IIG BANK (MALTA) LTD

Annual Report and Financial Statements
31 December 2017

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 2017.

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.

The Bank's primary activity consists of international trade finance. It is a lender and facilitator to a client base of traders engaged in the import and export of consumer consumables, construction materials, energy products and other goods traded all over the world, including business opportunities involving emerging markets. Funding for this core business activity is sourced primarily from the domestic market attracting savers with competitive interest rates for term deposits denominated in EUR, GBP and USD ranging from one to five years maturity.

Review of the business

Performance: IIG Bank continued to register significant progress in developing its business strategy which is targeted towards a global presence in international trade and commodity finance. This development was supported by yet another year of significant profits despite a focus on maintaining balance sheet size consistent with the average level of 2016, while concentrating on maintaining customer deposits within the desired parameters commensurate to asset growth. During the year, Senior management ensured that significant progress was maintained in the internal organisational structure, with additional recruitment of skilled human resources, enhancing the operations team, risk management and compliance functions.

Income Statement: During the financial year under review, the Bank registered a profit of US$1,710,520 (2016: US$2,818,090). The key components of the income statement are: net interest income of US$4,826,218 (2016: US$5,516,183), net fee and commission income of US$1,209,453 (2016: US$813,043), gains on disposal of available-for-sale financial assets of US$1,019,252 (2016: US$5,395,295), resulting in an operating income of US$6,359,356 (2016: US$11,384,825). The administrative expenses for the year were US$3,782,859 (2016: US$2,905,467) and net impairment credit of US$83,552 (2016: net impairment charges of US$4,111,992) resulted in profit before tax of US$2,660,049 (2016: US$4,367,366). The net impairment charge to profit and loss in 2016 includes a write-off of US$3,201,188 (see Note 25).

Balance Sheet: The year-end balance sheet position of US$191,538,153 (2016: US$154,109,412), reflect the higher levels of unapplied cash balances which featured in loans and advances to banks amounting to US$ 52,555,939 (2016: US$20,679,444). Lower utilisation on facilities granted by the Bank resulted in a decrease in Loans and advances to US$81,228,230 (2016 US$89,031,527) whereas excess liquidity was allocated to investments in financial assets which grew to US$52,555,939 (2016: US$20,679,444). In line with strategy, the Bank continued to offer competitive deposit products which is reflected in an increase in customer deposits to US$159,873,126 (2016: US$120,670,756).

Outlook for 2018: The Bank has now built a regular customer base on both the deposit liabilities side of the business and its loan asset portfolio. Significant progress and opportunities of business continue to flow despite the moderate marketing effort, as the Bank concentrates to maintain its high standard of service delivery to its clients. The initial economic indicators and inflationary expectations for 2018 are encouraging, despite the threats on global trade posed by trade barriers and sanctions. The Bank is very well prepared to take advantage of the evolving opportunities, while still retaining a very positive growth outlook should market conditions not develop in line with existing expectations.

Directors' report - continued

Key performance indicators

The Board of Directors tracks the Bank's progress in implementing its strategy with a range of financial measures or key performance indicators ('KPIs'). Progress is assessed by comparison with the Bank's budgets and historical performance. The financial KPIs tracked by the Board of the Bank are presented in the following table.

	2017	**2016**
Profit before tax	**US$2,660,049**	US$4,367,366
Cost to income ratio	**62%**	64%
Return on equity	**6.36%**	11%
Capital Adequacy Ratio	**14.27%**	15.80%

The Board of Directors does not monitor any specific non-financial KPIs.

Risk management

IIG Bank faces a range of business, financial and operational risks. The Bank adopts a robust corporate governance framework with a bank-wide risk management approach, to understand what its risks are, how much risk is acceptable, and to be able to manage it to create value for shareholders while meeting regulatory requirements ensuring integrity, and ethical and transparent behaviour.

At a strategic level, the Bank's financial risk management objectives are:

i. To ensure appropriate identification of the Bank's significant risks;
ii. To ensure that the Bank's plans are consistent with its Risk Appetite;
iii. To optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures; and
iv. To help the Bank's Management improve the control and co-ordination of risk taking across the business.

Also, as part of embedding a strong risk culture, the Bank recognises the need to have the required resources in place for effective risk management. In this respect, during 2017, the Bank has increased the head count within its dedicated risk management function to meet the increased demand fuelled by the Bank's growth.

A detailed review of the Bank's use of financial instruments, its exposure to liquidity risk, credit risk and market risk, and the respective financial risk management objectives and policies, is included in Note 2 to the financial statements.

Results and dividends

The income statement is set out on page 15. During 2017, the directors proposed and paid a net final dividend of US$2,800,000 relative to the financial year ended 31 December 2016 (2016 for financial year 2015: US$4,250,000). The proceeds of the dividends together with a further shareholder contribution were re-invested in the Bank.

Directors' report - continued

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.

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386) 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 financial statements of IIG Bank (Malta) Ltd for the year ended 31 December 2017 are included in the Annual Report 2017, 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.

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 (Cap. 371) and the Maltese Companies Act (Cap. 386). 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.

Directors' report - continued

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

Joseph Grioli
Director

Raymond Busuttil
Director

Registered Office:
Level 20
Portomaso Business Tower
St. Julians STS4011
Malta

Company Secretary:
Karl Vella

Telephone number: 22484500

25 April 2018

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Independent auditor's report

To the Shareholders of IIG Bank (Malta) Ltd

Report on the audit of the financial statements

Our opinion

In our opinion:

- IIG Bank (Malta) Ltd's financial statements give a true and fair view of the Bank's financial position as at 31 December 2017, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

IIG Bank (Malta) Ltd's financial statements, set out on pages 14 to 69, comprise:

- the statement of financial position as at 31 December 2017;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent auditor's report - *continued*

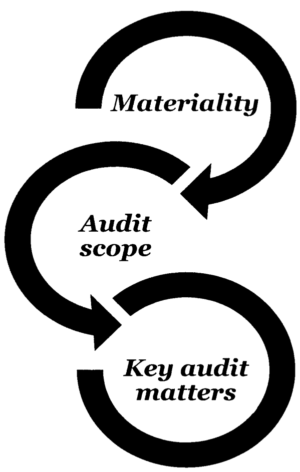
To the Shareholders of IIG Bank (Malta) Ltd

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the Bank, in the period from 1 January 2017 to 31 December 2017 are disclosed in Note 26 to the financial statements.

Our audit approach

Overview



- Overall materiality: US$1.9 million, which represents 1% of total assets.

- Impairment of loans and advances to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

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Independent auditor's report - *continued*

To the Shareholders of IIG Bank (Malta) Ltd

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below.

These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	US$1,914,000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, the assets held are considered to be the key driver of the business and the determinant of the Bank's value. Due to this, the key areas of focus in the audit is the carrying amount of the loans and renewables. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted asset-related benchmarks.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$95,700 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Impairment of loans and advances to customers Impairment allowances in respect of loans and advances to customers represent management's best estimate of the losses incurred within the Bank's loan portfolio at the end of the reporting period. All loans and advances to customers are considered individually significant. As a result, the Bank assesses whether there is any objective evidence that a loan is impaired on an individual basis. A collective impairment assessment is also performed in respect of all loans within the Bank's portfolio to determine whether any losses have been incurred but have not yet been identified by the end of reporting period. Both the individual and the collective impairment assessments are inherently judgemental. For individual impairment assessments, judgement is required to determine whether a loss event has occurred, and then, for each exposure with a loss event, to determine whether the loss event has an impact on the estimated future cash flows of the loan.	The policies and methodologies used by the Bank in respect of the impairment assessment of its loans and advances to customers and certain key judgements in respect of impairment triggers relating to individually significant loans were discussed with management and the Audit Committee. For the individual impairment assessment, we understood and evaluated the processes for identifying impairment events within the loan portfolio, as well as the impairment assessment processes. We tested the controls management has in place to identify loss events and impairment indicators including management's review, approval and grading process that is in place in the form of a credit file review process through which each individual loan is scrutinised for impairment indicators by both the front-line business as well as by an independent risk officer.

Key audit matter	How our audit addressed the Key audit matter
Judgement is also required to determine whether the Bank has incurred any losses which have not yet been identified. Management relies on the use of proxy data as well as their professional judgement in this respect. We focused on impairment of loans and advances to customers due to the subjective judgements involved in identifying whether there is any objective evidence that a loan is impaired and the estimation of the size of any such impairment. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.4; • Credit risk management: Note 2.1(a); • Critical accounting judgements and estimates: Note 3; • Note on Loans and advances to customers: Note 8; and • Note on Net impairment charges: Note 25.	We also assessed critically the criteria used for determining whether an impairment event had occurred and therefore whether there was a requirement to compute a specific impairment allowance. We performed tests of detail on a sample of loans to challenge whether impairment events had actually occurred by forming our own judgement as to whether the classification of the loans as unimpaired was appropriate and to challenge whether all relevant events had been identified by management. For collective allowances the appropriateness of the modelling policy and methodology used was independently assessed by reference to the requirements of accounting standards and market practices. We understood and critically assessed the model used for collective allowances. Since the model is based on a number of assumptions and parameters, we assessed their reasonableness to ensure that the provision was representative of current circumstances and of the recent losses incurred within the portfolios, and that management's judgements were appropriate. Model calculations were tested for reasonableness utilising our independent models. We also tested the completeness and accuracy of data utilised in the model. Based on the evidence obtained, we found management's judgements in respect of both the individual and collective impairment assessments to be reasonable.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report and the Additional Regulatory Disclosures (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Directors' report, we also considered whether the Directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), 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.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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Independent auditor's report - continued

To the Shareholders of IIG Bank (Malta) Ltd

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent auditor's report - *continued*

To the Shareholders of IIG Bank (Malta) Ltd

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Maltese Banking Act (Cap. 371)

In our opinion:

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

Other matters on which we are required to report by exception

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- returns adequate for our audit have not been received from branches not visited by us; and
- 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.

Independent auditor's report - *continued*

To the Shareholders of IIG Bank (Malta) Ltd

Appointment

We were first appointed as auditors of the Bank for the period ended 31 December 2010. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 8 years.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Lucienne Pace Ross
Partner

25 Apr 2018

Statement of financial position

	Notes	As at 31 December 2017 US$	2016 US$
ASSETS			
Cash and balances with Central Bank of Malta	4	**940,849**	3,869,089
Derivative financial instruments	18	**538,587**	-
Financial assets designated as at fair value through profit or loss	5	**25,513,179**	11,609,537
Financial assets classified as available-for-sale	6	**27,029,859**	26,292,206
Loans and advances to banks	7	**52,555,939**	20,679,444
Loans and advances to customers	8	**81,228,230**	89,031,527
Property, plant and equipment	9	**159,113**	148,669
Intangible assets	10	**931,783**	61,127
Deferred tax assets	11	**122,238**	131,534
Accrued income and other assets	12	**2,518,376**	2,286,279
Total assets		**191,538,153**	154,109,412
EQUITY AND LIABILITIES			
Equity			
Share capital	13	**26,500,000**	22,500,000
Fair value reserve	14	**256,013**	377,085
Other reserve	15	**50,924**	14,790
Retained earnings		**1,729,914**	2,855,529
Total equity		**28,536,851**	25,747,404
Liabilities			
Amounts owed to customers	16	**159,873,126**	120,670,756
Amounts owed to banks	17	**670,614**	3,350,010
Derivative financial instruments	18	**-**	1,374,781
Current tax liabilities		**877,424**	1,860,218
Other liabilities	19	**1,580,138**	1,106,243
Total liabilities		**163,001,302**	128,362,008
Total equity and liabilities		**191,538,153**	154,109,412
MEMORANDUM ITEMS			
Commitments	20	**2,619,531**	5,524,573

The official closing middle rate of exchange applicable between US dollar and euro published by the European Central Bank as at 31 December 2017 was 1.1993 (2016: 1.0541).

The notes on pages 19 to 69 are an integral part of these financial statements.

The financial statements on pages 14 to 69 were authorised for issue by the board on 25 April 2018 and were signed on its behalf by:

Joseph Grioli
Director

Raymond Busuttil
Director

Income statement

		Year ended 31 December	
	Notes	**2017 US$**	2016 US$
Interest income	21	**7,629,726**	8,408,071
Interest expense	22	**(2,803,508)**	(2,891,888)
Net interest income		**4,826,218**	5,516,183
Fee and commission income	23	**1,765,543**	1,538,090
Fee and commission expense	23	**(556,090)**	(725,047)
Net fee and commission income		**1,209,453**	813,043
Net trading losses	24	**(695,567)**	(339,696)
Gains on disposal of available-for-sale financial assets		**1,019,252**	5,395,295
Operating income		**6,359,356**	11,384,825
Net impairment credit/(charges)	25	**83,552**	(4,111,992)
Administrative expenses	26	**(3,782,859)**	(2,905,467)
Profit before tax		**2,660,049**	4,367,366
Tax expense	27	**(949,529)**	(1,549,276)
Profit for the year		**1,710,520**	2,818,090

The notes on pages 19 to 69 are an integral part of these financial statements.

Statement of comprehensive income

	Notes	Year ended 31 December 2017 US$	2016 US$
Profit for the year		**1,710,520**	2,818,090
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	**832,988**	1,606,039
Reclassification adjustments – net amounts reclassified to profit or loss upon disposal, before tax		**(1,019,252)**	(5,395,295)
Income tax relating to components of other comprehensive income	11	**65,192**	1,326,240
Other comprehensive income for the year, net of tax		**(121,072)**	(2,463,016)
Total comprehensive income for the year		**1,589,448**	355,074

The notes on pages 19 to 69 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital US$	Fair value reserve US$	Other reserve US$	Retained earnings US$	Total equity US$
Balance at 1 January 2016		16,300,000	2,840,101	-	4,302,229	23,442,330
Comprehensive income						
Profit for the year		-	-	-	2,818,090	2,818,090
Other comprehensive income:						
Fair valuation of available-for-sale financial assets						
Net changes in fair value arising during the year, net of tax	6,11	-	1,043,925	-	-	1,043,925
Reclassification adjustments – net amounts reclassified to profit or loss, net of deferred tax		-	(3,506,941)	-	-	(3,506,941)
Total comprehensive income		-	(2,463,016)	-	2,818,090	355,074
Transactions with owners						
Issue of ordinary share capital	13	6,200,000	-		-	6,200,000
Dividends to equity holders	28	-	-		(4,250,000)	(4,250,000)
Allocation of funds for general risks	15	-	-	14,790	(14,790)	-
Total transactions with owners		6,200,000	-	14,790	(4,264,790)	1,950,000
Balance at 31 December 2016		22,500,000	377,085	14,790	2,855,529	25,747,404
Comprehensive income						
Profit for the year		-	-	-	1,710,520	1,710,520
Other comprehensive income:						
Fair valuation of available-for-sale financial assets						
Net changes in fair value arising during the year, net of tax	6,11	-	541,442	-	-	541,442
Reclassification adjustments – net amounts reclassified to profit or loss, net of deferred tax		-	(662,514)	-	-	(662,514)
Total comprehensive income		-	(121,072)	-	1,710,520	1,589,448
Transactions with owners						
Issue of ordinary share capital	13	4,000,000	-	-	-	4,000,000
Dividends to equity holders	28	-	-	-	(2,800,000)	(2,800,000)
Allocation of funds for general risks	15	-	-	36,134	(36,134)	-
Total transactions with owners		4,000,000	-	36,134	(2,836,134)	1,200,000
Balance at 31 December 2017		**26,500,000**	**256,013**	**50,924**	**1,729,914**	**28,536,851**

The notes on pages 19 to 69 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2017 US$	2016 US$
Operating activities			
Interest and commission income received		**9,484,815**	10,691,842
Interest and commission expense paid		**(3,270,259)**	(3,715,806)
Net income from foreign exchange transactions		**(5,940,494)**	1,040,671
Tax paid		**(1,857,835)**	(2,310,146)
Cash payments to employees and suppliers		**(3,582,387)**	(2,758,990)
Cash flows (used in)/generated from operating activities before changes in operating assets and liabilities		**(5,166,160)**	2,947,571
Changes in operating assets and liabilities:			
Net increase in balances with Central Bank of Malta	4	**(234,825)**	(27,007)
Net decrease/(increase) in loans and advances to banks	7	**6,424,378**	1,291,498
Net increase in amounts attributable to Depositor Compensation Scheme	12	**(42,237)**	(160,296)
Net increase/(decrease) in loans and advances to customers	8	**7,886,849**	(10,957,419)
Net increase/(decrease) in amounts owed to customers	16	**39,206,068**	(23,000,583)
Net (decrease)/increase in amounts owed to banks	17	**(2,679,396)**	(16,113,197)
Net cash (used in)/generated from operating activities		**45,394,677**	(46,019,433)
Investing activities			
Purchase of available-for-sale investments	6	**(32,076,439)**	(46,732,962)
Purchase of investments at fair value through profit or loss	5	**(11,720,608)**	(9,218,300)
Proceeds from disposal and redemptions of available-for-sale investments	6	**33,320,299**	67,024,392
Purchase of property, plant and equipment	9	**(61,283)**	(33,319)
Purchase of intangible assets	10	**(918,838)**	(18,202)
Net cash generated from investing activities		**(11,456,869)**	11,021,609
Financing activities			
Issue of ordinary share capital	13	**4,000,000**	6,200,000
Dividends paid to equity holders	28	**(2,800,000)**	(4,250,000)
Net cash generated from financing activities		**1,200,000**	1,950,000
Net movement in cash and cash equivalents		**35,137,808**	(33,047,824)
Cash and cash equivalents at beginning of year		**17,420,617**	50,468,441
Cash and cash equivalents at end of year	29	**52,558,425**	17,420,617

The notes on pages 19 to 69 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, (Cap. 371) and the Maltese Companies Act, (Cap. 386). 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 2017

During the financial year ended 31 December 2017, the Bank adopted new standards, amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2017. 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.

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 9 applies from 1 January 2018, and replaces IAS 39 Financial Instruments: Recognition and Measurement.

Classification and measurement
The classification and measurement of financial assets under IFRS 9 reflects both the business model in which assets are managed and their cash flow characteristics. The existing IAS 39 financial instrument classifications are replaced with the IFRS 9 classifications of amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

A financial asset not designated as at FVTPL is measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

A financial asset not designated as at FVTPL is measured at FVOCI only if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL.

Business model assessment
Key management personnel determine the Bank's business model by considering the way financial instruments are managed in order to generate cash flows. Such assessment is performed at a 'portfolio level' as it best reflects the way the business is managed and information is provided to management. The information that is considered in such assessment includes:

i. the objectives for the portfolio including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
ii. the method for the evaluation of the performance of the portfolio and how such performance is reported to the Bank's management;
iii. the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
iv. the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are SPPI
In respect of assets where the intention of the business model is to hold the financial assets to collect the contractual cash flows or to hold to collect and to sell, the Bank assesses whether the cash flow characteristics of these assets meet the SPPI requirements of IFRS 9. 'Principal' is the fair value of the financial asset at initial recognition. It is not the amount that is due under the contractual terms of an instrument. 'Interest' is the compensation for time value of money and credit risk of a basic lending-type return. A basic lending-type return could also include consideration for other basic lending risks (for example, liquidity risk) and consideration for costs associated with holding the financial asset for a particular period of time (for example, servicing or administrative costs) and/or a profit margin.

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

1.1 Basis of preparation - continued

Unlike the business model assessment, the SPPI assessment is performed for each individual product or portfolio of products. The following considerations are made when assessing consistency with SPPI:

i. contingent events that would change the amount and timing of cash flows such as contractual term resetting interest to a higher amount in the event of a missed payment;
ii. leverage features, being contractual cash flow characteristics that increase the variability of the contractual cash flows with the result that they do not have economic characteristics of interest;
iii. contractual terms that allow the issuer to prepay (or the holder to put a debt instrument back to the issuer) before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest, which may include reasonable compensation for early termination of the contract;
iv. contractual terms that allow the issuer or holder to extend the contractual term and the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest, which may include reasonable compensation for the extension of the contract; and
v. features that modify consideration for the time value of money (for example, periodic reset of interest rates).

The Bank conducted an assessment based on the above considerations and the following classification and measurement matters have been determined:

i. Cash and balances with Central Bank of Malta
Cash and balances with Central Bank of Malta, representing the minimum reserve deposits, classified as loans and receivables under IAS 39 are measured at amortised cost under IFRS 9;

ii. Financial assets designated as at FVTPL
Investments in money market funds designated as at FVTPL under IAS 39 are also measured at FVTPL under IFRS 9. Such investments fail the SPPI test since there are no contractual cash flows that represent payments of principal and interest.

iii. Financial assets classified as available-for-sale
Financial assets classified as available-for-sale under IAS 39 consist of high-yield debt securities and investment grade listed securities issued by the local government, foreign governments, corporates and financial institutions.

Investment grade listed debt securities, defined by recognised external rating agencies as having a rating between 'AAA' and 'BBB-' (Standard & Poor's and Fitch) and between 'Aaa' and 'Baa' (Moody's) are measured at FVOCI under IFRS 9, given that the objective of the business model is achieved by both the collection of contractual cash flows and selling of the financial assets. Investment grade listed securities are intended to be held for an indefinite period, which may be sold in response to needs for liquidity or if the opportunity arises.

High-yield debt securities, defined as 'non-investment grade' securities by recognised external rating agencies, are measured at FVTPL under IFRS 9, given that sales are made within a program of active buying and selling to realise fair value changes. Such programmed actions are considered integral to the business model and collecting cash flows is incidental. High-yield debt securities are managed and evaluated on a fair value basis.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

iv. Loans and advances to banks and to customers

Loans and advances to banks and to customers classified as loans and receivables under IAS 39 are measured at amortised cost under IFRS 9.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This requires considerable judgement over how changes in economic factors affect ECLs, determined on a probability-weighted basis.

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months ("12-month ECL").

In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are considered 'stage 1'. Financial assets which are considered to have experienced a significant increase in credit risk are classified as 'stage 2' and financial assets for which there is objective evidence of impairment, thus considered to be in default or otherwise credit impaired, are classified as 'stage 3'.

Loss allowances at an amount equal to 12-month ECL are recognised for balances with Central Bank of Malta, investment grade listed securities measured at FVOCI and loans and advances to banks, and that are determined to have low credit risk at the reporting date. The Bank considers a financial asset to have low credit risk when it represents an 'investment-grade' asset, defined by recognised external rating agencies as explained above.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in assessing whether the credit risk of an instrument has increased significantly since initial recognition and the incorporation of forward-looking information into the measurement of ECL.

Significant increase in credit risk (SICR)

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information. Such analysis is based on the Bank's historical experience, credit assessment and forward-looking information.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

The Bank primarily identifies whether a SICR has occurred for an exposure within the loans and advances to customers, through the Bank's internal grading categories. The Bank allocates each exposure to an internal grade category based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. These factors may vary depending on the nature of the exposure and the type of borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different internal grade category. Identification of SICR and classification into stage 2 is performed for those non-defaulted exposures, which fulfil at least one of the following conditions:

i. the exposure is considered forborne;
ii. the customer is experiencing financial difficulties such as regular and continuous trading losses;
iii. the exposure is characterised by the possibility that the Bank will incur losses if the customer does not recover from financial difficulties;
iv. the credit quality of other exposures of the same customer is not considered 'regular'; and
v. the borrower's internal grade category is not 'regular'.

As a backstop, and as required by IFRS 9, the Bank presumptively considers that a SICR occurs when an asset is more than 30 days past due. The Bank determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

In the case of debt securities and loans and advances to banks, the Bank applies the low credit risk simplification to all its exposures considered 'investment-grade', thus they are not subject to the SICR assessment. Moving from 'investment-grade' to 'non-investment grade' does not automatically mean that there has been a SICR.

Definition of default and credit impaired
The assessment required by IFRS 9 to determine the extent of increase in credit risk of a financial instrument since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument. As a result, the definition of default is important.

IFRS 9 does not specifically define default, but requires it to be applied on a consistent basis with internal credit risk management practice for the relevant instruments and requires consideration of qualitative factors where appropriate. In addition, IFRS 9 also introduces a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

In this respect, the Bank determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:
i. contractual payments of either principal or interest are past due for more than 90 days;
ii. it becomes probable that the issuer, borrower or counterparty bank will enter bankruptcy or other financial re-organisation;
iii. a decrease in the value of the collateral in cases when repayment of the loan is directly dependent on the collateral value;
iv. there are other indications that the borrower is unlikely to pay; and
v. the loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Modified loans and advances to customers
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

The Bank renegotiates loans and advances to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms, and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity and changing the timing of interest payments.

Measurement of ECL
The Bank calculates ECL using three main components: probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). These parameters are derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described below.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the residual life of the exposure. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument, respectively.

PD estimates for the loans and advances to customers are calculated through the modelling of empirical frequencies of loan defaults as functions of identifiable macroeconomic variables. Such process involves the identification of the number of observed historical defaults. Since the Bank has a history of low default observations, the empirical PD is tested for measurement errors to obtain statistical evidence that it factors uncertainty.

PD estimates for the balances with the Central Bank of Malta, investment grade listed debt securities and loans and advances to banks are based on default and rating transition studies published by reputable credit rating agencies.

The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the expected recoveries, the mitigating effect of collateral value (at the time it is expected to be realised) and the time value of money. The LGD for the loans and advances to customers is based on empirical recoveries. The LGD for the balances with the Central Bank of Malta, investment grade listed debt securities and loans and advances to banks is based on default and recoveries studies published by reputable credit rating agencies.

EAD represents the expected exposure in the event of a default (including any expected drawdowns of committed facilities). The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation. The EAD of a financial asset is the gross carrying amount at default.

The ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Forward looking information

Under IFRS 9, the Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. The Bank performs a historical analysis to identify the key economic variables affecting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD may vary by portfolio. In this respect, the Bank has identified key drivers of credit risk and credit losses for each portfolio of financial instruments by analysing the relationships between macro-economic variables, credit risk and credit losses. These key drivers include GDP growth and indices that measure the market performance of selected financial instruments.

Three scenarios are considered to capture non-linearity across credit portfolios. The 'base line' scenario represents the most-likely outcome. It is based on authoritative sources. Apart from the 'base line' scenario, the Bank considers two other macro-economic scenarios, which represent a more optimistic and a more pessimistic outcome – supported by scenario narratives that reflect the current top and emergent risks. The more optimistic and more pessimistic scenarios are economically plausible and are not necessarily as severe as scenarios used in stress testing.

As with any macro-economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of uncertainty and therefore, the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

Presentation of ECL in statement of financial position (SOFP)

For financial assets that are measured at amortised cost, the ECL allowance is presented against the carrying amount of the assets on the balance sheet, thereby reducing the carrying amount.

For financial assets measured at fair value through other comprehensive income, the loss allowance is presented within other comprehensive income and not against the carrying amount of the assets. The carrying amount of the asset is always the fair value.

Transition and impact on CET1

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The mandatory application date for the standard as a whole is 1 January 2018. The Bank has not restated its comparative periods. Accordingly, all adjustments resulting from the transition have been applied by adjusting the opening balance sheet as at 1 January 2018.

The Bank has estimated that on adoption of IFRS 9 at 1 January 2018, the impact of changes in classification and measurement is approximately US$90,000 (before tax), representing the total gains on high-yield debt securities as at 31 December 2017, reported within the fair value reserve (under IAS 39) which has been reclassified to retained earnings as at 1 January 2018 under IFRS 9. The Bank has concluded that no further financial impact arises from changes in classification and measurement, since except for the high-yield debt securities, the accounting measurements for the other financial assets are principally the same as under IAS 39.

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

1.1 Basis of preparation - continued

Based on assessments undertaken to date, adoption of IFRS 9 impairment requirements is expected to reduce net assets of the Bank at 1 January 2018 by US$366,107, net of deferred tax of US$197,135 in view of application of ECL requirements. The above assessment is subject to further transition work including refinement of the Bank's models for expected credit loss ("ECL") calculations. The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application.

The Bank has adopted the regulatory transitional arrangements adopted by the EU on 27 December 2017. These permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The proportion that banks may add back starts at 95% in 2018, and reduces to 25% by 2022. As a result, the CET1 will not change in a substantial manner in view of the application of the regulatory transitional period of five years.

Disclosures
IFRS 9 will require extensive new disclosures, in particular about credit risk and ECL.

Hedge accounting
The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks, but do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The Bank deploys no hedging strategies that achieve hedge accounting in terms of IAS 39. Accordingly, IFRS 9 has no impact on the Bank in this regard.

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.

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

1.3 Financial assets - continued

Financial assets at fair value through profit or loss - continued

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

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 is 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 is 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 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 purpose 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 expense on financial liabilities held for trading is 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 Employee benefits

Funded defined contribution plan

The Bank operates a post-employment scheme, which consists of a defined contribution pension plan. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Expenses relating to defined contribution plans are recognised as an expense in profit or loss, within administrative expenses.

1.18 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. Summary of significant accounting policies - continued

1.19 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.

1.20 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:

	2017	2016
	US$	US$
Credit risk exposures relating to on-balance sheet assets:		
Derivative financial instruments (Note 18)	**538,587**	-
Financial assets at fair value through profit or loss:		
Investment in units in money market funds (Note 5)	**25,513,179**	11,609,537
Financial assets classified as available-for-sale:		
Debt securities (Note 6)	**27,029,859**	26,292,206
Loans and receivables:		
Balances with Central Bank of Malta (Note 4)	**938,363**	3,868,238
Loans and advances to banks (Note 7)	**52,555,939**	20,679,444
Loans and advances to customers (Note 8)	**81,228,230**	89,031,527
Accrued interest income and receivables (Note 12)	**2,152,039**	1,948,860
	189,956,196	153,429,812
Credit risk exposures relating to off-balance sheet instruments:		
Commitments	**2,619,531**	5,524,573

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 2017 and 2016, 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 2017					
Balances with Central Bank of Malta	-	938,363	-	-	938,363
Derivative financial instruments	-	-	190,700	347,887	538,587
Financial assets designated at fair value through profit or loss	-	13,376,361	12,136,818	-	25,513,179
Financial assets classified as available-for-sale	5,561,055	1,812,205	8,411,932	11,244,667	27,029,859
Loans and advances to banks	-	12,951,987	33,324,730	6,279,222	52,555,939
Loans and advances to customers	16,166,684	618,683	6,293,710	58,149,153	81,228,230
Accrued income and other assets	322,280	1,124,291	143,572	561,896	2,152,039
	22,050,019	**30,821,890**	**60,501,462**	**76,582,825**	**189,956,196**
As at 31 December 2016					
Balances with Central Bank of Malta	-	3,868,238	-	-	3,868,238
Derivative financial instruments	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	11,609,537	-	-	11,609,537
Financial assets classified as available-for-sale	4,136,347	3,663,309	10,463,690	8,028,860	26,292,206
Loans and advances to banks	-	2,719,998	11,413,466	6,545,980	20,679,444
Loans and advances to customers	39,667,694	355,335	15,678,648	33,329,850	89,031,527
Accrued income and other assets	400,467	862,626	295,659	390,108	1,948,860
	44,204,508	**23,079,043**	**37,851,463**	**48,294,798**	**153,429,812**

Loans and advances to customers

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

	2017 US$	2016 US$
Wholesale trade of commodity products	**53,007,206**	40,354,602
Manufactured/processed commodity products	**11,240,720**	19,958,089
Agriculture, forestry and fishing	**4,925,964**	18,146,825
Mining	**-**	3,948,000
Transport	**12,054,340**	6,624,011
	81,228,230	89,031,527

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

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.

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:

	2017 US$	2016 US$
Loans and advances to customers		
Fully collateralised	**59,347,654**	41,844,616
Uncollateralised	**21,880,576**	47,186,911
	81,228,230	89,031,527

The Bank is exposed to a significant concentration of credit risk with respect to its loans and advances to customers as they are due from a limited number of customers. As at 31 December 2017, loans and advances to customers amounting to US$52,484,532 (2016: US$60,995,593) of fourteen borrowers (2016: sixteen borrowers) 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. These borrowers represent 64.61% (2016: 68.51%) of the Bank's loans and advances to customers. As at 31 December 2017 and 2016, no loans and advances to customers were deemed to be prohibited large exposures in terms of the CRR.

As at 31 December 2017, loans and advances to customers were deemed to be fully performing with the exception of assets amounting to US$10,194,167 (2016: US$6,061,901) which were past due but not impaired and assets amounting to US$594,655 (2016: US$1,179,217) which were past due by more than six months and impaired. A financial asset is past due when a counterparty has failed to make a payment when contractually due. The credit quality of the Bank's gross loans and advances to customers are presented in the table below:

	Performing US$	**1 – 30 days US$**	**31 - 60 days US$**	**61 – 90 days US$**	**Non-Performing US$**	**Total US$**
2017	71,301,222	3,775,899	-	-	7,012,923	82,090,044
2016	82,735,776	1,504,364	3,139,537	986,999	1,610,218	89,976,894

During 2016, the Bank had written off the carrying amount of a loan relating to a single borrower amounting to US$3,201,188 due to fraudulent action committed by the borrower.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

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.

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 2017, the Bank classifies exposure balances amounting to US$11,312,922 (2016: US$15,672,216) of six borrowers (2016: seven borrower) as forborne, albeit without derecognition. This represents a decrease of US$4,359,294 (2016: increase US$12,028,326) in loans for which forbearance measures have been extended during the period. There were repayments of forborne loans amounting to US$9,124,026 during 2017 (2016: US$0). These exposures represent 13.78% (2016: 17.42%) of the Bank's loans and advances to customers. As at the reporting date, specific impairment allowance amounting to US$594,655 (2016: US$600,000) are being held against one of these exposures. Accordingly, as at the reporting date, a forborne exposure amounting to US$594,655 (2016: 1,783,226) is classified as past due and impaired, forborne exposures amounting to US$2,424,213 (2016: 2,226,343) are classified as past due but not impaired, forborne exposures amounting to US$3,994,054 (2016: US$0) are non-performing and one forborne exposure amounting to US$4,300,000 (2016: US$11,662,646) is performing to terms. Interest income recognised during the year in respect of forborne loans amounts to US$1,287,511 (2016: US$1,876,596). Forborne loans are analysed by geographical location as follows:

	2017	2016
	US$	US$
As at 31 December		
Latin America	**9,184,877**	8,629,441
Other EU countries	**1,533,390**	4,699,871
Rest of world	**594,655**	2,342,904
	11,312,922	15,672,216

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

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 and foreign governments, listed debt securities issued by foreign corporates generally with high credit quality and strong financial background as well as in rated sub-investment grade debt instruments. 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 stock 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.

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$	Derivative financial instruments US$	Financial assets classified as available-for-sale US$	Loans and advances to banks US$
2017				
AAA	-	-	1,357,741	-
AA	-	-	-	-
AA-	-	208,419	500,650	7,503,749
A+	-	-	561,903	438,717
A	-	-	245,269	-
A-	938,363	-	3,001,937	-
BBB+	-	-	666,018	-
BBB	-	(17,719)	457,022	6,253,022
BBB-	-	332,831	1,631,379	8,176,446
BB+	-	(9,076)	762,775	25,429,642
BB	-	-	1,047,590	-
BB-	-	-	2,559,690	-
B+	-	-	3,293,786	-
B	-	-	5,397,143	-
B-	-	-	2,234,093	3,099,960
CCC+	-	-	2,819,907	-
Unrated	-	24,132	492,956	1,654,403
Total	**938,363**	**538,587**	**27,029,859**	**52,555,939**

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

	Balances with Central Bank of Malta US$	Derivative financial instruments US$	Financial assets classified as available-for-sale US$	Loans and advances to banks US$
2016				
AAA	-	-	1,309,469	1,391,402
AA	-	-	1,637,205	1,739,920
AA-	-	-	-	-
A+	-	-	1,443,925	-
A	-	-	1,063,265	-
A-	3,868,238	-	4,294,940	6,559,585
BBB+	-	-	891,317	610,198
BBB	-	-	1,973,552	-
BBB-	-	-	1,735,933	808,657
BB+	-	-	955,295	4,855,539
BB	-	-	1,594,486	-
BB-	-	-	1,501,638	1,614,838
B+	-	-	2,161,453	-
B	-	-	2,775,097	840,000
B-	-	-	1,979,196	-
CCC+	-	-	529,185	-
Unrated	-	-	446,250	2,259,305
Total	**3,868,238**	-	**26,292,206**	**20,679,444**

Loans and advances to customers, amounts receivable from the Depositor Compensation Scheme and financial assets held at fair value through profit or loss have been excluded from the above analysis since they are unrated.

(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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Foreign exchange risk - continued

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.

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 2017				
Financial assets				
Balances with Central Bank of Malta	-	-	938,363	938,363
Derivative financial instruments	-	94,028	444,559	538,587
Financial assets designated at fair value through profit and loss	-	-	25,513,179	25,513,179
Financial assets classified as available-for-sale	17,067,166	992,088	8,970,605	27,029,859
Loans and advances to banks	17,723,960	1,312,319	33,519,660	52,555,939
Loans and advances to customers	77,050,796	1,482,931	2,694,503	81,228,230
Accrued interest income and other assets	904,996	16,310	1,230,733	2,152,039
Total financial assets	112,746,918	3,897,676	73,311,602	189,956,196
Financial liabilities				
Amounts owed to customers	41,014,450	13,895,984	104,962,692	159,873,126
Amounts owed to banks	670,614	-	-	670,614
Accrued interest payable and other liabilities	26,662	53,624	1,499,852	1,580,138
Total financial liabilities	41,711,726	13,949,608	106,462,544	162,123,878
Net on-balance sheet position	71,035,192	(10,051,932)	(33,150,942)	
Off-balance sheet net notional position		10,134,000	31,985,367	
Net currency exposure		**82,068**	**(1,165,575)**	

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(b) *Market risk* - continued

Foreign exchange risk - continued

As at 31 December 2016	US$	GBP US$	Euro US$	Total US$
Financial assets				
Balances with Central Bank of Malta	-	-	3,868,238	3,868,238
Financial assets designated at fair value through profit and loss	-	-	11,609,537	11,609,537
Financial assets classified as available-for-sale	11,715,857	635,762	13,940,587	26,292,206
Loans and advances to banks	14,553,200	911,405	5,214,839	20,679,444
Loans and advances to customers	84,410,565	-	4,620,962	89,031,527
Accrued interest income and other assets	909,639	8,356	1,030,865	1,948,860
Total financial assets	111,589,261	1,555,523	40,285,028	153,429,812
Financial liabilities				
Amounts owed to customers	26,400,634	11,414,013	82,856,109	120,670,756
Amounts owed to banks	-	185,310	3,164,700	3,350,010
Accrued interest payable and other liabilities	169,899	57,213	879,131	1,106,243
Total financial liabilities	26,570,533	11,656,536	86,899,940	125,127,009
Net on-balance sheet position	85,018,728	(10,101,013)	(46,614,912)	
Off-balance sheet net notional position		9,883,200	43,828,966	
Net currency exposure		(217,813)	(2,785,946)	

Under the scenario that the US dollar appreciates by 10% against the euro and the GBP, profit before tax for the year would have been US$108,351 (2016: US$300,376) higher. Conversely, should the US dollar depreciate against the euro and the GBP by 10%, profit before tax for the year would have been US$108,351 (2016: US$300,376) lower.

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

(b) *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 2017			
Interest-bearing assets			
Financial assets designated at FVTPL:			
Units in a money market fund	25,513,179	-	25,513,179
Financial assets classified as available-for-sale:			
Debt securities	1,812,205	25,217,654	27,029,859
Loans and receivables:			
Balances with Central Bank of Malta	938,363	-	938,363
Loans and advances to banks	37,981,932	14,574,007	52,555,939
Loans and advances to customers	65,061,546	16,166,684	81,228,230
	131,307,225	55,958,345	187,265,570
Interest-bearing liabilities			
Amounts owed to customers	-	159,873,126	159,873,126
Amounts owed to banks	-	670,614	670,614
	-	160,543,740	160,543,740
Net exposure	**131,307,225**	**(104,585,395)**	**26,721,830**
At 31 December 2016			
Interest-bearing assets			
Financial assets designated at FVTPL:			
Units in a money market fund	11,609,537	-	11,609,537
Financial assets classified as available-for-sale:			
Debt securities	2,135,012	24,157,194	26,292,206
Loans and receivables:			
Balances with Central Bank of Malta	3,868,238	-	3,868,238
Loans and advances to banks	6,559,585	14,119,859	20,679,444
Loans and advances to customers	42,318,126	46,713,401	89,031,527
	66,490,498	84,990,454	151,480,952
Interest-bearing liabilities			
Amounts owed to customers	-	120,670,756	120,670,756
Amounts owed to banks	3,164,700	185,310	3,350,010
	3,164,700	120,856,066	124,020,766
Net exposure	**63,325,798**	**(35,865,612)**	**27,460,186**

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 and which are subject to interest rate risk comprise the Bank's investments in money market funds 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 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 2017 on the fair valuation of its investments carried at fair value (debt securities and units in the money market fund) amounts to US$1,120,995 (2016: US$1,174,779). 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.

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$853,497 (2016: increase by US$411,618). Taking cognisance of the current low interest rate environment, the Bank does not expect interest rate to decrease by a further 100 basis points. Accordingly, the disclosure relating to an assumed decrease in interest rates by a 100 basis points is not deemed necessary.

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.

	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 2017					
Financial assets					
Balances with Central Bank of Malta	938,363	-	-	-	938,363
Financial assets designated at fair value through profit or loss	25,513,179	-	-	-	25,513,179
Financial assets classified as available-for-sale	-	1,812,205	617,440	24,660,214	27,029,859
Loans and advances to banks	38,779,843	13,776,096	-	-	52,555,939
Loans and advances to customers	17,311,583	36,260,925	17,193,847	10,461,875	81,228,230
	82,542,968	**51,849,226**	**17,811,287**	**35,062,089**	**187,265,570**
Financial liabilities					
Amounts owed to customers	51,095,354	29,417,834	38,414,243	40,945,695	159,873,126
Amounts owed to banks	670,614	-	-	-	670,614
	51,765,968	**29,417,834**	**38,414,243**	**40,945,695**	**160,543,740**
Interest rate gap	**30,777,000**	**22,431,392**	**(20,602,956)**	**(5,883,606)**	
Cumulative gap	**30,777,000**	**53,208,391**	**32,605,436**	**26,721,830**	

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) *Market risk* - continued

Interest rate risk - continued

As at 31 December 2016	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	3,868,238	-	-	-	3,868,238
Financial assets designated at fair value through profit or loss	11,609,537	-	-	-	11,609,537
Financial assets classified as available-for-sale	-	527,661	1,607,351	24,157,194	26,292,206
Loans and advances to banks	11,949,763	2,305,303	6,424,378	-	20,679,444
Loans and advances to customers	51,789,417	6,613,875	21,811,118	8,817,117	89,031,527
	79,216,955	**9,446,839**	**29,842,847**	**32,974,311**	**151,480,952**
Financial liabilities					
Amounts owed to customers	28,637,821	25,193,358	30,520,977	36,318,600	120,670,756
Amounts owed to banks	-	3,164,700	185,310	-	3,350,010
	28,637,821	**28,358,058**	**30,706,287**	**36,318,600**	**124,020,766**
Interest rate gap	**50,579,134**	**(18,911,219)**	**(863,440)**	**(3,344,289)**	
Cumulative gap	**50,579,134**	**31,667,915**	**30,804,475**	**27,460,186**	

(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 money market funds; and
- unencumbered high quality liquid assets 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 2017	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	938,363	-	-	-	-	938,363
Derivative financial instruments	95,652	386,883	56,052	-	-	538,587
Financial assets designated at fair value through profit or loss	-	-	-	-	25,513,179	25,513,179
Financial assets classified as available-for-sale	-	-	2,429,645	23,605,211	995,003	27,029,859
Loans and advances to banks	38,779,843	13,776,096	-	-	-	52,555,939
Loans and advances to customers	13,321,648	35,444,057	21,611,416	10,851,109	-	81,228,230
Accrued income and other assets	123,002	256,354	157,921	489,444	1,125,318	2,152,039
	53,258,508	**49,863,390**	**24,255,034**	**34,945,764**	**27,633,500**	**189,956,196**
Financial liabilities						
Amounts owed to customers	51,095,354	29,417,834	38,414,243	40,945,695	-	159,873,126
Amounts owed to banks	670,614	-	-	-	-	670,614
Derivative financial instruments	-	-	-	-	-	-
Other liabilities	48,895	1,151,588	162,347	217,308	-	1,580,138
	51,814,863	**30,569,422**	**38,576,590**	**41,163,003**	**-**	**162,123,878**
Maturity gap	**1,443,645**	**19,293,968**	**(14,321,556)**	**(6,217,239)**		
Cumulative gap	**1,443,645**	**20,737,613**	**6,416,057**	**198,818**		

Call accounts payable on demand amounting to US$35,763,505 at 31 December 2017 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.

Financial assets classified as available-for-sale amounting to US$6,076,645 as at 31 December 2017, form part of the Bank's high quality liquid asset portfolio for liquidity coverage ratio (LCR) purposes. Accordingly, they are expected to be liquidated within one month.

Although settled on a gross basis, the amounts attributable to derivative contracts have been included above on a net basis. Gross contractual undiscounted cashflows relating to derivative transactions are included on the following page.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

As at 31 December 2016	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	3,164,700	-	-	-	703,538	3,868,238
Financial assets designated at fair value through profit or loss	-	-	-	-	11,609,537	11,609,357
Financial assets classified as available-for-sale	-	-	-	26,292,206	-	26,292,206
Loans and advances to banks	11,949,763	2,305,303	6,424,378	-	-	20,679,444
Loans and advances to customers	15,999,382	28,408,784	35,806,243	8,817,118	-	89,031,527
Accrued income and other assets	226,564	165,866	286,707	440,750	828,973	1,948,860
	31,340,409	30,879,953	42,517,328	35,550,074	13,142,048	153,429,812
Financial liabilities						
Amounts owed to customers	28,637,821	25,193,358	30,520,977	36,318,600	-	120,670,756
Amounts owed to banks	-	3,164,700	185,310	-	-	3,350,010
Derivative financial instruments	838,637	249,335	286,809	-	-	1,374,781
Other liabilities	357,997	56,572	119,909	235,765	336,000	1,106,243
	29,834,455	28,663,965	31,113,005	36,554,365	336,000	126,501,790
Maturity gap	1,505,954	2,215,988	11,404,323	(1,004,291)		
Cumulative gap	1,505,954	3,721,942	15,126,265	14,121,974		

Call accounts payable on demand amounting to US$22,978,874 at 31 December 2016 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.

Financial assets classified as available for-sale amounting to US$5,851,908 as at 31 December 2016, form part of the Bank's high quality liquid asset portfolio for LCR purposes. Accordingly, they are expected to be liquidated within one month.

Although settled on a gross basis, the amounts attributable to derivative contracts have been included above on a net basis. Gross contractual undiscounted cashflows relating to derivative transactions are included on the following page.

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 2017						
Amounts owed to customers	51,144,248	29,515,537	38,576,591	41,163,003	160,399,379	159,873,126
Amounts owed to banks	670,614	-	-	-	670,614	670,614
Other liabilities	48,895	1,151,588	162,347	217,308	1,580,138	1,580,138
	51,863,757	**30,667,125**	**38,738,938**	**41,380,311**	**162,650,131**	**162,123,878**
As at 31 December 2016						
Amounts owed to customers	28,665,137	25,249,930	30,640,886	36,551,348	121,107,301	120,670,756
Amounts owed to banks	-	3,164,700	188,378	-	3,353,078	3,350,010
Other liabilities	357,996	56,572	455,909	235,766	1,106,243	1,106,243
	29,023,133	**28,471,202**	**31,285,173**	**36,787,113**	**125,566,621**	**125,127,009**

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 US$	Over three months US$	Total US$
At 31 December 2017			
Inflows	38,642,020	3,624,852	42,266,872
Outflows	(38,149,485)	(3,568,800)	(41,718,285)
	482,535	**56,052**	**538,587**
At 31 December 2016			
Inflows	41,171,584	12,756,591	53,928,175
Outflows	(42,259,556)	(13,043,400)	(55,302,956)
	(1,087,972)	(286,809)	(1,374,781)

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 2017 amounted to US$1,362,157 (2016: US$1,370,966).

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:

	2017 US$	2016 US$
Common Equity Tier 1 (CET1) capital		
Share capital	**26,500,000**	22,500,000
Retained earnings	**1,729,914**	2,855,529
Fair value reserve	**256,013**	377,085
Other reserve	**50,924**	14,790
Less:		
Intangible assets	**(931,783)**	(61,127)
Transfer to Tier 2 capital in respect of unrealised gains	**(83,944)**	(254,319)
Other deductions	**(857,739)**	(815,502)
CET1 capital	**26,663,385**	24,616,456
Tier 2 capital:		
Investment revaluation gains	**83,944**	254,319
Total capital / own funds	**26,747,329**	24,870,775

Other deductions relate to the contributions amounting to US$857,739 (2016: US$815,502) in favour of the Depositor Compensation Scheme as at 31 December 2017, 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 2017			
Assets			
Financial assets designated at fair value through profit or loss:			
Investments in money market fund	25,513,179	-	25,513,179
Financial assets classified as available-for-sale:			
Listed debt securities	27,029,859	-	27,029,859
Financial assets held-for-trading			
Derivative financial assets	-	538,587	538,587
Total financial assets at fair value	**52,543,038**	**538,587**	**53,081,625**
As at 31 December 2016			
Assets			
Financial assets designated at fair value through profit or loss:			
Investments in money market fund	11,609,537	-	11,609,537
Financial assets classified as available-for-sale:			
Listed debt securities	26,292,206	-	26,292,206
Total financial assets at fair value	37,901,743	-	37,901,743
Financial liabilities held-for-trading			
Derivative financial liabilities	-	1,374,781	1,374,781

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 other recognised investment exchanges. The Bank's level 1 instruments also include the Bank's investments in money market funds 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 would have a 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

	2017 US$	2016 US$
Cash in hand	**2,486**	851
Mandatory reserve deposits with Central Bank of Malta	**938,363**	703,538
Other balances with Central Bank of Malta	**-**	3,164,700
	940,849	3,869,089

Mandatory reserves and other balances attract interest at floating rates.

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

	2017 US$	2016 US$
Units in money market funds	**25,513,179**	11,609,537

Financial Assets at fair value through profit and loss as at 31 December 2017 consist of placements in the form of investments in two funds, the first seeks to invest in term deposits with Prime European Banks and Malta Government Treasury Bills, and the second seeks to invest in international investment grade government and corporate bonds in any currency which may be at a fixed or floating rate, rated or unrated.

As at 31 December 2017, units held by the Bank in the Vilhena Euro Malta Money Fund (Inst) with a carrying amount of US$13,376,361 (2016: US$4,774,708) 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

	2017 US$	2016 US$
Debt securities	**27,029,859**	26,292,206

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

	2017 US$	2016 US$
Year ended 31 December		
At 1 January	**26,292,206**	46,036,597
Acquisitions	**32,076,439**	46,732,962
Disposals/redemptions	**(33,320,299)**	(67,024,392)
Amortisation	**11,791**	26,013
Foreign exchange movements	**1,136,734**	(1,085,013)
Net fair value movements	**832,988**	1,606,039
At 31 December	**27,029,859**	26,292,206

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

	2017 US$	2016 US$
Local government	**1,812,205**	3,663,309
Foreign governments	**883,825**	1,519,269
Corporates	**24,333,829**	21,109,628
	27,029,859	26,292,206

At 31 December 2017, the Bank had pledged available-for-sale investments with a carrying amount of US$1,806,944 (2016: US$3,663,309) 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 was nil at 31 December 2017 (2016: US$3,164,700).

Furthermore, the Bank had not pledged any available-for-sale investments as collateral (2016: US$4,387,500) in support of the Bank's OTC derivative transactions with counterparties.

7. Loans and advances to banks

	2017 US$	2016 US$
Repayable on call and at short notice	**37,981,932**	9,718,360
Term loans and advances	**14,574,007**	10,961,084
	52,555,939	20,679,444

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 29).

8. Loans and advances to customers

	2017 US$	2016 US$
Gross term loans and advances to customers	**82,090,045**	89,976,894
Allowances for impairment	**(861,815)**	(945,367)
Net term loans and advances to customers	**81,228,230**	89,031,527

	2017 US$	2016 US$
Impairment allowances:		
Specific	**594,655**	600,000
Collective	**267,160**	345,367
	861,815	945,367

Loans and advances to customers amounting to US$15,334,313 (2016: US$39,560,933) consist of participations in trade financing transactions, initiated by IIG Trade Finance LLC, a related party (Note 30). These participations are subject to fixed interest rates ranging from 4.02% to 11.25% (2016: 4.0% to 19.0%), and the weighted average interest rate as at 31 December 2017 was 7.79% (2016: 9.6%).

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$961,035 (2016: US$3,874,506) are subject to fixed interest rates ranging from 4.02% to 11.25% (2016: 6.52% to 6.67%) while US$65,794,697 (2016: US$42,318,126) are subject to variable interest rates ranging from 4.75% to 12.49% (2016: 3.75% to 12.43%). Discounting arrangements as at 31 December 2017 amounting to US$1,204,060 (2016: US$3,510,801) are subject to fixed interest rate of 3.0% (2016: 6.5%).

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 2016					
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
Year ended 31 December 2016					
Opening net book amount	15,343	96,323	44,548	3,576	159,790
Additions	-	1,579	23,610	8,130	33,319
Depreciation charge	(4,463)	(24,689)	(13,139)	(2,149)	(44,440)
Closing net book amount	10,880	73,213	55,019	9,557	148,669
At 31 December 2016					
Cost	62,792	199,225	154,078	46,980	463,075
Accumulated depreciation	(51,912)	(126,012)	(99,059)	(37,423)	(314,406)
Net book amount	10,880	73,213	55,019	9,557	148,669
Year ended 31 December 2017					
Opening net book amount	10,880	73,213	55,019	9,557	148,669
Additions	10,251	15,993	27,049	8,390	61,283
Depreciation charge	(4,588)	(23,358)	(18,374)	(4,519)	(50,839)
Closing net book amount	**16,543**	**65,448**	**63,694**	**13,428**	**159,113**
At 31 December 2017					
Cost	73,043	214,817	181,127	55,371	524,358
Accumulated depreciation	(56,500)	(149,369)	(117,433)	(41,943)	(365,245)
Net book amount	**16,543**	**65,448**	**63,694**	**13,428**	**159,113**

10. Intangible assets

	Computer software US$
At 1 January 2016	
Cost	294,713
Accumulated amortisation	(225,552)
Net book amount	69,161
Year ended 31 December 2016	
Opening net book amount	69,161
Additions	18,202
Amortisation charge	(26,236)
Closing net book amount	61,127
At 31 December 2016	
Cost	312,915
Accumulated amortisation	(251,788)
Net book amount	61,127
Year ended 31 December 2017	
Opening net book amount	61,127
Additions	918,838
Amortisation charge	(48,182)
Closing net book amount	**931,783**
At 31 December 2017	
Cost	1,231,753
Accumulated amortisation	(299,970)
Net book amount	**931,783**

11. Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

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% (2016: 35%).

The movement in deferred tax assets during the year is as follows:

	2017 US$	2016 US$
At beginning of year	**(131,534)**	1,502,475
Recognised in profit or loss		
- Deferred taxes on temporary differences arising on depreciation of property, plant and equipment	**47,116**	11,012
- Deferred taxes on temporary differences arising on loan impairment allowances	**27,372**	(318,781)
Recognised in other comprehensive income		
- Deferred taxes on fair valuation of available-for-sale financial assets		
Net changes in fair value	**291,546**	562,113
Reclassification adjustments to profit or loss	**(356,738)**	(1,888,353)
At end of year	**(122,238)**	(131,534)

The balance at 31 December represents temporary differences attributable to:

	2017 US$	2016 US$
At 31 December		
Fair valuation of available-for-sale financial assets	**137,853**	203,045
Loan impairment allowances	**(291,408)**	(318,781)
Depreciation of property, plant and equipment	**31,317**	(15,798)
	(122,238)	(131,534)

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

12. Accrued income and other assets

	2017	2016
	US$	US$
Accrued interest income	**1,030,340**	1,119,886
Amounts attributable to the Depositor Compensation Scheme	**857,739**	815,502
Prepayments	**322,949**	291,153
Indirect taxation	**43,388**	46,266
Other receivables	**263,960**	13,472
	2,518,376	2,286,279

13. Share capital

	2017	2016
	US$	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		
26,499,999 (2016: 22,499,999) Ordinary 'A' shares of US$1 each	**26,499,999**	22,499,999
1 Ordinary 'B' Share of US$1 each	**1**	1
	26,500,000	22,500,000

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

During 2017, by virtue of a resolution with an effective date of 24 November 2017, the Bank's shareholders approved an increase in the issued share capital from US$22,500,000 to US$26,500,000 through the allotment of 4,000,000 fully paid up Ordinary 'A' shares of US$1 each.

In 2016, by virtue of a resolution with an effective date of 19 September 2016, the Bank's shareholders approved an increase in the issued share capital from US$16,300,000 to US$22,500,000 through the allotment of 6,200,000 fully paid up Ordinary 'A' shares of US$1 each.

14. 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.

15. Other reserve

The other reserve reflects the funds allocated for general banking risks.

Banking Rule BR09 'Measures addressing credit risks arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Banking Act 1994', issued by the MFSA, requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from planned dividends.

16. Amounts owed to customers

	2017 US$	2016 US$
Term deposits	**124,109,621**	97,691,882
Call accounts	**35,763,505**	22,978,874
	159,873,126	120,670,756

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

17. Amounts owed to banks

	2017 US$	2016 US$
Term loans and advances	**670,614**	3,164,700
Term deposits	**-**	185,310
	670,614	3,350,010

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.

18. 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:

	2017 US$	2016 US$
Derivative financial assets		
- currency swaps	**538,587**	-
Derivative financial liabilities		
- currency swaps	**-**	1,374,381

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 2017 relate to the forward purchase of £7,500,000 (2016: £8,000,000) and the forward purchase of €26,665,583 (2016: €41,547,982) against US$ maturing within one year from the end of the reporting period at the average contractual rate of 1.3376 (2016: 1.2478) and 1.1869 (2016: 1.0917) respectively.

19. Other liabilities

	2017 US$	2016 US$
Accrued interest expense	**528,876**	439,538
Other payables and accrued expenses	**1,051,262**	666,705
	1,580,138	1,106,243

20. Contingent liabilities and commitments

Commitments and contingencies

As of 31 December 2017, the Bank was not committed to provide any undrawn credit facility (2016: US$ 1,118,896). At the end of the reporting period, the Bank had issued and confirmed letters of credit amounting to US$ 2,619,531 (2016: US$4,405,677).

Operating lease commitments

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

	2017 US$	2016 US$
- Not later than one year	**330,323**	297,647
- Later than one year and not later than five years	**490,306**	421,932
- More than five years	**-**	-
	820,629	719,579

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

21. Interest income

	2017 US$	2016 US$
On loans and advances to customers	**6,118,331**	6,550,121
On financial assets classified as available-for-sale:		
- coupon interest	**1,439,575**	1,512,084
- net amortisation of premiums and discounts	**(11,791)**	26,013
On loans and advances to banks	**83,611**	319,853
	7,629,726	8,408,071

22. Interest expense

	2017 US$	2016 US$
On amounts owed to customers	**2,786,788**	2,808,935
On amounts owed to banks	**16,720**	82,953
	2,803,508	2,891,888

23. Fee and commission income and expense

(a) Fee and commission income

	2017 US$	2016 US$
Trade service related fees	**1,363,867**	1,150,832
Transfer commissions	**361,979**	357,698
Other fees	**39,697**	29,560
	1,765,543	1,538,090

(b) Fee and commission expense

	2017 US$	2016 US$
Loan servicing fees payable to a related party	**343,299**	466,055
Other fees	**212,791**	258,992
	556,090	725,047

24. Net trading (losses)/gains

	2017 US$	2016 US$
Foreign exchange differences	**(5,073,757)**	2,678,185
Net fair value gain/(losses) on foreign exchange derivative contracts	**4,365,321**	(3,023,698)
Net gains on financial instruments classified as at fair value through profit or loss	**12,869**	5,817
	(695,567)	(339,696)

25. Net impairment credit/(charges)

	2017 US$	2016 US$
Amounts written off	**-**	(3,166,626)
Specific allowances	**-**	(600,000)
Collective allowances	**78,207**	(345,367)
Recoveries of amounts previously written off	**5,345**	-
	83,552	(4,111,993)

26. Administrative expenses

	2017 US$	2016 US$
Staff costs		
- Directors' remuneration	**471,521**	483,287
- Other staff salaries	**1,398,912**	1,037,838
- Social security costs	**58,384**	42,747
Directors' fees	**160,584**	90,737
Depreciation of property, plant and equipment (Note 9)	**50,839**	44,440
Amortisation of intangible assets (Note 10)	**48,182**	26,236
Operating lease expenses	**575,577**	452,997
Legal and professional fees	**440,742**	139,248
Other administrative expenses	**578,118**	587,937
	3,782,859	2,905,467

Other administrative expenses mainly comprise contribution to depositor compensation scheme, maintenance expenditure, 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:

	2017	2016
- Managerial	**8**	8
- Clerical	**18**	10
	26	18

Auditor's remuneration

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

	2017 US$	2016 US$
Annual statutory audit	**62,120**	58,610
Other assurance services	**133,276**	16,604
Tax compliance and advisory services	**5,026**	7,444
Other non-audit services	**20,895**	42,062
	221,317	124,720

27. Tax expense

	2017 US$	2016 US$
Current tax expense	**875,041**	1,857,045
Deferred tax expense (Note 11)	**74,488**	(307,769)
	949,529	1,549,276

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:

	2017 US$	2016 US$
Profit before tax	**2,660,049**	4,367,366
Tax on profit at 35%	**931,017**	1,528,578
Tax effect of:		
Disallowable expenses	**18,512**	20,698
	949,529	1,549,276

28. Dividends

	2017 US$	2016 US$
Dividends paid to equity holders	**2,800,000**	4,250,000
Dividends per ordinary share	**0.11**	0.19

29. 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:

	2017 US$	2016 US$
Cash in hand (Note 4)	**2,486**	851
Cash with Central Bank of Malta (Note 4)	**-**	3,164,700
Loans and advances to banks (Note 7)	**52,555,939**	14,255,066
	52,558,425	17,420,617

30. Related party transactions

IIG Malta Ltd is the Bank's immediate parent Bank (refer to Note 31). This immediate parent is wholly owned by IIG Trade Opportunities Fund N.V. (refer to Note 31). 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 2017, included amounts of US$343,299 (2016: US$466,055) 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 26.

31. 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 by virtue of section 173 of the Maltese Companies Act, 1995.

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 2017

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 are 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 2017 is 0.96%.

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 4 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:

	2017 Average value US$	**2017 Year end exposure value US$**
Central governments or central banks	4,467,994	3,634,393
Multilateral development banks	1,275,230	963,900
Institutions	62,227,432	61,328,050
Corporates	93,167,828	91,440,029
Exposures in default	5,255,492	6,374,673
Covered bonds	378,747	393,841
Exposures in the form of units or shares in CIUs	20,231,452	25,513,179
Other items	3,149,610	1,944,474
	190,153,785	**191,592,539**

2. Credit risk - continued

2.2 Credit risk management - continued

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 111(1) of the CRR.

Credit risk exposures analysed by residual maturity

As at 31 December 2017	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 governments or central banks	-	1,812,205	-	1,822,188	-	3,634,393
Multilateral development banks	-	-	-	963,900	-	963,900
Institutions	-	-	255,698	7,528,951	53,543,401	61,328,050
Corporates	14,344,097	35,816,641	21,545,506	19,733,785	-	91,440,029
Exposures in default	-	-	427,653	5,947,020	-	6,374,673
Covered bonds	-	-	-	393,841	-	393,841
Exposures in the form of units or shares in CIUs	-	-	-	-	25,513,179	25,513,179
Other items	-	-	-	-	1,944,474	1,944,474
Total	**14,344,097**	**37,628,846**	**22,228,857**	**36,389,685**	**81,001,054**	**191,592,539**

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$81,228,230 are due from a limited number of customers. As at 31 December 2017, loans and advances to customers amounting to US$52,484,532 were deemed to be large exposures for regulatory reporting purposes, prior to any eligible exemptions, in accordance with the requirements the CRR.

2. Credit risk - continued

2.3 Concentration risk - continued

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 2017	**Latin America US$**	**Malta US$**	**Other EU countries US$**	**Rest of world US$**	**Total US$**
Central governments or central banks	455,825	2,750,568	-	428,000	3,634,393
Multilateral development banks	-	-	-	963,900	963,900
Institutions	1,173,931	12,951,987	34,234,428	12,967,704	61,328,050
Corporates	15,253,443	618,683	11,937,128	63,630,775	91,440,029
Exposures in default	4,844,540	-	1,530,133	-	6,374,673
Covered bonds	-	-	393,841	-	393,841
Exposures in the form of units or shares in CIUs	-	13,376,360	12,136,819	-	25,513,179
Other items	-	1,944,474	-	-	1,944,474
Total	**21,727,739**	**31,642,072**	**60,232,349**	**77,990,379**	**191,592,539**

Exposures analysed by industry

The following is an analysis of the industry concentrations relating to the Bank's exposures:

	Central governments or central banks US$	**Multilateral developments banks & Institutions US$**	**Corporates US$**	**Exposures in default US$**	**Covered bonds & Exposures in the form of units or shares in CIUs US$**	**Other items US$**	**Total US$**
Government	3,634,393	-	-	-	-	-	3,634,393
Financial services	-	62,291,950	3,036,097	-	25,907,020	-	91,235,067
Wholesale trade of commodity products	-	-	54,022,981	1,530,133	-	-	55,553,114
Manufactured / processed commodity products	-	-	9,409,959	4,844,540	-	-	14,254,499
Agriculture, forestry and fishing	-	-	4,925,964	-	-	-	4,925,964
Mining	-	-	1,214,853	-	-	-	1,214,853
Transport	-	-	12,835,458	-	-	-	12,835,458
Other	-	-	5,994,717	-	-	1,944,474	7,939,191
Total	**3,634,393**	**62,291,950**	**91,440,029**	**6,374,673**	**25,907,020**	**1,944,474**	**191,592,539**

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

2. **Credit risk** - continued

2.3 **Concentration risk** - continued

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.

2.4 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, Public sector entities, 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 *'Implementing Technical Standard on the credit quality steps for ECAIs credit assessments'.*
The following table represents the exposure values for which an ECAI is used:

At 31 December 2017	**Credit quality step**	**Central governments or central banks US$**	**Multilateral development banks US$**	**Institutions & Corporates US$**	**Covered bonds US$**	**Total US$**
AAA to AA-	1	-	963.900	8.004.399	393,841	9,362,140
A+ to A-	2	2,952,067	-	2,234,121	-	5,186,188
BBB+ to BBB-	3	-	-	17,183,887	-	17,183,887
BB+ to BB-	4	469,926	-	29,329,772	-	29.799.698
B+ to B-	5	212,400	-	10,712,622	-	10,925,022
CCC+ and below	6	-	-	2,819,907	-	2,819,907
Total		**3,634,393**	**963,900**	**70,284,708**	**393,841**	**75,276,842**

2. **Credit risk** - continued

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. 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.

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.

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 not written off loans and advances to customers.

The credit quality of the Bank's loans and advances to customers (which are classified within the Corporates exposure class) is presented in the table below.

As at 31 December 2017	**US$**
Performing exposures	71,108,838
Past due exposures	3,744,719
Impaired exposures	6,374,673
Total loans and advances to customers	**81,228,230**

The Bank's past due and impaired exposures are mainly concentrated in Latin America and Other EU countries, as shown in the geographical distribution presented in section 2.3 above. The following table provides a reconciliation of the Bank's specific credit risk adjustments.

	US$
At 1 January 2017	945,367
Recoveries of amounts previously written off	(5,345)
Decreases due to amounts reversed during the period	(78,207)
At 31 December 2017	**861,815**

2. **Credit risk** - continued

2.5 Credit quality of the Bank's financial assets

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 2017	**Total exposure US$**	**Cash or quasi cash US$**	**Exposure value after credit risk mitigants US$**
Corporates	81,228,230	5,179,229	76,049,001

3. Counterparty credit risk

Counterparty credit risk refers to the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Bank is primarily exposed to counterparty credit risk through derivative exposures, which mainly relate to currency swaps.

Counterparty credit risk in respect of currency swaps is subject to approval from the Bank's Executive Committee, in its function as the ALCO. Entry into derivative exposures will be subject to prior implementation of appropriate settlement risk and risk management infrastructure pursuant to a signed ISDA agreement. Exposure to derivative counterparties and the related credit risk is mitigated through the use of netting and collateralisation agreements.

In order to determine the potential future exposure, the notional amounts or underlying values, as applicable, are multiplied by the percentages stipulated in Table 1 of Article 274(2)(c) of the CRR. Given that all of the Bank's derivative exposures relate to foreign exchange contracts with residual maturities of less than one year, the Bank applies a 1% rate on the notional amounts of the derivative exposures. In this respect, the Bank's risk weighted exposure as at 31 December 2017 amounted to US$284,980, requiring minimum regulatory capital of US$22,798.

4. 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.

4.1 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 2017			
Financial assets	131,307,225	55,958,345	187,265,570
Financial liabilities	-	160,543,740	160,543,740
Net exposure	**131,307,225**	**(104,585,395)**	**26,721,830**

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 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 2017 on the fair valuation of its investments carried at fair value (debt securities and units in the money market fund) amounts to US$1,120,995. 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.

4. **Market risk** - continued

4.1 **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$853,497.

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 2017					
Financial assets	82,542,968	51,849,226	17,811,287	35,062,089	187,265,570
Financial liabilities	51,765,968	29,417,834	38,414,243	40,945,695	160,543,740
Interest rate gap	30,777,000	22,431,392	(20,602,956)	(5,883,606)	
Cumulative gap	**30,777,000**	**53,208,391**	**32,605,436**	**26,721,830**	

4. **Market risk** - continued

4.2 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.

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.

		GBP	**Euro**	**Total**
	US$	**US$**	**US$**	**US$**
As at 31 December 2017				
Financial assets	112,746,918	3,897,676	73,311,602	189,956,196
Financial liabilities	41,711,726	13,949,608	106,462,544	162,123,878
Net on balance sheet position	71,035,192	(10,051,932)	(33,150,942)	
Off-balance sheet net notional Position		10,134,000	31,985,367	
Net currency exposure		**82,068**	**(1,165,575)**	

5. 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 money market funds; and
- unencumbered Government bonds amounting to US$1,812,205 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 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.

5. **Liquidity risk** - continued

Analysis by residual maturity

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

As at 31 December 2017	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	53,258,508	49,863,390	24,255,034	34,945,764	27,633,500	189,956,196
Financial liabilities	51,814,863	30,569,422	38,576,590	41,163,003	-	162,123,878
Maturity gap	1,443,645	19,293,968	(14,321,556)	(6,217,239)		
Cumulative gap	**1,443,645**	**20,737,613**	**6,416,057**	**198,818**		

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.

As at 31 December 2017	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	**51,863,757**	**30,667,125**	**38,738,938**	**41,380,311**	**162,650,131**	**162,123,878**

6. 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 2017 amounted to US$1,362,157.

7. 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 IV 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%.

7. Capital risk management - continued

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.

7.1 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 2017, 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, reserve for general banking risks 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 unrealised gains or losses in the fair valuation of available-for-sale financial assets, net of deferred taxation.

The Bank's Tier 2 capital consists of an investment revaluation reserve, which represents unrealised 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 2017 is analysed as follows:

	2017 No. of shares	**2017 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		
26,499,999 (2016: 22,499,999 Ordinary 'A' shares of US$1 each)	26,499,999	26,499,999
1 Ordinary 'B' share of US$1 each	1	1
	26,500,000	**26,500,000**

7. Capital risk management - continued

7.1 Own funds - continued

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$857,739 pledged in favour of the Depositor Compensation Scheme as at 31 December 2017, 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) Fair value 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.

7. Capital risk management - continued

7.1 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 2017 US$
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	26,500,000
Retained earnings	872,175
Accumulated other comprehensive income (and other reserves)	306,937
CET1 capital before regulatory adjustments	27,679,112
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets	(931,783)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(83,944)
Total regulatory adjustments to CET1	(1,015,727)
CET1 capital	**26,663,385**
Tier 2 capital	
Tier 2 capital before regulatory adjustments	-
Tier 2 capital: regulatory adjustments	
Regulatory adjustments relating to unrealised gains pursuant to article 468	83,944
Total Tier 2 capital	**83,944**
Total risk weighted assets	**187,480,987**
Capital ratios	
CET1 capital	**14.22%**
Tier 1 capital	**14.22%**
Total capital	**14.27%**
Institution specific buffer requirement	**5.76%**
of which: capital conservation buffer	1.25%
of which: countercyclical buffer	0.01%
Common Equity Tier 1 available to meet buffers	**6.22%**
Amounts below the thresholds for deduction	
Deferred tax assets arising from temporary differences	US$122,238

7. Capital risk management - continued

7.2 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 is being phased-in over the period from 1 January 2016 to 31 December 2018.

7. Capital risk management - continued

7.2 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.

The tables below provide the geographical distribution of the Bank's credit exposure relevant to the calculation of the institution-specific countercyclical buffer rate and the amount of institution-specific countercyclical capital buffer.

	General credit exposures	Own funds requirement			
Country	**Exposure value for SA US$**	**of which: general credit exposures US$**	**Total US$**	**Own funds requirement weights %**	**Countercylical capital buffer rate %**
Switzerland	29,991,396	19,843,916	19,843,916	0.12	0.00
Malta	24,295,197	17,362,728	17,362,728	0.10	0.00
United Arab Emirates	20,052,124	20,094,809	20,094,809	0.13	0.00
United Kingdom	16,455,514	17,564,602	17,564,602	0.10	0.00
Germany	16,091,227	8,581,516	8,581,516	0.05	0.00
Singapore	13,258,078	13,286,300	13,286,300	0.08	0.00
Argentina	10,902,508	16,080,511	16,080,511	0.10	0.00
Luxembourg	9,100,012	3,436,154	3,436,154	0.02	0.00
Brazil	7,233,616	7,506,382	7,506,382	0.04	0.00
British Virgin Islands	5,531,745	5,543,520	5,543,520	0.03	0.00
Nigeria	1,955,830	2,416,983	2,416,983	0.01	0.00
Turkey	2,797,299	2,034,870	2,034,870	0.01	0.00
Monaco	2,778,470	2,784,385	2,784,385	0.02	0.00
France	1,942,184	1,815,146	1,815,146	0.01	0.00
United States	1,852,374	1,728,717	1,728,717	0.01	0.00
Mauritania	4,754,363	4,754,363	4,754,363	0.03	0.00
Russia	1,023,450	1,270,040	1,270,040	0.00	0.00
Hong Kong	508,115	762,173	762,173	0.00	1.25
Norway	492,955	98,591	98,591	0.00	2.00
Sweden	242,990	364,485	364,485	0.00	2.00
Other	20,333,092	21,958,259	21,958,259	0.14	0.00
Total	**191,592,539**	**169,288,450**	**169,288,450**		

7. **Capital risk management** - continued

7.2 **Capital requirements** - continued

	2017
Total risk amount	US$187,480,987
Institution-specific countercyclical buffer rate	0.01%
Institution-specific countercyclical buffer requirement	US$20,808

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

At 31 December 2017	**Exposure value US$**	**Risk weighted assets US$**	**Capital required US$**
Central governments or central banks	3,634,393	722,625	57,810
Multilateral development banks	963,900	-	-
Institutions	61,328,050	28,514,656	2,281,172
Corporates	91,440,029	102,811,251	8,224,900
Exposures in default	6,374,673	9,562,010	764,961
Covered bonds	393,841	39,384	3,151
Exposures in the form of units or shares in CIUs	25,513,179	25,513,179	2,041,054
Other items	1,944,474	2,125,345	170,028
Credit risk	**191,592,539**	**169,288,450**	**13,543,076**
Foreign exchange risk		1,165,575	93,246
Operational risk		17,026,962	1,362,157
Total capital required		**187,480,987**	**14,998,479**
Own funds			
Common Equity Tier 1 capital			26,663,385
Tier 2 capital			83,944
Total own funds			**26,747,329**
Total capital ratio			**14.27%**

7. Capital risk management - continued

7.3 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.

8. 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$999,181	US$134,595

Total Non-Executive Directors' fees attributable for the financial year ended 31 December 2017 amounted to US$160,584 (2016: US$90,737).

9. Leverage

The leverage ratio is a regulatory and supervisory tool intended to provide a transparent and non-risk based measurement of an institution to supplement the risk-based capital requirements. 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 Bank does not apply transitional provisions when determining its Tier 1 capital in respect of the leverage ratio calculation, as described in Article 499(1) and 499(2) of the CRR.

During 2016, the European Commission published a Proposal to amend Regulation 575/2013 (CRR), which included the introduction of a 3% leverage ratio as a binding Pillar I requirement. Although this Proposal is still in draft and further discussions are expected, the Bank complies with the 3% 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.

	2017 US$
Tier 1 capital	26,663,385
Total exposure measure for the purposes of the leverage ratio	191,508,596
Leverage ratio	**13.92%**

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

	2017 US$
On-balance sheet exposures (excluding derivatives)	
On-balance sheet items (excluding derivatives)	190,999,566
Asset amounts deducted in determining Tier 1 capital	(1,873,466)
On-balance sheet exposures (excluding derivatives and SFTs)	**189,126,100**
Derivative exposures	
Replacement cost associated with all derivative	586,522
Derivatives exposures at gross notional amount	48,620,847
Adjustments for PFE associated with derivative transactions	(48,134,639)
Derivative exposures	**1,072,730**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	2,619,531
Adjustments for conversion to credit equivalent amounts	(1,309,765)
Off-balance sheet exposures	**1,309,766**

9. Leverage - continued

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

	2017 US$
Total assets as per published financial statements	191,538,153
Adjustments for derivative instruments	534,143
Adjustment for off-balance sheet items	1,309,766
Other adjustments	
Deduction for intangible assets	(931,783)
Adjustment for unrealised gains	(83,944)
Adjustment for Depositor Compensation Scheme	(857,739)
Leverage ratio exposure	**191,508,596**

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

	2017 US$
Total on-balance sheet exposures (excluding derivatives and intangible assets), of which:	**189,126,100**
Covered bonds	393,841
Exposures treated as sovereigns	3,634,393
Exposures to Multilateral developments banks	963,900
Institutions	60,340,587
Corporate	90,044,996
Exposures in default	6,374,673
Other exposures	27,373,710

10. Asset encumbrance

The disclosure on asset encumbrance is a requirement introduced in Banking Rule 07 transposing the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing facility, and as a result is no longer available to the Bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

10. **Asset encumbrance** - continued

In accordance with the EBA 'Guidelines on disclosure of encumbered and unencumbered assets', the amounts disclosed in the table below represent median values, being the rolling quarterly amounts over the previous 12 months.

Encumbered and unencumbered assets

	Carrying amount of encumbered assets 2017 US$	**Fair value of encumbered assets 2017 US$**	**Carrying amount of unencumbered assets 2017 US$**	**Fair value of unencumbered assets 2017 US$**
Assets of the reporting institution	3,073,506	-	180,933,259	-
Loans on demand	3,073,506	-	43,321,374	-
Equity instruments	-	-	21,731,971	21,731,971
Debt securities	-	-	27,031,494	27,031,494
Loans and advances other than loans on demand	-	-	82,642,149	-
Other assets	-	-	3,895,760	-

The encumbered assets consist of:

- pledged cash balances and securities in support of the Bank's OTC derivative transactions with counterparties; and
- units held by the Bank in a money market fund pledged as collateral in favour of another credit institution for the purpose of establishing a credit line.

The unencumbered assets disclosed in the preceding table under 'Other assets' include cash and short term funds, loans and advances to customers, property, plant and equipment, tax assets and other assets.

The Bank continues to recognise these encumbered assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the encumbered assets being derecognised for accounting purposes.

The Bank does not encumber and of the collateral received.

	Matching liabilities, contingent liabilities or securities lent 2017 US$	**Assets and collateral received 2017 US$**
Carrying amount of selected financial liabilities	-	3,073,506

11. 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%.

IIG Bank (Malta) Ltd 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	11
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.

12. 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.

12. **Recruitment and diversity policy** - continued

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.

Five Year Summary

Statement of financial position

	2017	2016	2015	2014	2013
	US$	US$	US$	US$	US$
ASSETS					
Cash and balances with Central Bank of Malta	**940,849**	3,869,089	679,867	582,403	315,371
Financial assets designated as at fair value through profit and loss	**25,513,179**	11,609,537	2,725,250	615,314	3,044,507
Financial assets classified as available-for-sale	**27,029,859**	26,292,206	46,036,597	52,035,103	45,844,865
Derivative financial instruments	**538,587**	-	-	-	863,705
Loans and advances to banks	**52,555,939**	20,679,444	58,180,981	38,744,200	29,755,236
Loans and advances to customers	**81,228,230**	89,031,527	82,186,100	61,571,070	29,209,260
Property, plant and equipment	**159,113**	148,669	159,790	92,572	83,305
Intangible assets	**931,783**	61,127	69,161	97,591	103,185
Deferred tax assets	**122,238**	131,534	-	-	-
Accrued income and other assets	**2,518,376**	2,286,279	2,751,330	2,580,879	1,752,689
Total assets	**191,538,153**	154,109,412	192,789,076	156,319,132	110,972,123
EQUITY AND LIABILITIES					
Equity					
Share capital	**26,500,000**	22,500,000	16,300,000	13,735,000	12,765,000
Fair value reserve	**256,013**	377,085	2,840,101	4,601,853	1,404,008
Reserve for General Banking Risk	**50,924**	14,790	-	-	-
Retained earnings	**1,729,914**	2,855,529	4,302,229	1,805,511	666,315
Total equity	**28,536,851**	25,747,404	23,442,330	20,142,364	14,835,323
Liabilities					
Amounts owed to customers	**159,873,126**	120,670,756	143,670,301	112,231,553	80,987,848
Amounts owed to banks	**670,614**	3,350,010	19,463,207	17,535,655	12,464,565
Derivative financial instruments	**-**	1,374,781	1,380,322	1,810,412	-
Current tax liabilities	**877,424**	1,860,218	2,313,319	1,030,040	355,644
Deferred tax liabilities	**-**	-	1,502,475	2,471,041	767,432
Other liabilities	**1,580,138**	1,106,243	1,017,122	1,098,067	1,561,311
Total liabilities	**163,001,302**	128,362,008	169,346,746	136,176,768	96,136,800
Total equity and liabilities	**191,538,153**	154,109,412	192,789,076	156,319,132	110,972,123
MEMORANDUM ITEMS					
Commitments	**2,619,531**	5,524,573	3,067,612	2,193,927	1,674,559

Five Year Summary

Statement of comprehensive income

	2017	2016	2015	2014	2013
	US$	US$	US$	US$	US$
Interest and similar income	**7,629,726**	8,408,071	8,457,980	6,975,158	5,841,327
Interest and similar expense	**(2,803,508)**	(2,891,888)	(3,374,071)	(3,662,128)	(2,651,176)
Net interest income	**4,826,218**	5,516,183	5,083,909	3,313,030	3,190,151
Fee and commission income	**1,765,543**	1,538,090	1,086,316	560,496	128,504
Fee and commission expense	**(556,090)**	(725,047)	(530,131)	(399,668)	(510,179)
Net fee and commission income	**1,209,453**	813,043	556,185	160,828	(381,675)
Net trading gains/(losses)	**(695,567)**	(339,696)	638,535	790,583	(156,420)
Gains on disposal of available-for-sale financial assets	**1,019,252**	5,395,295	3,220,329	2,271,086	113,061
Operating income	**6,359,356**	11,384,825	9,498,958	6,535,527	2,765,117
Net impairment charges	**83,552**	(4,111,992)	(327,713)	(1,213,311)	-
Administrative expenses	**(3,782,859)**	(2,905,467)	(2,627,452)	(2,483,502)	(1,759,207)
Profit before tax	**2,660,049**	4,367,366	6,543,793	2,838,714	1,005,910
Tax expense	**(949,529)**	(1,549,276)	(2,292,075)	(1,033,203)	(364,970)
Profit for the period	**1,710,520**	2,818,090	4,251,718	1,805,511	640,940
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 period, before tax	**832,988**	1,606,039	509,941	7,190,848	1,376,988
Reclassification adjustments – net amounts reclassified to profit or loss, before tax	**(1,019,252)**	(5,395,295)	(3,220,329)	(2,271,086)	(113,061)
Income tax relating to components of other comprehensive income	**65,192**	1,326,240	948,636	(1,721,917)	(442,375)
Other comprehensive income for the period, net of tax	**(121,072)**	(2,463,016)	(1,761,752)	3,197,845	821,552
Total comprehensive income for the period	**1,589,448**	355,074	2,489,966	5,003,356	1,462,492

Five Year Summary

Statement of cash flows

	2017	2016	2015	2014	2013
	US$	US$	US$	US$	US$
Operating activities					
Interest and commission income received	**9,484,815**	10,691,842	9,597,779	6,986,530	6,172,536
Interest and commission expense paid	**(3,270,259)**	(3,715,806)	(3,741,699)	(4,133,175)	(2,862,839)
Net income from foreign exchange transactions	**(5,940,494)**	1,040,671	3,857,701	10,012,087	(2,248,006)
Tax paid	**(1,857,835)**	(2,310,146)	(1,028,726)	(377,115)	(338,921)
Cash payments to employees and suppliers	**(3,582,387)**	(2,758,990)	(2,439,664)	(2,822,374)	(1,061,122)
Cash flows generated from operating activities before changes in operating assets and liabilities	**(5,166,160)**	2,947,571	6,245,391	9,665,953	(338,352)
Changes in operating assets and liabilities:					
Net increase in balances with Central Bank of Malta	**(234,825)**	(27,007)	(97,931)	(267,155)	(160,726)
Net decrease/(increase) in loans and advances to banks	**6,424,378**	1,291,498	2,569,212	(6,370,136)	(2,951,099)
Net increase in amounts attributable to DCS	**(42,237)**	(160,296)	(159,532)	(189,782)	(200,373)
Net increase in loans and advances to customers	**7,886,849**	(10,957,419)	(21,306,262)	(28,533,840)	12,906,311
Net increase in amounts owed to customers	**39,206,068**	(23,000,583)	31,426,969	14,702,633	33,654,808
Net increase in amounts owed to banks	**(2,679,396)**	(16,113,197)	1,927,552	3,369,000	(7,814,320)
Net cash generated from operating activities	**45,394,677**	(46,019,433)	20,605,399	(7,623,327)	35,096,249
Investing activities					
Purchase of available-for-sale investments	**(32,076,439)**	(46,732,962)	(31,537,614)	(26,442,921)	(18,185,461)
Purchase of investments at fair value through profit or loss	**(11,720,608)**	(9,218,300)	(2,790,250)	(8,125,350)	(3,044,507)
Proceeds from disposal and redemption of available-for-sale investments	**33,320,299**	67,024,392	34,503,826	21,097,645	1,677,172
Proceeds of disposal of investments at fair value through profit or loss	**-**	-	544,567	10,266,736	-
Purchase of property, plant and equipment	**(61,283)**	(33,319)	(106,690)	(58,578)	(24,774)
Purchase of intangible assets	**(918,838)**	(18,202)	(23,712)	(40,341)	(37,834)
Net cash generated by/(used in) investing activities	**(11,456,869)**	11,021,609	590,127	(3,302,809)	(19,615,404)
Financing activities					
Issue of ordinary share capital	**4,000,000**	6,200,000	2,565,000	970,000	918,000
Dividends paid to equity holders	**(2,800,000)**	(4,250,000)	(1,755,000)	(666,315)	(629,424)
Net cash generated from financing activities	**1,200,000**	1,950,000	810,000	303,685	288,576
Net movement in cash and cash equivalents	**35,137,808**	(33,047,824)	22,005,526	(10,622,451)	15,769,421
Cash and cash equivalents at beginning of year	**17,420,617**	50,468,441	28,462,915	24,319,184	8,549,763
Cash and cash equivalents at end of year	**52,558,425**	17,420,617	50,468,441	13,696,733	24,319,184