IIG BANK (MALTA) LTD

Annual Report and Financial Statements
31 December 2015

Company Registration Number: C48767

Directors' report

The directors present their annual report and the audited financial statements of IIG Bank (Malta) Ltd (the "Bank") for the year ended 31 December 2015.

Principal activities

The principal activity of IIG Bank (Malta) Ltd 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.

Review of the business

The Bank registered a profit of US$4,251,718 (2014: US$1,805,511) during the financial year under review. The directors expect the Bank's trading activity to continue improving in the forthcoming financial year. 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, to maintain a strong capital base and maintain a strong liquid position.

Results and dividends

The income statement is set out on page 6. During 2015, the directors proposed and paid a net final dividend of US$1,755,000 relative to the financial year ended 31 December 2014 (2014 for financial year 2013: US$666,315). The proceeds of the dividends together with a further shareholder contribution were re-invested in the Bank.

Directors

The directors of the Bank who held office during the year 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 Maltese Banking Act, 1994 and the Maltese 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; and
- 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 Maltese Banking Act, 1994 and the Maltese 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 year ended 31 December 2015 are included in the Annual Report 2015, 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

19 April 2016

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Independent auditor's report

To the Shareholders of IIG Bank (Malta) Limited

Report on the Financial Statements for the year ended 31 December 2015

We have audited the financial statements of IIG Bank (Malta) Limited on pages 5 to 52 which comprise the statement of financial position as at 31 December 2015 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 2015 and of its financial performance and its cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Banking Act, 1994 and Maltese Companies Act, 1995.

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Independent auditor's report - continued

To the Shareholders of IIG Bank (Malta) Limited

Report on Other Legal and Regulatory Requirements for the year ended 31 December 2015

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.
- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- 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

78 Mill Street
Qormi
Malta

F Axisa

Fabio Axisa
Partner

19 April 2016

Statement of financial position

	Notes	As at 31 December 2015 US$	2014 US$
ASSETS			
Cash and balances with Central Bank of Malta	4	**679,867**	582,403
Financial assets designated as at fair value through profit or loss	5	**2,725,250**	615,314
Financial assets classified as available-for-sale	6	**46,036,597**	52,035,103
Loans and advances to banks	7	**58,180,981**	38,744,200
Loans and advances to customers	8	**82,186,100**	61,571,070
Property, plant and equipment	9	**159,790**	92,572
Intangible assets	10	**69,161**	97,591
Accrued income and other assets	11	**2,751,330**	2,580,879
Total assets		**192,789,076**	156,319,132
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**16,300,000**	13,735,000
Fair value reserve	13	**2,840,101**	4,601,853
Retained earnings		**4,302,229**	1,805,511
Total equity		**23,442,330**	20,142,364
Liabilities			
Amounts owed to customers	14	**143,670,301**	112,231,553
Amounts owed to banks	15	**19,463,207**	17,535,655
Derivative financial instruments	16	**1,380,322**	1,810,412
Current tax liabilities		**2,313,319**	1,030,040
Deferred tax liabilities	17	**1,502,475**	2,471,041
Other liabilities	18	**1,017,122**	1,098,067
Total liabilities		**169,346,746**	136,176,768
Total equity and liabilities		**192,789,076**	156,319,132
MEMORANDUM ITEMS			
Commitments	19	**3,067,612**	2,193,927

The official closing middle rate of exchange applicable between US dollar and euro published by the European Central Bank as at 31 December 2015 was 1.0887 (2014: 1.2141).

The notes on pages 10 to 52 are an integral part of these financial statements.

The financial statements on pages 5 to 52 were authorised for issue by the board on 19 April 2016 and were signed on its behalf by:

Raymond Busuttil
Director

James Douglas Nelson
Director

Income statement

		Year ended 31 December	
	Notes	**2015 US$**	2014 US$
Interest and similar income	20	**8,457,980**	6,975,158
Interest and similar expense	21	**(3,374,071)**	(3,662,128)
Net interest income		**5,083,909**	3,313,030
Fee and commission income	22	**1,086,316**	560,496
Fee and commission expense	22	**(530,131)**	(399,668)
Net fee and commission expense		**556,185**	160,828
Net trading gains	23	**638,535**	790,583
Gains on disposal of available-for-sale financial assets		**3,220,329**	2,271,086
Operating income		**9,498,958**	6,535,527
Net impairment charges	24	**(327,713)**	(1,213,311)
Administrative expenses	25	**(2,627,452)**	(2,483,502)
Profit before tax		**6,543,793**	2,838,714
Tax expense	26	**(2,292,075)**	(1,033,203)
Profit for the year		**4,251,718**	1,805,511

The notes on pages 10 to 52 are an integral part of these financial statements.

Statement of comprehensive income

		Year ended 31 December	
	Notes	**2015 US$**	2014 US$
Profit for the year		**4,251,718**	1,805,511
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Fair valuation of available-for-sale financial assets:			
Net changes in fair value arising during the year, before tax	6	**509,941**	7,190,848
Reclassification adjustments – net amounts reclassified to profit or loss, before tax		**(3,220,329)**	(2,271,086)
Income tax relating to components of other comprehensive income	17	**948,636**	(1,721,917)
Other comprehensive income for the year, net of tax		**(1,761,752)**	3,197,845
Total comprehensive income for the year		**2,489,966**	5,003,356

The notes on pages 10 to 52 are an integral part of these financial statements.

Statement of changes in equity

	Notes	**Share Capital US$**	**Fair value reserve US$**	**Retained earnings US$**	**Total equity US$**
Balance at 1 January 2014		12,765,000	1,404,008	666,315	14,835,323
Comprehensive income					
Profit for the year		-	-	1,805,511	1,805,511
Other comprehensive income:					
Fair valuation of available-for-sale financial assets					
Net changes in fair value arising during the year, net of tax	6,17	-	4,674,051	-	4,674,051
Reclassification adjustments – net amounts reclassified to profit or loss, net of deferred tax	6,17	-	(1,476,206)	-	(1,476,206)
Total comprehensive income		-	3,197,845	1,805,511	5,003,356
Transactions with owners					
Issue of ordinary share capital	12	970,000	-	-	970,000
Dividends to equity holders	27	-	-	(666,315)	(666,315)
Total transactions with owners		970,000	-	(666,315)	303,685
Balance at 31 December 2014		13,735,000	4,601,853	1,805,511	20,142,364
Balance at 1 January 2015		**13,735,000**	**4,601,853**	**1,805,511**	**20,142,364**
Comprehensive income					
Profit for the year		-	-	4,251,718	4,251,718
Other comprehensive income:					
Fair valuation of available-for-sale financial assets					
Net changes in fair value arising during the year, net of tax	6,17	-	331,462	-	331,462
Reclassification adjustments – net amounts reclassified to profit or loss, net of deferred tax	6,17	-	(2,093,214)	-	(2,093,214)
Total comprehensive income		**-**	**(1,761,752)**	**4,251,718**	**2,489,966**
Transactions with owners					
Issue of ordinary share capital	12	2,565,000	-	-	2,565,000
Dividends to equity holders	27	-	-	(1,755,000)	(1,755,000)
Total transactions with owners		**2,565,000**	**-**	**(1,755,000)**	**810,000**
Balance at 31 December 2015		**16,300,000**	**2,840,101**	**4,302,229**	**23,442,330**

The notes on pages 10 to 52 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2015 US$	2014 US$
Operating activities			
Interest and commission income received		**9,597,779**	6,986,530
Interest and commission expense paid		**(3,741,699)**	(4,133,175)
Net income from foreign exchange transactions		**3,857,701**	10,012,087
Tax paid		**(1,028,726)**	(377,115)
Cash payments to employees and suppliers		**(2,439,664)**	(2,822,374)
Cash flows generated from operating activities before changes in operating assets and liabilities		**6,245,391**	9,665,953
Changes in operating assets and liabilities:			
Net increase in balances with Central Bank of Malta	4	**(97,931)**	(267,155)
Net decrease/(increase) in loans and advances to banks	7	**2,569,212**	(6,370,136)
Net increase in amounts attributable to Depositor Compensation Scheme	11	**(159,532)**	(189,782)
Net increase in loans and advances to customers	8	**(21,306,262)**	(33,575,121)
Net increase in amounts owed to customers	14	**31,426,969**	31,282,980
Net increase in amounts owed to banks	15	**1,927,552**	5,071,090
Net cash generated from operating activities		**20,605,399**	5,617,829
Investing activities			
Purchase of available-for-sale investments	6	**(31,537,614)**	(26,442,921)
Purchase of investments at fair value through profit or loss	5	**(2,790,250)**	(8,125,350)
Proceeds from disposal and redemption of available-for-sale investments	6	**34,503,826**	21,097,645
Proceeds of disposal of investments at fair value through profit or loss	5	**544,567**	10,266,736
Purchase of property, plant and equipment	9	**(106,690)**	(58,578)
Purchase of intangible assets	10	**(23,712)**	(40,341)
Net cash generated by/(used in) investing activities		**590,127**	(3,302,809)
Financing activities			
Issue of ordinary share capital	12	**2,565,000**	970,000
Dividends paid to equity holders	27	**(1,755,000)**	(666,315)
Net cash generated from financing activities		**810,000**	303,685
Net movement in cash and cash equivalents		**22,005,526**	2,618,705
Cash and cash equivalents at beginning of year		**28,462,915**	25,844,210
Cash and cash equivalents at end of year	28	**50,468,441**	28,462,915

The notes on pages 10 to 52 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. Unless otherwise stated, these policies have been consistently applied to all the years presented.

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, and investments classified as available-for-sale.

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 effective in 2015

During the financial year ended 31 December 2015, the Bank adopted new standards, amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2015. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Bank's 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 1 January 2015. 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 financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI without recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. Subject to the endorsement process by the EU, the standard is effective for accounting periods beginning on or after 1 January 2018, although early adoption is permitted. The Bank is yet to assess IFRS 9's full impact.

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

1.2 Foreign currency transactions and balances

a) 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.

b) 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 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 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.

The Bank's held-for-trading financial instruments consist of derivative contracts.

1. Summary of significant accounting policies - continued

1.3 Financial assets - continued

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

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

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.

The Bank's financial assets at fair value through profit or loss upon initial recognition consist of units in a money market fund. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'Net trading (losses)/gains'. Interest income on financial assets at fair value through profit or loss are included in 'Net interest income'.

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 balances held with the Central Bank of Malta and other credit institutions, loans and advances to customers, and any income accruing on each of these 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'.

In the case of an impairment, the impairment loss is reported as a deduction from carrying value of the loan and receivable and recognised in profit or loss as 'Impairment losses'.

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

1.3 Financial assets - continued

Available-for-sale financial assets

Available-for-sale investments are financial assets that consist of local government bonds and foreign debt securities which 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 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 (in case of monetary assets) 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. Interest income on available-for-sale assets is calculated using the effective interest method, and is recognised in profit or loss as are foreign currency gains and losses on monetary assets classified as available-for-sale. 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. The fair values of quoted investments are based on current bid prices.

1.4 Impairment of financial assets

Assets carried at amortised cost

The Bank assesses at the end of each reporting period 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; or
(e) observable data exists 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. Such data includes:

    (i) adverse changes in the payment status of borrowers in the portfolio as a whole; and
    (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

1.4 Impairment of financial assets - continued

Assets carried at amortised cost - continued

The Bank does not hold assets that are not individually significant. Therefore, the Bank first assesses whether objective evidence of impairment exists individually for all financial assets carried at amortised cost. If the Bank determines that no objective evidence of impairment exists 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 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. 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 of peer groups with credit risk characteristics similar to those in the Bank since the Bank does not have specific loss experiences. 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.

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 the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between amortised 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. 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. **Summary of significant accounting policies** - continued

1.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is 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 and swaps, 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. These costs are amortised over their estimated useful lives of five years. Costs associated with maintaining computer software programme are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

At the end of each reporting period, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable (Note 1.9).

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.

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

1.8 Property, plant and equipment - continued

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 (Note 1.9).

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 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 can also be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

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.

Deferred 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. Deferred 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 tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred 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. Summary of significant accounting policies - continued

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 composed of financial liabilities at fair value through profit or loss (classified as 'Derivative financial instruments) and financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. 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.

Derivatives are categorised as financial liabilities classified as held for trading. Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included directly in profit or loss and are reported as 'Net trading (losses)/gains'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'.

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.

1.14 Off-balance sheet instruments

Where the Bank undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit for which an obligation to make a payment has not arisen at the reporting date, those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include revocable letters of credit such as shipping guarantees.

The Bank may, in the normal course of business, receive legal claims against it. Where appropriate the Bank recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. As at the end of the reporting period, there were no legal claims against the Bank.

Where the Bank has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees whether cancellable or not or letters of credit and the Bank has not made payments at the end of the reporting period, those instruments are included in these financial statements as commitments.

1. Summary of significant accounting policies - continued

1.15 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'Interest income' and 'Interest expense' in 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 group 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.

1.16 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.

1.17 Leases

The Bank 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.

1.18 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

1.19 Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the Bank's financial statements in the period in which the dividends are approved by the Bank's shareholders.

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.

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 oversight 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.

(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, through the Bank's transactions with correspondent banks, and through its investments in debt securities and other exposures arising from its investing activities.

2. Financial risk management - continued

2.1 Financial risk factors - continued

a) Credit risk - continued

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

	2015	2014
	US$	US$
Credit risk exposures relating to on-balance sheet assets:		
Financial assets at fair value through profit or loss:		
Investment in units in a money market fund (Note 5)	**2,725,250**	615,314
Financial assets classified as available-for-sale:		
Debt securities (Note 6)	**46,036,597**	52,035,934
Loans and receivables:		
Balances with Central Bank of Malta (Note 4)	**676,531**	578,600
Loans and advances to banks (Note 7)	**58,180,981**	38,744,200
Loans and advances to customers (Note 8)	**82,186,100**	61,571,070
Accrued interest income and receivables (Note 11)	**2,560,258**	2,450,947
	192,365,717	155,996,065
Credit risk exposures relating to off-balance sheet instruments:		
Commitments	**2,185,714**	1,249,910

The exposures set out in the preceding table are based on carrying amounts as reported in the statement of financial position. The table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2015 and 2014, without taking account of any collateral held or any other credit enhancements attached.

In order to manage its principal risk exposures arising from its financial assets, primarily its loans and advances to customers, 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 agencies such 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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

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.

	Latin America US$	Malta US$	Other EU countries US$	Rest of world US$	Total US$
As at 31 December 2015					
Balances with Central Bank of Malta	-	676,531	-	-	676,531
Financial assets designated at fair value through profit or loss	-	2,725,250	-	-	2,725,250
Financial assets classified as available-for-sale	5,347,510	21,742,753	13,837,784	5,108,550	46,036,597
Loans and advances to banks	-	14,506,080	26,776,795	16,898,106	58,180,981
Loans and advances to customers	37,550,247	-	12,829,452	31,806,401	82,186,100
Accrued income and other assets	806,041	872,509	456,908	424,800	2,560,258
	43,703,798	**40,523,123**	**53,900,939**	**54,237,857**	**192,365,717**
As at 31 December 2014					
Balances with Central Bank of Malta	-	578,600	-	-	578,600
Financial assets designated at fair value through profit or loss	-	615,314	-	-	615,314
Financial assets classified as available-for-sale	2,560,509	36,686,436	7,783,248	5,005,741	52,035,934
Loans and advances to banks	-	4,858,511	21,011,149	12,874,540	38,744,200
Loans and advances to customers	36,594,709	-	22,425,527	2,550,834	61,571,070
Accrued income and other assets	990,834	875,547	411,487	173,079	2,450,947
	40,146,052	**43,614,408**	**51,631,411**	**20,604,194**	**155,996,065**

Loans and advances to customers

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

	2015 US$	2014 US$
Wholesale trade of commodity products	**28,407,765**	20,220,458
Manufactured/processed commodity products	**23,653,088**	18,187,574
Agriculture, forestry and fishing	**14,757,247**	15,716,088
Mining	**4,000,000**	4,000,000
Transport	**11,368,000**	3,446,950
	82,186,100	61,571,070

As outlined previously, the Bank monitors these exposures on an individual basis throughout the different stages of the cycle from approval upon origination 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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

The Bank's approach when granting credit facilities is based on the customer's capacity to repay rather than placing primary reliance on credit risk mitigants. Notwithstanding, as part of the Bank's credit risk mitigation techniques, the Bank holds collateral against loans and advances to customers, which nature and level generally depends on the amount of the exposure, the type of facility provided, the term of the facility and the level of credit risk involved.

The following table presents the Bank's loans and advances to customers by level of collateral:

	2015	2014
	US$	US$
Loans and advances to customers		
Fully collateralised	**75,260,507**	55,967,826
Uncollateralised	**6,925,593**	5,603,244
	82,186,100	61,571,070

The Bank is exposed to a significant concentration of credit risk with respect to its loans and advances to customers since a significant proportion of the total loans and advances amounting to US$82,186,100 (2014: US$61,571,070) are due from a limited number of customers. As at 31 December 2015, loans and advances to customers amounting to US$67,221,656 (2014: US$55,038,458) were deemed to be large exposures for regulatory reporting purposes, prior to any eligible exemptions, in accordance with the requirements of Part Four of the Capital Requirements Regulations (CRR), Large Exposures. As at 31 December 2015, no loans and advances to customers were deemed to be prohibited large exposures, prior to any eligible exemptions, in accordance with the requirements of the CRR.

As at 31 December 2015, loans and advances to customers mainly were deemed to be fully performing with the exception of assets amounting to US$5,712,097 (2014: US$3,587,924) 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. The past due amounts referred to above were past due by one to three months (2014: two months) but were settled shortly after the end of the reporting period. At the end of the reporting period, the Bank had no impaired loans, albeit, during 2015, the Bank has written off the carrying amount of a loan relating to a single borrower amounting to US$691,232 (2014: US$1,213,311), as the borrower declared bankruptcy. During 2015, the Bank recovered US$363,519 of the amount written off in the previous year.

There are instances where the contractual terms of a loan may be modified, due to for example, changing market conditions and other factors not related to the credit quality of a customer. Where however, the modifications to contractual terms relate to a customer's financial difficulties, this is referred to as forbearance. Loan forbearance is undertaken by the Bank very selectively and is only granted in situations where the Bank assesses that the customer has the ability to meet the revised contractual terms. As part of its forbearance measures, the Bank may extend payment terms, reduce interest or principal repayments, and defer foreclosure of collateral.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Forbearance is objective evidence of impairment and a forborne loan is deemed to be impaired when there has been a change in contractual cash flows as a result of a concession which the Bank would otherwise not consider, and it is probable that without the concession, the customer would be unable to meet the original contractual payment obligations in full. Forborne loans are not classified as impaired where the contractual cash flows arising from the forbearance measures are expected to be collected in full.

When a loan is restructured as part of a forbearance strategy and the restructuring results in a derecognition of the existing loan, the new loan is considered forborne. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

As at 31 December 2015, the Bank classifies exposure balances amounting to US$3,643,890 of a single borrower as performing forborne, albeit without derecognition. This exposure represents 4.43% of the Bank's loans and advances to customers. As at the reporting date, no impairment allowances are being held against this exposure since the directors believe that the exposure will be recovered in full in the subsequent year in line with the revised terms of the agreement. Accordingly, as at the reporting date the exposure is classified as neither past due nor impaired. The interest income recognised during the year in respect of this exposure amounted to €232,625.

Loans and advances to banks and other financial assets

In the normal course of business, the Bank places funds, carries out transactions and enters into forward foreign exchange contracts or currency swaps with specific high quality locally listed banks and international banks having a very high credit rating, subject to the application of a limit framework.

As part of its treasury management activities the Bank invests in debt instruments issued by local government and also in listed debt securities issued by foreign corporates with high credit quality and strong financial background. These transactions are monitored through the practical use of exposure limits. All such investments are listed on the Malta Stock Exchange, which is currently the only locally-based Recognised Investment Exchange (RIE) in Malta, and other major European stocks exchanges. External ratings such as Standard & Poor's rating or their equivalents are used for monitoring these credit risk exposures.

The Bank also places liquidity in excess of operational requirements in an unrated money market fund, which seeks to invest predominantly in term deposits with Prime European Banks and Malta Government Treasury Bills.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

The following tables present an analysis of the Bank's financial assets by rating agency based on Fitch ratings or their equivalent.

	Balances with Central Bank of Malta US$	**Financial assets classified as available-for-sale US$**	**Loans and advances to banks US$**
2015			
AAA	-	356,234	-
AA	-	1,112,120	-
AA-	-	-	-
A+	-	948,580	-
A	676,531	848,419	19,544,906
A-	-	845,927	-
BBB+	-	22,656,072	16,632,177
BBB	-	2,559,773	-
BBB-	-	3,507,444	11,809,156
BB+	-	3,420,069	-
BB	-	1,115,004	-
BB-	-	974,426	5,813,328
B+	-	2,396,617	-
B	-	3,253,525	-
B-	-	1,748,437	-
CCC+	-	293,950	-
Unrated	-	-	4,381,414
Total	**676,531**	**46,036,597**	**58,180,981**
2014			
AAA	-	403,083	-
AA	-	1,233,682	-
AA-	-	1,443,312	-
A+	-	499,325	21,397,256
A	578,600	37,792,646	-
A-	-	1,151,286	-
BBB+	-	989,095	1,699,817
BBB	-	3,064,898	-
BBB-	-	2,708,321	4,932,246
BB+	-	308,378	-
BB	-	718,577	5,459,850
BB-	-	-	3,158,694
B+	-	601,000	-
B	-	179,000	482,313
B-	-	942,500	-
Unrated	-	-	1,614,024
Total	**578,600**	**52,035,103**	**38,744,200**

Loans and advances to customers, amounts receivable from the Depositor Compensation Scheme aced in a money market fund held at fair value through profit or loss have been excluded from the above analysis since they are unrated.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk

The Bank takes on exposure to market risk, 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 and currency 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.

The Bank funds its growth through the acceptance of deposits predominantly denominated in euro and through the credit operations (Refinancing Operations) of the Central Bank of Malta within the Eurosystem's credit operations framework.

The Bank manages its 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. When it is not possible to match the asset and liability currency positions, the Bank hedges its open foreign exchange exposures arising from customer deposits by entering into forward foreign exchange contracts or currency swaps with terms which match those of the hedged items.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Foreign exchange risk - continued

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

	US$	GBP US$	Euro US$	Total US$
As at 31 December 2015				
Financial assets				
Balances with Central Bank of Malta	-	-	676,531	676,531
Financial assets designated at fair value through profit and loss	-	-	2,725,250	2,725,250
Financial assets classified as available-for-sale	10,152,723	1,236,700	34,647,174	46,036,597
Loans and advances to banks	32,531,199	339,190	25,310,592	58,180,981
Loans and advances to customers	78,465,097	-	3,721,003	82,186,100
Accrued interest income and other assets	1,393,359	31,466	1,135,433	2,560,258
Total financial assets	122,542,378	1,607,356	68,215,983	192,365,717
Financial liabilities				
Amounts owed to customers	46,659,625	13,732,737	83,277,939	143,670,301
Amounts owed to banks	3,002,166	-	16,461,041	19,463,207
Accrued interest payable and other liabilities	213,666	82,014	721,442	1,017,122
Total financial liabilities	49,875,457	13,814,751	100,460,422	164,150,630
Net on-balance sheet position	72,666,921	(12,207,395)	(32,244,439)	
Off-balance sheet net notional position		12,156,500	31,566,145	
Net currency exposure		**(50,895)**	**(678,294)**	

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) *Market risk* - continued

Foreign exchange risk – continued

	US$	GBP US$	Euro US$	Total US$
As at 31 December 2014				
Financial assets				
Balances with Central Bank of Malta	-	-	578,600	578,600
Financial assets designated at fair value through profit and loss	-	-	615,314	615,314
Financial assets classified as available-for-sale	6,390,534	-	45,644,569	52,035,103
Loans and advances to banks	20,033,668	970,749	17,739,783	38,744,200
Loans and advances to customers	57,089,610	1,878,342	2,603,118	61,571,070
Accrued interest income and other Assets	1,403,085	2,628	1,046,065	2,451,778
Total financial assets	84,916,897	2,851,719	68,227,449	155,996,065
Financial liabilities				
Amounts owed to customers	17,254,760	14,704,185	80,272,608	112,231,553
Amounts owed to banks	-	-	17,535,655	17,535,655
Accrued interest payable and other liabilities	179,399	88,398	830,270	1,098,067
Total financial liabilities	17,434,159	14,792,583	98,638,533	130,865,275
Net on-balance sheet position	67,482,738	(11,940,863)	(30,411,084)	
Off-balance sheet net notional position		11,925,585	30,332,500	
Net currency exposure		(15,278)	(78,584)	

The notional amounts of the derivative contracts at the end of the reporting period substantially match the carrying amount of the net foreign currency exposure. Based on this, the Board believes that the foreign exchange risk is not material in view of the fact that exchange differences on the net financial position exposures are substantially offset by fair value differences on the derivative contracts. Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary since the directors are of the opinion that the net impact (after hedging transactions) would be insignificant.

Interest rate risk

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.

2. Financial risk management - continued

2.1 Financial risk factors – continued

(c) *Market risk* - continued

Interest rate risk - continued

The exposure to cash flow and fair value interest rate risk as at 31 December is shown below:

	Floating rates US$	Fixed rates US$	Total US$
At 31 December 2015			
Interest-bearing assets			
Financial assets designated at FVTPL:			
Units in a money market fund	2,725,250	-	2,725,250
Financial assets classified as available-for-sale:			
Debt securities	1,677,500	44,359,097	46,036,597
Loans and receivables:			
Balances with Central Bank of Malta	676,531	-	676,531
Loans and advances to banks	49,441,678	8,739,303	58,180,981
Loans and advances to customers	29,792,991	52,393,109	82,186,100
	84,313,950	105,491,509	189,805,459
Interest-bearing liabilities			
Amounts owed to customers	-	143,670,301	143,670,301
Amounts owed to banks	14,171,300	5,291,907	19,463,207
	14,171,300	148,962,208	163,133,508
Net exposure	**70,142,650**	**(43,470,699)**	**26,671,951**
At 31 December 2014			
Interest-bearing assets			
Financial assets designated at FVTPL:			
Units in a money market fund	615,314	-	615,314
Financial assets classified as available-for-sale:			
Debt securities	1,860,705	50,174,398	52,035,103
Loans and receivables:			
Balances with Central Bank of Malta	578,600	-	578,600
Loans and advances to banks	27,281,065	11,463,135	38,744,200
Loans and advances to customers	26,683,984	34,887,086	61,571,070
	57,019,668	96,524,619	153,544,287
Interest-bearing liabilities			
Amounts owed to customers	-	112,231,553	112,231,553
Amounts owed to banks	15,833,565	1,702,090	17,535,655
	15,833,565	113,933,643	129,767,208
Net exposure	**41,186,103**	**(17,409,024)**	**23,777,079**

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

Financial instruments issued at fixed rates potentially expose the Bank to fair value interest rate risk. Loans and advances to customers, loans and advances to banks and amounts owed to customers 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 the Bank's investments in a money market fund which are fair valued through profit or loss (Note 5) and debt securities classified as available-for-sale (Note 6). A significant proportion of the Bank's investments in debt securities are subject to fixed interest rates. The risk of losses arising from fair value interest rate risk in this respect is principally managed by investing in debt securities issued by the Government of Malta and in securities issued by high quality foreign corporates. The Bank manages this risk by using sensitivity analysis using modified duration, which measures the potential loss in market value arising from a 100 basis-point upward parallel shift in yields. The estimated impact of an immediate 100 basis point increase in yields as at 31 December 2015 on the fair valuation of its investments carried at fair value (debt securities and units in the money market fund) amounts to US$3,120,228 (2014: US$4,317,312). The fair value of loans and receivables measured at amortised cost is not expected to fluctuate considerably due to their short term nature.

As outlined above, the Bank was also exposed to cash flow interest rate risk principally in respect of certain financial assets and liabilities which were subject to floating interest rates. Financial assets and liabilities issued at variable rates expose the Bank to cash flow interest rate risk.

Taking cognisance of the nature of the Bank's financial assets and liabilities as described above, under the requirements of IFRS 7, a sensitivity analysis in respect of interest rate changes is required in relation to the Bank's net floating rate assets or liabilities.

At the end of the reporting period, if interest rates had increased by 1% (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, in particular foreign currency rates, the post-tax result for the year would increase by US$455,927 (2014: increase by US$267,710).

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

The following table 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. The re-pricing periods in respect of the entity's interest bearing assets and liabilities subject to fixed interest rates is equivalent to the remaining period to maturity.

As at 31 December 2015	Within one month US$	Within three months but over one month US$	Within one year but over three Months US$	More than one year US$	Total US$
Financial assets					
Balances with Central Bank of Malta	676,531	-	-	-	676,531
Financial assets designated at fair value through profit or loss	2,725,250	-	-	-	2,725,250
Financial assets classified as available-for-sale	-	-	1,677,500	44,359,097	46,036,597
Loans and advances to banks	50,911,830	707,537	6,561,614	-	58,180,981
Loans and advances to customers	47,678,389	13,099,835	19,074,541	2,333,335	82,186,100
	101,992,000	**13,807,372**	**27,313,655**	**46,692,432**	**189,805,459**
Financial liabilities					
Amounts owed to customers	51,101,937	21,743,230	29,008,833	41,816,301	143,670,301
Amounts owed to banks	-	19,463,207	-	-	19,463,207
	51,101,937	**41,206,437**	**29,008,833**	**41,816,301**	**163,133,508**
Interest rate gap	**50,890,063**	**(27,399,065)**	**(1,695,178)**	**4,876,131**	
Cumulative gap	**50,890,063**	**23,490,998**	**21,765,820**	**26,671,951**	

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) *Market risk* - continued

Interest rate risk - continued

As at 31 December 2014	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	Total US$
Financial assets					
Balances with Central Bank of Malta	578,600	-	-	-	578,600
Financial assets designated at fair value through profit or loss	615,314	-	-	-	615,314
Financial assets classified as available-for-sale	116,558	-	2,104,682	49,813,863	52,035,103
Loans and advances to banks	28,870,834	801,579	7,622,228	1,449,559	38,744,200
Loans and advances to customers	15,623,137	18,837,513	23,110,420	4,000,000	61,571,070
	45,804,443	19,639,092	32,837,330	55,263,422	153,544,287
Financial liabilities					
Amounts owed to customers	10,553,808	26,776,635	34,211,871	40,689,239	112,231,553
Amounts owed to banks	17,535,655	-	-	-	17,535,655
	28,089,463	26,776,635	34,211,871	40,689,239	129,767,208
Interest rate gap	17,714,980	(7,137,543)	(1,374,541)	14,574,183	
Cumulative gap	17,714,980	10,577,437	9,202,896	23,777,079	

(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 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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- short term placements with other banks;
- investments in a money market fund; and
- unencumbered Government bonds amounting to US$5,988,295 (2014: US$9,372,123) that are readily acceptable for repurchase agreements with central banks.

Liquidity is managed by the Bank's treasury function and the Bank's liquidity management process, includes:

- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met including plans for replenishment of funds as they mature;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

Moreover, sources of liquidity are regularly reviewed by the treasury function to maintain a wide diversification by provider, product and term. Monitoring takes the form of cash flow projections for the next day, week and month respectively, as these are key periods for liquidity management.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

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

As at 31 December 2015	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	No maturity US$	Total US$
Financial assets						
Balances with Central Bank of Malta	-	-	-	-	676,531	676,531
Financial assets designated at fair value through profit or loss	-	-	-	-	2,725,250	2,725,250
Financial assets classified as available-for-sale	-	-	-	46,036,597	-	46,036,597
Loans and advances to banks	50,911,830	707,537	6,561,614	-	-	58,180,981
Loans and advances to customers	20,664,592	27,112,122	32,076,051	2,333,335	-	82,186,100
Accrued income and other assets	605,861	150,514	484,339	650,866	668,678	2,560,258
	72,182,283	27,970,173	39,122,004	49,020,798	4,070,459	192,365,717
Financial liabilities						
Amounts owed to customers	51,101,936	21,743,230	29,008,833	41,816,302	-	143,670,301
Amounts owed to banks	4,092,797	15,370,410	-	-	-	19,463,207
Derivative financial instruments	492,848	266,470	621,004	-	-	1,380,322
Other liabilities	526,041	69,990	127,831	293,260	-	1,017,122
	56,213,622	37,450,100	29,757,668	42,109,562	-	165,530,952
Maturity gap	**15,968,661**	**(9,479,927)**	**9,364,336**	**6,911,236**		
Cumulative gap	**15,968,661**	**6,488,734**	**15,853,070**	**22,764,306**		

Call accounts payable on demand amounting to US$42,143,809 at 31 December 2015 are disclosed within the 'Within one month' maturity grouping. However, in practice, these deposits are maintained with the Bank for longer periods than one month.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

As at 31 December 2014	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	No maturity US$	Total US$
Financial assets						
Balances with Central Bank of Malta	-	-	-	-	578,600	578,600
Financial assets designated at fair value through profit or loss	-	-	-	-	615,314	615,314
Financial assets classified as available-for-sale	116,558	-	243,145	51,675,400	-	52,035,103
Loans and advances to banks	28,870,833	801,579	7,622,229	1,449,559	-	38,744,200
Loans and advances to customers	10,163,287	24,297,363	23,110,420	4,000,000	-	61,571,070
Accrued income and other assets	302,185	616,686	441,801	577,396	513,710	2,451,778
	39,452,863	25,715,628	31,417,595	57,702,355	1,707,624	155,996,065
Financial liabilities						
Amounts owed to customers	10,553,808	26,776,635	34,211,871	40,689,239	-	112,231,553
Amounts owed to banks	4,068,025	13,467,630	-	-	-	17,535,655
Derivative financial instruments	362,374	106,524	-	1,341,514	-	1,810,412
Other liabilities	460,545	155,313	156,122	326,087	-	1,098,067
	15,444,752	40,506,102	34,367,993	42,356,840	-	132,675,687
Maturity gap	24,008,111	(14,790,474)	(2,950,398)	15,345,515		
Cumulative gap	24,008,111	9,217,637	6,267,239	21,612,754		

Call accounts payable on demand amounting to US$4,961,931 at 31 December 2014 are disclosed within the 'Within one month' maturity grouping. However, in practice, these deposits are maintained with the Bank for longer periods than one month.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The following table analyses the Bank's principal undiscounted cash flows payable under 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.

	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	Total US$	Carrying amount US$
As at 31 December 2015						
Amounts owed to customers	51,149,263	21,811,836	29,136,665	42,114,113	144,211,877	143,670,301
Amounts owed to banks	4,093,258	15,371,332	-	-	19,464,590	19,463,207
Other liabilities	526,042	69,990	127,831	293,259	1,017,122	1,017,122
	55,768,563	**37,253,158**	**29,264,496**	**42,407,372**	**164,693,589**	**164,150,630**
As at 31 December 2014						
Amounts owed to customers	10,576,858	26,841,597	34,367,993	41,017,075	112,803,523	112,231,553
Amounts owed to banks	4,068,316	13,468,696	-	-	17,537,012	17,535,655
Other liabilities	460,545	155,313	156,122	326,087	1,098,067	1,098,067
	15,105,719	**40,465,606**	**34,524,115**	**41,343,162**	**131,438,602**	**130,865,275**

The Bank's currency derivatives are all settled on a gross basis. The following tables analyse the Bank's 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.

	Contracted undiscounted cash flows		
	Within three months but over one month US$	**Within one year but over three months US$**	**Total US$**
At 31 December 2015			
Inflows	21,427,207	21,973,796	43,401,003
Outflows	(22,186,525)	(22,594,800)	(44,781,325)
	(759,318)	**(621,004)**	**(1,380,322)**
At 31 December 2014			
Inflows	16,692,667	25,644,686	42,337,353
Outflows	(17,161,565)	(26,986,200)	(44,147,765)
	(468,898)	(1,341,514)	(1,810,412)

2. Financial risk management - continued

2.1 Financial risk factors - continued

(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 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.

For regulatory reporting purposes, the Bank currently uses the Basic Indicator Approach to assess the operational risk capital requirements and accordingly allocates 15% of average gross operating income for a three year period in accordance with regulatory requirements. The operational risk regulatory capital requirement as at December 2015 amounted to US$939,980 (2014: US$425,213).

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 and Regulations, as implemented by the MFSA for supervisory purposes.

The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets ("Capital requirements ratio") above the prescribed minimum level of 8%.

The minimum capital requirements are calculated for credit, market and operational risks. During the year, the Bank utilised the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method for foreign exchange 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, while the Basic Method requires the Bank to allocate 8% of its overall net foreign exchange position to calculate the capital requirement for foreign exchange risk.

2. Financial risk management - continued

2.2 Capital risk management - continued

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

	2015 US$	2014 US$
Common Equity Tier 1 (CET1) capital		
Share capital	**16,300,000**	13,735,000
Retained earnings	**4,302,229**	1,805,511
Less:		
Intangible assets	**(69,161)**	(97,591)
Net investment revaluation gains/(losses)	**837,974**	(60,723)
Other deductions	**(660,515)**	(735,163)
CET1 capital	**20,710,527**	14,647,034
Tier 2 capital:		
Investment revaluation gains	**2,002,127**	3,730,061
Total capital / own funds	**22,712,654**	18,377,095

Other deductions relate to the pledges amounting to US$660,515 (2014: US$735,163) in favour of the Depositor Compensation Scheme as at 31 December 2015, that are not available to the Bank for unrestricted and immediate use to cover risk of losses as soon as they occur. The Depositor Compensation Scheme is excluded for the purposes of the Own Funds calculation.

2. Financial risk management - continued

2.3 Fair value of financial instruments

Financial instruments measured at fair value

The following table analyses financial instruments that are measured in the statement of financial position at fair value, by level of the following fair value measurement hierarchy. The different levels have been defined as follows:

- 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). If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Bank does not hold any level 3 instruments.

The following table presents the Bank's financial instruments that are measured at fair value.

	Level 1 US$	Level 2 US$	Total US$
As at 31 December 2015			
Assets			
Financial assets designated at fair value through profit or loss:			
Investments in money market fund	2,725,250	-	2,725,250
Financial assets classified as available-for-sale:			
Listed debt securities	46,036,597	-	46,036,597
Total financial assets at fair value	**48,761,847**	**-**	**48,761,847**
Financial liabilities held-for-trading			
Derivative financial liabilities	**-**	**1,380,322**	**1,380,322**
As at 31 December 2014			
Assets			
Financial assets designated at fair value through profit or loss:			
Investments in money market fund	615,314	-	615,314
Financial assets classified as available-for-sale:			
Listed debt securities	52,035,103	-	52,035,103
Total financial assets at fair value	52,650,417	-	52,650,417
Financial liabilities held-for-trading			
Derivative financial liabilities	-	1,810,412	1,810,412

There were no transfers between levels 1 and 2 during the year.

2. Financial risk management - continued

2.3 Fair value of financial instruments - continued

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price.

Instruments included in level 1 comprise primarily debt instruments issued by the Government of Malta and listed on the Malta Stock Exchange as well as debt securities listed on the Frankfurt Stock Exchange and other exchanges. The Bank's level 1 instruments also include the Bank's investments in a money market fund the fair value of which is determined by the fund manager on a daily basis and which is directly derived from the observable market values of the principal underlying assets.

(b) Financial instruments in Level 2

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 (forward foreign exchange 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 derivative financial instruments are accordingly categorised as level 2 instruments.

Financial instruments not measured at fair value

Loans and advances to banks and customers and amounts owed to banks and 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 and amounts owed to banks, is not deemed to be significantly different from their carrying amounts, based on discounted cash flows at current market interest rates, particularly due to the relatively short periods to maturity.

These estimates are considered level 2 fair value estimates.

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

Estimates and judgements are continually evaluated and are 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 judgement 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. Cash and balances with Central Bank of Malta

	2015 US$	2014 US$
Cash in hand	**3,336**	3,803
Mandatory reserve deposits with Central Bank of Malta	**676,531**	578,600
	679,867	582,403

Mandatory reserve deposits attract interest at floating rates.

5. Financial assets designated as at fair value through profit or loss

	2015 US$	2014 US$
Units in a money market fund	**2,725,250**	**615,314**

Financial assets at fair value through profit or loss at 31 December 2015 and 2014 consist of placements in the form of investments in a money market fund that mainly seeks to invest in term deposits with Prime European Banks and Malta Government Treasury bills. These financial assets have been designated as assets at fair value through profit or loss in view of the fact that they are risk managed and reported to senior management on a fair value basis.

As at 31 December 2015, all units held by the Bank in the said fund were pledged as collateral in favour of another credit institution for the purpose of establishing a credit line.

6. Financial assets classified as available-for-sale

	2015 US$	2014 US$
Debt securities	**46,036,597**	52,035,103

The movement in available-for-sale investments may be summarised as follows:

	2015 US$	2014 US$
Year ended 31 December		
At 1 January	**52,035,103**	45,844,865
Acquisitions	**31,537,614**	26,442,921
Disposals/redemptions	**(34,503,826)**	(21,097,645)
Amortisation	**(7,824)**	(85,475)
Foreign exchange movements	**(3,534,411)**	(6,260,411)
Net fair value movements	**509,941**	7,190,848
At 31 December	**46,036,597**	52,035,103

The Bank's investments consist entirely of listed securities and are analysed by issuer as follows:

	2015 US$	2014 US$
Local government	**21,743,925**	36,686,436
Foreign government	**4,214,035**	3,005,087
Corporates	**20,078,637**	12,343,580
	46,036,597	52,035,103

At 31 December 2015, the Bank had pledged available-for-sale investments amounting to US$14,171,300 (2014: US$23,128,289) in favour of the Central Bank of Malta as security for term loans and advances in respect of the Bank's participation in the European Central Bank's open market operations, which at 31 December 2015 amounted to US$14,171,300 (2014: US$15,833,565).

Furthermore, the Bank had pledged as collateral available-for-sale investments amounting to US$1,584,330 (2014: US$5,334,227) in support of the Bank's OTC derivative transactions with counterparties.

At 31 December 2014, available-for-sale investments amounting to US$4,186,025 were also pledged in favour of another credit institution for the purpose of establishing a credit line.

7. Loans and advances to banks

	2015 **US$**	2014 US$
Repayable on call and at short notice	**49,788,574**	27,657,533
Term loans and advances	**8,392,408**	11,086,667
	58,180,982	38,744,200

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 28).

8. Loans and advances to customers

	2015 **US$**	2014 US$
Term loans and advances to customers	**82,186,100**	61,571,070

Loans and advances to customers amounting to US$33,934,266 (2014: US$29,283,842) consist of participations in trade financing transactions, initiated by IIG Trade Finance LLC, a related party (Note 29). These participations are subject to fixed interest rates ranging from 8.0% to 19.0% (2014: 8.0% to 19.0%), and the weighted average interest rate as at 31 December 2015 was 10.6% (2014: 10.9%).

The Bank also directly enters into trade finance arrangements giving rise to lending and related facilities. In this respect, loans and advances to customers amounting to US$11,533,249 (2014: nil) are subject to fixed interest rates ranging from 6.1% to 10.5% while US$29,792,911 (2014: US$26,683,984) are subject to variable interest rates ranging from 5.8% to 12.1% (2014: 5.6% to 10.1%). Discounting arrangements as at 31 December 2015 amounting to US$6,925,593 (2014: US$5,603,244) are subject to fixed interest rates ranging from 5.5% to 6.4% (2014: 6.5% to 6.75%).

The Bank holds various forms of collateral to secure its loans and advances, including guarantees, pledges in the form of a floating charge over inventories, the assignments of receivables, as well as bills of exchange.

9. Property, plant and equipment

	Leasehold improvements US$	Furniture and fittings US$	Computer hardware US$	Office equipment US$	Total US$
At 1 January 2014					
Cost	48,785	85,763	95,633	34,307	264,488
Accumulated depreciation	(33,372)	(62,900)	(50,737)	(34,174)	(181,183)
Net book amount	15,413	22,863	44,896	133	83,305
Year ended 31 December 2014					
Opening net book amount	15,413	22,863	44,896	133	83,305
Additions	-	44,670	11,604	2,304	58,578
Depreciation charge	(9,422)	(17,518)	(22,217)	(154)	(49,311)
Closing net book amount	5,991	50,015	34,283	2,283	92,572
At 31 December 2014					
Cost	48,785	130,433	107,237	36,611	323,066
Accumulated depreciation	(42,794)	(80,418)	(72,954)	(34,328)	(230,494)
Net book amount	5,991	50,015	34,283	2,283	92,572
Year ended 31 December 2015					
Opening net book amount	5,991	50,015	34,283	2,283	92,572
Additions	14,007	67,213	23,231	2,239	106,690
Depreciation charge	(4,655)	(20,905)	(12,966)	(946)	(39,472)
Closing net book amount	**15,343**	**96,323**	**44,548**	**3,576**	**159,790**
At 31 December 2015					
Cost	62,792	197,646	130,468	38,850	429,756
Accumulated depreciation	(47,449)	(101,323)	(85,920)	(35,274)	(269,966)
Net book amount	**15,343**	**96,323**	**44,548**	**3,576**	**159,790**

10. Intangible assets

	Computer software US$
At 1 January 2014	
Cost	230,660
Accumulated amortisation	(127,475)
Net book amount	103,185
Year ended 31 December 2014	
Opening net book amount	103,185
Additions	40,341
Amortisation charge	(45,935)
Closing net book amount	97,591
At 31 December 2014	
Cost	271,001
Accumulated amortisation	(173,410)
Net book amount	97,591
Year ended 31 December 2015	
Opening net book amount	97,591
Additions	23,712
Amortisation charge	(52,142)
Closing net book amount	**69,161**
At 31 December 2015	
Cost	294,713
Accumulated amortisation	(225,552)
Net book amount	**69,161**

Additions to computer software in 2014 reflected in the table above amounting to US$40,341 related to assets in the course of development as at 31 December 2014.

11. Accrued income and other assets

	2015 US$	2014 US$
Accrued interest income	**1,891,580**	1,937,239
Amounts attributable to the Depositor Compensation Scheme	**660,515**	509,146
Prepayments	**161,365**	129,101
Indirect taxation	**29,707**	-
Other receivables	**8,163**	5,393
	2,751,330	2,580,879

12. Share capital

	2015 US$	2014 US$
Authorised		
99,999,999 Ordinary 'A' shares of US$1 each	**99,999,999**	99,999,999
1 Ordinary 'B' Share of US$1 each	**1**	1
	100,000,000	100,000,000
Issued and fully paid up		
16,299,999 (2014:13,734,999) Ordinary 'A' shares of US$1 each	**16,299,999**	13,734,999
1 Ordinary 'B' Share of US$1 each	**1**	1
	16,300,000	13,735,000

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

During 2015, by virtue of a resolution with an effective date of 19 September 2015, the Bank's shareholders approved an increase in the issued share capital from US$13,735,000 to US$16,300,000 through the allotment of 2,565,000 fully paid up Ordinary 'A' shares of US$1 each.

In 2014, by virtue of a resolution with an effective date of 19 September 2014, the Bank's shareholders approved an increase in the issued share capital from US$12,765,000 to US$13,735,000 through the allotment of 970,000 fully paid up Ordinary 'A' shares of US$1 each.

13. Fair value reserve

The fair value reserve reflects the effects of the fair value measurement of financial instruments classified as available-for-sale, net of deferred taxes. Any gains or losses are not recognised in profit or loss until the asset has been sold or impaired.

14. Amounts owed to customers

	2015 US$	2014 US$
Term deposits	**101,526,492**	107,269,622
Call accounts	**42,143,809**	4,961,931
	143,670,301	112,231,553

Amounts owed to customers are classified as liabilities at amortised cost and are subject to fixed interest rates.

15. Amounts owed to banks

	2015 US$	2014 US$
Term loans and advances	**14,171,300**	15,833,565
Term deposits	**5,291,907**	1,702,090
	19,463,207	17,535,655

Term loans and advances are subject to variable interest rates and are secured by a pledge over available-for-sale investments as disclosed in Note 6. These liabilities relate to the Bank's participation in the European Central Bank's open market operations.

Placements from other banks are classified as liabilities at amortised cost and are subject to fixed interest rates.

16. Derivative financial instruments

The fair values of derivative financial instruments held at the end of each reporting period are set out in the following table:

	2015 US$	2014 US$
Derivative financial liabilities		
- currency swaps	**1,380,322**	1,810,412

16. Derivative financial instruments - continued

The Bank enters into derivative contracts, mainly currency swaps, to hedge the foreign currency exposures arising out of amounts owed to customers. While these derivative transactions provide effective economic hedges, hedge accounting under the requirements of IAS 39 has not been adopted in this respect. Accordingly, these derivative contracts held for risk management purposes have been classified as held-for-trading in these financial statements in accordance with IAS 39.

The derivative financial instruments at 31 December 2015 relate to the forward purchase of £8,200,000 (2014: £7,650,000) and the forward purchase of €28,500,000 (2014: €25,000,000) against US$ maturing within one year from the end of the reporting period at the average contractual rate of 1.5279 (2014: 1.6047) and 1.1317 (2014: 1.2771) respectively.

17. Deferred tax liabilities

Deferred taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2014: 35%).

	2015 US$	2014 US$
At beginning of year	**2,471,041**	767,432
Recognised in profit or loss		
- Deferred taxes on temporary differences arising on depreciation of property, plant and equipment	**(19,930)**	(18,308)
Recognised in other comprehensive income		
- Deferred taxes on fair valuation of available-for-sale financial assets		
Net changes in fair value	**178,479**	2,516,797
Reclassification adjustments to profit or loss	**(1,127,115)**	(794,880)
At end of year	**1,502,475**	2,471,041

The balance at 31 December represents:

	2015 US$	2014 US$
At 31 December		
Temporary differences arising on fair valuation of available-for-sale financial assets	**1,529,285**	2,477,921
Temporary differences arising on depreciation of property, plant and equipment	**(26,810)**	(6,880)
	1,502,475	2,471,041

The recognised deferred tax liabilities are expected to be settled principally after more than twelve months.

18. Other liabilities

	2015 US$	2014 US$
Accrued interest expense	**538,409**	700,912
Other payables and accrued expenses	**478,713**	397,155
	1,017,122	1,098,067

19. Contingent liabilities and commitments

Commitments and contingencies

During 2015, the Bank was a party to a committed credit facility agreement having an undrawn balance of US$2,185,714 as at 31 December 2015.

As at 31 December 2014, the Bank had outstanding documentary credits, comprising standby letters of credit, amounting to US$1,249,910. The Bank held 100% cash cover against this contingency.

Operating lease commitments

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

	2015 US$	2014 US$
- Not later than one year	**306,811**	307,135
- Later than one year and not later than five years	**540,075**	410,866
- More than five years	**35,012**	-
	881,898	718,001

The Bank's operating lease commitments relate to leases of property, motor vehicles and computer software, with standard contractual terms.

Other commitments

At as 31 December 2014, the Bank had a commitment to further pledge US$226,016 in favour of the Depositor Compensation Scheme, in addition to the funds already placed by the Bank with the Scheme as disclosed in Note 11.

20. Interest and similar income

	2015 US$	2014 US$
On financial assets classified as available-for-sale:		
- coupon interest	**2,007,566**	2,261,011
- net amortisation of premiums and discounts	**(7,824)**	(85,475)
On loans and advances to banks	**82,937**	130,851
On loans and advances to customers	**6,375,301**	4,668,771
	8,457,980	6,975,158

21. Interest and similar expense

	2015 US$	2014 US$
On amounts owed to customers	**3,359,868**	3,630,693
On amounts owed to banks	**14,203**	31,435
	3,374,071	3,662,128

22. Fee and commission income and expense

(a) Fee and commission income

	2015 US$	2014 US$
Trade service related fees	**803,122**	474,061
Transfer commissions	**261,184**	76,637
Other fees	**22,010**	9,798
	1,086,316	560,496

(b) Fee and commission expense

	2015 US$	2014 US$
Loan servicing fees payable to a related party	**398,896**	322,048
Other fees	**131,235**	77,620
	530,131	399,668

23. Net trading gains

	2015 US$	2014 US$
Foreign exchange differences	**4,978,062**	4,129,138
Net fair value losses on foreign exchange derivative contracts	**(4,339,787)**	(3,357,686)
Net gains on financial instruments classified as fair value through profit or loss	**260**	19,131
	638,535	790,583

24. Impairment charges

	2015 US$	2014 US$
Amounts written off	**691,232**	1,213,311
Recoveries of amounts written off in previous years	**(363,519)**	-
	327,713	1,213,311

25. Administrative expenses

	2015 US$	2014 US$
Staff costs		
- Directors' remuneration	**463,945**	531,007
- Other staff salaries	**842,223**	667,023
- Social security costs	**31,338**	27,112
Directors' fees	**76,041**	82,184
Depreciation of property, plant and equipment (Note 9)	**39,472**	49,311
Amortisation of intangible assets (Note 10)	**52,142**	45,935
Operating lease expenses	**478,175**	433,787
Other administrative expenses	**644,116**	647,143
	2,627,452	2,483,502

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

Average number of persons employed by the Bank throughout the financial year:

	2015	2014
- Managerial	**8**	6
- Clerical	**6**	5
	14	11

25. Administrative expenses - continued

Auditor's remuneration

Fees charged by the auditor for services rendered during the financial year relate to the following:

	2015 **US$**	2014 US$
Annual statutory audit	**50,570**	55,570
Other non-audit services	**57,663**	28,560
	108,233	84,130

26. Tax expense

	2015 **US$**	2014 US$
Current tax expense	**2,312,005**	1,051,511
Deferred tax	**(19,930)**	(18,308)
	2,292,075	1,033,203

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:

	2015 **US$**	2014 US$
Profit before tax	**6,543,793**	2,838,714
Tax on profit at 35%	**2,290,328**	993,550
Tax effect of:		
Disallowable expenses	**1,747**	39,653
	2,292,075	1,033,203

27. Dividends

	2015 **US$**	2014 US$
Dividends paid to equity holders	**1,755,000**	666,315
Dividends per ordinary share	**0.11**	0.05

28. Cash and cash equivalents

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

	2015 US$	2014 US$
Cash in hand	**3,336**	3,803
Loans and advances to banks	**50,465,105**	28,459,112
	50,468,441	28,462,915

29. Related party transactions

IIG Malta Ltd is the Bank's immediate parent company (refer to Note 30). This immediate parent is wholly owned by IIG Trade Opportunities Fund N.V. (refer to Note 30). 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 (Note 8). All transactions with related parties were carried out on commercial terms and at market rates in accordance with the Bank's policy. The Bank's expenditure for the year ended 31 December 2015, included amounts of US$398,896 (2014: US$322,048) payable to a related party, IIG Trade Finance LLC, as loan arrangement fees.

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in note 25.

30. 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 Curacao, the Kingdom of the Netherlands, with its registered office at ANT Management (Curacao) N.V., Kaya W.F.G. (Jombi) Mensing 36, Willemstad Curacao. The Fund's Investment Manager is International Investment Group LLC, a company registered in New York and licensed 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 the requirements of International Financial Reporting Standards.

Additional Regulatory Disclosures
31 December 2015

1. Risk management

1.1 Overview of risk disclosures

The Additional Regulatory Disclosures ('ARDs') were prepared by the Bank in accordance with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule 07 ('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. These disclosures are based on the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive) and EU Regulation No. 575/2013 (Capital Requirements Regulation) of the European Parliament and of the Council of 26 June 2013. These ARDs 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 ARDs 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 disclosures are presented fairly.

1.2 Risk management framework

The Bank's business model throughout the years has been that of developing a stable deposit base and investing its funds principally in trade finance assets, with excess liquidity invested in a portfolio of select debt securities. The Bank is committed to creating lasting value for shareholders by focusing on customer-driven business and by employing specialised staff that work with clients to find solutions. In keeping with this mission, the Bank's strategy targets sustainable growth and a low risk profile. In this respect, the Bank's return on assets calculated as its net profit, expressed as a percentage of average total assets, for the reporting period ended 31 December 2015 is 2.21%.

The management team selects the Bank's customers and the projects it finances with prudence and caution. The Bank is especially conscious of the risks involved in trade finance transactions, not only as a result of its exposure to the arising credit risk involved but also to the operational risk intrinsic within the business. Therefore, it strives to minimise its exposure to operational risk by taking on transactions only when it knows how to manage the resulting risk. This culture is fostered across the entire Bank.

The Bank takes on risk with the aim of generating profits and therefore considers risk management a core competency that helps produce higher returns for its various stakeholders. The Bank bases its risk management objectives and policies on international guidelines, such as the Basel III Accord, corresponding Directives and Regulations of the European Union, including technical standards, as well as contemporary international banking practices. In this respect, the Board of Directors deems the risk management framework adopted by the Bank to be adequate and hence gives assurance to the Bank's stakeholders that the risk management systems adopted by the Bank are appropriate in relation to the Bank's risk profile and strategy.

1. Risk management - continued

1.2 Risk management framework - continued

The main categories of risk to which the Bank is exposed to 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.

The Bank aims to manage these risks by applying methods that meet best practice and considers it important to have a clear distribution of responsibilities for risk management across the Bank, from the Board of Directors, and the Audit Committee, which performs the functions of the Risk Committee, to executive management and internal audit.

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.

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.

1. Risk management - continued

1.2 Risk management framework - continued

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, and thus is responsible for performing the roles of a Risk Committee. In the course of managing this framework the Audit Committee focuses on four key infrastructure components of effective risk management programmes with specific control activities:

- Active Executive Management oversight;
- Adequate detailed policies, procedures and discretionary limits;
- Adequate risk-measurement, monitoring and management information systems; and
- Comprehensive automated and manual internal controls.

The Audit Committee convened 5 times during the period under review.

Authority to operate the Bank is delegated to the Executive Team within the limits set by the Board. The Executive Team is made up of the Bank's Chief Officers, namely the Deputy Chief Executive Officer, the Chief Finance Officer, the Chief Operations Officer, the Chief Officer for Private Banking and the Chief Risk Officer, and is led by the Chief Executive Officer. It is responsible for the Bank's day-to-day operations and is involved in taking on risks in a targeted manner and managing them professionally. The Bank has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Bank's objectives.

The Executive Team 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 Team, and more specifically, the Chief Risk Officer's task, 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's independent Internal Audit function reviews the adequacy and proper operation of internal controls in individual areas of operation, and performs ad-hoc reviews of risk management controls and procedures. The function and reports its findings to the Audit Committee.

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 TOF B.V., discounting of receivables and the Bank's direct financing of international trade.

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 agencies such as Dun and Bradstreet or their equivalents.

The Bank's Credit function is responsible for undertaking and managing credit risk with respect to the Bank's lending activities, which covers all the stages within the lending cycle, from credit proposal to credit recovery procedures. The Bank manages, limits and controls concentrations of credit risk arising from loans and advances wherever they are identified – in particular, to individual customers, to industry sectors and to geographical locations. Hence, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk in relation to one borrower, or groups of borrowers, to industry segments and to different countries. Such risks are monitored on an ongoing basis and subject to frequent review, as considered necessary. Limits on the level of credit risk by industry sector and country are approved by the Board of Directors. Limits to individual borrowers are approved by the Executive Committee and ratified by the Board. Actual exposures against limits are monitored at end of day on a daily basis and on a real time basis too. As highlighted previously, the Bank's reporting framework with respect to lending credit risk is comprehensive with regular reporting by the Credit function to the Board and the Executive Committee on adherence to limits, activity levels, performance measures and specific credit risk events.

In order to minimise the credit risk undertaken in examining 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 also 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 principal credit risk exposures reflecting the maximum exposure to credit risk before collateral held or other credit enhancements in accordance with the regulatory information submitted to the MFSA are as follows:

	2015 Average value US$	**2015 Year end exposure value US$**
Central Government or central banks	30,148,721	26,633,319
Institutions	51,528,535	66,053,739
Corporates	89,564,258	99,304,116
Other items	3,312,582	2,914,455
	174,554,096	**194,905,629**

The exposures set out in the preceding table are based on the sum of on-balance sheet exposures and off-balance sheet exposures adjusted for the credit conversion factors stipulated within Article 166(10) of the CRR.

2. Credit risk - continued

2.2 Credit risk management - continued

Credit risk exposures analysed by residual maturity

As at 31 December 2015	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	No maturity US$	Total US$
Central Government or central banks	-	-	-	25,956,788	676,531	26,633,319
Institutions	50,911,831	707,537	6,561,614	5,147,507	2,725,250	66,053,739
Corporates	20,664,592	27,112,122	34,261,765	17,265,637	-	99,304,116
Other items	605,861	150,514	484,339	650,864	1,022,877	2,914,455
Total	**72,182,284**	**27,970,173**	**41,307,718**	**49,020,796**	**4,424,658**	**194,905,629**

2.3 Concentration risk

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

The Bank is exposed to a significant concentration of credit risk with respect to its loans and advances to customers since a significant proportion of the total loans and advances amounting to US$82,186,100 (2014: US$61,571,070) are due from a limited number of customers. As at 31 December 2015, loans and advances to customers amounting to US$67,221,656 (2014: US$55,038,458) were deemed to be large exposures for regulatory reporting purposes, prior to any eligible exemptions, in accordance with the requirements the CRR.

Exposures analysed by location/geographical region

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

As at 31 December 2015	Latin America US$	Malta US$	Other EU countries US$	Rest of world US$	Total US$
Central Government or central banks	606,160	22,419,284	3,049,380	558,495	26,633,319
Institutions	591,433	17,231,330	29,192,975	20,038,001	67,053,739
Corporates	41,700,164	-	21,201,677	36,402,275	99,304,116
Other items	806,041	1,226,707	456,907	424,800	2,914,455
Total	**43,703,798**	**40,877,321**	**53,900,939**	**57,423,571**	**194,905,629**

2. Credit risk - continued

2.3 Concentration risk - continued

Exposures analysed by industry

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

At 31 December 2015	Total	Wholesale trade commodities	Manufactured commodities	Agriculture, forestry and fishing	Mining	Transport
	US$	US$	US$	US$	US$	US$
Corporates	82,186,100	28,407,765	23,653,088	14,757,247	4,000,000	11,368,000

None of the Bank's exposures constitute exposures to SMEs (small and medium-sized enterprises).

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.

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 and enters into foreign exchange derivative contracts 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 at end of day and on a real time basis.

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.

2. Credit risk - continued

2.4 Use of External Credit Assessment Institutions

The Bank uses an External Credit Assessment Institution ('ECAI') in calculating its risk-weighted exposure amounts for Central governments or central banks, Institutions and Corporates for which a credit assessment is available. The credit quality of such exposures is determined by reference to credit ratings applicable to issuers published by Fitch Ratings. The Bank maps Fitch's ratings to the credit quality steps prescribed in the CRR as required by CEBS publication *'Standardised approach: Mapping of ECAIs' credit assessments to credit quality steps'.*

The following table represents the exposure values for which an ECAI is used:

At 31 December 2015	Credit quality step	Central governments or central banks US$	Corporates and Institutions US$	Total US$
AAA to AA-	1	1,112,120	356,234	1,468,354
A+ to A-	2	1,384,893	21,146,653	22,531,546
BBB+ to BBB-	3	23,219,027	34,671,003	57,890,030
BB+ to BB-	4	562,219	10,368,016	10,930,235
B+ to B-	5	355,060	7,043,520	7,398,580
CCC+ and below	6	-	293,951	293,951
Total		**26,633,319**	**73,879,377**	**100,512,696**

2.5 Credit quality of the Bank's financial assets

Loans and advances to customers

The credit function monitors loans and advances to customers on an individual basis throughout the different stages of the cycle, from approval upon origination until maturity. As highlighted previously, 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.

With respect to loans and advances to customers, the Bank reviews and grades advances into two main categories: 'Performing' and 'Non-performing'. 'Performing' customers represent those customers with exposures which are less than 90 days past due, whilst 'Non-performing' customers are those customers with exposures which are past due by 90 days or more. The 'Performing' category is further sub-divided into three sub-categories, namely 'Regular', 'Watch' and 'Substandard', showing a worsening of the customer's financial status from 'Regular' (less than 30 days past due) to 'Substandard' (more than 60 days past due but less than 90 days past due). The Non-performing category is also referred to as the 'Doubtful' category.

Loans are considered 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.

2. Credit risk - continued

2.5 Credit quality of the Bank's financial assets - continued

As at 31 December 2015, loans and advances to corporate customers were deemed to be fully performing with the exception of assets amounting to US$5,712,097 (2014: US$3,587,924) which were past due but not impaired. Accordingly, they are classified as "watch". These amounts were past due by one to three months (2014: two months) and were settled shortly after the end of the reporting period. Accordingly, disclosure of past due amounts by geographical location and industry sector is not deemed to be necessary in view of the significance of this risk. All the other financial assets as at 31 December 2015 and 2014 were fully performing. The Bank does not hold renegotiated financial assets as at the end of the reporting period as considering the nature of the advances portfolio the Bank does not generally apply forbearance practices.

Impaired loans and advances to customers represent those advances which are either more than 90 days past due, or for which the Bank has determined that it is probable that it will be unable to collect all principal and interest due as prescribed within the contractual terms of the loans and advances agreement(s). During the period under review, the Bank has written off loans and advances to customers amounting to US$691,232.

Financial investments

As part of its treasury management activities the Bank invests in debt instruments issued by local government as well as a portfolio of debt securities issued by high quality foreign corporates and institutions. All such instruments are listed and accordingly the quality of these assets is monitored through the use of external ratings (see note 2.4 above). These transactions are also monitored through the practical use of exposure limits. At the end of the reporting period, the Bank had no past due or impaired financial assets within this category.

Liquidity in excess of operational requirements is also placed in a money market fund that mainly seeks to invest in term deposits with Prime European Banks and Malta Government Treasury bills.

2.6 Credit risk mitigation techniques

The Bank's approach when granting credit facilities is based on the customer's capacity to repay rather than placing primary reliance on credit risk mitigants. Notwithstanding, as part of the Bank's credit risk mitigation techniques, the Bank holds collateral against loans and advances to customers, the nature and level of which generally depends on the amount of the exposure, the type of facility provided, the term of the facility and the level of credit risk involved. Collateral utilised to secure loans and advances include guarantees, pledges in the form of a floating charge over inventories, the assignments of receivables, as well as bills of exchange.

At 31 December 2015	**Total exposure US$**	**Cash or quasi cash US$**	**Exposure value after credit risk mitigants US$**
Corporates	**82,186,100**	**3,322,108**	**78,863,992**

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; and
- Foreign exchange 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

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 exposure to interest rate risk is analysed in the table below:

	Floating rates US$	Fixed rates US$	Total US$
At 31 December 2015			
Financial assets	84,313,950	105,491,509	189,805,459
Financial liabilities	14,171,300	148,962,208	163,133,508
Net exposure	**70,142,650**	**(43,470,699)**	**26,671,951**

The Bank's Executive Team is responsible for the management of interest rate risk and for actively monitoring the interest rate risk measures used by the Bank, by reporting on a regular basis to the Board. Responsibility for day-to-day interest rate risk management is allocated to the Treasury function. The Bank's risk oversight function provides oversight with respect to the interest rate risk management process, by ensuring its design is appropriate and functioning properly.

Financial instruments issued at fixed rates potentially expose the Bank to fair value interest rate risk. Loans and advances to customers and to banks, and amounts owed to customers and banks 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 the Bank's overnight investments in a money market fund which are fair valued through profit or loss and debt securities classified as available-for-sale. A significant proportion of the Bank's investments in debt securities are subject to fixed interest rates. The risk of losses arising from fair value interest rate risk in this respect is principally managed by investing in debt securities issued by the Government of Malta and in securities issued by high quality foreign corporates. The Bank manages this risk by utilising sensitivity analysis based on modified duration, which measures the potential loss in market value arising from a 100 basis-point upward parallel shift in yields. The estimated impact of an immediate 100 basis point increase in yields as at 31 December 2015 on the fair valuation of its investments carried at fair value (debt securities and units in the money market fund) amounts to US$3,120,228 (2014: US$4,317,312). These investments are mainly denominated in euro.

The Bank is exposed to cash flow interest rate risk principally in respect of certain financial instruments which were subject to floating interest rates. Financial assets and liabilities issued at variable rates expose the Bank to cash flow interest rate risk. Cashflow interest rate risk is measured and monitored by reference to a sensitivity analysis in respect of interest rate changes in relation to the Bank's net floating rate assets or liabilities.

3. Market risk - continued

3.1 Interest rate risk - continued

At the end of the reporting period, if interest rates had increased by 1% (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, in particular foreign currency rates, the post-tax result for the year would increase by US$455,927 (2014: increase by US$267,710).

The following table 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. For the entity's interest bearing assets and liabilities that are mainly subject to fixed interest rates, the re-pricing periods are generally equivalent to the remaining period to maturity.

	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	Total US$
As at 31 December 2015					
Financial assets	**101,992,000**	**13,807,372**	**27,313,655**	**46,692,432**	**189,805,459**
Financial liabilities	**51,101,937**	**41,206,437**	**29,008,833**	**41,816,301**	**163,133,508**
Interest rate gap	**50,890,063**	**(27,399,065)**	**(1,695,178)**	**4,876,131**	
Cumulative gap	**50,890,063**	**23,490,998**	**21,795,820**	**26,671,951**	

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 funds its growth through the acceptance of deposits predominantly denominated in euro and through the credit operations (Refinancing Operations) of the Central Bank of Malta within the Eurosystem's credit operations framework.

The Bank manages its 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. When it is not possible to match the asset and liability currency positions, the Bank normally hedges its open foreign exchange exposures arising from customer deposits by entering into forward foreign exchange contracts or currency swaps with terms which match those of the hedged items, with a view to reducing exposures within a limit management framework.

3. Market risk - continued

3.2 Currency risk - continued

The Bank's Treasury function is responsible for the effective management of foreign exchange risks, ensuring exposures to foreign currencies are maintained within the limits set by the Bank's Board. The Board sets these limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are actively monitored and reported on a regular basis. The Bank's risk oversight function provides oversight with respect to the foreign exchange risk management process, by ensuring its design is appropriate and functioning properly.

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

	US$	GBP US$	Euro US$	Total US$
As at 31 December 2015				
Financial assets	122,542,378	1,607,356	68,215,983	192,365,717
Financial liabilities	49,875,457	13,814,751	100,460,422	164,150,630
Net on balance sheet position	72,666,921	(12,207,395)	(32,244,439)	
Off-balance sheet net notional Position		12,156,500	31,566,145	
Net currency exposure		**(50,895)**	**(678,294)**	

4. 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 holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- short term placements with other banks;
- investments in a money market fund; and
- unencumbered Government bonds amounting to US$5,988,295 (2014: US$9,372,123) that are readily acceptable for repurchase agreements with central banks.

4. **Liquidity risk** - continued

Liquidity is managed by the Bank's treasury function and the Bank's liquidity management process, includes:

- day to day funding managed by monitoring future cash flows to ensure that requirements can be met including plans for replenishment of funds as they mature;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring the liquidity ratios against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

Moreover, sources of liquidity are regularly reviewed by the treasury function to maintain a wide diversification by provider, product and term. Monitoring takes the form of cash flow projections for the next day, week and month respectively, as these are key periods for liquidity management.

In this light, reporting of measures of liquidity risk and liquidity ratios compared to prescribed internal limits to the Board and Executive Team is effected on a regular basis. The Bank's risk oversight function provides oversight with respect to the liquidity risk management process, by ensuring its design is appropriate and functioning properly.

Analysis by residual maturity

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

	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	No maturity US$	Total US$
As at 31 December 2015						
Financial assets	72,182,283	27,970,173	39,122,004	49,020,798	4,070,459	192,365,717
Financial liabilities	56,213,622	37,450,100	29,757,668	42,109,562	-	165,530,952
Maturity gap	**15,968,661**	**(9,479,927)**	**9,364,336**	**6,911,236**		
Cumulative gap	**15,968,661**	**6,488,734**	**15,853,070**	**22,764,306**		

4. Liquidity risk - continued

The following table analyses the Bank's principal undiscounted cash flows payable under 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.

	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	Total US$	Carrying amount US$
Financial liabilities						
As at 31 December 2015	**55,768,563**	**37,253,158**	**29,264,496**	**42,407,372**	**164,693,589**	**164,150,630**

5. 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 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.

The Bank's management of operational risk relies on a framework of policies and procedures implemented across the Bank's operational functions through transaction processing and business execution. The implementation of these policies and procedures is overseen by the Bank's risk oversight function. Regular reporting of operational risk events to the Board of Directors is carried when required.

The Bank currently uses the Basic Indicator Approach to assess the operational risk capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with regulatory requirements. The operational risk regulatory capital requirement as at December 2015 amounted to US$939,980 (2014: US$425,213).

6. 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 out in the CRD and the CRR;
- 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, European Union Regulations and Directives, as implemented by the MFSA for supervisory purposes. The Bank's capital risk management is based on the regulatory requirements established within the CRR and by local regulations which are modelled on the requisites of the CRD rules.

The Bank's Executive team is primarily responsible for the Bank's capital risk management process. Capital adequacy ratios together with the level and quality of own funds are reported on a regular basis to the Board of Directors by the Finance function.

The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets ("Capital requirements ratio") above the prescribed minimum level of 8%.

The minimum capital requirements are calculated for credit, market and operational risks. During the year, the Bank utilised the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method for foreign exchange 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, while the Basic Method requires the Bank to allocate 8% of its overall net foreign exchange position to calculate the capital requirement for foreign exchange risk.

6.1 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 total capital 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, through the assessment of its capital resources and requirements. During the financial period ended 31 December 2015, the Bank has complied with all the externally imposed capital requirements to which it was subject.

In July 2013, the European Banking Authority ('EBA') issued its final draft Implementing Technical Standards ('ITS') on own funds disclosures. The disclosure requirements of these technical standards have been integrated within the Bank's disclosures set out below.

For regulatory purposes, the Bank's capital base is divided into Common Equity Tier 1 ('CET1') capital and Tier 2 capital. The Bank's CET1 capital includes ordinary share capital, retained earnings and other regulatory adjustments relating to items that are included in equity but treated differently for capital adequacy purposes, including deductions to amounts pledged in favour of the Depositor Compensation Scheme and any losses in the fair valuation of available-for-sale financial assets, net of deferred taxation. The Bank does not maintain a Reserve for General Banking Risks, since it does not have loans and advances which are classified as "Non-performing".

6. Capital risk management - continued

6.1 Own funds - continued

The Bank's Tier 2 capital consists of an investment revaluation reserve, which represents gains in the fair valuation of available-for-sale financial assets, net of deferred taxation.

(a) Share capital

The Bank's share capital as at 31 December 2015 is analysed as follows:

	2015 No. of shares	**2015 US$**
Authorised		
99,999,999 Ordinary 'A' shares of US$1 each	**99,999,999**	**99,999,999**
1 Ordinary 'B' share of US$1 each	**1**	**1**
	100,000,000	**100,000,000**
Issued and fully paid up		
16,299,999 (2014: 13,734,999 Ordinary 'A' shares of US$1 each	**16,299,999**	**16,299,999**
1 Ordinary 'B' share of US$1 each	**1**	**1**
	16,300,000	**16,300,000**

The holders of Ordinary 'A' shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

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

(b) Retained earnings

The retained earnings represent earnings not paid out as dividends.

Retained earnings form part of Own funds only if those profits have been verified by the Bank's independent external auditor. The Bank has demonstrated to the satisfaction of the competent authority that any foreseeable charge or dividend has been deducted from the amount of those profits.

Retained earnings include an amount of US$660,515 (2014: US$735,163) pledged in favour of the Depositor Compensation Scheme as at 31 December 2015, that are not available to the Bank for unrestricted and immediate use to cover risk of losses as soon as they occur. The Depositor Compensation Scheme Reserve is excluded for the purposes of the Own Funds calculation.

(c) Investment revaluation reserve

This represents the cumulative net change in fair values of available-for-sale assets held by the Bank, net of related deferred tax effects.

6. Capital risk management - continued

6.1 Own funds - continued

As described in the CRR published by the European Commission, banks are required to present a transitional disclosure template during the phasing in of regulatory adjustments from 1 January 2014 to 31 December 2017. The transitional disclosure template is set out below.

	As at 31 December 2015 US$
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	16,300,000
Retained earnings	3,641,714
Accumulated other comprehensive income (and other reserves)	2,840,101
CET1 capital before regulatory adjustments	22,781,815
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets	(69,161)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(2,002,127)
Total regulatory adjustments to CET1	(2,071,288)
CET1 capital	**20,710,527**
Tier 2 capital	
Tier 2 capital before regulatory adjustments	
Tier 2 capital: regulatory adjustments	
Regulatory adjustments relating to unrealised gains pursuant to article 468	2,002,127
Total Tier 2 capital	**2,002,127**
Total risk weighted assets	**150,749,154**
Capital ratios	
CET1 capital	13.7%
Tier 1 capital	13.7%
Total capital	15.1%

6. Capital risk management - continued

6.2 Capital requirements

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.

As outlined previously, minimum capital requirements are calculated for credit, market and operational risks. The Bank utilises the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method for foreign exchange risk in order to calculate the Pillar 1 minimum capital requirements. As disclosed previously, 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. Capital charge for foreign exchange risk using the Basic Method is calculated at 8% of the higher of the sum of all the net short positions and the sum of all the net long positions in each foreign currency. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income.

The total capital ratio is calculated using the definition of regulatory capital and risk-weighted assets. As required by the CRR, the minimum level of the Capital Requirements Ratio stands at 8%. 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%) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

The Bank will be fully implementing the CRD IV capital requirements with effect from January 2019. In this respect, Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act, 1994', will require additional buffers, namely the 'capital conservation buffer', the 'countercyclical buffer', 'other systemically important institutions (O-SII) buffer' and the 'systemic risk buffer'. Automatic restrictions on capital distributions apply if the local group's CET1 capital falls below the level of its CRD IV combined buffer.

The Bank will be required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on the risk weighted exposures of the Bank as from 1 January 2019. This buffer will be phased in over the period from 1 January 2016 to 31 December 2018.

6. **Capital risk management** - continued

6.2 **Capital requirements** - continued

CRD IV contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0-2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located.

The O-SII buffer is also institution specific and may be set at a maximum of 2% of an systemically important institution's total risk exposure amount. Given the Bank's position as a non-core domestic bank, in terms of its systematic relevance to the financial system in Malta, it is unlikely that the Bank will be required to maintain an O-SII buffer.

In addition to the measures above, CRD IV sets out a 'systemic risk buffer' for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigating structural macroprudential risk. The 'systemic risk buffer' may range between 0% and 5%. There are currently no indications that the Bank will need to maintain a systemic risk buffer.

Additionally, since the Bank advances loans to borrowers in different geographical regions, it may be required to maintain a 'countercyclical buffer'. This is expected to be set in the range of 0-2.5%, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located.

The Bank's capital requirements and Total capital ratio computation are as follows:

At 31 December 2015	**Exposure value US$**	**Risk weighted assets US$**	**Capital required US$**
Central governments or central banks	26,633,319	1,220,226	97,618
Institutions	66,053,739	28,037,809	2,243,025
Corporates	99,304,116	106,794,643	8,543,471
Other	2,914,455	2,914,455	233,156
Credit risk	**194,905,629**	**138,967,133**	**11,117,270**
Foreign exchange risk		32,270	2,582
Operational risk		11,749,751	939,980
Total capital required		**150,749,154**	**12,059,832**
Own funds			
Common Equity Tier 1 capital			**20,710,527**
Tier 2 capital			**2,002,127**
Total own funds			**22,712,654**
Total capital ratio			**15.01%**

6. Capital risk management - continued

6.3 Internal Capital Adequacy Assessment Process (ICAAP)

The Bank considers the Internal Capital Adequacy Assessment Process (ICAAP) embedded in Pillar II as a tool that ensures a proper measurement of material risks and capital and allows better capital management and an improvement in risk management. Therefore it facilitates 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 is performed on an annual basis.

Therefore ICAAP is a process that the Bank utilises 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 the Bank's Executive Team take overall responsibility for the conceptual design and technical details of the ICAAP document. Apart from the responsibility for the conceptual design, the Board discusses, approves, endorses and delivers the yearly ICAAP submission. The Bank's independent risk oversight function is involved in the ICAAP with a view to ensuring that the process reflects and takes cognisance of the Bank's risk management activities and processes.

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 leads 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 involves 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 is 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 is 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 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 contains three year projections as well as the capital plan, and the Board monitors that there are adequate capital resources to support the corporate goals contained within the plan and the associated risks.

The Bank covers 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.

7. Remuneration policy

The Board of Directors performs the functions of the Remuneration Committee.

None of the directors, in their capacity as directors of the Bank, are entitled to profit sharing, share options, pension benefits or any other remuneration from the Bank. The Bank has two directors that are employees of the Bank. These two directors are part of the Bank's senior management and receive an annual bonus payable based on an assessment of one's overall performance during the previous financial year.

The Board of Directors considers that the packages offered to senior management ensure that the Bank attracts and retains management staff that is capable of fulfilling its duties and obligations. Furthermore, it is the Bank's policy to engage its senior management staff on the basis of indefinite contracts of employment after a period of probation, rather than on fixed term contracts. Accordingly, the applicable notice periods, after probation, are those provided for in the relevant legislation.

Share options and profit sharing do not feature in the Bank's processes and the individual contracts of employment of employees within the Bank do not contain provisions for termination payments and/or other payments linked to early termination other than as determined by Law. Currently no pension benefits are payable by the Bank.

As required in terms of article 451 of the CRR, individuals have been identified as Material Risk Takers ('MRTs') based on qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014 that came into force in June 2014. In addition to the Non-Executive Directors, the Bank's MRTs consist of six senior management staff members including two Executive Directors.

Senior management staff members, consisting of six officials and including executive directors, are eligible for annual salary increases but such increases are not directly related to the financial performance of the Bank. An annual bonus is payable based on an assessment of one's overall performance during the previous financial year. Bonus payments do not exceed 100% of the fixed component of the total remuneration for each individual.

Total emoluments received by senior management, including Executive Directors, during the period under review are as detailed below:

Fixed Remuneration	Variable Remuneration
US$972,657	US$169,888

Total Non-Executive Directors' fees attributable for the financial year ended 31 December 2015 amounted to US$76,041 (2014: US$82,184).

8. Leverage

The CRR introduced a new regulatory supervisory tool which requires credit institutions to calculate a non-risk based leverage ratio, supplementing the risk-based capital requirements discussed above. This tool has been introduced to deter any possible build-up of excessive leverage, a main factor during the banking crisis in 2008. The leverage ratio measures the relationship between the Bank's capital resources and its total assets.

The leverage ratio is calculated on a three-month average of capital as a proportion of total exposures. Capital is defined as Tier 1 capital in line with Article 25 of the CRR, whilst total exposure relates to the total on and off balance sheet exposures less the deductions applied to Tier 1 capital.

The current leverage ratio regime considers initial implementation as a Pillar II measure. In this light, the Commission is expected to submit by 31 December 2016 a report on the impact and effectiveness of the leverage ratio to the European Parliament and the Council, with a view to introduce the leverage ratio as a binding measure as of 2018. In the meantime, the Bank is abiding by the minimum 3% Tier 1 leverage ratio, based on fully-transitioned Basel III standards.

The following is the Bank's estimated leverage ratio, determined in accordance with the requirements stipulated by implementing regulation EU 2016/200.

	2015 **€000**
Tier 1 capital	20,710,527
Total exposure measure for the purposes of the leverage ratio	193,589,302
Leverage ratio	**10.7%**

The total exposure measure for the purposes of the leverage ratio has been determined as follows:

	2015 **€000**
On-balance sheet exposures (excluding derivatives)	
On-balance sheet items (excluding derivatives)	192,789,076
Asset amounts deducted in determining Tier 1 capital	(69,161)
On-balance sheet exposures (excluding derivatives and SFTs)	**192,719,915**
Derivative exposures	
Derivatives exposures at gross notional amount	43,224,350
Adjustments for PFE associated with derivative transactions	(42,792,107)
Derivative exposures	**432,243**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	2,185,714
Adjustments for conversion to credit equivalent amounts	(1,748,571)
Off-balance sheet exposures	**437,143**

8. Leverage - continued

The following table provides a reconciliation of accounting assets and leverage ratio exposures.

	2015
	€000
Total assets as per published financial statements	192,789,076
Adjustments for derivative instruments	432,244
Adjustment for off-balance sheet items	437,143
Other adjustments	
Deduction for intangible assets	(69,161)
Leverage ratio exposure	**193,589,302**

The table below shows the different on balance sheet exposures in relation to the calculation of the leverage ratio.

	2015
	US$
Total on-balance sheet exposures (excluding derivatives and intangible assets), of which:	**192,719,915**
Exposures treated as sovereigns	26,633,319
Institutions	66,053,739
Corporates	97,118,402
Other exposures	2,914,455

9. Other directorships

According to the 'Guide to banking supervision' issued by the European Central Bank in November 2014, a credit institution will be considered significant if any one of the following conditions is met:

- the total value of its assets exceeds €30 billion or – unless the total value of its assets is below €5 billion – exceeds 20% of national GDP;
- it is one of the three most significant credit institutions established in a Member State;
- it is a recipient of direct assistance from the European Stability Mechanism; or
- the total value of its assets exceeds €5 billion and the ratio of its cross-border assets/liabilities in more than one other participating Member State to its total assets/liabilities is above 20%.

9. Other directorships - continued

IIG Bank (Malta) Limited does not meet any of the above criteria, and therefore is currently not considered significant by banking supervisors. Accordingly, the Bank is exempt from the requirements of article 91 of CRD IV.

The number of other directorships held by the members of the Bank's Board of Directors are listed in the table below:

Director	Position	Number of other directorships held
Raymond Busuttil	Executive Director	12
James Douglas Nelson	Non-Executive Director	-
Joseph Grioli	Non-Executive Director	19
David Hu	Non-Executive Director	2
Martin Silver	Non-Executive Director	1
Karl Vella	Executive Director	-

For the purpose of the above disclosure, the number of other directorships held within the same group are counted as a single directorship.

10. Recruitment and diversity policy

The Bank is aware that a vigorous and professional approach to recruitment and selection of prospective members of the Board of Directors and management or other employees within the Bank helps it to attract and appoint those individuals having the necessary skills and attributes compatible with achieving the Bank's overall objectives. Thus, the Bank ensures that appointments at all levels made within the Bank are based on each individual's knowledge, skills, expertise and merit, as required by Maltese legislation and in line with policy.

The Bank undertakes a rigorous selection process for all prospective members of the Board and management together with other employees, bearing in mind the key activities, tasks and skills required for the vacant position. As part of the selection process, multiple interviews are conducted, during which the individual's knowledge, experience, skills and competency are evaluated against those of other individuals.

Bearing its objectives in mind, the Bank endeavours to appoint directors with diverse skills and expertise that allow the Board to create value for shareholders by ensuring that the specific risks pursued by the Bank in trade finance as well as risks that are intrinsic to banking business in general are appropriately managed and mitigated within the Board's approach. The Bank will continue to promote this diversity by recruiting the ideal individual for the vacant position, regardless of the individual's gender, race, family, disability, sexual orientation, identity or preference.