages of the cycle from approval upon origination to ongoing monitoring until maturity. The Bank focuses on the compilation, together with ongoing and event-driven updating, of due diligence analyses taking cognisance of actual account developments, repayment history, ability to meet commitments and collateral measurement. Loans and advances to customers are primarily secured via an assignment of export receivables of the borrower and through a cross-collateral in the form of a floating charge over assets.

Analysis by residual maturity

The residual maturity breakdown of all exposures is presented in the following table:

As at 31 December 2010	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	Carrying amount US$
Financial assets				
Collective investment undertakings:				
Financial assets at fair value through profit or loss	116,328	-	-	116,328
Institutions:				
Loans and advances to banks	205,823	-	-	205,823
Corporates:				
Loans and advances to customers	2,982,170	1,864,094	5,262,144	10,108,408
Other items:				
Accrued income and other assets	89,079	40,509	193,783	323,371
	3,393,400	1,904,603	5,455,927	10,753,930

2. Credit risk - continued

2.2 Credit risk management - continued

Asset quality

The Bank reviews all material credit exposures on a case by case and also on a collective basis in order to consider the likelihood that the Bank may be exposed to losses on loans and advances and with a view to taking early recovery action.

The Bank reviews and grades advances using the criteria laid down in the Banking Rule BR/09: Credit and Country Risk Provisioning by Credit Institutions Licensed under the Banking Act, 1994 (Chapter 371, Laws of Malta).

A financial asset is past due when a counterparty has failed to make a payment when contractually due. Past due but not impaired loans comprise loans and advances where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Bank. As at 31 December 2010, loans and advances to a corporate customer in the manufacturing of processed commodity products industry, based in Latin America, amounting to US$1,473,116 were past due but not impaired. These amounts were past due by less than a month and were settled shortly after the end of the reporting period. All the other financial assets as at 31 December 2010 were fully performing. The Bank does not hold renegotiated financial assets as at the end of the reporting period. The assets' credit quality is sustained by the fact that loans and advances to customers are primarily secured via an assignment of export receivables of the borrower and through a cross-collateral in the form of a floating charge over assets.

In the case of operational funds held with New York based correspondents, liquidity in excess of operational requirements is placed in an institutional money market fund, which seeks to invest mainly in US Government securities and repos for those securities. The fund is AAA rated by both Moody's and Standard & Poor's.

Counterparty banks' risk

The Bank runs the risk of loss of funds due to the possible delay in the repayment of existing and future obligations by counterparty banks. Within its daily operations the Bank transacts with banks and other financial institutions which are pre-approved and subject to a limits framework. In the normal course of business, the Bank places deposits with high credit quality banks and financial institutions. By conducting these transactions the Bank is running the risk of losing funds due to the possible delays in the repayment to the Bank of the existing and future obligations of the counterparty banks. The positions are checked against the limits on a daily basis and in real time.

Country risk

The Bank runs the risk of loss of funds due to the possible political, economic and other events in a particular country where funds have been placed or invested with several counterparties. Countries are assessed according to their size, economic data and prospects and their credit ratings from international rating agencies. Existing country credit risk exposures are monitored and reviewed periodically.

3. Market risk

Market risk for the Bank consists of the following elements:

- Interest rate risk, which is the risk of losses because of changes in interest rates;
- Exchange rate risk, which is the risk of losses on the Bank's positions in foreign currency because of changes in exchange rates;

3.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank is not subject to significant fair value interest rate risk at the end of the reporting period in view of the nature of the investments held which are classified as assets at fair value through profit or loss. The assets comprise units in a money market fund which predominantly investment in US Government paper. Furthermore, the Bank's fixed interest loans and advances and customer deposits, which comprise the entity's main instruments are measured at amortised cost and are therefore not subject to fair value interest rate risk.

During the financial period under review the Bank did not take on cash flow exposures to the effects of fluctuations in the prevailing levels of market interest rates. The Bank's loans and advances to customers are subject to a fixed interest rate thereby securing a return on these loans and advances. The amounts owed to customers are also subject to a fixed interest rate managing the Bank's spread accordingly.

The following table summarises the Bank's exposures to interest rate risk. It includes the entity's financial instruments at carrying amounts, categorised by the re-pricing dates, for the main instruments taking cognisance of the interest rate terms. Since the entity's interest bearing assets and liabilities are subject to fixed interest rates, the re-pricing period is equivalent to the remaining period to maturity.

As at 31 December 2010	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	Total US$
Financial assets	3,304,321	1,864,094	5,262,144	10,430,559
Financial liabilities	-	-	401,596	401,596
Interest rate gap	3,304,321	1,864,094	4,860,548	
Cumulative gap	3,304,321	5,168,415	10,028,963	

3. Market risk - continued

3.2 Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies which are different from the Bank's functional currency.

The Bank manages this risk actively by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency as much as is practicable. During this initial reporting period the Bank financed its loans and advances to customers entirely denominated in U.S. Dollars essentially through equity. The remaining open foreign exchange exposures, consisting of deposits from customers denominated in a foreign currency, are hedged by forward foreign exchange contracts that were entered into to hedge the related exposure. The terms of the derivative transactions would be consistent with the terms of the hedged items or transactions.

In view of the Bank's policy for managing currency risk and its foreign currency exposures as at the end of the reporting period, the Board does not deem necessary a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at end of the reporting period.

The following table summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the entity's financial instruments which are subject to foreign exchange risk at carrying amounts, categorised by currency.

As at 31 December 2010	US$	GBP US$	Euro US$	Total US$
Financial assets	10,648,200	-	69,974	10,718,174
Financial liabilities	45,000	402,601	37,756	485,357
Net on balance sheet position	10,603,200	(402,601)	32,218	
Off-balance sheet net notional position	(404,092)	401,596	-	
Net currency exposure	10,199,108	(1,005)	32,218	

4. Liquidity risk

Liquidity risk is defined as the risk of losses due to:
- the Bank's funding costs increasing disproportionately;
- lack of funding prevents the Bank from establishing new business; and
- lack of funding will ultimately prevent the Bank from meeting its obligations.

Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due.

The Bank manages this risk, by maintaining a strong base of shareholders' capital. The Bank manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. Net liquid assets consist of short term bank placements and overnight money market investments in units within in AAA rated collective investment schemes.

The Bank's liquidity management process, which is the responsibility of the ALCO function within the Executive Committee, includes:
- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature. The Bank maintains an active presence in money markets to enable this to happen;
- placing an amount of its asset base as short term funds with other banks and financial institutions.

The following table discloses financial assets and liabilities at the end of the reporting period by remaining period to maturity.

As at 31 December 2010	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	Total US$
Financial assets	3,356,979	1,904,603	5,455,927	10,717,509
Financial liabilities	15,131	67,625	407,177	489,933
Maturity gap	3,341,848	1,836,978	5,048,750	
Cumulative gap	3,341,848	5,178,826	10,227,576	

4. Liquidity risk - continued

The table below analyses the Bank's principal financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows which the Bank will monitor through its liquidity management process.

As at 31 December 2010	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	Total US$	Carrying amount US$
Financial liabilities	15,131	67,625	415,420	498,176	485,357

5. Operational risk

Operational risk is the risk of direct or indirect losses arising from a variety of causes associated with the Bank's processes such as:

- deficient or erroneous internal procedures
- human or system errors
- external events, including legal events
- internal and external fraud
- employment practices and workplace safety
- clients, products and business practices
- damage to physical assets
- business disruption and system failures
- execution, delivery and process management

Operational risks are non-financial risks and are often associated with specific and one-off events, such as failure to observe business or working procedures, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage or litigation.

Operational risk management relies on a framework of policies overseen by the Risk Management function.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. Operational risks are measured by both quantitative and qualitative methods consisting of both ex-post and ex-ante consideration of events and risks, coupled with an early warning system.

5. Operational risk - continued

The Bank currently uses the Basic Indicator Approach to operational risk capital assessment and accordingly allocates 15% of average gross income over three years in line with Basel II guidelines. Since this is the first year of operations, average gross income is based on business estimates submitted to the MFSA, upon application for the Bank's licence. The operational risk regulatory capital requirement as at December 2010 is US$236,231 which in the opinion of the directors adequately covers both expected and unexpected losses.

6. Capital management

As a licensed credit institution the Bank must comply with the capital adequacy requirements under the relevant banking laws and regulations. Local regulatory requirements with respect to capital adequacy are based on the EU capital requirements directives. Accordingly, the Bank's capital management process is based on the established local regulatory requirements which are modelled on the requisites of the European Union Directive on Capital Requirements ('CRD'). The CRD consists of three pillars: Pillar I contains a set of rules for a mathematical calculation of the regulatory capital requirement; Pillar II describes the supervisory review process and contains requirements for the internal calculation of the capital requirement; whilst Pillar III deals with market discipline and sets forth disclosure requirements for risk and capital management.

The prudent and effective management of capital levels remains one of the Bank's key objectives and priorities, particularly by reference to risk appetite as well as business development. The Bank must ensure at all times that it has sufficient capital to comply with the applicable regulatory capital requirements. Capital management is primarily carried out through the Bank's capital planning process which determines the optimal amount and mix of capital that should be maintained by the Bank, subject to regulatory limits.

Own funds

The level of Own funds represents the Bank's available capital and reserves for the purposes of assessing capital adequacy from a regulatory perspective. The capital adequacy ratio is a measure of the long-term financial strength of a bank, usually expressed as a ratio of its own funds or capital to the measure of the Bank's assets. The Bank has processes to ensure that the minimum regulatory requirements in relation to own funds are met at all times. During the financial period ended 31 December 2010, the Bank has complied with all the externally imposed capital requirements to which it was subject.

The following table shows the components of the Bank's own funds which forms the basis of the calculation of the Bank's capital adequacy ratio:

	2010 US$
Share capital	10,502,000
Retained earnings	100,337
Deductions	(2,690)
Total original own funds	10,599,647

The deductions relate to the Bank's commitment to pledge an amount of US$2,690 in favour of the Depositor Compensation Scheme, which amount is excluded from the Own Funds Calculation in accordance with the regulatory requirements.

6. Capital management - continued

The Bank's issued share capital as at 31 December is analysed as follows:

	2010 US$
10,501,999 Ordinary 'A' shares of US$1 each	10,501,999
1 Ordinary 'B' Share of US$1 each	1
	10,502,000

The Ordinary 'B' share does not carry any voting rights and is not entitled to receive dividends.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between specific operations and activities is to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's long-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

The minimum capital requirements are calculated for the credit, market and operational risks. During the year, the Bank utilised the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk in order to calculate the Pillar 1 minimum capital requirements. For credit risk, under the standardised approach, risk weights are determined according to credit ratings provided by internationally recognised credit agencies such as Fitch or their equivalents and by using the applicable regulatory risk weights for unrated exposures. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income.

The capital ratio is calculated using the definition of regulatory capital and risk-weighted assets. In terms of the current MFSA Banking Rule BR/04 "Capital requirement of Credit Institutions authorised under the Banking Act 1994", the minimum level of the Capital Requirements Ratio stands at 8 per cent. The Capital Requirements Ratio expresses own funds as a proportion of risk weighted assets and off-balance sheet items, together with notional risk weighted assets in respect of Operational Risk and Market Risk. Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8 per cent) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

6. **Capital management** - continued

The table below analyses the Bank's capital requirements and the capital adequacy ratio computation as at 31 December 2010.

	Notional amount at 31 December	Average amount during the period	Risk weighted assets at 31 December
	US$	US$	US$
Claims on collective investment undertakings	116,328	179,216	23,266
Claims on institutions	205,823	232,726	205,823
Claims on corporates	10,108,408	9,797,809	10,108,408
Other items	661,711	459,056	661,046
	11,092,270	10,668,807	10,998,543
Foreign exchange risk (Capital requirement)			32,274
Operational risk (Capital requirement)			2,941,171
Total risk weighted assets			13,971,988
Original own funds			10,599,647
Capital requirements ratio			76%

n
ternal Capital Adequacy Assessment Process (ICAAP)

The Bank considers the Internal Capital Adequacy Assessment Process (ICAAP) embedded in Pillar II as a tool that will ensure a proper measurement of material risks and capital and will allow better capital management and an improvement in risk management. Therefore it will facilitate a better alignment between material risks and regulatory capital in order to have better capital deployment and improvements in the risk management and mitigation techniques adopted by the Bank. The ICAAP as required by the MFSA Banking Rule 12 will be performed on an annual basis.

Therefore ICAAP is a process that the Bank will utilise to ensure that

- there is adequate identification, measurement, aggregation and monitoring of the Bank's risks;
- adequate internal capital is held by the institution in relation to its risk profile; and
- the Bank uses sound risk management systems and there is the intention to develop them further.

The Board and senior management will take overall responsibility for the conceptual design and technical details of the ICAAP document. Apart from the responsibility for the conceptual design, the Board will discuss, approve, endorse and deliver the yearly ICAAP submission.

6. Capital management - continued

The ICAAP is a revolving management tool which starts with defining risk strategy, identifying, quantifying and aggregating risks, determining risk-bearing ability, allocating capital, establishing limits and lead to ongoing risk monitoring. The individual elements of the tool are performed with varying regularity. All the activities described in the circuit are examined at least once a year to ensure that they are up to date, adequate and also adjusted to current underlying conditions when necessary.

The process will involve a quantitative assessment of individual types of risk and an assessment of the existing methods and systems for monitoring and managing risk (qualitative assessment). The risk assessment concept will be used as a scoring procedure, thus providing a comprehensive overview of the risk profile of the Bank.

The basis for the quantitative implementation of the ICAAP is the risk bearing capacity calculation which demonstrates that adequate capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future. The Bank's ICAAP will be based upon a "Pillar 1 Plus" approach whereby the Pillar 1 capital requirement for credit and operational requirements is supplemented by the capital allocation for other material risks not fully addressed within Pillar 1. The risks considered for ICAAP will include concentration, liquidity, reputational and strategic risks, interest rate risk in the banking book, and risks arising from the macroeconomic environment.

The Bank's ICAAP will contain three year projections as well as the capital plan, and the Board will monitor that there are adequate capital resources to support the corporate goals contained within the plan and the associated risks.

The Bank will cover the Pillar 2 capital requirements through stress testing processes to forecast the Bank's projected capital requirements and resources in a range of stress scenarios. This enables the Bank to guarantee that it can meet its minimum regulatory capital requirements in a stressed environment.

Basel III

The interactive process between the Bank for International Settlements (BIS), international regulators and the Financial Stability Board focusing on the need to ensure financial stability has resulted in the formulation of "Basel III", which essentially comprises a set of risk-driven regulatory changes. Basel III reflects the agreement reached on a series of measures that are directed at raising both the minimum requirement and the quality of bank capital. Subject to the phasing in of these new measures over a relatively long transition period, banks will be required to hold a higher minimum level of Tier 1 "core capital", as well as additional "capital conservation" and "counter-cyclical" buffers.

Management envisages that as Basel III is rolled out, banks will have to hold significant liquidity reserves. This could disrupt the funding arrangements operated by a bank and lead to trapped pools of liquidity in the major territories. Linked to these quantitative requirements, banks will be required to significantly improve their funding and liquidity management framework – measuring, monitoring and managing liquidity more proactively.

The Bank is already considering the detailed implications of Basel III with respect to capital and liquidity management.