IIG BANK (MALTA) LTD

Annual Report and Financial Statements
31 December 2019

Company Registration Number: C48767

Directors' report

The directors present their annual report and the audited financial statements of IIG Bank (Malta) Ltd (the "Bank") for the year ended 31 December 2019.

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. As at 31 December 2019 the Bank had one branch located in Malta.

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: The Bank has continued to focus on its speciality business model as a niche lender to traders in the international supply chain of commodities with a global reach. The results of 2019 were satisfactory with a net profit before tax of US$ 1.8 million (2018 – loss of US$ 5.0 million) 8% higher than the forecast for the year. Operational activity during the year did not reach the record levels achieved in 2018 on the basis of lower volumes transacted by the Bank in the ship finance business resulting in lower commission and fee income and competitive pressures on interest margin. Operating income before trading gains and losses for 2019 amounted to US$ 6.9 million, 12% lower than forecasted in the budget and 6% lower than achieved in 2018. The lower interest income earned was partly set off by the lower interest rates offered on deposit and a positive shift in call deposit funding, as opposed to the higher cost of funds paid on term deposits. Throughout the year, the Bank maintained a high level of liquidity and deposit liabilities, well in excess of its business funding requirements.

The Bank's income was also boosted by positive revaluation gains on its bond trading portfolio especially during the last two months of the year when the markets rallied on the back of the Fed's decision to cut interest rates and to resume its treasury securities purchase programme to ease some softness in the US economic scene. Some profit taking through sales resulted in gains of US$ 617K, and a further US$ 507K on revaluation, largely reversing the trading losses on the investments portfolio incurred in 2018. The Bank continues to bear the cost of funding its USD loan portfolio with EUR vs USD through FX swaps, which cost the Bank US$ 860K in 2019. At year-end, the cost of a EUR vs USD FX swap was in the region of 2.60% per annum (down from 3.75% in 2018).

During 2019, the Bank continued to focus on its non-performing loan portfolio allocating an additional US$ 1.3 million impairment charge over the US$ 5.4 million charge taken in 2018 on its LATAM loan participations. On a positive note during 2019, the Bank recovered US$ 710K on an exposure written off in 2016.

Operating expenses were 7% higher than budgeted primarily as a result of defence litigation expenses associated with a case initiated by a plaintiff finding cause to file a lawsuit in the New York Courts, primarily against IIG Group, while implicating all the group's affiliated and connected entities. All other operating costs were broadly in line with forecasts.

The Bank's net assets contracted during 2019 to a level of US$ 148 million. The contraction in assets, and the shift to hold liquidity with higher quality counterparties, namely holding excess liquidity with the Central Bank of Malta improved significantly the Bank's capital and liquidity ratios. Capital Adequacy Ratio as at end of year rose to 19.6% and Liquidity coverage ratio stood at 367%.

Directors' report - continued

Income Statement: During the financial year under review, the Bank registered a net profit after tax profit of US$1,164,355 (2018: loss of US$3,308,898). The key components of the income statement are: net interest income of US$5,688,206 (2018: US$6,139,424), net fee and commission income of US$1,207,003 (2018: US$1,249,012), gain on disposal of financial assets measured at fair value through other comprehensive income of US$156,713 (2018: loss on disposal of available-for-sale financial assets of US$29,527), resulting in an operating income of US$7,158,889 (2018: US$4,801,646). The administrative expenses for the year were US$4,701,209 (2018: US$3,916,726) and net impairment charge of US$660,578 (2018: net impairment credit of US$5,951,577) resulted in profit before tax of US$1,797,102 (2018: loss before tax of US$5,066,657).

Statement of financial position: The year-end statement of financial position of US$148,976,516 (2018: US$178,254,545), reflects a significantly higher level of unapplied cash balances than the previous year which featured in fund repayable on call and short notice with banks of US$27,071,193 (2018: US$19,647,360) and term loans and advances to banks of US$15,581,626 (2018 US$8,592,557). The increase in lending through banks is based on underlying trade payables committed by banks under letters of credit. This aligned with the strategy being followed by the Bank to diversify the loan portfolio with a component of forfaiting opportunities that is showing growth. There is lower risk in refinancing trade through contingent liabilities of other international banks. This reflects a cautionary approach as the bank as the bank progresses through a change in ownership (more on this in outlook statement below). While exposure to banks increased, loans and advances to customers decreased to US$50,018,094 (2018: US$94,908,645). The bond portfolio was reduced to US$30,879,085 (2018: US$39,519,639). The mentioned changes in the asset structure reduced the need for deposit funding and the Bank kept interests low and with the lower interest alignment of the market as reflected in a decrease in total customer deposits to US$121,075,192 (2018: US$145,728,868).

Outlook for 2020: In the initial months of this reporting year, the Bank has continued to generate a steady income from its loyal customer base that ensures a flow of interest and commission income. These past 4 months have posed an unprecedented challenge to everyone and the bank is not immune, however our experience so far has actually demonstrated the resilience of business from trade of essential commodities despite the draconian measures being taken by governments to safeguard their population and control the spread of the pandemic, case in point the total lockdown by India. The production of foodstuffs continues undeterred, but there is some disruption in the transport, storage and delivery infrastructure. Some governments have even taken protective measures by blocking and of hindering exports. Such measures are extreme and reactionary and in our opinion are not likely to persist for long as major exporting countries will run out of storage space quickly and most of these good do not have a long storage life. As a result, we have seen that such measures have started to manifest themselves on price increases of soft essential commodities. By and large, most of our clients continue to conduct business regularly. We expect that we will experience general slower volumes of trade into the second quarter of 2020, but then expect that volume will start picking up again in the latter half of the year, as governments, especially in those of countries with large poor populations start realising that famine could result, posing a much imminent threat to their population than the pandemic ever would. As explained in more detail below, the bank continues to function well and is able to service all its customer needs in a timely manner. In reflection of the outlook, as explained, we do not forecast growth during 2020, but envisage that the business volumes to be more than sufficient to cover all the operational expenses and to meet our modest budgetary profit forecast for the year.

Directors' report - continued

COVID-19.

Since the outbreak of COVID-19 we have been following the news about how severely impacted most economies around the world are and the measures taken to contain the spread of the virus, including travel and commuting bans, ports and airport closures, quarantines, social distancing, and closure of non-essential businesses for indefinite periods of time, triggering significant disruptions to businesses worldwide and leading to a general global economic slowdown.

The likely future impact on the Bank of the COVID-19 outbreak has been assessed as part of its adoption of the going concern basis, and as of the date that these financial statements were approved by the Board, the Bank has not observed any material impact on its business due to COVID-19, both operationally and also financially.

The Bank has implemented several measures to cater for the heightened risk scenario brought about by the COVID-19 outbreak. Operationally, in anticipation of likely measures of lockdown and the perceived action that would result from potential infection by any member of its staff, the Bank pro-actively and successfully tested segregation and tele-working amongst all its employees. This was immediately followed through with the implementation of its business continuity plan requiring that at least 70% of its staff to work remotely. The Bank has maintained minimal operations from its offices for specific operational activities which require access to physical documents. This has worked very well over the past 6 weeks, and has proved to be sustainable, but should some unforeseen event happens to disrupt the Bank's functionality, the Bank has alternative measures in place to ensure continuity.

Change of ownership

In October 2019, the Bank's ultimate parent IIG Trade Opportunities Fund N.V. (the Fund) was put into administration triggering a wind-down of the Fund's assets. The Curacao Courts where the Fund is registered, appointed Ms. Valerie Petronila Maria as trustee who assumed control of the Fund. While recognising that the change merits disclosure, the Bank's operations and activities have not been impacted, since the Bank continues to function as a separate and distinct business entity from the parent, as has been the case since the Bank was licensed in 2010. Suffice it to restate, as has been disclosed in every annual report, that the Fund has never requested, nor has it ever been paid a dividend since inception. As has been the standing policy, dividends and tax rebates received by the Malta holding company were invariably re-invested in the Bank as ordinary, tier 1 share capital. This policy has not changed despite having severed all connection with IIG Group in October 2019. Also, while in the past, the Bank used to participate in business promoted by the Group, this activity started winding down about 5 years ago and stopped altogether about 3 years ago. For a number of years therefore, the Bank does not have, and has not had a dependency on the ultimate parent or the IIG Group to sustain its business model, both financially or operationally. The Bank, with the existing Board coordinating the effort, and with the support of the trustee, will progress towards the essential change of ownership. The prospective candidate for ownership, must meet the rigid criteria imposed on qualifying shareholders by the regulatory authorities, the MFSA and ECB. In the meantime, the Bank will remain faithful to its business strategy in servicing its loyal client base, primarily in maintaining the quality service to its depositing customers and to its borrowing base clients, providing trade facilitation through funding and products to support international trade and commodity finance.

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.

	2019	2018
Profit before tax	**US$ 1,797,102**	US$(5,066,657)
Cost to income ratio	**85%**	161%
Return on equity	**4.64%**	(17.39%)
Capital Adequacy Ratio	**19.6%**	13.4%

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 2019, the Bank has increased the head count within its dedicated risk management function and enhanced IT infrastructure.

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.

Directors' report - continued

Results and dividends

The income statement is set out on page 16. As in 2019, during 2020, the directors have not proposed any dividends relative to the financial year ended 31 December 2019.

Directors

The directors of the Bank who held office during the year were:

Joseph Grioli - Chairman
Raymond Busuttil
David Hu (resignation effective on 10 October 2019)
James Douglas Nelson
Martin S. Silver (resignation effective on 10 October 2019)
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 2019 are included in the Annual Report 2019, 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 STJ4011
Malta

Company Secretary:
Karl Vella

Telephone number: 22484500

30 April 2020

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 2019, 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 15 to 77, comprise:

- the statement of financial position as at 31 December 2019;
- 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 these Codes.

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 2019 to 31 December 2019 are disclosed in Note 26 to the financial statements.

Our audit approach

Overview

- Overall materiality: US$1,476,000, which represents approximately 1% of total assets.

- Credit loss allowances in respect 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.

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$1,476,000
How we determined it	Approximately 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. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted asset-related benchmarks.

We have applied a lower materiality of US$83,000 solely for financial statement line items in the income statement, since the engagement team deemed that misstatements in those line items of a lower amount than overall materiality might reasonably influence stakeholders.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$73,800 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditor's report - *continued*

To the Shareholders of IIG Bank (Malta) Ltd

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
Credit loss allowances in respect of loans and advances to customers Credit loss allowances in respect of loans and advances to customers represent management's best estimate of the expected credit losses ('ECLs') incurred within the Bank's loan portfolio at the end of reporting period. A considerable level of judgement is required to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9. All loans and advances to customers are considered individually significant. As a result, credit loss allowances relating to all loans and advances within the portfolio are determined at an instrument level. For non-defaulted (Stages 1 and 2) exposures, the Bank uses an ECL model that relies specifically on the following key inputs: probability of default (PD), loss given default (LGD) and exposure at default (EAD). The maximum period considered when measuring ECL is the maximum period over which the Bank is exposed to credit risk. The PDs and LGDs used within the model are estimated using development data based on the Bank's own experience as available at the reporting date. PDs are based on the Bank's historical default data while LGDs are based on the Bank's recovery history.	Subsequent to the first year of adoption of IFRS 9, we continued to focus on the key drivers of the estimation of ECL. Apart from assessing the continued appropriateness of management assumptions, updates to key parameters, new assumptions and enhancements were evaluated and tested. Discussions with management focused on the application of forward-looking economic scenarios for non-defaulted loans and on the key assumptions in respect of the discounted cashflow models used to determine expected credit losses on defaulted/Stage 3 exposures. More specifically, in respect of the ECL calculation for non-defaulted exposures we performed the following procedures: • Since modelling assumptions and parameters are based on historic data, we tested the completeness and accuracy of the critical data, extracted from the underlying systems, that is utilised within the models for the purposes of the year-end ECL calculation. This includes completeness of data used in the computation of the PD, LGD and EADs. • Assessed the reasonableness of the PDs generated by the model through a comparison of predicted and actual defaults and ensured that the LGDs used in the model are representative of the Bank's loss experience. • Tested a sample of loans to independently review the borrower's financial performance and ability to meet loan repayments and assess the appropriateness of the credit rating assigned by management.

Key audit matter	How our audit addressed the Key audit matter
For defaulted (Stage 3) exposures discounted cash flow models are utilised in order to estimate ECLs. Judgement is required to determine when a default has occurred, and then to estimate the expected future cash flows related to that loan, which are dependent on parameters or assumptions such as the valuation of collateral (including forced sale discounts and assumed realisation period) or forecasted operating cash flows.	• Tested the appropriateness of model design and formulas applied to determine the ECL, including the application of macro-economic variables to determine a point in time PD under different scenarios. • Tested the multiple macro-economic scenarios and variables to assess their reasonableness. We assessed whether forecasted macroeconomic variables were appropriate and we challenged the correlation and impact of the macroeconomic factors on the ECL.
Under IFRS 9, the Bank is required to incorporate multiple forward-looking economic scenarios, reflecting management's view of potential future economic developments, into ECL estimates. The complexity attributable to this factor requires management to develop multiple macro-economic scenarios involving the use of significant judgements, particularly in the context of defaulted (Stage 3) loans. We focused on credit loss allowances due to the subjective nature of the calculations and the subjective judgements involved in both timing of recognition of impairment and the estimation of the size of any such impairment. Accordingly, summarising the key areas relevant to the Bank's measurement of expected credit losses (ECLs) would include: • Allocation of loans to stage 1, 2, or 3 using criteria in accordance with IFRS 9;	Based on the evidence obtained, we found the model assumptions and data used within the models used to determine expected credit losses for non-defaulted loans to be reasonable. The appropriateness of management's judgements was also independently considered in respect of defaulted exposures. In this respect, we performed the following procedures: • Assessed critically the criteria used for determining whether a default event had occurred by testing a sample of loans with characteristics that might imply a default event had occurred (for example a customer experiencing financial difficulty) to challenge whether default events had actually occurred and to assess whether default events had been identified by management in a timely manner. • Reviewed the credit files of defaulted loans to understand the latest developments at the level of the borrower and the basis of measuring the ECL provisions and considered whether key judgements were appropriate given the borrowers' circumstances.

Key audit matter	How our audit addressed the Key audit matter
• Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; • Completeness and accuracy of data used to calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple macro- economic scenarios; and • Measurements of individually assessed credit losses including the assessment of multiple scenarios. Relevant references in the Annual Report and Financial Statements: – Accounting policy: Note 1.3; – Credit risk management: Note 2.1a; – Note on Change in expected credit losses and other credit impairment charges: Note 25; – Note on Loans and advances to customers: Note 8; and – Critical accounting estimates and judgements: Note 3.	• Determined different scenarios and their respective probability weights independently, and formed our view (based on detailed loan and customer information in the credit file) on the recoverability of the selected corporate loans. Based on the evidence obtained, we found management's judgements to be reasonable.

Independent auditor's report - continued

To the Shareholders of IIG Bank (Malta) Ltd

Other information

The directors are responsible for the other information. The other information comprises the Directors' report and the additional regulatory disclosures and the 5 Year Summary (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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.

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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Bank's trade, customers and suppliers, and the disruption to its business and the overall economy.
- 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 a responsibility 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.

We have nothing to report to you in respect of this responsibility.

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 on 22 March 2010. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 10 years.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Lucienne Pace Ross
Partner

30 April 2020

Statement of financial position

	Notes	As at 31 December 2019 US$	2018 US$
ASSETS			
Cash and balances with Central Bank of Malta	4	**14,321,696**	8,935,815
Investment securities	5	**30,879,085**	39,519,639
Derivative financial instruments	6	**524,750**	-
Loans and advances to banks	7	**42,618,607**	28,232,864
Loans and advances to customers	8	**50,018,094**	94,908,645
Property, plant and equipment	9	**166,914**	234,730
Intangible assets	10	**2,384,516**	2,403,120
Right-of-use asset	11	**1,265,943**	-
Deferred tax assets	12	**1,567,777**	2,238,492
Accrued income and other assets	13	**5,229,134**	1,781,240
Total assets		**148,976,516**	178,254,545
EQUITY AND LIABILITIES			
Equity			
Share capital	14	**26,500,000**	26,500,000
Fair value reserve	15	**(96,317)**	(166,828)
Other reserve	16	**300,149**	300,149
Retained earnings		**(906,788)**	(2,071,143)
Total equity		**25,797,044**	24,562,178
Liabilities			
Amounts owed to customers	17	**121,075,192**	145,728,868
Amounts owed to banks	18	**-**	6,000,079
Derivative financial instruments	6	**33,798**	45,347
Current tax liabilities		**-**	877,424
Lease liabilities	11	**1,315,195**	-
Other liabilities	19	**755,287**	1,040,649
Total liabilities		**123,179,472**	153,692,367
Total equity and liabilities		**148,976,516**	178,254,545
MEMORANDUM ITEMS			
Commitments	20	**8,669,653**	3,132,077

The official closing middle rate of exchange applicable between US dollar and euro published by the European Central Bank as at 31 December 2019 was 1.1234 (2018: 1.1450).

The notes on pages 20 to 77 are an integral part of these financial statements.

The financial statements on pages 15 to 77 were authorised for issue by the board on 30 April and were signed on its behalf by:

Joseph Grioli
Director

Raymond Busuttil
Director

Income statement

	Notes	Year ended 31 December 2019 US$	2018 US$
Interest income	21	**7,682,814**	8,625,374
Interest expense	22	**(1,994,608)**	(2,485,950)
Net interest income		**5,688,206**	6,139,424
Fee and commission income	23	**1,514,886**	1,630,716
Fee and commission expense	23	**(307,883)**	(381,704)
Net fee and commission income		**1,207,003**	1,249,012
Net trading gains/(losses)	24	**106,967**	(2,557,263)
Net gains/(losses) on disposal of financial assets measured at fair value through other comprehensive income		**156,713**	(29,527)
Operating income		**7,158,889**	4,801,646
Change in expected credit losses and other credit impairment charges	25	**(660,578)**	(5,951,577)
Administrative expenses	26	**(4,701,209)**	(3,916,726)
Profit/(loss) before tax		**1,797,102**	(5,066,657)
Tax (expense)/income	27	**(632,747)**	1,757,759
Profit/(loss) for the year		**1,164,355**	(3,308,898)

The notes on pages 20 to 77 are an integral part of these financial statements.

Statement of comprehensive income

	Notes	Year ended 31 December 2019 US$	2018 US$
Profit/(loss) for the year		**1,164,355**	(3,308,898)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income:			
Net changes in fair value arising during the year, before tax	5	**(48,234)**	(490,555)
Reclassification adjustments - net amounts reclassified to profit or loss upon disposal, before tax		**156,713**	29,527
Income tax relating to components of other comprehensive Income	12	**(37,968)**	161,360
Other comprehensive income/(loss) for the year, net of tax		**70,511**	(299,668)
Total comprehensive income/(loss) for the year		**1,234,866**	(3,608,566)

The notes on pages 20 to 77 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 2018 – as restated		26,500,000	132,840	50,924	1,486,980	28,170,744
Comprehensive income						
Loss for the year		-	-	-	(3,308,898)	(3,308,898)
Other comprehensive income:						
Fair valuation of financial assets measured at fair value through other comprehensive income						
Net changes in fair value arising during the year, net of tax	5,12	-	(318,861)	-	-	(318,861)
Reclassification adjustments – net amounts reclassified to profit or loss, net of deferred tax		-	19,193	-	-	19,193
Total comprehensive income		-	(299,668)	-	(3,308,898)	(3,608,566)
Transactions with owners						
Allocation of funds for general risks	16	-	-	249,225	(249,225)	-
Total transactions with owners		-	-	249,225	(249,225)	-
Balance at 31 December 2018		**26,500,000**	**(166,828)**	**300,149**	**(2,071,143)**	**24,562,178**
Balance at 31 December 2018		**26,500,000**	**(166,828)**	**300,149**	**(2,071,143)**	**24,562,178**
Comprehensive income						
Profit for the year		-	-	-	**1,164,355**	**1,164,355**
Other comprehensive income:						
Fair valuation of financial assets measured at fair value through other comprehensive income						
Net changes in fair value arising during the year, net of tax	5,12	-	**(31,352)**	-	-	**(31,352)**
Reclassification adjustments – net amounts reclassified to profit or loss, net of deferred tax		-	**101,863**	-	-	**101,863**
Total comprehensive income		-	**70,511**	-	**1,164,355**	**1,234,866**
Balance at 31 December 2019		**26,500,000**	**(96,317)**	**300,149**	**(906,788)**	**25,797,044**

The notes on pages 20 to 77 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2019 US$	2018 US$
Operating activities			
Interest and commission income received		**9,194,434**	10,691,973
Interest and commission expense paid		**(2,350,719)**	(2,913,045)
Net income from foreign exchange transactions		**1,267,445**	316,844
Tax paid		**(861,074)**	-
Cash payments to employees and suppliers		**(4,333,774)**	(3,917,900)
Cash flows generated from operating activities before changes in operating assets and liabilities		**2,916,312**	4,177,872
Changes in operating assets and liabilities:			
Net decrease in balances with Central Bank of Malta	4	**209,896**	16,515
Net decrease/(increase) in loans and advances to banks	7	**2,057,010**	(1,312,858)
Net decrease in amounts attributable to Depositor Compensation Scheme	13	**152,098**	40,409
Net decrease/(increase) in loans and advances to customers	8	**34,633,860**	(20,183,514)
Net decrease in amounts owed to customers	17	**(24,653,676)**	(14,149,356)
Net (decrease)/increase in amounts owed to banks	18	**(6,000,079)**	5,329,465
Net cash generated from/(used in) operating activities		**9,315,421**	(26,081,467)
Investing activities			
Purchase of financial assets measured at fair value through other comprehensive income	5	**(4,665,219)**	(5,407,684)
Purchase of financial assets mandatorily measured at fair value through profit or loss	5	**(11,429,782)**	(32,714,457)
Proceeds from disposal and redemptions of financial assets measured at fair value through other comprehensive income	5	**9,390,803**	4,061,087
Proceeds from disposal and redemptions of financial assets mandatorily measured at fair value through profit or loss	5	**15,912,382**	44,299,125
Purchase of property, plant and equipment	9	**(17,407)**	(166,870)
Purchase of intangible assets	10	**(272,685)**	(1,614,101)
Net cash generated from investing activities		**8,918,092**	8,457,100
Financing activities			
Payment for lease financing		**(281,176)**	-
Net cash used in financing activities		**(281,176)**	-
Net movement in cash and cash equivalents		**17,952,337**	(17,624,367)
Cash and cash equivalents at beginning of year		**34,934,058**	52,558,425
Cash and cash equivalents at end of year	28	**52,886,395**	34,934,058

The notes on pages 20 to 77 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 measured at fair value through profit or loss, including derivative financial instruments, and financial assets measured at fair value through other comprehensive income/available-for-sale financial assets.

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).

Assessment of going concern assumption

During the year, the Bank's ultimate parent, IIG Trade Opportunities Fund N.V. (the Fund) was put into administration triggering a wind-down of the Fund's assets, including the sale of the Fund's stake in the Bank.

For this reason, the Bank is receiving and assessing bids from prospective investors that have expressed interest in investing in the Bank to put forward their offers to the administrator. The ultimate objective of this process is to determine the preferred bidder to be selected as the new controlling shareholder of the Bank. To date, various investors have expressed their interest in investing in the Bank, and on the basis of information available to the directors as at the date that these financial statements were authorised for issue, there appear to be no substantive reasons to doubt whether the process, including regulatory approval of the new controlling shareholder, would be concluded in due course.

In the meantime, until the new controlling shareholder is selected, the Bank's management will continue to focus the Bank's business strategy on servicing its depositing customers and providing trade facilitation through the provision of funding and trade and commodity finance products to its borrowing customers.

In view of these circumstances, of note is the fact that while in the past the Bank used to participate in business promoted by the Fund's asset manager (part of the IIG Group), this activity has been wound down about 3 years ago. Since then, the Bank has not had any dependency on the Fund or the IIG Group to sustain its business model, both financially or operationally. Furthermore, as has been in the past, the directors will ensure that no dividends are paid out and no irrevocable commitment to pay out dividends will be undertaking until a new controlling shareholder is selected. Until new controlling shareholder is located, management is confident that the Bank's strategy is feasible and tenable. On the basis of these considerations, it is the view of the Board of Directors that there is a reasonable expectation that the Bank is able to continue in business for the foreseeable future, including in the context of the impacts that the coronavirus may have both on the process involving the change of ownership of the Bank as well as in respect of the Bank's operations. Further detail in this respect is provided in Note xx, 'Events after the reporting period'. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

Standards, interpretations and amendments to published standards effective in 2019

During the financial year ended 31 December 2019, the Bank adopted new standards, amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2019. In particular, the Bank has adopted the requirements of IFRS 16 retrospectively. The adoption of the standard increased assets by US$1.3m and increased financial liabilities by the same amount with no effect on net assets or retained earnings. Comparatives were not restated.

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases that had previously been classified as 'operating leases' in accordance with IAS 17 'Leases'. These liabilities were recognised on the face of the Statement of financial position and measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate at 1 January 2019. The associated right-of-use ('ROU') assets were recognised on the face of the Statements of financial position and measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments on the balance sheet at 31 December 2018. In addition, under the practical expedients permitted by the standard operating leases with a remaining lease term of less than 12 months at 1 January 2019 were treated as short-term leases, and initial direct costs were not included in the measurement of ROU assets for leases previously accounted for as operating leases.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Company. None of the standards that are not yet effective would be expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

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

1.3 Financial assets

i. Initial recognition

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. All financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the financial asset.

ii. Classification and subsequent measurement

On initial recognition the Bank classifies its financial assets in the following measurement categories: (a) amortised cost; (b) fair value through profit or loss (FVPL); or fair value through other comprehensive income (FVOCI). The classification varies depending on whether the financial asset is a debt or an equity instrument.

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective such as loans, government and corporate bonds, and units held in collective investment schemes (also known as puttable shares).

Equity instruments are contracts that evidence a residual interest in an entity's assets after deducting all of its liabilities. Examples of equity instruments include non-puttable ordinary shares, some types of preference shares, and share warrants or written call options that allow the holder to subscribe for or purchase a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of cash or another financial asset. The Bank does not have any investments in equity instruments.

Classification and subsequent measurement of debt instruments depends on:

- The Bank's business model for managing the asset; and
- The cash flow characteristic of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance recognised and measured as described in Note 3. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

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

1.3 Financial assets – continued

ii. Classification and subsequent measurement - continued

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are all recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gain or loss on disposal of financial assets measured at fair value through other comprehensive income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net trading income'. Interest income from these financial assets is included in 'Interest Income' using the effective interest rate method.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

1. Summary of significant accounting policies – continued

1.3 Financial assets – continued

iii. De-recognition of financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the assets have expired or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- the Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

iv. Impairment of amortised cost and FVOCI financial assets

ECLs are recognised for loans and advances to banks and customers, other financial assets measured at amortised cost, debt instruments measured at FVOCI, and certain credit related commitments.

At initial recognition, an allowance (or provision in the case of credit related commitments) is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 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 to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk would be classified as 'stage 2'; and financial assets for which there is objective evidence of impairment, and which are so considered to be in default or otherwise credit impaired, would be classified as 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently, as set out below.

<u>Credit impaired (stage 3)</u>

The Bank determines that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily when there are indications that the obligor is unlikely to pay. 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.

<u>Write-off</u>

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

<u>Renegotiation</u>

Loans are identified as renegotiated and classified as credit impaired when contractual payment terms are modified due to significant credit distress of the borrower. Renegotiated loans, that are not derecognised, remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

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

1.3 Financial assets – continued

iv. Impairment of amortised cost and FVOCI financial assets - continued

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Loans that arise following derecognition events may be considered POCI.

Loan modifications that are not credit impaired

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Bank's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. While it is not possible to to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk, the Bank considers that a financial asset has experienced a significant increase in credit risk when on or more of the following backstop criteria have been met.

- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans.

Further, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

The Bank considers certain financial assets as having 'low credit risk' in terms of paragraphs 5.5.10 and B5.5.23 of IFRS9. These include balances with the Central Bank of Malta, loans and advances to banks and investment securities measured at fair value through other comprehensive income. This consideration is made in the light of the fact that all obligors within these categories are considered by the Bank to have a strong capacity to meet their obligations, and that adverse changes in economic conditions should not reduce their ability to fulfil obligations.

2. Summary of significant accounting policies – continued

1.3 Financial assets – continued

iv. Impairment of amortised cost and FVOCI financial assets - continued

The Bank assumes that the credit risk on these financial assets has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk, within the meaning of paragraph 5.5.10 of IFRS 9, at the reporting date. If, on the other hand, these financial assets suffer a significant increase in credit risk, for example following a downgrade to below investment grade, the financial instrument will be re-classified as a Stage 2 exposure. This will impact the measurement of the loss allowance, moving from a 12-month ECL assumption to a lifetime ECL assumption.

<u>Unimpaired and without significant increase in credit risk (stage 1)</u>

ECL resulting from default events that are possible within the next 12 months (12-month ECL) are recognised for financial instruments that remain in stage 1.

<u>Purchased or originated credit impaired</u>

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI.

This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty, where the Bank's assessment is such that the repayment according to the modified contractual terms are still doubtful. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

<u>Movement between stages</u>

Financial assets can be transferred between the different categories (other than POCI). Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not derecognised will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment.

<u>Measurement of expected credit losses</u>

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether as asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

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

1.3 Financial assets – continued

iv. Impairment of amortised cost and FVOCI financial assets - continued

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12 EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month

  LGD is the percentage of loss expected to me made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together effectively calculating the ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile is developed by applying forward looking macroeconomic variables to historical default rates, taking into consideration the likelihood of survival. As part of this process, marginal PDs are determined through interpolation. For the Lending portfolio, the historical default rates are based on the Bank's historical experience. For assets that are defined to have low credit risk in terms of IFRS 9, to derive coherent PDs, proxy unconditional PDs taken from reputable credit rating agencies are used.

The 12-month and lifetime EADs are determined based on the expected payment profile, based on contractual repayments owed by the borrower.

The LGD is determined based on factors which impact the recoveries made post default. This is primarily based on collateral type and projected collateral values, discounts to values, time to repossession and recovery costs observed.

The Bank applies forward economic scenarios into the calculation of ECL by incorporating the effect of macroeconomic variables into the estimation of the term structure of the PD under three scenarios. They represent a 'most likely outcome' (the Central scenario), and two, less likely 'outer' scenarios, referred to as the Upside and Downside scenarios, weighted by an appropriate probability of occurrence.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

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

1.4 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.

1.5 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.

1.6 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 1.8).

1.7 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

1.7 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 1.8).

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

1.8 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.

1.9 Leases

The Bank is the lessee

Policy applicable from 1 January 2019

At the inception of a contract, the Bank assesses if the contract is or contains a lease and hence conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease liabilities arising from such contracts are measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate, which is the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions.

The Bank measures the associated right-of-use assets at an amount equal to the lease liability at the date at which the leased asset is made available for use.

Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability.

2. Summary of significant accounting policies – continued

1.9 Leases - continued

The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Reassessment is required when the terms and conditions of a contract are changed. Lease liabilities are remeasured when:

- There are changes in future lease payments arising from changes in an index or rate;
- There are changes in the Bank's assessment of whether it will exercise an extension option; or
- There are modification in the scope or the consideration of the lease that was not part of the original term.

Lease liabilities are remeasured with a corresponding adjustment to the right-of-use assets, or an adjustment in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero and there is a further reduction in the measurement of the lease liability.

The Bank elects not to recognise right-of-use assets and lease liabilities for low value leases or leases with a term shorter than 12 months. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

Leases in terms of which the Bank does not assume substantially all the risks and rewards of ownership are classified as operating leases. Leased assets held under operating lease are not recognised in the Bank's statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

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. Summary of significant accounting policies – continued

1.11 Share capital

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

1.12 Financial liabilities

The Bank recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Bank's financial liabilities are 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 IFRS 9. 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 Contingent liabilities

A contingent liability is (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

2. Summary of significant accounting policies – continued

1.15 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.

1.16 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.

1.17 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. **Summary of significant accounting policies** – continued

1.18 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.

1.19 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.

2. Financial risk management – continued

2.1 Financial risk factors – continued

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.

The following table presents the maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments, before taking into account of any collateral held or other credit enhancements. For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their carrying amount. For loan commitments that are irrecoverable over the life of the respective facilities, the maximum exposure to credit risk is generally the full amount of the committed facilities.

	2019 US$	2018 US$
Credit risk exposures relating to on-balance sheet assets:		
Financial assets mandatorily measured at fair value through profit or loss:		
Investment in units in money market funds (Note 5)	**12,588,047**	12,924,884
Debt securities (Note 5)	**13,640,881**	17,335,046
Financial assets measured at fair value through other comprehensive income:		
Debt securities (Note 5)	**4,652,409**	9,264,288
Derivative financial instruments (Note 6)	**524,750**	-
Amortised cost		
Balances with Central Bank of Malta (Note 4)	**14,316,461**	8,932,559
Loans and advances to banks (Note 7)	**42,618,607**	28,232,864
Loans and advances to customers (Note 8)	**50,018,094**	94,908,645
Accrued interest income and other receivables (Note 13)	**4,835,242**	1,428,314
	143,194,491	173,026,600
Credit risk exposures relating to off-balance sheet instruments:		
Commitments (Note 20)	**8,669,653**	3,132,077

2. Financial risk management – continued

2.1 Financial risk factors – continued

(a) Credit risk – continued

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 2019 and 2018, without taking account of any collateral held or any other credit enhancements attached.

The following disclosure presents the gross carrying/nominal amounts of financial instruments measured at amortised cost to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL, as well as the fair value of financial instruments measured at FVOCI and the associated allowance for ECL.

	31 December 2019		31 December 2018	
	Gross carrying/nominal amount US$	**Allowance for ECL US$**	Gross carrying/nominal amount US$	Allowance for ECL US$
Amortised cost				
Balances with Central Bank of Malta	**14,317,218**	**757**	8,932,648	89
Loans and advances to banks	**42,652,819**	**34,212**	28,239,917	7,053
Loans and advances to customers	**51,022,365**	**1,004,271**	101,272,304	6,363,659
Accrued income and other assets	**4,849,002**	**13,760**	1,435,347	7,033
Total gross carrying amount on- balance sheet	**112,841,404**	**1,053,000**	139,880,216	6,377,834
Commitments	**8,669,653**	**-**	3,132,077	-
Total nominal amount off-balance sheet	**8,669,653**	**-**	3,132,077	-
	121,511,057	**1,053,000**	143,012,293	6,377,834

	31 December 2019		31 December 2018	
	Fair value US$	**Memorandum allowance for ECL US$**	Fair value US$	Memorandum allowance for ECL US$
Financial assets measured at fair value through other comprehensive income ('FVOCI')	**4,652,409**	**2,252**	9,264,288	4,579
	4,652,409	**2,252**	9,264,288	4,579

The following table presents the distribution, by stage, of financial instruments to which the impairment requirements in IFRS 9 are applied, and the associated ECL as at 31 December 2019 and as at 31 December 2018. The financial assets recorded in each stage have the following characteristics:

- stage 1: unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised;
- stage 2: a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised;
- stage 3: objective evidence of impairment, and are therefore considered to be credit impaired on which a lifetime ECL is recognised;

2. Financial risk management – continued

2.1 Financial risk factors – continued

(a) Credit risk – continued

	Gross carrying/nominal amount				Allowance for ECL			
	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
Balances with Central Bank of Malta	**14,317,218**	**-**	**-**	**14,317,218**	**757**	**-**	**-**	**757**
Investment securities	**4,652,409**	**-**	**-**	**4,652,409**	**2,252**	**-**	**-**	**2,252**
Loans and advances to banks	**42,652,819**	**-**	**-**	**42,652,819**	**34,212**	**-**	**-**	**34,212**
Loans and advances to customers	**46,456,177**	**3,094,076**	**1,472,112**	**51,022,365**	**450,488**	**219,069**	**334,714**	**1,004,271**
Accrued income and other assets	**4,812,025**	**36,641**	**336**	**4,849,002**	**11,161**	**2,523**	**76**	**13,760**
Total gross carrying amount on-balance sheet	**112,890,648**	**3,130,717**	**1,472,448**	**117,493,813**	**498,870**	**221,592**	**334,790**	**1,055,252**
Commitments	**2,987,559**	**-**	**-**	**2,987,559**	**-**	**-**	**-**	**-**
At 31 December 2019	**115,878,207**	**3,130,717**	**1,472,448**	**120,481,372**	**498,870**	**221,592**	**334,790**	**1,055,252**
Balances with Central Bank of Malta	8,932,648	-	-	8,932,648	89	-	-	89
Investment securities	9,264,288	-	-	9,264,288	4,579	-	-	4,579
Loans and advances to banks	28,239,917	-	-	28,239,917	7,053	-	-	7,053
Loans and advances to customers	86,979,945	2,527,247	11,765,112	101,272,304	563,314	174,420	5,625,925	6,363,659
Accrued income and other assets	1,424,031	11,316	-	1,435,347	6,252	781	-	7,033
Total gross carrying amount on-balance sheet	134,840,829	2,538,563	11,765,112	149,144,504	581,287	175,201	5,625,925	6,382,413
Commitments	3,132,077	-	-	3,132,077	-	-	-	-
At 31 December 2018	137,972,906	2,538,563	11,765,112	152,276,581	581,287	175,201	5,625,925	6,382,413

2. Financial risk management - continued

2.1 Financial risk factors – continued

(a) Credit risk - continued

Loans and advances to customers

The following table presents loans and advances to customers by industry and geographical concentration and by stage allocation, as well as the associated ECL as at 31 December 2019. 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.

	2019							
	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
By industry	US$	US$	US$	US$	US$	US$	US$	US$
Wholesale trade of commodity	37,889,572	680,556	1,472,112	40,042,240	307,176	55,413	334,714	697,303
Manufactured /processed commodity	3,136,376	2,413,520	-	5,549,896	88,936	163,656	-	252,592
Agriculture, forestry and fishing	3,108,228	-	-	3,108,228	19,154	-	-	19,154
Transport	2,322,001	-	-	2,322,001	35,222	-	-	35,222
At 31 December	46,456,177	3,094,076	1,472,112	51,022,365	450,488	219,069	334,714	1,004,271
By geography								
Latin America	5,649,097	2,413,520	-	8,062,617	57,224	163,656	-	220,880
Malta	1,207,380	-	-	1,207,380	12,248	-	-	12,248
Other EU countries	12,143,350	-	-	12,143,350	181,275	-	-	181,275
Rest of world	27,456,350	680,556	1,472,112	29,609,018	199,741	55,413	334,714	589,868
	46,456,177	3,094,076	1,472,112	51,022,365	450,488	219,069	334,714	1,004,271

	2018							
	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
By industry	US$	US$	US$	US$	US$	US$	US$	US$
Wholesale trade of commodity	66,244,425	-	1,472,112	67,716,537	432,585	-	256,075	688,660
Manufactured /processed commodity	471,727	2,527,247	6,293,000	9,291,974	9,981	174,420	3,452,317	3,636,718
Agriculture, forestry and fishing	2,171,793	-	4,000,000	6,171,793	-	-	1,917,533	1,917,533
Transport	18,092,000	-	-	18,092,000	120,748	-	-	120,748
At 31 December	86,979,945	2,527,247	11,765,112	101,272,304	563,314	174,420	5,625,925	6,363,659
By geography								
Latin america	7,309,066	2,527,247	10,293,000	20,129,313	44,772	174,420	5,369,849	5,589,041
Malta	3,028,082	-	-	3,028,082	18,001	-	-	18,001
Other EU countries	3,587,571	-	-	3,587,571	11,215	-	-	11,215
Rest of world	73,055,226	-	1,472,112	74,527,338	489,326	-	256,076	745,402
	86,979,945	2,527,247	11,765,112	101,272,304	563,314	174,420	5,625,925	6,363,659

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

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.

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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

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

	2019 US$	2018 US$
Loans and advances to customers		
Stage 1:		
Collateralised	**31,010,695**	52,132,383
Uncollateralised	**14,994,994**	34,283,266
Stage 2:		
Collateralised	**2,249,864**	2,352,827
Uncollateralised	**625,143**	
Stage 3:		
Collateralised	**1,137,398**	1,594,400
Uncollateralised	**-**	4,545,769
	50,018,094	**94,908,645**
Total:		
Collateralised	**34,397,957**	56,079,779
Uncollateralised	**15,620,137**	38,828,866
31 December	**50,018,094**	**94,908,645**

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. The following tables sets out the loans and advances to customers deemed to be large exposures for regulatory reporting purposes, prior to any eligible exemptions, in accordance with the requirements of Part Four of the Capital Requirements Regulations (CRR), Large Exposures. As at 31 December 2019 and 2018, no loans and advances to customers were deemed to be prohibited large exposures in terms of the CRR.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

The following table presents the Bank's loans and advances to customers which are deemed to be large exposures by stage:

	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
As at 31 December 2019:				
Gross carrying/nominal amount	**30,744,085**	**2,413,520**	**-**	**33,157,605**
Allowance for ECL	**348,293**	**163,657**	**-**	**511,950**
Percentage of loans and advances to customers	**60.26%**	**4.73%**	**-**	**64.99%**
As at 31 December 2018:				
Gross carrying/nominal amount	61,935,142	2,527,247	8,300,000	72,762,389
Allowance for ECL	360,760	174,420	4,971,125	5,506,305
Percentage of loans and advances to customers	61.16%	2.50%	8.20%	71.86%

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from stage 1 to stage 2. Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

At 31 December 2019, the Bank had no loans and advances to customers classified as stage 2 (31 December 2018: US$2,527,247) which were more than 30 DPD. Similarly, as at 31 December 2019 and 31 December 2018, the Bank had no loans and advances to customers classified as stage 2 which were between 1 and 29 DPD.

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 credit impaired (i.e. stage 3) 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 credit impaired (i.e. stage 3) 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.

2. Financial risk management – continued

2.1 Financial risk factors – continued

(a) Credit risk – continued

As at 31 December 2019, the Bank classifies exposure balances for three borrowers (2018: 6 borrowers) as forborne.

As at 31 December 2019, the Bank has renegotiated loans and advances to customers in stage 2 and 3 amounting to US$3,094,076 (31 December 2018: US$2,527,247) and US$1,472,112 (31 December 2018: US$7,683,980), respectively. The corresponding allowance for ECL amounted to US$219,069 (31 December 2018: US$174,420) and US$334,714 (31 December 2018: US$2,572,333) respectively.

The total renegotiated loans and advances to customers for 2019 represent 12.25% (2018: 10.08%) of total gross loans and advances to customers. The total interest income recognised in 2019 in respect of forborne assets amounted to US$324,872 (2018: US$66,583).

The following table shows the movement in forbearance activity during the year:

	2019 **US$**	2018 US$
At 1 January	**10,211,227**	11,312,922
Loans renegotiated without derecognition	**1,062,385**	2,397,172
Repayments	**(203,439)**	(2,500,040)
Amounts sold/written off	**(6,698,644)**	(998,827)
At 31 December	**4,371,529**	10,211,227

Forborne loans are analysed by geographical location as follows:

	2019 **US$**	2018 US$
As at 31 December		
Latin America	**2,249,864**	8,520,247
Other EU countries	**-**	1,690,980
Rest of world	**2,121,665**	-
	4,371,529	10,211,227

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

The following disclosure provides a reconciliation by stage of the Bank's gross carrying/nominal amount and allowances for loans and advances to customers, including loan and other credit-related commitments. Transfers across stages represent the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL of the financial instruments that are outstanding at the beginning of the year. During 2019, there were no transfers between stages in respect of loans that were outstanding at the beginning of the year.

The 'Net remeasurement of ECL arising from stage transfers' represents the increase or decrease in ECL due to moving, for example, from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis or vice versa. Net remeasurement excludes the movements resulting from changes in risk parameters such as changes in PDs and LGDs when compared to those used for the previous reporting period. This is captured, along with other credit quality movements in the 'Changes in risk parameters' line item which shows the impact of changes in risk parameters in respect of the allowances specifically for loans and advances to customers outstanding at the beginning of the year.

The 'Net new and further lending/repayments' represent the gross carrying/nominal amount and associated ECL impact from volume movements within the Bank's lending portfolio, i.e. originations and repayments during the financial reporting period. The allowance in respect of these is included using the current year's risk parameters, and therefore no such impact is included within the 'Changes in risk parameters' line item. Similarly, stage transfers in respect of loans and advances originated or repaid during the year are also included within the 'Net new and further lending/repayments' line item.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	US$	US$	US$	US$	US$	US$	US$	US$
At 31 December 2018	86,979,945	563,314	2,527,247	174,420	11,765,112	5,625,925	101,272,304	6,363,659
Changes in risk parameters	-	(86,956)	-	(3,052)	-	1,407,433	-	1,317,425
Net new and further	(40,523,768)	(25,870)	566,829	47,701	-	-	(39,956,939)	21,831
Assets sold	-	-	-	-	(10,293,000)	(6,698,644)	(10,293,000)	(6,698,644)
At 31 December 2019	46,456,177	450,488	3,094,076	219,069	1,472,112	334,714	51,022,365	1,004,271

Change in expected credit losses for the period	(5,359,388)
Assets sold	6,698,644
Recoveries	(710,905)
Change in expected credit losses and other impairment charges on loans and advances to customers	628,351
Change in expected credit losses attributable to:	
Accrued interest income and other assets	6,727
Balances with Central bank of Malta	668
Loans and advances to banks	27,159
Financial assets measured at fair value through other comprehensive income	(2,327)
Total expected credit loss charge for the year	660,578

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying amount US$	Allowance for ECL US$	Gross carrying amount US$	Allowance for ECL US$	Gross carrying amount US$	Allowance for ECL US$	Gross carrying amount US$	Allowance for ECL US$
At 1 January 2018	65,476,309	375,663	9,600,813	94,742	7,012,923	926,091	82,090,045	1,396,496
Transfers from Stage 1 to Stage 2	-	-	-	-	-	-	-	-
Transfers from Stage 2 to Stage 1	5,732,027	62,262	(5,732,027)	(62,262)	-	-	-	-
Transfers from Stage 3	-	-	2,527,247	181,080	(2,527,247)	(181,080)	-	-
Transfers to Stage 3	(4,399,567)	(6,463)	(4,179,872)	(36,360)	8,579,439	42,823	-	-
Net remeasurement of ECL arising from stage transfer	-	(72,071)	-	-	-	5,921,173	-	5,849,102
Changes in risk parameters	-	66,653	-	(6,660)	-	-	-	59,993
Net new and further lending/repayments	20,171,176	137,270	311,086	3,880	(301,176)	(84,255)	20,181,086	56,895
Assets written off	-	-	-	-	(998,827)	(998,827)	(998,827)	(998,827)
At 31 December 2018	**86,979,945**	**563,314**	**2,527,247**	**174,420**	**11,765,112**	**5,625,925**	**101,272,304**	**6,363,659**
Change in expected credit losses for the period								4,967,163
Assets written off								998,827
Change in expected credit losses and other impairment charges								5,965,990
Change in expected credit losses attributable to:								
Accrued interest income								7,033
Balances with Central bank of Malta								(315)
Loans and advances to banks								(21,104)
Financial assets measured at fair value through other comprehensive income								(27)
Total expected credit loss charge for the year								**5,951,577**

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

In accordance with IFRS 9, the Bank incorporates forward-looking economic forecasts into its ECL estimates.

More specifically, the Bank applies forward economic scenarios into the calculation of ECL by incorporating the effect of macroeconomic variables into the estimation of the term structure of the PD. In order to model the impact of economic scenarios on PDs, the Bank determines, through a historical analysis, which macroeconomic variables correlate best to the Bank's default rates. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset. The macro-economic variable with the strongest correlation is the World Real GDP growth.

In this respect, the Bank has adopted the use of three scenarios, representative of forecast economic conditions, sufficient to calculate unbiased expected losses. They represent a 'most likely outcome' (the Central scenario), and two, less likely 'outer' scenarios, referred to as the Upside and Downside scenarios. Each scenario is weighted by a probability of occurrence, determined by a combination of macroeconomic research and expert judgment. The following table presents the World's Real GDP growth rate for the following 3 forecasted years and the probabilities assigned to each of the Central, Upside and Downside scenarios.

	2019		
World Real GDP growth rate (Year-on-Year)	**Central scenario**	**Upside scenario**	**Downside scenario**
2020	2.93%	4.02%	-0.68%
2021	2.80%	3.88%	-0.75%
2022	2.67%	3.74%	-0.83%
Probability of occurrence	53%	33%	13%

	2018		
World Real GDP growth rate (Year-on-Year)	**Central scenario**	**Upside scenario**	**Downside scenario**
2019	2.57%	3.41%	2.46%
2020	2.82%	3.17%	2.73%
2021	2.78%	2.71%	2.74%
Probability of occurrence	63%	25%	12%

The ECL outcome is naturally sensitive to estimations made in this regard. As a result, management assessed and considered the sensitivity of the ECL outcome against the forward-looking economic conditions as part of the ECL governance process. The sensitivity on the level of ECL allowances of the effects of the application of macroeconomic inputs was not considered to be significant, particularly due to the short-term maturity profile of the Bank's exposures.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

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	Derivative financial instruments	Financial assets mandatorily measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Loans and advances to banks
	US$	US$	US$	US$	US$
31 December 2019					
AAA	-	-	-	360,664	-
AA	-	-	-	-	-
AA-	-	-	-	-	3,041,445
A+	14,316,461	-	-	2,878,807	-
A	-	-	-	-	
A-	-	-	-	-	-
BBB+	-	-	-	714,133	-
BBB	-	-	-	118,731	8,406,389
BBB-	-	377,231	-	577,822	20,006,064
BB+	-	147,519	-	-	758,408
BB	-	-	1,227,962	-	2,513,690
BB-	-	-	2,664,827	-	2,994,259
B+	-	-	2,605,539	-	-
B	-	-	1,444,904	-	2,989,499
B-	-	-	3,949,182	-	1,748,874
CCC+	-	-	705,268	-	159,979
Unrated	-	-	13,631,246	-	-
Total	14,316,461	524,750	26,228,928	4,650,157	42,618,607

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

	Balances with Central Bank of Malta	Derivative financial instruments	Financial assets mandatorily measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Loans and advances to banks
	US$	US$	US$	US$	US$
31 December 2018					
AAA	-	-	-	1,335,038	-
AA	-	-	-	-	-
AA-	-	-	-	-	1,590,328
A+	8,932,559	-	-	197,413	
A	-	-	-	232,016	
A-	-	-	-	1,356,163	16,309,389
BBB+	-	-	-	398,110	4,963,570
BBB	-	-	-	4,603,738	821,052
BBB-	-	-	-	1,137,231	1,463,658
BB+	-	-	-	-	-
BB	-	-	1,593,140	-	-
BB-	-	-	2,043,278	-	-
B+	-	-	2,025,100	-	-
B	-	-	2,284,715	-	1,194,545
B-	-	-	3,579,069	-	1,890,322
CCC+	-	-	3,041,788	-	-
Unrated	-	-	15,692,840	-	-
					-
Total	8,932,559	-	30,259,930	9,259,709	28,232,864

(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.

The Bank manages its currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. When it is not possible to match the asset and liability currency positions, the Bank hedges its open foreign exchange exposures arising from customer deposits by entering into forward foreign exchange contracts or currency swaps with terms which match those of the hedged items.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Foreign exchange risk - continued

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

As at 31 December 2019	US$	GBP US$	Euro US$	Other US$	Total US$
Financial assets					
Balances with Central Bank of Malta	2,366,103	-	11,950,358	-	14,316,461
Financial assets mandatorily measured at fair value through profit and loss	10,135,423	650,259	15,443,246	-	26,228,928
Financial assets measured at fair value through other comprehensive income	703,578	-	3,946,579	-	4,650,157
Loans and advances to banks – at amortised cost	25,134,309	3,320,064	14,164,234	-	42,618,607
Loans and advances to customers – at amortised cost	43,751,428	-	6,050,644	216,022	50,018,094
Accrued income and other assets – at amortised cost	4,099,802	-	735,440	-	4,835,242
Total financial assets	86,190,643	3,970,323	52,290,501	216,022	142,667,489
Financial liabilities					
Amounts owed to customers – at amortised cost	38,042,465	7,990,136	75,040,760	1,831	121,075,192
Lease liabilities	-	-	1,315,195	-	1,315,195
Other liabilities	146,895	19,484	588,908	-	755,287
Total financial liabilities	38,189,360	8,009,620	76,944,863	1,831	123,145,674
Net on-balance sheet position	48,001,283	(4,039,297)	(24,654,362)	214,191	19,521,815
Off-balance sheet net notional position		4,016,448	23,035,850	-	
Net currency exposure		(22,849)	(1,618,512)	214,191	

2. **Financial risk management** - continued

2.2 Financial risk factors - continued

(c) Market risk - continued

Foreign exchange risk - continued

As at 31 December 2018	US$	GBP US$	Euro US$	Total US$
Financial assets				
Balances with Central Bank of Malta	-	-	8,932,559	8,932,559
Financial assets mandatorily measured at fair value through profit and loss	12,111,720	786,587	17,361,623	30,259,930
Financial assets measured at fair value through other comprehensive income	1,948,758	-	7,310,951	9,259,709
Loans and advances to banks – at amortised cost	22,829,895	416,749	4,986,220	28,232,864
Loans and advances to customers – at amortised cost	91,543,045	151,255	3,214,345	94,908,645
Accrued income and other assets – at amortised cost	1,401,177	23	27,114	1,428,314
Total financial assets	**129,834,595**	**1,354,614**	**41,832,812**	**173,022,021**
Financial liabilities				
Amounts owed to customers – at amortised cost	41,855,680	10,665,007	93,208,181	145,728,868
Amounts owed to banks – at amortised cost	6,000,000	-	79	6,000,079
Other liabilities	42,336	28,480	969,833	1,040,649
Total financial liabilities	**47,898,016**	**10,693,487**	**94,178,093**	**152,769,596**
Net on-balance sheet position	**81,936,579**	**(9,338,873)**	**(52,345,281)**	
Off-balance sheet net notional position		**9,338,019**	**52,401,511**	
Net currency exposure		**(854)**	**56,230**	

Under the scenario that the US dollar appreciates against the euro from 0.8899 to 1.0000 (2018: from 0.8738 to 1.0000) and against the GBP from 0.7569 to 1.0000 (2018: from 0.7820 to 1.0000), the impact recognised in profit or loss would amount to a pre-tax gain of US$577,032 (US$6,909). If on the other hand, the US dollar depreciates against the euro to 0.8009 (2018: 0.7864) and the GBP to 0.6812 (2018: 0.7038), the impact recognised in profit or loss would amount to a loss before tax of US$585,491 (2018: US$6,153).

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

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 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 2019			
Interest-bearing assets			
Financial assets mandatorily measured at fair value through profit and loss:			
Units in a money market fund	12,588,047	-	12,588,047
Debt securities	645,355	12,995,526	13,640,881
Financial assets measured at fair value through other comprehensive income:			
Debt securities	-	4,650,157	4,650,157
Loans and receivables – at amortised cost:			
Balances with Central Bank of Malta	14,316,461	-	14,316,461
Loans and advances to banks	1,751,750	40,866,857	42,618,607
Loans and advances to customers	31,551,380	18,466,714	50,018,094
	60,852,993	76,979,254	137,833,247
Interest-bearing liabilities			
Amounts owed to customers	32,973,777	88,101,415	121,075,192
	32,973,777	88,101,415	121,075,192
Net exposure	27,879,216	(11,122,161)	16,758,055
At 31 December 2018			
Interest-bearing assets			
Financial assets mandatorily measured at fair value through profit and loss:			
Units in a money market fund	12,924,884	-	12,924,884
Debt securities	-	17,335,046	17,335,046
Financial assets measured at fair value through other comprehensive income:			
Debt securities	569,225	8,690,484	9,259,709
Loans and receivables – at amortised cost:			
Balances with Central Bank of Malta	8,932,559	-	8,932,559
Loans and advances to banks	19,640,307	8,592,557	28,232,864
Loans and advances to customers	84,734,847	10,173,798	94,908,645
	126,801,822	44,791,885	171,593,707
Interest-bearing liabilities			
Amounts owed to customers	43,995,410	101,733,458	145,728,868
Amounts owed to banks	-	6,000,079	6,000,079
	43,995,410	107,733,537	151,728,947
Net exposure	82,806,412	(62,941,652)	19,864,760

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 measured both at fair value through other comprehensive income and through profit or loss (Note 5). 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 2019 on the fair valuation of its investments carried at fair value (debt securities and units in the money market fund) amounts to US$308,823 (2018: US$395,242). 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$148,845 (2018: increase by US$205,982). 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.

As at 31 December 2019	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	14,316,461	-	-	-	14,316,461
Financial assets mandatorily measured at fair value through profit or loss	12,588,047	646,356	516,280	12,479,245	26,229,928
Financial assets measured at fair value through other comprehensive income	-	-	-	4,650,157	4,650,157
Loans and advances to banks	33,315,508	5,960,428	3,342,671	-	42,618,607
Loans and advances to customers	35,855,246	4,490,547	7,422,437	2,249,864	50,018,094
	96,075,262	11,097,331	11,281,388	19,379,266	137,833,247
Financial liabilities					
Amounts owed to customers	54,812,938	5,044,344	20,832,502	40,385,408	121,075,192
	54,812,938	5,044,344	20,832,502	40,385,408	121,075,192
Interest rate gap	41,262,324	6,052,987	(9,551,114)	(21,006,142)	
Cumulative gap		47,315,311	37,764,197	16,758,055	

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

As at 31 December 2018	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	8,932,559	-	-	-	8,932,559
Financial assets mandatorily measured at fair value through profit or loss	-	-	-	30,259,930	30,259,930
Financial assets measured at fair value through other comprehensive income	-	-	-	9,259,709	9,259,709
Loans and advances to banks	19,640,307	8,592,557	-	-	28,232,864
Loans and advances to customers	1,622,206	33,982,626	51,577,033	7,726,780	94,908,645
	30,195,072	**42,575,183**	**51,577,033**	**47,246,419**	**171,593,707**
Financial liabilities					
Amounts owed to customers	59,173,624	2,599,951	17,609,810	66,345,483	145,728,868
Amounts owed to banks	6,000,079	-	-	-	6,000,079
	65,173,703	**2,599,951**	**17,609,810**	**66,345,483**	**151,728,947**
Interest rate gap	**(34,978,631)**	**39,975,232**	**33,967,223**	**(19,099,064)**	
Cumulative gap	**(34,978,631)**	**4,996,601**	**38,963,824**	**19,864,760**	

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(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.

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 2019	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	14,316,461	-	-	-	-	14,316,461
Financial assets mandatorily measured at fair value through profit or loss	-	-	516,280	13,124,601	12,588,047	26,228,928
Financial assets measured at fair value through other comprehensive income	-	-	-	4,650,157	-	4,650,157
Loans and advances to banks	33,315,508	5,960,428	3,342,671	-	-	42,618,607
Loans and advances to customers	14,759,912	9,944,724	21,301,053	4,012,405	-	50,018,094
Derivative financial instruments	308,258	216,492	-	-	-	524,750
Accrued income and other assets	4,159,472	-	10,538	-	665,232	4,835,242
	66,859,611	16,121,644	25,170,542	21,787,163	13,253,279	143,192,239
Financial liabilities						
Amounts owed to customers	54,812,937	5,044,344	20,832,502	40,385,409	-	121,075,192
Lease liabilities	43,550	4,585	175,039	1,092,021	-	1,315,195
Derivative financial instruments	33,798	-	-	-	-	33,798
Other liabilities	50,338	440,970	65,938	198,041	-	755,287
	54,940,623	5,489,899	21,073,479	41,675,471	-	123,179,472
Maturity gap	11,918,988	10,631,745	4,097,063	(19,888,308)		
Cumulative gap	11,918,988	22,550,733	26,647,796	6,759,488		

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

As at 31 December 2018	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	8,932,559	-	-	-	-	8,932,559
Financial assets mandatorily measured at fair value through profit or loss	-	-	962,900	14,964,935	14,332,095	30,259,930
Financial assets measured at fair value through other comprehensive income	-	-	-	9,259,709	-	9,259,709
Loans and advances to banks	19,640,307	8,592,557	-	-	-	28,232,864
Loans and advances to customers	1,622,206	33,982,626	51,577,033	7,726,780	-	94,908,645
Accrued income and other assets	122,148	52,456	149,613	286,767	817,330	1,428,314
	30,317,220	**42,627,639**	**52,689,546**	**32,238,191**	**15,149,425**	**173,022,021**
Financial liabilities						
Amounts owed to customers	59,173,624	2,599,951	17,609,810	66,345,483	-	145,728,868
Amounts owed to banks	6,000,079	-	-	-	-	6,000,079
Derivative financial instruments	-	45,347	-	-	-	45,347
Other liabilities	39,124	692,845	93,530	215,150	-	1,040,649
	65,212,827	**3,338,143**	**17,703,340**	**66,560,633**	**-**	**152,814,943**
Maturity gap	**(34,895,607)**	**39,289,496**	**34,986,206**	**(34,322,442)**		
Cumulative gap	**(34,895,607)**	**4,393,889**	**39,380,095**	**5,057,653**		

As at 31 December 2019, call accounts payable on demand amounting to US$32,973,777 (2018: US$43,995,410) 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.

As at 31 December 2019, financial assets measured at fair value through other comprehensive income amounting to US$3,819,145 (2018: US$4,856,494), 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 in case the need arises.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

Financial assets mandatorily measured at fair value through profit or loss include US$12,588,047 (2018: US$12,802,922) with no maturity that were pledged in favour of other counterparties and are therefore encumbered.

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 below.

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 2019						
Amounts owed to customers	54,931,753	5,264,831	21,650,495	42,008,821	123,855,900	121,075,192
Lease liabilities	43,550	4,585	175,039	1,092,021	1,315,195	1,315,195
Other liabilities	50,338	440,970	65,938	198,041	755,287	755,287
	55,025,641	5,710,386	21,891,472	43,298,883	125,926,382	123,145,674
As at 31 December 2018						
Amounts owed to customers	59,317,066	2,856,582	18,487,294	68,023,609	148,684,551	145,728,868
Amounts owed to banks	6,015,079	-	-	-	6,015,079	6,000,079
Other liabilities	39,124	692,845	93,530	215,150	1,040,649	1,040,649
	65,371,269	3,549,427	18,580,824	68,238,759	155,740,279	152,769,596

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 2019			
Inflows	39,305,711	-	39,305,711
Outflows	(38,814,759)	-	(38,814,759)
	490,952	-	490,952
At 31 December 2018			
Inflows	48,021,883	8,201,027	56,222,910
Outflows	(48,064,786)	(8,203,471)	(56,268,257)
	(42,903)	(2,444)	(45,347)

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 2019 amounted to US$917,921 (2018: US$1,365,527).

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:

	2019 US$	2018 US$
Common Equity Tier 1 (CET1) capital		
Share capital	**26,500,000**	26,500,000
Retained earnings	**(906,788)**	(2,071,143)
Fair value reserve	**(96,317)**	(166,828)
Other reserve	**300,149**	300,149
IFRS 9 transitional adjustment	**313,736**	347,802
Less:		
Intangible assets	**(2,384,516)**	(2,403,120)
Other deductions	**(665,232)**	(817,330)
CET1 capital	**23,061,032**	21,689,530
Total capital / own funds	**23,061,032**	21,689,530

Other deductions relate to the contributions amounting to US$665,232 (2018: US$817,330) in favour of the Depositor Compensation Scheme as at 31 December 2019, that are not available to the Bank for unrestricted and immediate use to cover risk of losses as soon as they occur.

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.

2. Financial risk management - continued

2.3 Fair value of financial instruments – continued

	Level 1 US$	Level 2 US$	Total US$
As at 31 December 2019			
Assets			
Financial assets mandatorily measured at fair value through profit or loss:			
Units in money market funds	**12,588,047**	**-**	**12,588,047**
Debt securities	**13,640,881**	**-**	**13,640,881**
Financial assets measured at fair value through other comprehensive income:			
Debt securities	**4,650,157**	**-**	**4,650,157**
Financial assets held-for-trading:			
Derivative financial assets	**-**	**524,750**	**524,750**
Total financial assets at fair value	**30,879,085**	**524,750**	**31,403,835**
Liabilities			
Financial assets held-for-trading:			
Derivative financial liabilities	**-**	**33,798**	**33,798**
As at 31 December 2018			
Assets			
Financial assets mandatorily measured at fair value through profit or loss:			
Units in money market funds	12,924,884	-	12,924,884
Debt securities	17,335,046	-	17,335,046
Financial assets measured at fair value through other comprehensive income:			
Debt securities	9,259,709	-	9,259,709
Total financial assets at fair value	39,519,639	-	39,519,639
Liabilities			
Financial liabilities held-for-trading:			
Derivative financial liabilities	-	45,347	45,347

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

(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.

2. Financial risk management - continued

2.3 Fair value of financial instruments - continued

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, other than for estimates relating to expected credit losses in respect of the Bank's loans and advances to customers, 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.

Other than for estimates relating to expected credit losses in respect of the Bank's loans and advances to customers, 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.

The measurement of the expected credit loss allowance for loans and advances to customers is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Notes 1 and 2.1.

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

A number of significant judgements are required in the measurement of expected credit loss, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios and associated ECL, particularly in the case of defaulted/Stage 3 loans.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in Note 2.1.

4. Cash and balances with Central Bank of Malta

	2019	2018
	US$	US$
Cash in hand	**5,235**	3,256
Mandatory reserve deposits with Central Bank of Malta	**711,952**	921,848
Other balances with Central Bank of Malta	**13,605,266**	8,010,800
Allowances for expected credit losses	**(757)**	(89)
	14,321,696	8,935,815

Mandatory reserves attract interest at the rate of 0%. Other balances with the Central Bank of Malta are charged interest at the deposit facility rate set by the European Central Bank (ECB).

5. Investment securities

	2019	2018
	US$	US$
Financial assets mandatorily measured at fair value through profit or loss:		
Units in money market funds	**12,588,047**	12,924,884
Debt securities	**13,640,881**	17,335,046
Financial assets measured at fair value through other comprehensive income:		
Debt securities	**4,650,157**	9,259,709
	30,879,085	39,519,639

5. Investment securities - continued

As at 31 December 2019, units held by the Bank in a money market fund with a carrying amount of US$12,588,047 (2018: US$12,802,992) were pledged as collateral in favour of another credit institution for the purpose of establishing a credit line.

At 31 December 2019, the Bank had pledged financial asset measured at fair value through other comprehensive income with a carrying amount of US$2,880,043 (2018: NIL) 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.

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

	2019 US$	2018 US$
Financial assets mandatorily measured at fair value through profit or loss:		
Foreign governments	-	433,941
Corporates and credit Institutions	13,640,881	16,901,105
	13,640,881	17,335,046

	2019 US$	2018 US$
Financial assets measured at fair value through other comprehensive income:		
Local government	2,880,043	-
Foreign governments	-	4,677,795
Corporates and credit institutions	1,772,366	4,586,493
Allowances for expected credit losses		
Local government	(1,236)	-
Foreign governments	-	(1,999)
Corporates and credit institutions	(1,016)	(2,580)
	4,650,157	9,259,709

6. 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:

	2019 US$	2018 US$
Derivative financial assets		
- currency swaps	524,750	-
Derivative financial liabilities		
- currency swaps	33,798	45,347

6. Derivative financial instruments - continued

The Bank enters into derivative contracts, mainly currency swaps, to hedge the foreign currency exposures arising out of amounts owed to customers. While these derivative transactions provide effective economic hedges, hedge accounting under the requirements of IFRS 9 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 IFRS 9.

The derivative financial instruments at 31 December 2019 relate to the forward purchase of £3,000,000 (2018: £7,300,000) and the forward purchase of €20,500,000 (2018: €40,971,400) against US$ maturing within one year from the end of the reporting period at the average contractual rate of 1.2308 (2018: 1.2885) and 1.1059 (2018: 1.1478) respectively.

7. Loans and advances to banks

	2019 US$	2018 US$
Repayable on call and at short notice	**27,071,193**	19,647,360
Term loans and advances	**15,581,626**	8,592,557
Allowances for expected credit losses	**(34,212)**	(7,053)
	42,618,607	28,232,864

Loans and advances with a contractual maturity of three months or less are included in cash and cash equivalents for the purposes of the statement of cash flows (Note 28).

8. Loans and advances to customers

	2019 US$	2018 US$
Gross term loans and advances to customers	**51,022,365**	101,272,304
Allowances for expected credit losses	**(1,004,271)**	(6,363,659)
Net term loans and advances to customers	**50,018,094**	94,908,645

	2019 US$	2018 US$
Credit loss allowances:		
Allowances booked under Stage 1	**450,488**	563,314
Allowances booked under Stage 2	**219,069**	174,420
Allowances booked under Stage 3	**334,714**	5,625,925
	1,004,271	6,363,659

The Bank enters into trade finance arrangements giving rise to lending and related facilities. In this respect, loans and advances to customers amounting to US$17,988,312 (2018: US$10,173,799) are subject to fixed interest rates ranging from 0% to 12.00% (2018: 3.75% to 6.75%) while US$33,034,053 (2018: US$77,806,531) are subject to variable interest rates ranging from 4.89% to 12.89% (2018: 6.29% to 13.79%). Discounting arrangements as at 31 December 2019 amounting to US$3,108,229 (2018: US$6,837,339) are subject to fixed interest rate between 6.34% to 6.49% (2018: between 6.50% to 7.00%).

8. Loans and advances to customers - continued

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 2018					
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**
Year ended 31 December 2018					
Opening net book amount	16,543	65,448	63,694	13,428	159,113
Additions	-	1,380	164,790	700	166,870
Depreciation charge	(6,525)	(27,533)	(51,216)	(5,979)	(91,253)
Closing net book amount	**10,018**	**39,295**	**177,268**	**8,149**	**234,730**
At 31 December 2018					
Cost	73,043	216,197	345,917	56,071	691,228
Accumulated depreciation	(63,025)	(176,902)	(168,649)	(47,922)	(456,498)
Net book amount	**10,018**	**39,295**	**177,268**	**8,149**	**234,730**
Year ended 31 December 2019					
Opening net book amount	10,018	39,295	177,268	8,149	234,730
Additions	-	1,592	11,566	4,249	17,407
Depreciation charge	(4,852)	(25,412)	(48,969)	(5,990)	(85,223)
Closing net book amount	**5,166**	**15,475**	**139,865**	**6,408**	**166,914**
At 31 December 2019					
Cost	73,043	217,789	357,483	60,320	708,635
Accumulated depreciation	(67,877)	(202,314)	(217,618)	(53,912)	(541,721)
Net book amount	**5,166**	**15,475**	**139,865**	**6,408**	**166,914**

10. Intangible assets

	Computer software US$
At 1 January 2018	
Cost	1,231,753
Accumulated amortisation	(299,970)
Net book amount	**931,783**
Year ended 31 December 2018	
Opening net book amount	931,783
Additions	1,614,101
Amortisation charge	(142,764)
Closing net book amount	**2,403,120**
At 31 December 2018	
Cost	2,845,855
Accumulated amortisation	(442,735)
Net book amount	**2,403,120**
Year ended 31 December 2019	
Opening net book amount	2,403,120
Additions	272,685
Amortisation charge	(291,289)
Closing net book amount	**2,384,516**
At 31 December 2019	
Cost	3,118,540
Accumulated amortisation	(734,024)
Net book amount	**2,384,516**

11. Right-of-use assets and lease liabilities

The Bank leases office space, premises for a branch as well as vehicles for executives use. Lease contracts are typically made for fixed periods but may have extension options. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

11. Right-of-use assets and lease liabilities - continued

Until the 2018 financial year, leases were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

The Bank has also some other leases with contract terms shorter than one year and leases of low-value items, for which the Bank has elected not to recognise right-of-use assets.

Right of use asset	
At 1 January 2019	
Impact of application of IFRS 16	1,596,371
Depreciation	(330,428)
At 31 December 2019	**1,265,943**

Following the adoption of IFRS 16, the Bank has presented lease liabilities separately from other liabilities in the statement of financial position. The lease liabilities were initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019. Lease liabilities at 31 December 2019 are split into maturity groupings as follows:

Current	223,174
Non-current	1,092,021
At 31 December 2019	**1,315,195**

The income statement reflects the following amounts relating to leases:	
Depreciation charge of right-of-use assets	330,428
Interest expense	26,753
Expense relating to short-term leases (included in administrative expenses)	16,703

The total cash payments for leases, including short-term leases, in 2019 was $307,930.

12. Deferred tax assets

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% (2018: 35%).

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

	2019 US$	2018 US$
At beginning of year	**2,238,492**	122,238
Impact arising on transition to IFRS 9	**-**	197,135
Recognised in profit or loss		
- Deferred taxes on temporary differences arising on depreciation of property, plant and equipment	**157,467**	14,060
- Deferred taxes on temporary differences arising on expected credit losses	**(1,863,692)**	1,743,699
- Deferred taxes on tax losses arising during the year	**1,073,478**	-
Recognised in other comprehensive income		
- Deferred taxes on fair valuation of financial assets measured at fair value through other comprehensive income		
Net changes in fair value	**16,942**	171,694
Amounts reclassified to profit or loss on disposal of financial assets measured at fair value through other comprehensive income	**(54,910)**	(10,334)
At end of year	**1,567,777**	2,238,492

The balance at 31 December represents temporary differences attributable to:

	2019 US$	2018 US$
At 31 December		
Fair valuation of financial assets measured at fair value through other comprehensive income	**(14,461)**	23,507
Expected credit losses	**368,550**	2,232,242
Depreciation of property, plant and equipment	**140,210**	(17,257)
Tax losses carried forward	**1,073,478**	-
	1,567,777	2,238,492

The recognised deferred tax assets are expected to be recovered/settled principally after more than twelve months. It includes an amount of 1.1 million which relates to carried-tax losses of the Bank. They are mainly related to one-off expected credit losses that are realised due to the sale of related Stage 3 loans. The Bank does not see that this will recur in the future. The Bank has concluded that the deferred tax assets will be recoverable using the estimated future taxable income.

13. Accrued income and other assets

	2019 US$	2018 US$
Receivable from immediate parent company	**3,526,923**	-
Allowances for expected credit losses	**(9,491)**	-
	3,517,432	-
Accrued interest income	**588,231**	594,456
Allowances for expected credit losses	**(4,269)**	(7,033)
	583,962	587,423
Amounts attributable to the Depositor Compensation Scheme	**665,232**	817,330
Prepayments	**347,016**	322,478
Indirect taxation	**46,876**	30,448
Other receivables	**68,616**	23,561
	5,229,134	1,781,240

14. Share capital

	2019 US$	2018 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 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

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

15. Fair value reserve

The fair value reserve reflects the effects of the fair value measurement of financial instruments classified as fair value through other comprehensive income, net of deferred taxes. Any gains or losses are not recognised in profit or loss until the asset has been sold.

16. 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.

17. Amounts owed to customers

	2019	2018
	US$	US$
Term and other deposits	**88,101,415**	101,733,458
Call accounts	**32,973,777**	43,995,410
	121,075,192	145,728,868

Amounts owed to customers are classified as liabilities at amortised cost and are subject to fixed interest rates. Other deposits consist of cash collateral and notice account amounting to $2,646,633 (2018: $4,527,959) and $12,011,377 (2018: $14,116,117).

18. Amounts owed to banks

	2019	2018
	US$	US$
Term loans and advances	**-**	6,000,079

Term loans and advances are subject to fixed interest rates and are secured by units in a money market fund pledged as collateral for the purpose of establishing a credit line, as disclosed in Note 5.

19. Other liabilities

	2019	2018
	US$	US$
Accrued interest expense	**327,372**	375,600
Other payables and accrued expenses	**427,915**	665,049
	755,287	1,040,649

20. Contingent liabilities and commitments

Contingencies related to legal proceedings

As at 31 December 2019 and 31 December 2018, the Bank had one legal proceeding outstanding against it arising in its normal course of business for the amount of Euro 133,138, equivalent to US$149,607 (2018: US$152,363) together with interest and costs. The Bank is vigorously contesting these claims on the basis of legal advice obtained. The directors do not expect the ultimate resolution of the proceedings referred to above to have a significantly adverse effect on the financial results and financial position of the Bank.

Commitments and other contingencies

At the end of the reporting period, the Bank had issued and confirmed letters of credit amounting to US$ 8,669,653 (2018: US$3,132,077).

21. Interest income

	2019 US$	2018 US$
On loans and advances to customers	**6,056,174**	6,849,660
On financial assets measured at fair value through other comprehensive income		
- coupon interest	**109,247**	795,418
- net amortisation of premiums and discounts	**40,938**	14,660
On loans and advances to banks	**217,960**	171,948
On financial assets mandatorily measured at fair value through profit or loss	**1,258,495**	793,688
	7,682,814	8,625,374

22. Interest expense

	2019 US$	2018 US$
On amounts owed to customers	**1,865,591**	2,417,161
On amounts owed to banks	**102,264**	68,789
On lease liabilities	**26,753**	-
	1,994,608	2,485,950

23. Fee and commission income and expense

(a) Fee and commission income

	2019 US$	2018 US$
Trade service-related fees	**1,184,293**	1,262,846
Transfer commissions	**292,090**	324,162
Other fees	**38,503**	43,708
	1,514,886	1,630,716

(b) Fee and commission expense

	2019 US$	2018 US$
Loan servicing fees payable to a related party	**58,713**	148,594
Other fees	**249,170**	233,110
	307,883	381,704

24. Net trading gains/(losses)

	2019 US$	2018 US$
Foreign exchange differences	**(1,397,701)**	(329,413)
Net fair value gains/(losses) on foreign exchange derivative contracts	**536,904**	(881,232)
Net gains/(losses) on financial assets mandatorily measured at fair value through profit or loss	**967,764**	(1,346,618)
	106,967	(2,557,263)

25. Change in expected credit losses and other credit impairment charges

	2019 US$	2018 US$
Change in expected credit losses in profit or loss on:		
- Loans and advances to customers including accrued interest and other assets	**(5,352,661)**	4,974,196
- Balances with central banks	**668**	(315)
- Loans and advances to banks	**27,159**	(21,104)
Financial assets measured at fair value through other comprehensive income	**(2,327)**	(27)
Amounts written off	**6,698,644**	998,827
Recoveries	**(710,905)**	-
	660,578	5,951,577

26. Administrative expenses

	2019 US$	2018 US$
Staff costs		
- Directors' remuneration	**446,365**	531,726
- Other staff salaries	**1,775,799**	1,446,938
- Social security costs	**77,511**	92,513
Directors' fees	**153,457**	169,041
Depreciation of property, plant and equipment and right-of use asset (Notes 9 and 11)	**415,651**	91,253
Amortisation of intangible assets (Note 10)	**291,289**	142,764
Short term lease expenses/Operating lease expenses	**16,703**	373,070
Legal and professional fees	**609,940**	165,484
Other administrative expenses	**914,494**	903,937
	4,701,209	3,916,726

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:

	2019	2018
- Managerial	**6**	8
- Clerical	**24**	22
	30	30

26. Administrative expenses - continued

Auditor's remuneration

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

	2019 US$	2018 US$
Annual statutory audit	**96,050**	60,500
Other assurance services	**-**	54,000
Tax compliance and advisory services	**4,746**	5,200
Other non-audit services	**74,580**	40,000
	175,376	159,700

27. Tax (expense)/income

	2019 US$	2018 US$
Current tax expense	**-**	-
Deferred tax (expense)/income (Note 12)	**(632,747)**	1,757,759
	(632,747)	1,757,759

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:

	2019 US$	2018 US$
Profit/(loss) before tax	**1,797,102**	(5,066,657)
Tax on profit at 35%	**628,985**	(1,773,331)
Tax effect of:		
Disallowable expenses	**3,762**	15,572
	632,747	(1,757,759)

28. Cash and cash equivalents

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

	2019	2018
	US$	US$
Cash in hand (Note 4)	**5,235**	3,256
Cash with Central Bank of Malta (Note 4)	**13,605,266**	8,010,800
Loans and advances to banks (Note 7)	**39,275,894**	26,920,002
	52,886,395	34,934,058

29. Related party transactions

IIG Malta Ltd is the Bank's immediate parent (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. IIG Trade Opportunities was considered a related party up until 10 October 2019.

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 2019, included amounts of US$58,713 (2018: US$148,594) payable to IIG Trade Finance LLC, as loan arrangement fees. IIG Trade Finance LLC, was considered a related party until 10 October 2019. Loan arrangement fees paid to IIG Trade Finance LLC until 10 October 2019

On 23 December 2019, the Bank sold Stage 3 loans and advances to customer at net carrying amount of the loan as at the date of sale amounting to US$3,526,923 (Note 13).

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 26.

30. Subsequent events

Since 31 December 2019, the outbreak of COVID-19 has severely impacted many local economies around the world, with measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closure of non-essential businesses for indefinite periods of time, triggering significant disruptions to businesses worldwide and leading to a global economic slowdown.

The likely future impact on the Bank of the COVID-19 outbreak has been assessed as part of its adoption of the going concern basis, and as of the date that these financial statements were authorised for issue, the directors have not identified a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern.
The Bank has implemented several measures to cater for the heightened risk scenario brought about by the COVID-19 outbreak.

Operationally, the lack of mobility of its resources and in anticipation of a total lockdown, the Bank has implemented its business continuity plan with 70% of the staff working remotely. The Bank has maintained minimal operations from its offices for specific operational activities which require access to physical documents. Should this scenario become unsustainable, the Bank has fall back measures in place.

30. Subsequent events – continued

The Bank has also been in touch with its correspondents, service providers and other counterparties to ensure that their continuity arrangements are in place. To date, all critical counterparties have been working remotely and no significant impact on the Bank's operations has been experienced.

In controlling and mitigating the attributed heightened credit risk from the outbreak, the Bank has been in contact with all its customers and from its assessment is not expecting delays in repayments from increased credit risk. Notwithstanding this, it is reasonable to expect some delays in the supply chain arising from precautionary procedures taken at ports around the world, which may delay the delivery of goods from suppliers and to buyers, and as a result the repayment of certain loans.

In the context of credit risk management the Bank has adopted the following immediate measures: (a) increased monitoring of exposures on an individual name by name basis, (b) tighter onboarding in respect of new credit opportunities, (c) availing itself from the uncommitted status of the facilities which have already been sanctioned, (d) focusing on financing corporates involved in basic necessities, and (e) enhanced monitoring commodity prices on the Bank's books and requests for higher margins.

From a market risk point of view, during Q1 2020, the Bank experienced a decrease of 10.2% in the value of its investment portfolio. While, the Bank expects the value of its investment portfolio to stabilise throughout the year management continues to monitor the situation very closely and has sold some of its positions. If the situation requires, the Bank is ready to sell its investments.

In terms of liquidity, considering the level of term deposits, the Bank's available liquidity and its pool of high-quality liquid asset portfolio, no issues are anticipated. The Bank's lending is on an uncommitted basis, which gives management better control over liquidity management. Furthermore, as part of its contingency funding plan, the Bank has secured credit lines in place which it can draw on immediately.

In response to the current economic downturn, the Bank is aware that it might not be able to maintain its current business levels. However, in this context, and with a view to ensure that the Bank's capital is preserved, the directors are confident that management can allocate any additional liquidity attributed to lower business opportunities towards higher quality assets.

As part of its assessment, the Bank has stress tested its financial projections under differ forward looking adverse scenarios that the Bank might potentially experience due to the COVID-19 pandemic crisis. The scenarios are based on the presumption of different degrees of contraction in global trade, leading to a decrease in GDP, increased default rates, varying periods of reduced business, and under certain scenarios further widening of credit spreads leading to further losses on its investment portfolio.

The Bank's stress scenarios, which do not consider management action, show that despite the significance of the impact that COVID-19 pandemic can have on the Bank under a worst case scenario, it will still be in a position to satisfying its minimum total capital adequacy and liquidity ratios for the foreseeable future.

Therefore, even though the current environment is unprecedented, and it is too early to form a clear view on the expected outcome of the coronavirus, given the Bank's strong liquidity position, and the effect on the credit risk of the portfolio to date, the Bank is confident in its ability to weather the current crisis.

30. Subsequent events - continued

The directors have also considered the impact that the coronavirus may have on the process involving the change of ownership of the Bank. Ongoing discussions that the Bank is having with prospective investors that have expressed interest in investing in the Bank indicate that the outbreak has not negatively impacted the change of ownership process. In the event however, that the coronavirus causes delays in the process, the directors are confident that the Bank would continue operating as a going concern, given that for a number of years, the Bank has not had any dependency on the ultimate parent or the IIG Group to sustain its business model, both financially or operationally.

On the basis of the above, the Bank continues to adopt the going concern basis in preparing its Financial Statements.

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 Julian's, Malta.

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. On 3rd September 2019, IIG Trade Opportunities Fund N.V. was put into administration by the Curacao Courts, and control passed to a Trustee, Ms. Maria Valerie Petronila.

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

Additional Regulatory Disclosures
31 December 2019

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 2019 is 0.7%.

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 3 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:

	2019 Average value US$	**2019 Year end exposure value US$**
Central governments or central banks	13,800,849	17,197,261
Multilateral development banks	1,307,540	714,455
Institutions	58,201,271	52,487,362
Corporates	73,280,632	62,365,867
Exposures in default	9,974,499	1,834,957
Covered bonds	366,258	360,677
Exposures in the form of units or shares in CIUs	12,689,053	12,588,047
Other items	8,912,529	9,810,669
	178,532,631	**157,359,295**

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 2019	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	14,317,218	-	-	2,880,043	-	17,197,261
Multilateral development banks	-	-	-	714,455	-	714,455
Institutions	3,288,061	5,972,101	3,348,763	2,817,214	37,061,223	52,487,362
Corporates	14,803,303	10,031,025	23,093,960	14,437,579	-	62,365,867
Exposures in default	-	-	-	1,834,957	-	1,834,957
Covered bonds	-	-	-	360,677	-	360,677
Exposures in the form of units or shares in CIUs	-	-	-	-	12,588,047	12,588,047
Other items	-	-	-	-	9,810,669	9,810,669
Total	**32,408,582**	**16,003,126**	**26,442,723**	**23,044,925**	**59,459,939**	**157,359,295**

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$50,018,094 are due from a limited number of customers. As at 31 December 2019, loans and advances to customers amounting to US$36,684,529 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 2019	**Latin America US$**	**Malta US$**	**Other EU countries US$**	**Rest of world US$**	**Total US$**
Central governments or central banks	-	17,197,261	-	-	17,197,261
Multilateral development banks	-	-	-	714,455	714,455
Institutions		7,392,097	5,658,940	39,436,325	52,487,362
Corporates	8,062,619	1,207,379	4,135,953	48,959,916	62,365,867
Exposures in default		-	1,834,957	-	1,834,957
Covered bonds	-	-	360,677	-	360,677
Exposures in the form of units or shares in CIUs	-	12,588,047	-	-	12,588,047
Other items	-	9,810,669	-	-	9,810,669
Total	**8,062,619**	**48,195,453**	**11,990,527**	**89,110,696**	**157,359,295**

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	17,197,261	-	-	-	-	-	17,197,261
Financial services	-	53,201,817	2,855,200	-	12,948,724	-	69,005,741
Wholesale trade of commodity roducts	-	-	34,304,505	1,834,957			36,139,462
Manufactured / processed commodity products	-	-	5,549,895	-	-	-	5,549,895
Agriculture, forestry and fishing	-	-	3,108,228	-	-	-	3,108,228
Mining	-	-	-	-	-	-	
Transport	-	-	8,055,472	-	-	-	8,055,472
Other	-	-	8,492,567	-	-	9,810,669	18,303,236
Total	**17,197,261**	**53,201,817**	**62,365,867**	**1,834,957**	**12,948,724**	**9,810,669**	**157,359,295**

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 2019	Credit quality step	Central governments or central banks US$	Multilateral developme nt banks US$	Institutions & Corporates US$	Covered bonds US$	Total US$
AAA to AA-	1	-	-	3,839,935	360,677	4,200,612
A+ to A-	2	17,197,261	-	10,272,140	-	27,469,401
BBB+ to BBB-	3	-	714,455	20,876,458	-	21,590,913
BB+ to BB-	4	-	-	10,166,263	-	10,166,263
B+ to B-	5	-	-	12,751,375	-	12,751,375
CCC+ and below	6	-	-	7,647,900	-	7,647,900
Total		**17,197,261**	**714,455**	**65,554,071**	**360,677**	**83,826,464**

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).

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 2019	**US$**
Performing exposures	48,183,137
Past due exposures	-
Impaired exposures	1,834,957
Total loans and advances to customers	**50,018,094**

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 2019	6,363,659
Amounts written off	(6,695,809)
Increases during the period	2,167,107
At 31 December 2019	**1,834,957**

2. Credit risk - continued

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

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 2019	Total exposure US$	Cash or quasi cash US$	Exposure value after credit risk mitigants US$
Corporates	50,018,094	2,646,632	47,371,462

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 2019 amounted to US$425,642, requiring minimum regulatory capital of US$34,051.

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 2019			
Financial assets	60,852,993	76,979,254	137,832,247
Financial liabilities	32,973,777	88,101,415	121,075,192
Net exposure	**27,879,216**	**(11,122,161)**	**16,757,055**

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 mandatorily measured at fair value through profit or loss and debt securities measured at fair value through other comprehensive income. 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 2019 on the fair valuation of its investments carried at fair value (debt securities and units in the money market fund) amounts to US$308,823. These investments are mainly denominated in US Dollar.

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 decrease by US$148,845.

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 2019					
Financial assets	30,195,072	42,575,183	51,577,033	47,246,419	171,593,707
Financial liabilities	65,173,703	2,599,951	17,609,810	66,345,483	151,728,947
Interest rate gap	**(34,978,631)**	**39,975,232**	**33,967,223**	**(19,099,064)**	
Cumulative gap	**(34,978,631)**	**4,996,601**	**38,963,824**	**19,864,760**	

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.

	US$	GBP US$	Euro US$	Other US$	Total US$
As at 31 December 2019					
Financial assets	86,190,643	3,970,323	52,290,501	216,022	142,667,489
Financial liabilities	38,189,360	8,009,620	76,944,863	1,831	123,145,674
Net on balance sheet position	48,001,283	(4,039,297)	(24,654,362)	214,191	19,521,815
Off-balance sheet net notional Position		4,016,448	23,035,850	-	
Net currency exposure		**(22,849)**	**(1,618,512)**	**214,191**	

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$4,486,305 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.

	Within one month US$	Within three months but over one month US$	Within one year but over three Months US$	More than one year US$	No maturity US$	Total US$
As at 31 December 2019						
Financial assets	66,859,611	16,121,644	25,170,542	21,787,163	13,253,279	143,192,239
Financial liabilities	54,940,623	5,489,899	21,073,479	41,675,471	-	123,179,472
Maturity gap	11,918,988	10,631,745	4,097,063	(19,888,308)		
Cumulative gap	**11,918,988**	**22,550,733**	**26,647,796**	**6,759,488**		

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 2019						
Financial liabilities	55,025,641	5,710,386	21,891,472	43,298,883	125,926,382	123,145,674

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 2019 amounted to US$917,921.

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 2019, 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 2019 is analysed as follows:

	2019 No. of shares	2018 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 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$665,232 pledged in favour of the Depositor Compensation Scheme as at 31 December 2019, 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 2019. The transitional disclosure template is set out below.

	As at 31 December 2019 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	(906,788)
Accumulated other comprehensive income (and other reserves)	203,832
IFRS 9 transitional adjustment	313,736
CET1 capital before regulatory adjustments	26,110,780
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets and other deductions	(3,049,748)
Total regulatory adjustments to CET1	23,061,032
CET1 capital	23,061,032
Total risk weighted assets	**115,462,470**
Capital ratios	
CET1 capital	**19.97%**
Tier 1 capital	**19.97%**
Total capital	**19.97%**
Institution specific buffer requirement	**5.80%**
of which: capital conservation buffer	1.25%
of which: countercyclical buffer	0.05%
Common Equity Tier 1 available to meet buffers	**13.55%**

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 2020. This buffer is being phased-in over the period from 1 January 2016 to 31 December 2019.

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	25,210,903	15,685,613	15,685,613	0.13	0
Malta	49,935,680	22,293,918	22,293,918	0.19	0
United Arab Emirates	11,347,880	11,328,193	11,328,193	0.10	0
United Kingdom	9,239,673	7,440,676	7,440,676	0.06	0
Germany	541,918	812,877	812,877	0.01	0
Singapore	1,383,177	1,312,743	1,312,743	0.01	0
Argentina	-	-	-	-	0
Luxembourg	-	-	-	-	0
Brazil	6,261,413	6,261,413	6,261,413	0.05	0
British Virgin Islands	5,000,000	5,000,000	5,000,000	0.04	0
Nigeria	6,951,064	5,926,597	5,926,597	0.05	0
Turkey	11,392,747	11,392,747	11,392,747	0.10	0
Monaco	1,886,200	1,886,200	1,886,200	0.02	0
France	578,425	578,425	578,425	0.00	0
United States	702,168	1,053,252	1,053,252	0.01	0
Mauritania	1,751,749	1,751,749	1,751,749	0.02	0
Russia	763,431	1,145,146	1,145,146	0.01	0
Hong Kong	2,964,999	2,964,999	2,964,999	0.03	1.25
Norway	516,279	516,279	516,279	0.00	2
Sweden	-	-	-	-	2
Other	16,846,768	19,022,698	19,022,698	0.16	0
Total	**153,274,472**	**116,373,525**	**116,373,525**		

7. Capital risk management - continued

7.2 Capital requirements - continued

	2019
Total risk amount	US$116,373,525
Institution-specific countercyclical buffer rate	0.05%
Institution-specific countercyclical buffer requirement	US$58,187

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

At 31 December 2019	Exposure value US$	Risk weighted assets US$	Capital required US$
Central governments or central banks	17,197,261	-	-
Multilateral development banks	714,455	317,902	25,432
Institutions	52,487,362	27,368,966	2,189,517
Corporates	62,365,867	58,358,018	4,668,641
Exposures in default	1,834,957	2,449,441	195,955
Covered bonds	360,677	64,194	5,136
Exposures in the form of units or shares in CIUs	12,588,047	5,196,756	415,740
Other items	9,810,669	9,807,529	784,602
Credit risk	**157,359,295**	**103,562,806**	**8,285,023**
Foreign exchange risk		425,642	34,051
Operational risk		11,474,022	917,922
Total capital required		**115,462,470**	**9,236,996**
Own funds			
Common Equity Tier 1 capital			23,061,032
Total own funds			23,061,032
Total capital ratio			**19.97%**

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$1,000,225	US$235,760

Total Non-Executive Directors' fees attributable for the financial year ended 31 December 2019 amounted to US$153,041 (2018: US$169,041).

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.

	2019 US$
Tier 1 capital	23,061,032
Total exposure measure for the purposes of the leverage ratio	148,790,394
Leverage ratio	**15.50%**

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

	2019 US$
On-balance sheet exposures (excluding derivatives)	
On-balance sheet items (excluding derivatives)	148,451,766
Asset amounts deducted in determining Tier 1 capital	(3,049,748)
On-balance sheet exposures (excluding derivatives and SFTs)	145,402,018
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	8,669,653
Adjustments for conversion to credit equivalent amounts	(7,513,649)
Off-balance sheet exposures	**1,156,004**

9. **Leverage** - continued

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

	2019 US$
Total assets as per published financial statements	148,976,516
Adjustment for off-balance sheet items	1,156,004
Other adjustments	
Deduction for intangible assets	(2,384,516)
Adjustment for Depositor Compensation Scheme	(665,232)
Leverage ratio exposure	**147,082,772**

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

	2019 US$
Total on-balance sheet exposures (excluding derivatives and intangible assets), of which:	**141,414,129**
Covered bonds	360,677
Exposures treated as sovereigns	17,197,261
Exposures to Multilateral developments banks	714,455
Institutions	50,986,957
Corporate	60,509,153
Exposures in default	1,834,957
Other exposures	9,810,669

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 2019 US$	Fair value of encumbered assets 2019 US$	Carrying amount of unencumbered assets 2019 US$	Fair value of unencumbered assets 2019 US$
Assets of the reporting institution	3,376,206	-	144,270,774	-
Loans on demand	3,376,206	-	38,009,242	-
Investments in money market funds	-	-	12,588,047	-
Debt securities	-	-	18,291,037	2,878,807
Loans and advances other than loans on demand	-	-	65,566,543	-
Other assets	-	-	9,815,905	-

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 any of the collateral received.

	Matching liabilities, contingent liabilities or securities lent 2019 US$	Assets and collateral received 2019 US$
Carrying amount of selected financial liabilities	-	3,376,206

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	23
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

	2019	2018	2017	2016	2015
	US$	US$	US$	US$	US$
ASSETS					
Cash and balances with Central Bank of Malta	**14,321,696**	8,935,815	940,849	3,869,089	679,867
Investment securities	**30,879,085**	39,519,639	52,543,038	37,901,743	48,761,847
Derivative financial instruments	**524,750**	-	538,587	-	-
Loans and advances to banks	**42,618,607**	28,232,864	52,555,939	20,679,444	58,180,981
Loans and advances to customers	**50,018,094**	94,908,645	81,228,230	89,031,527	82,186,100
Property, plant and equipment	**166,914**	234,730	159,113	148,669	159,790
Intangible assets	**2,384,516**	2,403,120	931,783	61,127	69,161
Right-of-use asset	**1,265,943**	-	-	-	-
Deferred tax assets	**1,567,777**	2,238,492	122,238	131,534	-
Accrued income and other assets	**5,229,134**	1,781,240	2,518,376	2,286,279	2,751,330
Total assets	**148,976,516**	178,254,545	191,538,153	154,109,412	192,789,076
EQUITY AND LIABILITIES					
Equity					
Share capital	**26,500,000**	26,500,000	26,500,000	22,500,000	16,300,000
Fair value reserve	**(96,317)**	(166,828)	256,013	377,085	2,840,101
Other reserve	**300,149**	300,149	50,924	14,790	-
Retained earnings	**(906,788)**	(2,071,143)	1,729,914	2,855,529	4,302,229
Total equity	**25,797,044**	24,562,178	28,536,851	25,747,404	23,442,330
Liabilities					
Amounts owed to customers	**121,075,192**	145,728,868	159,873,126	120,670,756	143,670,301
Amounts owed to banks	**-**	6,000,079	670,614	3,350,010	19,463,207
Derivative financial instruments	**33,798**	45,347	-	1,374,781	1,380,322
Current tax liabilities	**-**	877,424	877,424	1,860,218	2,313,319
Deferred tax liabilities		-	-	-	1,502,475
Other liabilities	**2,070,482**	1,040,649	1,580,138	1,106,243	1,017,122
Total liabilities	**123,179,472**	153,692,367	163,001,302	128,362,008	169,346,746
Total equity and liabilities	**148,976,516**	178,254,545	191,538,153	154,109,412	192,789,076
MEMORANDUM ITEMS					
Commitments	**8,669,653**	3,132,077	2,619,531	5,524,573	3,067,612

Five Year Summary

Statement of comprehensive income

	2019	2018	2017	2016	2015
	US$	US$	US$	US$	US$
Interest and similar income	**7,682,814**	8,625,374	8,354,770	8,408,071	8,457,980
Interest and similar expense	**(1,994,608)**	(2,485,950)	(2,803,508)	(2,891,888)	(3,374,071)
Net interest income	**5,688,206**	6,139,424	5,551,262	5,516,183	5,083,909
Fee and commission income	**1,514,886**	1,630,716	1,040,499	1,538,090	1,086,316
Fee and commission expense	**(307,883)**	(381,704)	(556,090)	(725,047)	(530,131)
Net fee and commission income	**1,207,003**	1,249,012	484,409	813,043	556,185
Net trading gains/(losses)	**106,967**	(2,557,263)	(695,567)	(339,696)	638,535
Net gains/(losses) on disposal of financial assets measured at fair value through other comprehensive income/available-for-sale financial assets	**156,713**	(29,527)	1,019,252	5,395,295	3,220,329
Operating income	**7,158,889**	4,801,646	6,359,356	11,384,825	9,498,958
Net reversal of loan impairment charges	**-**	-	83,552	(4,111,992)	(327,713)
Change in expected credit losses and other credit impairment charges	**(660,578)**	(5,951,577)	-	-	-
Administrative expenses	**(4,701,209)**	(3,916,726)	(3,782,859)	(2,905,467)	(2,627,452)
Profit/(loss) before tax	**1,797,102**	(5,066,657)	2,660,049	4,367,366	6,543,793
Tax income/(expense)	**(632,747)**	1,757,759	(949,529)	(1,549,276)	(2,292,075)
Profit/(loss) for the period	**1,164,355**	(3,308,898)	1,710,520	2,818,090	4,251,718
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	**(48,234)**	(490,555)	832,988	1,606,039	509,941
Reclassification adjustments – net amounts reclassified to profit or loss upon disposal, before tax	**156,713**	29,527	(1,019,252)	(5,395,295)	(3,220,329)
Income tax relating to components of other comprehensive income	**(37,968)**	161,360	65,192	1,326,240	948,636
Other comprehensive income/(loss) for the period, net of tax	**70,511**	(299,668)	(121,072)	(2,463,016)	(1,761,752)
Total comprehensive income for the period	**1,234,866**	(3,608,566)	1,589,448	355,074	2,489,966

Five Year Summary
Statement of cash flows

	2019	2018	2017	2016	2015
	US$	US$	US$	US$	US$
Operating activities					
Interest and commission income received	**9,194,434**	10,691,973	9,484,815	10,691,842	9,597,779
Interest and commission expense paid	**(2,350,719)**	(2,913,045)	(3,270,259)	(3,715,806)	(3,741,699)
Net income from foreign exchange transactions	**1,267,445**	316,844	(5,940,494)	1,040,671	3,857,701
Tax paid	**(861,074)**	-	(1,857,835)	(2,310,146)	(1,028,726)
Cash payments to employees and suppliers	**(4,333,774)**	(3,917,900)	(3,582,387)	(2,758,990)	(2,439,664)
Cash flows generated from / (used in) operating activities before changes in operating assets and liabilities	**2,916,312**	4,177,872	(5,166,160)	2,947,571	6,245,391
Changes in operating assets and liabilities:					
Net decrease/(increase) in balances with Central Bank of Malta	**209,896**	16,515	(234,825)	(27,007)	(97,931)
Net decrease/(increase) in loans and advances to banks	**2,057,010**	(1,312,858)	6,424,378	1,291,498	2,569,212
Net decrease/(increase) in amounts attributable to DCS	**152,098**	40,409	(42,237)	(160,296)	(159,532)
Net decrease/(increase) in loans and advances to customers	**34,633,860**	(20,183,514)	7,886,849	(10,957,419)	(21,306,262)
Net (decrease)/increase in amounts owed to customers	**(24,653,676)**	(14,149,356)	39,206,068	(23,000,583)	31,426,969
Net decrease/(increase) in amounts owed to banks	**(6,000,079)**	5,329,465	(2,679,396)	(16,113,197)	1,927,552
Net cash generated from/(used in) operating activities	**9,315,421**	(26,081,467)	45,394,677	(46,019,433)	20,605,399
Investing activities					
Purchase of financial assets measured at fair value through other comprehensive income / available-for-sale financial assets	**(4,665,219)**	(5,407,684)	(32,076,439)	(46,732,962)	(31,537,614)
Purchase of financial assets mandatorily measured at fair value through profit or loss	**(11,429,782)**	(32,714,457)	N/A	N/A	N/A
Purchase of financial assets designated as at fair value through profit or loss	**N/A**	N/A	(11,720,608)	(9,218,300)	(2,790,250)
Proceeds from disposal and redemptions of financial assets measured at fair value through other comprehensive income/available-for-sale financial asset	**9,390,803**	4,061,087	33,320,299	67,024,392	34,503,826
Proceeds from disposal and redemptions of financial assets mandatorily measured at fair value through profit or loss	**15,912,382**	44,299,125	N/A	N/A	N/A
Purchase of property, plant and equipment	**(17,407)**	(166,870)	(61,283)	(33,319)	(106,690)
Purchase of intangible assets	**(272,685)**	(1,614,101)	(918,838)	(18,202)	(23,712)
Net cash generated from/(used in) investing activities	**8,918,092**	8,457,100	(11,456,869)	11,021,609	590,127
Financing activities					
Issue of ordinary share capital	-	-	4,000,000	6,200,000	2,565,000
Dividends paid to equity holders	-	-	(2,800,000)	(4,250,000)	(1,755,000)
Payment for lease financing	**(281,176)**	-	-	-	-
Net cash (used in) generated from financing activities	**(281,176)**	-	1,200,000	1,950,000	810,000
Net movement in cash and cash equivalents	**17,952,337**	(17,624,367)	35,137,808	(33,047,824)	22,005,526
Cash and cash equivalents at beginning of year	**34,934,058**	52,558,425	17,420,617	50,468,441	28,462,915
Cash and cash equivalents at end of year	**52,886,395**	34,934,058	52,558,425	17,420,617	50,468,441