IIG BANK (MALTA) LTD

Annual Report and Financial Statements
31 December 2020

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 2020.

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 2020 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 essential commodities, consumer consumables, 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 2020 were significantly impacted by the events relating to the COVID-19 pandemic, and the loss of the US Dollar correspondent at the end of 2019, resulting in a net loss before tax of US$1,117,410 (2019 – profit of US$1,797,102).

The immediate impact of the COVID-19 pandemic resulted in the Bank taking a substantial loss on its investment portfolio in March 2020 as a result of a general downward price correction across all the securities in the bond portfolio irrespective of the rating, caused by the uncertainty of how economies would fare in the face of a global pandemic. In the subsequent months, however, the investment portfolio recovered substantially as the world gradually overcame the initial shock and economic activity increased. As at end of year the portfolio recovered to a near break-even position. The COVID-19 pandemic also impacted the Bank in the volume of loans and advances granted, as new business was restricted as a precautionary measure while the volumes in world trade declined significantly. Also impacting the Bank were the monetary easing measures undertaken by the US Federal Reserve System to combat the pandemic which resulted in a reduction of the USD Libor rates, the Bank's benchmark lending rate. The conservative approach towards new business and the reduction in interest rates had a significant negative effect on net interest income when compared to 2019.

The Bank also faced very difficult operating conditions due to the loss of its prime US Dollar correspondent at the end of 2019, which impacted the Bank's ability to generate transactional volume in payments and trade finance products with a resulting decrease in its fee and commission income compared to the levels generated in previous years. However, the Bank responded sufficiently well to the unexpected departure of its US Dollar clearer, moving quickly to be onboarded by a payments service provider with a global presence and with the support of second tier banks managed to service its client base sufficiently well. However, these solutions also come at a cost adding further burden on the Bank's P&L. The Bank has since been working hard to establish a new relationship with a major US clearing bank, and hence the long-term solution which should enable a return to the "normal" operational activity and which will certainly reduce the cost of payment processing substantially.

The Bank's loan portfolio continues to perform in a satisfactory manner, and COVID-19 did not impact the credit quality of assets held and there has not been any increase in the impairment levels.

Directors' report - continued

During the year, the Bank experienced a shift in its customer deposit liabilities, with a decrease in call balances held on call and a commensurate increase in term deposit products. We can attribute the decrease in the corporate account balances on call to inefficiencies in payment processing as a result of the loss of the prime US dollar correspondent. It is expected that the transactional volume and balances on call will return once the Bank manages to establish a relationship with a US dollar correspondent. Term deposit customers have remained loyal to the Bank with the Bank experiencing a high retention ratio of 88%. An important development in 2020 was the partnering with an online deposit platform to raise deposits in the German savers market. This has provided the Bank with an alternative funding source at a lower cost base.

Operating expenses were contained at slightly below budget, with the main variance coming from legal and professional fees and lower contributions to the depositor compensation scheme. The Bank managed to make significant savings over the running expenses of the previous year amounting to approximately US$ 0.68 million.

The Bank managed to increase its total assets by 30% over 2019 to reach US$192 million. The growth in assets resulted in a reduction in the capital adequacy ratio to 14.48% from the 17% in 2019. The Bank believes that CAR of around 14.5% presents the optimal capital adequacy level. The Bank continues to maintain a strong short-term liquidity position as indicated by the Liquidity coverage ratio of 390% (regulatory minimum of 80%), and a stable funding source as indicated by Net Stable Funding Ratio which stands at 221% (regulatory minimum of 100%).

Overall, the results indicate a strong level of resilience during very difficult economic and trading conditions, both in Malta and internationally, and whilst the net trading results cannot be described as positive, when considering the current environment, these could be considered satisfactory.

Income Statement: During the financial year under review, the Bank registered a net loss after tax of US$718,519 (2019: profit of US$1,164,355). The key components of the income statement are: net interest income of US$3,618,073 (2019: US$5,688,206), net fee and commission income of US$379,240 (2019: US$1,207,003), gain on disposal of financial assets measured at fair value through other comprehensive income of US$101,398 (2019: US$156,713) and net trading losses/(gains) of US$442,184 (2019: US$106,967) resulting in an operating income of US$3,656,527 (2019: US$7,158,889). The administrative expenses for the year were US$4,176,775 (2019: US$4,701,209) and net impairment charge of US$597,162 (2019: net impairment credit of US$660,578) resulted in loss before tax of US$1,117,410 (2019: profit before tax of US$1,797,102).

Statement of financial position: The year-end statement of financial position of US$192,281,826 (2019: US$148,976,516), reflects a growth in the Bank's balance sheet and a higher utilisation of cash balances than previous year. The level of unapplied cash balances decreased marginally to US$25,280,651 (2019: US$27,071,193), whilst term loans and advances to banks increased to US$25,673,953 (2019 US$15,581,626). 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 progresses through a change in ownership (more on this in outlook statement below). Exposures to loans and advances to customers also increased to US$63,946,717 (US$50,018,094). The increase in the Bank's assets was funded by a new initiative through the use of an online deposit platform to source funding from the German market. Amounts owed to customers increased to US$153,839,193 (2019: US$121,075,192).

Directors' report - continued

Outlook for 2021: We start the year with a positive outlook riding on an improving business climate during the latter months of 2020 and with hope that the COVID-19 driven economic woes that hit the world last year will gradually dissipate as herd immunity is reached in the major economic blocks. The Bank experienced a similar cycle during 2020, trying to cope with the pandemic issues and other difficulties presented during the initial 6 months of the year, then going into the following 6 months with recovery and stability turning into quite positive in the last quarter. We continue to work hard to secure the US clearer relationship but also in improving on the solutions which we currently have in operation. Both initiatives are bearing fruit and hopefully will be achieved by June 2021. We have secured stability and diversification in our deposit funding base which will enable us to reduce our overall cost of funding during 2021. We are in the meantime also nearing closure on the legacy matters related to our ownership connection with IIG Group. We are still engaging New York counsel to sort out the distribution of funds held in borrowers' escrow accounts to repay past participations where we are joint *"pari passu"* beneficiaries with other lenders, but other than that there are no open or threatened actions again the Bank and we are also anticipating closure on this front as well. This will also save the Bank the legal cost burden that we have had to carry for the past 18 months. The end of this cycle will also free us time to focus more on the business front while moving forward towards a successful change of ownership (more on this below).

On the business front last year, we experienced the initial shock of lockdowns and protective measures which impacted trade as predicted when we commented at the start of the COVID-19 pandemic, but this stand was short lived as governments, especially those of countries with large poor populations started realising that famine posed a much imminent threat to the livelihood of their population than the pandemic ever would. Prices of most consumable soft commodities did go up but then stabilised leading to a recovery form the slump in world trade estimated at 40% over prior years. Since the beginning of the 4th quarter, 2020 we have experienced an increase in demand for our services, which augurs well to a return in business growth this year. Such increase in trade volumes is confirmed as demand has driven the cost of bulk carriage to a high level. Overall, we envisage that the expectations of developments mentioned herein will fall in place during the course of this year leading to our positive outlook for 2021.

Change of ownership

Last year we explained the events of 2019 which led to the Bank's ultimate parent, IIG Trade Opportunities Fund N.V. (the Fund) being put into administration under the custody of a trustee in bankruptcy. Early last year, the Trustee mandated the Bank's board to form a Steering Committee to seek expressions of interest (EOIs) to acquire the 100% ownership of the Bank. The Steering Committee, guided by external legal counsel established the process that prospective buyers would follow through a selection and due diligence process. Throughout the year the Bank received a number of EOIs but none have been conclusive yet. The Steering Committee continues to talk to interested parties. The prospective candidate for ownership, must eventually meet the rigid criteria imposed on qualifying shareholders as dictated by the regulatory authorities, being the MFSA and the ECB. In the meantime, the Bank will remain faithful to its business strategy in servicing its loyal client base, primarily to maintain the quality of service offered to its depositing customers and to continue supporting its borrowing base clients, providing trade facilitation through funding of international trade and commodity finance products.

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.

	2020	2019
(Loss)/profit before tax	**(US$1,117,410)**	US$1,797,102
Cost to income ratio	**125%**	85%
Return on equity	**(2.89%)**	4.64%
Capital Adequacy Ratio	**14.48%**	19.6%

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 20. As in 2019, during 2020, the directors have not proposed any dividends relative to the financial year ended 31 December 2020.

Directors

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

Joseph Grioli - Chairman
Raymond Busuttil
James Douglas Nelson
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
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St. Julians STJ4011
Malta

Company Secretary:
Karl Vella

Telephone number: 22484500

22 April 2021

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Independent auditor's report

To the Shareholders of IIG Bank (Malta) Ltd

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of IIG Bank (Malta) Ltd (the Bank) as at 31 December 2020, 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 19 to 83, comprise:

- the statement of financial position as at 31 December 2020;
- 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 significant accounting policies and other explanatory information.

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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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 2020 to 31 December 2020, are disclosed in note 26 to the financial statements.

Our audit approach

Overview

- Overall materiality: US$1,922,000 which represents 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$1,922,000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, the assets held are considered to be the key driver of the business and the determinant of the Bank's value. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted asset-related thresholds.

We have applied a specific lower materiality of US$78,900 solely for financial statement line items in the income statement, since we deemed that misstatements of a lower amount than overall materiality in those line items might reasonably influence stakeholders.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$96,100 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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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 balance sheet date. A considerable level of judgement is required to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9.	During our audit of the financial statements for the year ended 31 December 2020, we continued to focus on the key drivers of the estimation of ECL, mainly in respect of the appropriateness of management assumptions, particularly in the context of the COVID-19 pandemic. Discussions with management focused on the Bank's response to the impact of COVID-19 on determining whether a SICR or UTP event has occurred and on the key assumptions in respect of the discounted cashflow models used to determine expected credit losses on defaulted/Stage 3 exposures.
The outbreak of the COVID-19 pandemic has exacerbated the level of uncertainty around the calculation of ECLs, giving rise to heightened subjectivity in the determination of assumptions, hence necessitating a higher level of expert judgement. 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.	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 discussed with management and assessed the potential impact of the unprecedented circumstances we are currently experiencing on the adequacy of key model parameters. • Assessed the reasonableness of the Probability of Default ('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.
The Loss Given Default ('LGD') modelling methodology utilises historical experience, which might result in limitations in its reliability to appropriately estimate ECLs especially during periods characterised by unprecedented economic conditions such as those currently experienced as a result of the COVID-19 pandemic.	• 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 Exposure at Default ('EADs').

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 highly dependent on assumptions in respect of forecasted operating cash flows. The impact of the pandemic has increased the level of uncertainty around judgements made in determining when a Significant Increase in Credit Risk (SICR) or an Unlikeliness to Pay (UTP) event has occurred. 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. In this context, the outbreak of COVID-19 has significantly impacted macroeconomic conditions, increasing the uncertainty around judgements made in determining the forward looking macro-economic variables across the different economic scenarios used in ECL model. 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.	• 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 internal credit ratings assigned by management, taking into consideration the impact of COVID-19 on the repayment capabilities of the sampled borrowers. • Tested the appropriateness of model design and formulas applied to determine the ECL, as well as the calculations performed in the model. • Tested the reasonableness of macro-economic variables used to determine PDs under different forward looking scenarios, specifically to factor the impact of the pandemic. Based on the evidence obtained, we found the model assumptions and data used within the model 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 by management for determining whether a default event had occurred by testing those loans determined by management to have experienced a significant increase in credit risk during the year, 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, taking cognisance of the pandemic.

Key audit matter	How our audit addressed the Key audit matter
Accordingly, summarising the key areas relevant to the Bank's measurement of ECLs would include: • Allocation of loans to Stage 1, 2, or 3 using criteria in accordance with IFRS 9; • 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 2.1 (a); – 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 in applying accounting policies: 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.

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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 including the Five Year Summary (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements.*

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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Independent auditor's report - continued

To the Shareholders of IIG Bank (Malta) Ltd

Auditor's responsibilities for the audit of the financial statements

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

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

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

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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

The Annual Report and Financial Statements 2020 contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the Other information section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the *Annual Report and Financial Statements 2020* and the related Directors' responsibilities	**Our responsibilities**	**Our reporting**
Directors' report (on pages 1 to 6) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements.	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, we are required to state whether, in the light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

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Independent auditor's report - continued

To the Shareholders of IIG Bank (Malta) Ltd

Area of the *Annual Report and Financial Statements 2020* and the related Directors' responsibilities	Our responsibilities	Our reporting
	Other matters prescribed by the Maltese Banking Act (Cap. 371) In terms of the requirements of the Maltese Banking Act (Cap. 371), we are also required to report whether: • 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; • in our opinion, 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 which may from time to time be in force in the manner so required.	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.

Independent auditor's report - *continued*

To the Shareholders of IIG Bank (Malta) Ltd

Area of the *Annual Report and Financial Statements 2020* and the related Directors' responsibilities	Our responsibilities	Our reporting
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion adequate accounting records have not been kept, or 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 these responsibilities.

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Bank's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

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 11 years.

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

Lucienne Pace Ross
Partner

22 April 2021

Statement of financial position

	Notes	As at 31 December 2020 US$	2019 US$
ASSETS			
Cash and balances with Central Bank of Malta	4	**12,018,099**	14,321,696
Investment securities	5	**54,327,792**	30,881,337
Derivative financial instruments	6	**988,202**	524,750
Loans and advances to banks	7	**50,860,329**	42,618,607
Loans and advances to customers	8	**63,946,717**	50,018,094
Property, plant and equipment	9	**112,533**	166,914
Intangible assets	10	**2,157,479**	2,384,516
Right-of-use asset	11	**1,012,041**	1,265,943
Deferred tax assets	12	**1,760,867**	1,567,777
Accrued income and other assets	13	**5,097,767**	5,226,882
Total assets		**192,281,826**	148,976,516
EQUITY AND LIABILITIES			
Equity			
Share capital	14	**26,500,000**	26,500,000
Fair value reserve	15	**285,885**	(96,317)
Other reserve	16	**300,149**	300,149
Accumulated losses		**(1,625,307)**	(906,788)
Total equity		**25,460,727**	25,797,044
Liabilities			
Amounts owed to customers	17	**153,839,193**	121,075,192
Amounts owed to banks	18	**11,000,000**	-
Derivative financial instruments	6	**140,339**	33,798
Lease liabilities	11	**1,083,840**	1,315,195
Other liabilities	19	**757,727**	755,287
Total liabilities		**166,821,099**	123,179,472
Total equity and liabilities		**192,281,826**	148,976,516
MEMORANDUM ITEMS			
Commitments and other contingencies	20	**13,638,823**	8,669,653

The official closing middle rate of exchange applicable between US dollar and euro published by the European Central Bank as at 31 December 2020 was 1.2271 (2019: 1.1234).

The notes on pages 24 to 83 are an integral part of these financial statements.

The financial statements on pages 19 to 83 were authorised for issue by the board on 22 April 2021 and were signed on its behalf by:

Joseph Grioli
Director

Raymond Busuttil
Director

Income statement

	Notes	Year ended 31 December 2020 US$	2019 US$
Interest income	21	**5,404,272**	7,682,814
Interest expense	22	**(1,786,199)**	(1,994,608)
Net interest income		**3,618,073**	5,688,206
Fee and commission income	23	**1,105,551**	1,514,886
Fee and commission expense	23	**(726,311)**	(307,883)
Net fee and commission income		**379,240**	1,207,003
Net trading (losses)/gains	24	**(442,184)**	106,967
Net gains on disposal of financial assets measured at fair value through other comprehensive income		**101,398**	156,713
Operating income		**3,656,527**	7,158,889
Change in expected credit losses and other credit impairment charges	25	**(597,162)**	(660,578)
Administrative expenses	26	**(4,176,775)**	(4,701,209)
(Loss)/profit before tax		**(1,117,410)**	1,797,102
Tax income/(expense)	27	**398,891**	(632,747)
(Loss)/profit for the year		**(718,519)**	1,164,355

The notes on pages 24 to 83 are an integral part of these financial statements.

Statement of comprehensive income

	Notes	Year ended 31 December 2020 US$	2019 US$
(Loss)/profit for the year		**(718,519)**	1,164,355
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		**689,400**	265,192
Reclassification adjustments - net amounts reclassified to profit or loss upon disposal, before tax		**(101,397)**	(156,713)
Income tax relating to components of other comprehensive Income	12	**(205,801)**	(37,968)
Other comprehensive income for the year, net of tax		**382,202**	70,511
Total comprehensive (loss)/income for the year		**(336,317)**	1,234,866

The notes on pages 24 to 83 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital US$	Fair value reserve US$	Other reserve US$	Accumulated losses US$	Total equity US$
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	-	172,374	-	-	172,374
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**
Balance at 31 December 2019		**26,500,000**	**(96,317)**	**300,149**	**(906,788)**	**25,797,044**
Comprehensive income						
Loss for the year		-	-	-	**(718,519)**	**(718,519)**
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	-	**448,110**	-	-	**448,110**
Reclassification adjustments – net amounts reclassified to profit or loss, net of deferred tax		-	**(65,908)**	-	-	**(65,908)**
Total comprehensive income		-	**382,202**	-	**(718,519)**	**(336,317)**
Balance at 31 December 2020		**26,500,000**	**285,885**	**300,149**	**(1,625,307)**	**25,460,727**

The notes on pages 24 to 83 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2020 US$	2019 US$
Operating activities			
Interest and commission income received		**6,617,172**	9,194,434
Interest and commission expense paid		**(2,490,351)**	(2,350,719)
Net income from foreign exchange transactions		**2,822,532**	1,267,445
Tax paid		**-**	(861,074)
Cash payments to employees and suppliers		**(3,459,886)**	(4,333,774)
Cash flows generated from operating activities before changes in operating assets and liabilities		**3,489,467**	2,916,312
Changes in operating assets and liabilities:			
Net (increase)/decrease in balances with Central Bank of Malta	4	**(246,800)**	209,896
Net (increase)/decrease in loans and advances to banks	7	**(9,317,573)**	2,057,010
Net decrease in amounts attributable to Depositor Compensation Scheme	13	**73,051**	152,098
Net (increase)/decrease in loans and advances to customers	8	**(9,945,088)**	34,633,860
Net increase/(decrease) in amounts owed to customers	17	**23,214,013**	(24,653,676)
Net increase/(decrease) in amounts owed to banks	17,18	**11,000,000**	(6,000,079)
Net cash generated from operating activities		**18,267,070**	9,315,421
Investing activities			
Purchase of financial assets measured at fair value through other comprehensive income	5	**(22,834,682)**	(4,665,219)
Purchase of financial assets mandatorily measured at fair value through profit or loss	5	**(8,479,561)**	(11,429,782)
Proceeds from disposal and redemptions of financial assets measured at fair value through other comprehensive income	5	**3,014,465**	9,390,803
Proceeds from disposal and redemptions of financial assets mandatorily measured at fair value through profit or loss	5	**7,030,652**	15,912,382
Purchase of property, plant and equipment	9	**(9,516)**	(17,407)
Purchase of intangible assets	10	**(66,578)**	(272,685)
Net cash (used)/generated from investing activities		**(21,345,220)**	8,918,092
Financing activities			
Principal element of lease payment		**(328,456)**	(281,176)
Net cash used in financing activities		**(328,456)**	(281,176)
Net movement in cash and cash equivalents		**(3,406,606)**	17,952,337
Cash and cash equivalents at beginning of year		**52,886,395**	34,934,058
Cash and cash equivalents at end of year	28	**49,479,789**	52,886,395

The notes on pages 24 to 83 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.

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

In 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, including the sale of the Fund's stake in the Bank.

In 2020, the Bank formed a Steering Committee to seek expressions of interest (EOIs) to acquire the 100% ownership of the Bank. The Steering Committee, guided by external legal counsel, established a selection and due diligence process for prospective candidates for ownership. The prospective candidates for ownership, must meet the rigid criteria imposed on qualifying shareholders as dictated by the regulatory authorities, being the Malta Financial Services Authority (MFSA) and the European Central Bank (ECB). None of the EOIs, that were received in 2020, have been conclusive yet. Albeit, 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 a potential new controlling shareholder, would be concluded in due course.

Until completion of the change in control process, 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, the directors will ensure that no dividends are paid out and no irrevocable commitment to pay out dividends will be undertaken until the change in control process is duly authorised by the Bank's competent authorities.

In addition, the directors have also considered the impact that the coronavirus has had on global financial markets and industries around the world. The Bank has reacted to the pandemic and taken the necessary measures to ensure that negative impacts on overall business is mitigated to the extent possible. As a result, the Bank did not experience any defaults during 2020.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

The negative impact on performance during 2020, has been assessed by management to be attributable mainly to the introduction of tighter credit criteria for accepting new business from particular sectors immediately after the outbreak of the pandemic, specifically to ensure that the Bank's capital base is adequately preserved. The tightening of these criteria is expected to be relaxed over the foreseeable future, as global economies recover from the pandemic.

In the meantime, 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 continue to have both on the process involving the change of ownership of the Bank as well as in respect of the Bank's operations. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Standards, interpretations and amendments to published standards effective in 2020

In 2020, the Bank adopted new standards, amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2020. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Bank's accounting policies impacting the Bank's financial performance and position.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Bank's accounting periods beginning after 1 January 2020. The Bank have not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Bank's Directors are of the opinion that there are no requirements that will have possible significant impact on the Bank's financial statements in the period of initial application.

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.

- 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 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.

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

1.3 Financial assets - continued

ii. Classification and subsequent measurement - continued

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument 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 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 ('Amortised cost") or is to collect both the contractual cash flows and cash flows arising from the sale of assets ('FVOCI'). 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 termor 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 FVPL.

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.

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.

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

1.3 Financial assets - continued

iv. Impairment of amortised cost and FVOCI financial assets

Expected credit losses ('ECL') 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 ('SICR'), 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.

Credit impaired (Stage 3)

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.

Write-off

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.

Renegotiation

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).

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.

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

1.3 Financial assets – continued

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

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 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.

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.

1. Summary of significant accounting policies - continued

1.3 Financial assets – continued

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

Unimpaired and without significant increase in credit risk (Stage 1)

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.

Purchased or originated credit impaired

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.

Movement between stages

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.

Measurement of expected credit losses

ECLs are 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

- The 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.

- The 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. 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 the estimated useful live of the assets of five years. Costs associated with maintaining computer software programmes 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 or depreciation 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

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.

1. 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.

1.10 Current and deferred tax

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

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

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

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

1.11 Share capital

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

1. Summary of significant accounting policies - continued

1.12 Financial liabilities

The Bank recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Bank's financial liabilities are composed of financial liabilities at fair value through profit or loss (classified as 'Derivative financial instruments) and financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under 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.

1. **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 current financial year has been characterised by unprecedented economic conditions as a result of the COVID-19 outbreak. COVID-19 has severely impacted local economies around the world, with measures taken to contain the spread of the virus triggering significant disruptions to businesses worldwide and leading to a global economic slowdown, resulting in a general heightened level of credit risk.

In controlling and mitigating the attributed heightened level of credit risk from the outbreak, the Bank immediately assessed its borrowers on a name by name basis to determine any credit deterioration within its portfolio and accordingly any increase in credit risk.

In addition, in response to the outbreak, throughout 2020 the Bank has increased its monitoring of individual exposures and enhanced its monitoring of commodity prices in view of the fact that the collateral held is typically in the form of commodities. Moreover, the Bank introduced tighter credit criteria for accepting new business, particularly for sectors that have attracted heightened levels of credit risk, such as borrowers involved in metals, mining or the energy sector, and focused its efforts on financing corporates involved in basic necessities, which have been less impacted by the pandemic, predominantly companies involved in the delivery of agricultural products, softs and fertilizers. In addition, as part of its credit risk mitigation activities the Bank is requesting higher collateral margins where possible and has also introduced a logistical viability assessment as part of its credit assessment on origination of a transaction.

Due to the swift and severe socioeconomic impact of this global phenomenon, the level of estimation uncertainty in respect of modelled PDs and LGDs, as well as the use of forward-looking macroeconomic scenarios for the purposes of estimating probability-weighted credit loss allowances has increased. To mitigate this uncertainty the Bank has implemented a number of model overlays to ensure that the level of credit loss allowances recognised at reporting date remain appropriate.

Finally, the Bank has also stress tested its financial projections under different potential forward looking adverse scenarios based on the presumption of different degrees of contraction in global trade. In this respect, the stress scenarios, which do not consider management action, show that despite the significance of the impact that the COVID-19 pandemic can have on the Bank, it should still be in a position to weather the current crisis.

2. Financial risk management - continued

2.1 Financial risk factors – continued

(a) Credit risk – continued

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.

	2020	2019
	US$	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)	**12,753,833**	12,588,047
Debt securities (Note 5)	**14,931,170**	13,640,881
Financial assets measured at fair value through other comprehensive income:		
Debt securities (Note 5)	**26,642,789**	4,652,409
Derivative financial instruments (Note 6)	**988,202**	524,750
Amortised cost		
Balances with Central Bank of Malta (Note 4)	**12,012,708**	14,316,461
Loans and advances to banks (Note 7)	**50,860,329**	42,618,607
Loans and advances to customers (Note 8)	**63,946,717**	50,018,094
Accrued interest income and other receivables (Note 13)	**4,619,176**	4,835,242
	186,754,924	143,194,491
Credit risk exposures relating to off-balance sheet instruments:		
Commitments and contingencies (Note 20)	**13,638,823**	8,669,653

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 as at 31 December 2020 and 2019, without taking account of any collateral held or any other credit enhancements attached.

2. **Financial risk management** - continued

2.1 Financial risk factors – continued

(a) Credit risk – continued

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 2020		31 December 2019	
	Gross carrying/nominal amount	**Allowance for ECL**	Gross carrying/nominal amount	Allowance for ECL
	US$	**US$**	US$	US$
Amortised cost				
Balances with Central Bank of Malta	**12,013,195**	**487**	14,317,218	757
Loans and advances to banks	**50,954,604**	**94,275**	42,652,819	34,212
Loans and advances to customers	**65,477,030**	**1,530,313**	51,022,365	1,004,271
Accrued income and other assets	**4,636,054**	**16,878**	4,849,002	13,760
Total gross carrying amount on- balance sheet	**133,080,883**	**1,641,953**	112,841,404	1,053,000
Commitments and other contingencies	**13,638,823**	**-**	8,669,653	-
Total nominal amount off-balance sheet	**13,638,823**	**-**	8,669,653	-
	146,719,706	**1,641,953**	121,511,057	1,053,000

	31 December 2020		31 December 2019	
	Fair value	**Memorandum allowance for ECL**	Fair value	Memorandum allowance for ECL
	US$	**US$**	US$	US$
Financial assets measured at fair value through other comprehensive income				
Debt securities	**26,642,789**	**10,460**	4,652,409	2,252
	26,642,789	**10,460**	4,652,409	2,252

The Bank is also exposed to credit risk in relation to FVPL and derivative financial instruments amounting to US$27,685,003 (2019: US$26,228,928) and US$988,202 (2019: US$524,750), respectively.

2. **Financial risk management** - continued

2.1 Financial risk factors – continued

(a) Credit risk – continued

As referred to previously, the COVID-19 pandemic and the consequential economic conditions have exacerbated the level of uncertainty with respect to the identification of customers that would have experienced a SICR or that exhibit unlikeliness to pay ('UTP') characteristics.

Immediately, in response to the outbreak of the pandemic in Q1 of 2020, the Bank performed an ad hoc comprehensive credit risk assessment in respect of all the exposures within its lending portfolio to determine any whether the economic shock as a result of the pandemic may transform into borrower financial difficulties, thereby potentially requiring a downgrade of individual exposures to Stage 2 or Stage 3 to reflect the level of change in credit risk as appropriate.

The assessment was performed on the basis of information obtained directly from borrowers. In this respect, the Bank contacted all borrowers to better understand the impacts of the pandemic of each of their businesses. Exposures deemed mostly impacted, driven mainly by the sector in which the borrowers operated, were assigned a 'Watch' status, requiring closer monitoring.

The Bank also assessed in detail the two borrowers that since the outbreak of the pandemic requested payment deferrals/moratoria for SICR and UTP events, both of which have since been more frequently monitored.

As at 31 December 2020, Stage 1 and Stage 2 borrowers to which the Bank was exposed to in Q1 of 2020, which is the point in time at which a pandemic was declared, amounted to US$16,375,192 or 25% of Stage 1 and Stage 2 exposures the portfolio as at 31 December 2020. Of these, US$14,645,563 relate to loans extended to seven Stage 1 borrowers that were contractually callable in during 2021. The Bank performed extensive credit reviews in respect of each of these seven borrowers and determined that none of these borrowers had experienced any credit deterioration. As a result, the Bank has extended the maturity for these exposures by another year. Hence, effectively only US$1,729,629 or 3% of the portfolio as at 31 December 2020 had effectively not been repaid.

Accordingly, due to the short-term maturity profile of the Bank's exposures, other than for these US$1,729,629, as at 31 December 2020 the Bank's exposures had principally all been originated post the outbreak of the pandemic and have therefore been assessed for credit risk on origination in the context of the economic climate taking into account the effects of COVID-19 on each of the borrowers' financial position and performance.

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 2020 and as at 31 December 2019. 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	12,013,195	-	-	12,013,195	487	-	-	487
Investment securities	26,642,789	-	-	26,642,789	10,460	-	-	10,460
Loans and advances to banks	50,954,604	-	-	50,954,604	94,275	-	-	94,275
Loans and advances to customers	58,840,092	2,979,629	3,657,309	65,477,030	717,643	158,787	653,883	1,530,313
Accrued income and other assets	4,154,063	26,786	455,205	4,636,054	13,463	1,383	2,032	16,878
Total gross carrying amount on-balance sheet	152,604,743	3,006,415	4,112,514	159,723,672	836,328	160,170	655,915	1,652,413
Commitments and other contingencies	13,638,823	-	-	13,638,823	-	-	-	-
At 31 December 2020	166,243,566	3,006,415	4,112,514	173,362,495	836,328	160,170	655,915	1,652,413
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 and other contingencies	8,669,653	-	-	8,669,653	-	-	-	-
At 31 December 2019	121,560,301	3,130,717	1,472,448	126,163,466	498,870	221,592	334,790	1,055,252

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 2020 and 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.

	2020							
	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	38,855,956	2,979,629	1,472,112	43,307,697	505,199	158,787	427,060	1,091,046
Manufactured /processed commodity	2,957,137	-	2,185,197	5,142,334	51,927	-	226,823	278,750
Transport	17,026,999	-	-	17,026,999	160,517	-	-	160,517
At 31 December	58,840,092	2,979,629	3,657,309	65,477,030	717,643	158,787	653,883	1,530,313
By geography								
Latin America	7,896,480	-	2,185,197	10,081,677	77,846	-	226,823	304,669
Malta	3,563,058	-	-	3,563,058	66,422	-	-	66,422
Other EU countries	59,655	-	-	59,655	655	-	-	655
Rest of world	47,320,899	2,979,629	1,472,112	51,772,640	572,720	158,787	427,060	1,158,567
	58,840,092	2,979,629	3,657,309	65,477,030	717,643	158,787	653,883	1,530,313

	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

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, for which the nature and level generally depends on the amount of the exposure, the type of facility provided, the term of the facility and the level of credit risk involved.

The most common practice used by the Bank to mitigate credit risk with respect to loans and advances to customers is securing collateral. The main collateral types obtained by the Bank to secure against losses from loans and advances to customers are (a) cash; (b) mortgaged assets; (c) goods under shipment; as well as (d) guarantees received/insurance and pledges on borrowers' assets ('Other').

The following table presents the Bank's loans and advances to customers and the related interest receivable, gross of impairment allowances, together with the type of collateral attached to the loan at full value and amount covering the loan by stage classification.

31 December 2020	**Gross on-balance sheet exposure**	**Cash**	**Mortgaged assets**	**Goods**	**Other**	**Net maximum exposure**
Stage 1	**59,037,912**	**3,602,177**	**19,291,998**	**20,546,751**	**2,635,447**	**12,961,539**
Stage 2	**3,006,415**	**-**	**-**	**-**	**-**	**3,006,415**
Stage 3	**4,112,514**	**-**	**-**	**2,995,163**	**974,538**	**142,813**
	66,156,841	**3,602,177**	**19,291,998**	**23,541,914**	**3,609,985**	**16,110,767**

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

31 December 2019	Gross on-balance sheet exposure	Cash	Mortgaged assets	Goods	Other	Net maximum exposure
Stage 1	46,312,094	2,642,947	7,374,917	14,997,030	1,089,375	20,207,825
Stage 2	3,130,717	-	-	2,413,520	-	717,197
Stage 3	1,835,414	-	-	362,846	974,538	498,030
	51,278,225	**2,642,947**	**7,374,917**	**17,773,396**	**2,063,913**	**21,423,052**

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 2020 and 2019, no loans and advances to customers were deemed to be prohibited large exposures in terms of the CRR.

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 2020:				
Gross carrying/nominal amount	**22,865,640**	-	-	**22,865,640**
Allowance for ECL	**226,221**	-	-	**226,221**
Percentage of loans and advances to customers	**34.92%**	-	-	**34.92%**
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%

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 2020 and 2019, the Bank had no loans and advances to customers classified as Stage 2 which were past due.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

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

Forbearance is objective evidence of impairment and a forborne loan is deemed to be 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 the customer would be unable to meet the 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 is made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

As at 31 December 2020 and 2019, the Bank classifies exposure balances for three borrowers as forborne (2019: three borrowers). As a result of the pandemic, each of these borrowers have requested loan relief measures during 2020. In this respect, the Bank determined that such requests made by these borrowers do not meet the established criteria to qualify as general payment moratoria in terms of the European Banking Authority ('EBA') Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis, and have been accordingly classified as forborne exposures.

These EBA Guidelines establish that the granting of a general payment moratorium do not lead to a forborne classification unless the borrower was already experiencing financial difficulties prior to the pandemic. Albeit both such borrowers warranted a forborne classification.

As at 31 December 2019 two of these exposures were deemed by the Bank to have experienced a significant increase in credit risk since initial recognition, and were thus classified as Stage 2 exposures, while the other exposure was classified as a Stage 3 exposure. Following, the borrowers' requests for further relief measures, one of these borrowers was reclassified to Stage 3.

As at 31 December 2020, the Bank has renegotiated loans and advances to customers in Stage 2 and 3 amounting to US$479,629 (31 December 2019: US$3,094,076) and US$3,657,309 (31 December 2019: US$1,472,112), respectively. The corresponding allowance for ECL amounted to US$81,654 (31 December 2019: US$219,069) and US$653,883 (31 December 2019: US$334,714), respectively.

The total renegotiated loans and advances to customers for 2020 represent 6.32% (2019: 8.95%) of total gross loans and advances to customers. The total interest income recognised in 2020 in respect of forborne assets amounted to US$340,157 (2019: US$322,277).

2. Financial risk management – continued

2.1 Financial risk factors – continued

(a) Credit risk – continued

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

	2020	2019
	US$	US$
At 1 January	**4,012,405**	10,211,227
Loans renegotiated without derecognition	**-**	703,261
Repayments	**(611,004)**	(203,439)
Amounts sold/written off	**-**	(6,698,644)
At 31 December	**3,401,401**	4,012,405

Forborne loans are analysed by geographical location as follows:

	2020	2019
	US$	US$
As at 31 December		
Latin America	**1,958,374**	2,249,864
Rest of world	**1,443,027**	1,762,541
	3,401,401	4,012,405

The following disclosure provides a reconciliation by stage of the Bank's gross carrying/nominal amount and allowances for loans and advances to customers.

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.

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 impact of the model overlays is also included within the 'Changes in risk parameters' line item.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk – continued

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. Accordingly, loans originated during the year are classified in the table below using the respective stage classification as at the end of the reporting period, without the effect of stage transfers from origination. 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.

As illustrated in the following table, the increase in ECLs for the financial year ended 31 December 2020 is mainly driven by the increase in the volume of loans and advances to customers when compared to 31 December 2019, as well as by the impact of reflecting a more severe pessimistic macroeconomic scenario and accordingly higher forward-looking risk parameters in the modelling of credit loss allowances. ECLs and accordingly the coverage attributable to Stage 2 exposures, is limited, in view of the shorter residual maturity profile of such exposures when compared to those in the prior year.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) *Credit risk* – continued

	Non-credit impaired Stage 1		Stage 2		Credit impaired Stage 3		Total	
	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 2019	46,456,177	450,488	3,094,076	219,069	1,472,112	334,714	51,022,365	1,004,271
Transfers from Stage 1 to Stage 2	(1,250,000)	(12,941)	1,250,000	12,941	-		-	-
Transfers from Stage 2 to Stage 3	-	-	(2,413,520)	(163,657)	2,413,520	163,657	-	-
Net remeasurement of ECL arising from stage transfer	-	-	-	524	-	81,080	-	81,604
Changes in risk parameters	-	215,630	-	87,738	-	92,346	-	395,714
Net new and further lending/repayments	13,633,915	64,466	1,049,073	2,172	(228,323)	(17,914)	14,454,665	48,724
At 31 December 2020	58,840,092	717,643	2,979,629	158,787	3,657,309	653,883	65,477,030	1,530,313

Change in expected credit losses and other impairment charges on loans and advances to customers	526,042
Change in expected credit losses attributable to:	
Accrued interest income and other assets	3,118
Balances with Central bank of Malta	(270)
Loans and advances to banks	60,064
Financial assets measured at fair value through other comprehensive income	8,208
Total expected credit loss charge for the year	597,162

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 lending/repayments	(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

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.

	2020		
World Real GDP growth rate (Year-on-Year)	**Central scenario**	**Upside scenario**	**Downside scenario**
2021	4.00%	4.80%	-0.70%
2022	3.80%	4.70%	1.80%
2023	3.80%	4.70%	1.80%
Probability of occurrence	53%	33%	13%

	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%

The tables above show forward looking GDP growth rates in 2020 larger than those in the prior year. This is attributable to the economic recovery expected during the coming years relative to the significant drop in real GDP amounting to 4.3% experienced as a result of the outbreak of the COVID-19 pandemic during 2020.

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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk – continued

As at 31 December 2020, the sensitivity of the ECL outcome to the economic forecasts was assessed by recalculating the ECL under the scenarios described above for the loan portfolios, applying a 100% weighting to each scenario.

In this respect, if the ECL outcome was estimated solely on the basis of the Central scenario, the credit loss allowances in respect of the loan portfolios would decrease by US$228,375 compared to the weighted average credit loss allowances estimated at year end. If the ECL outcome was estimated solely on the basis of the Upside scenario, the credit loss allowances in respect of the loan portfolios would decrease by US$391,966 compared to the weighted average credit loss allowances estimated at year end. Similarly, if the ECL outcome was estimated solely on the basis of the Downside scenario, the credit loss allowances in respect of the loan portfolios would increase by US$815,088 compared to the weighted average credit loss allowances estimated at year end.

As at 31 December 2020, the sensitivity impact was not considered to be significant in view of the above, particularly when considering that a 100% weighting to the Downside scenario leads to an increase in ECLs of less than US$1 million.

While there have been no significant changes in estimation techniques made during the reporting period, the Bank is conscious of the current heightened estimation uncertainty in respect of the severity of macroeconomic variables being forecasted. Accordingly, despite the improved loss history of the Bank, evidenced through the fact that the Bank did not experience any defaults during 2020 and also when considering that as at 31 December 2020, only US$1,729,629 of US$61,819,721 worth of S1 and S2 were originated prior to the outbreak and as at the end of the year had effectively not been repaid, management still introduced overlays within the ECL model used to determine the expected credit loss allowances in respect of Stage 1 and Stage 2 loans and advances to customers to cater for the heightened estimation uncertainty. These overlays were implemented through the introduction of floors in respect of a number of key model parameters to ensure that the level of credit loss allowances recognised at reporting date remain appropriate.

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.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

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

	Balances with Central Bank of Malta	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 2020					
AAA	-	-	-	388,606	-
AA-	-	-	-	124,450	4,666,444
A	-	-	-	20,692,002	121,807
A-	12,012,708	-	-	247,094	-
BBB+	-	-	-	1,805,321	-
BBB	-	-	-	1,259,013	16,613,690
BBB-	-	532,428	-	2,126,303	16,675,183
BB+	-	-	333,977	-	-
BB	-	-	2,562,823	-	-
BB-	-	384,366	3,086,265	-	-
B+	-	-	2,017,520	-	1,230,898
B	-	-	2,348,317	-	11,552,307
B-	-	-	2,217,599	-	-
CCC	-	-	-	-	
Unrated	-	71,408	15,118,502	-	-
Total	12,012,708	988,202	27,685,003	26,642,789	50,860,329

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 2019					
AAA	-	-	-	360,664	-
AA	-	-	-	-	-
AA-	-	-	-	-	3,041,445
A+	-	-	-	2,878,807	-
A	-	-	-	-	
A-	14,316,461	-	-	-	-
BBB+	-	-	-	714,133	-
BBB	-	-	-	118,731	8,406,389
BBB-	-	377,231	-	580,074	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**	**4,652,409**	**42,618,607**

(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.

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 as at 31 December 2020 and 2019. Included in the tables are the Bank's financial instruments at carrying amounts, categorised by currency.

As at 31 December 2020	US$	GBP US$	EUR US$	Other US$	Total US$
Financial assets					
Balances with Central Bank of Malta	243,833	-	11,768,875	-	12,012,708
Financial assets mandatorily measured at fair value through profit and loss	8,695,595	822,489	18,166,919	-	27,685,003
Financial assets measured at fair value through other comprehensive income	1,772,264	-	24,870,525	-	26,642,789
Loans and advances to banks – at amortised cost	33,644,203	302,513	16,913,613	-	50,860,329
Loans and advances to customers – at amortised cost	54,866,743	2,860,944	6,051,414	167,616	63,946,717
Accrued income and other assets – at amortised cost	3,960,337	28	658,811	-	4,619,176
Total financial assets	103,182,975	3,985,974	78,430,157	167,616	185,766,722
Financial liabilities					
Amounts owed to customers – at amortised cost	39,480,219	7,107,060	107,251,854	60	153,839,193
Amounts owed to banks	11,000,000	-	-	-	11,000,000
Lease liabilities	-	-	1,083,840	-	1,083,840
Other liabilities	259,751	18,038	479,938	-	757,727
Total financial liabilities	50,739,970	7,125,098	108,815,632	60	166,680,760
Net on-balance sheet position	52,443,005	(3,139,124)	(30,385,475)	167,556	19,085,962
Off-balance sheet net notional position		3,069,000	29,515,879	-	
Net currency exposure		(70,124)	(869,596)	167,556	

2. Financial risk management - continued

2.2 Financial risk factors - continued

(b) Market risk - continued

Foreign exchange risk - continued

As at 31 December 2019	**US$**	**GBP US$**	**EUR 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	-	3,948,831	-	4,652,409
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**	**52,292,753**	**216,022**	**142,669,741**
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)**	**(24,652,110)**	**214,191**	**19,524,067**
Off-balance sheet net notional position		**4,016,448**	**23,035,850**	**-**	
Net currency exposure		**(22,849)**	**(1,616,260)**	**214,191**	

Under the scenario that the US dollar appreciates against the EUR from 0.8129 to 1.0000 (2019: from 0.8899 to 1.0000) and against the GBP from 0.7331 to 1.0000 (2019: from 0.7569 to 1.0000), the impact recognised in profit or loss would amount to a pre-tax loss of US$181,378 (2019: US$577,032). If on the other hand, the US dollar depreciates against the EUR to 0.7316 (2019: 0.8009) and the GBP to 0.6598 (2019: 0.6812), the impact recognised in profit or loss would amount to a gain before tax of US$104,413 (2019: US$585,491).

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 either through the re-pricing of floating rate instruments or through the maturity and replacement of fixed rate instruments. Fair value interest rate risk is the risk that the value of a fixed rate financial instrument will fluctuate because of changes in market interest rates. The Bank's exposures analysed by their fixed or floating nature as at 31 December is shown below:

	Floating Rates US$	Fixed Rates US$	Total US$
At 31 December 2020			
Interest-bearing assets			
Financial assets mandatorily measured at fair value through profit and loss:			
Units in a money market fund	12,753,833	-	12,753,833
Debt securities	315,763	14,615,407	14,931,170
Financial assets measured at fair value through other comprehensive income:			
Debt securities	-	26,642,789	26,642,789
Loans and receivables – at amortised cost:			
Balances with Central Bank of Malta	12,012,708	-	12,012,708
Loans and advances to banks	-	50,860,329	50,860,329
Loans and advances to customers	53,226,266	10,720,451	63,946,717
	78,308,570	102,838,976	181,147,546
Interest-bearing liabilities			
Amounts owed to customers	30,552,656	123,286,537	153,839,193
Amounts owed to banks	-	11,000,000	11,000,000
	30,552,656	134,286,537	164,839,193
Net exposure	47,755,914	(31,447,561)	16,308,353
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	-	4,652,409	4,652,409
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	76,981,506	137,834,499
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	(11,119,909)	16,759,307

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

All financial instruments issued at fixed rates expose the Bank to economic fair value interest rate risk. Albeit, 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 for the purposes of financial reporting.

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 2020 on the fair valuation of its investments carried at fair value (debt securities and units in the money market fund) amounts to US$149,312 (2019: US$308,823). 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$462,090 (2019: increase by US$148,845). 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 mismatch of the dates on which interest on financial assets and financial liabilities are next reset to market rates on a contractual basis or, if earlier, the dates on which the instruments mature as at 31 December.

As at 31 December 2020	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	12,012,708	-	-	-	12,012,708
Financial assets mandatorily measured at fair value through profit or loss	13,767,194	315,763	-	13,602,046	27,685,003
Financial assets measured at fair value through other comprehensive income	-	616,588	1,011,560	25,014,641	26,642,789
Loans and advances to banks	34,818,854	3,105,268	12,936,207	-	50,860,329
Loans and advances to customers	53,451,418	2,635,265	5,901,958	1,958,076	63,946,717
	114,050,174	6,672,884	19,849,725	40,574,763	181,147,546
Financial liabilities					
Amounts owed to customers	65,867,352	14,365,980	25,408,881	48,196,980	153,839,193
Amounts owed to banks	5,000,000	6,000,000	-	-	11,000,000
	70,867,352	20,365,980	25,408,881	48,196,980	164,839,193
Interest rate gap	43,182,822	(13,693,096)	(5,559,156)	(7,622,217)	

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

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	-	-	-	4,652,409	4,652,409
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**	**19,381,518**	**137,835,499**
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)**	**(21,003,890)**	

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.

In addition, management monitors the Liquidity Coverage Ratio ('LCR') metric to gauge the short-term resilience of the Bank's liquidity profile. The LCR, a minimum regulatory standard, aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA'), which consist of cash or assets that can be converted into cash at little or no loss of value in the markets, to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. As at 31 December 2020 the Bank's LCR stood at 390% (2019: 385%) against a regulatory minimum of 100%.

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 contractual maturity.

As at 31 December 2020	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	12,012,708	-	-	-	-	12,012,708
Financial assets mandatorily measured at fair value through profit or loss	506,635	-	-	14,424,535	12,753,833	27,685,003
Financial assets measured at fair value through other comprehensive income	-	616,588	1,011,560	25,014,641	-	26,642,789
Loans and advances to banks	34,818,855	3,105,268	12,936,206	-	-	50,860,329
Loans and advances to customers	21,645,299	22,134,472	17,810,848	2,356,098	-	63,946,717
Derivative financial instruments	395,990	520,804	71,408	-	-	988,202
Accrued income and other assets	3,488,614	53,634	480,905	3,842	592,181	4,619,176
	72,868,101	26,430,766	32,310,927	41,799,116	13,346,014	186,754,924
Financial liabilities						
Amounts owed to customers	65,867,352	14,365,980	25,408,881	48,196,980	-	153,839,193
Amounts owed to banks	5,000,000	6,000,000	-	-	-	11,000,000
Lease liabilities	2,179	204,479	47,627	829,555	-	1,083,840
Derivative financial instruments	58,576	81,763	-	-	-	140,339
Other liabilities	39,470	430,440	50,754	237,063	-	757,727
	70,967,577	21,082,662	25,507,262	49,263,598	-	166,821,099
Maturity gap	1,900,524	5,348,104	6,803,665	(7,464,482)		
Cumulative gap	1,900,524	7,248,628	14,052,293	6,587,811		

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

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	-	-	-	4,652,409	-	4,652,409
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**	**21,789,415**	**13,253,279**	**143,194,491**
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**	**(19,886,056)**		
Cumulative gap	**11,918,988**	**22,550,733**	**26,647,796**	**6,761,740**		

As at 31 December 2020, call accounts payable on demand amounting to US$30,551,180 (2019: US$32,972,222) 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 2020, financial assets measured at fair value through other comprehensive income amounting to US$5,858,558 (2019: US$3,819,145) which principally mature after more than one year, 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, including under stress.

In addition, US$16,027,459 (2019:US$2,880,043) worth of financial assets measured at fair value through other comprehensive income are also deemed liquid but mostly encumbered, as they have been pledged in favour of the Central Bank of Malta for the purpose accessing the European Central Bank's open market operations. As at 31 December, the Bank had drawn US$11,000,000 (2019:nil) against these pledged assets. In this respect, the Bank has an additional US$4,919,781 (2019:US$2,880,043) against which it can access Central Bank liquidity if and when needed.

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 amounting to US$12,753,833 (2019: US$12,588,047) with no maturity represent units held by the Bank in a money market fund, which is highly liquid. Albeit, this is pledged in favour of other counterparties, which provide a cash line to the Bank. During 2020, this cash was never used.

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 2020						
Amounts owed to customers	66,025,245	14,646,529	26,454,351	49,770,910	156,897,035	153,839,193
Amounts owed to banks	5,009,339	6,008,784	-	-	11,018,123	11,000,000
Lease liabilities	2,179	204,479	47,626	829,556	1,083,840	1,083,840
Other liabilities	39,470	430,440	50,754	237,063	757,727	757,727
	71,076,233	**21,290,232**	**26,552,731**	**50,837,529**	**169,756,725**	**166,680,760**
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**

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 2020			
Inflows	39,766,643	2,565,181	42,331,824
Outflows	(38,984,177)	(2,499,784)	(41,483,961)
	782,466	**65,397**	**847,863**
At 31 December 2019			
Inflows	39,305,711	-	39,305,711
Outflows	(38,814,759)	-	(38,814,759)
	490,952	-	**490,952**

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 2020 amounted to US$780,853 (2019: US$917,921).

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:

	2020 US$	2019 US$
Common Equity Tier 1 (CET1) capital		
Share capital	**26,500,000**	26,500,000
Retained earnings	**(1,625,307)**	(906,788)
Fair value reserve	**285,885**	(96,317)
Other reserve	**300,149**	300,149
IFRS 9 transitional adjustment	**259,499**	313,736
Less:		
Intangible assets	**(2,157,479)**	(2,384,516)
Other deductions	**(2,353,048)**	(2,233,009)
CET1 capital	**21,209,699**	21,493,255
Total capital / own funds	**21,209,699**	21,493,255

Other deductions relate to the contributions amounting to US$592,181 (2019: US$665,232) in favour of the Depositor Compensation Scheme as at 31 December 2020, that are not available to the Bank for unrestricted and immediate use to cover risk of losses as soon as they occur.

During the financial year ended 31 December 2020, the bank has met all external capital requirements at all times, notwithstanding the impact of the pandemic.

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 2020			
Assets			
Financial assets mandatorily measured at fair value through profit or loss:			
Units in money market funds	**12,753,833**	**-**	**12,753,833**
Debt securities	**14,931,170**	**-**	**14,931,170**
Financial assets measured at fair value through other comprehensive income:			
Debt securities	**26,642,789**	**-**	**26,642,789**
Financial assets held-for-trading:			
Derivative financial assets	**-**	**988,202**	**988,202**
Total financial assets at fair value	**54,327,792**	**988,202**	**55,315,994**
Liabilities			
Financial assets held-for-trading:			
Derivative financial liabilities	**-**	**140,339**	**140,339**
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	4,652,409	-	4,652,409
Financial assets held-for-trading:			
Derivative financial assets	-	524,750	524,750
Total financial assets at fair value	**30,881,337**	**524,750**	**31,406,087**
Liabilities			
Financial assets held-for-trading:			
Derivative financial liabilities	**-**	**33,798**	**33,798**

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

(a) Financial instruments in Level 1 - 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.

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

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

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. In this respect, a number of significant judgements are made by management. Most notably, these include defining SICR and UTP criteria and determining whether a SICR or UTP event has occurred. Judgement is also required in choosing appropriate assumptions for the measurement of ECLs, both in the case of modelled ECLs for Stage 1 and Stage 2 exposures, as well as in the case of defaulted/Stage 3 loans, which depend on estimating borrower's cashflows.

In the case of modelled ECLs, significant judgements are also made in respect of determining the forward-looking macroeconomic variables under different scenarios and the associated weightings for each scenario.

The level of expert judgement required is currently exacerbated by the heightened level of estimation uncertainty around predictions in respect of the potential impact of the COVID-19 pandemic and, as a result on forward-looking PDs and LGDs used within the Bank's ECL model.

In view of this uncertainty, management considered the sensitivity of the ECL outcome to the macro-economic forecasts by recalculating the ECL under the different scenarios, applying a 100% weighting to each scenario, the effect of which is disclosed in Note 2.1(a).

4. Cash and balances with Central Bank of Malta

	2020	2019
	US$	US$
Cash in hand	**5,391**	5,235
Mandatory reserve deposits with Central Bank of Malta	**465,152**	711,952
Other balances with Central Bank of Malta	**11,548,043**	13,605,266
Allowances for expected credit losses	**(487)**	(757)
	12,018,099	14,321,696

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

	2020	2019
	US$	US$
Financial assets mandatorily measured at fair value through profit or loss:		
Units in money market funds	**12,753,833**	12,588,047
Debt securities	**14,931,170**	13,640,881
Financial assets measured at fair value through other comprehensive income:		
Debt securities	**26,642,789**	4,652,409
	54,327,792	30,881,337

5. Investment securities - continued

As at 31 December 2020, units held by the Bank in a money market fund with a carrying amount of US$12,753,833 (2019: US$12,588,047) were pledged as collateral in favour of another credit institution for the purpose of establishing a credit line. This credit line has not been used during 2020.

At 31 December 2020, the Bank had pledged financial asset measured at fair value through other comprehensive income with a carrying amount of US$16,027,459 (2019: US$2,880,043) in favour of the Central Bank of Malta as security in respect of the Bank's participation in the European Central Bank's open market operations (Note 18).

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

	2020 US$	2019 US$
Financial assets mandatorily measured at fair value through profit or loss:		
Corporates and credit institutions	**14,931,170**	13,640,881
	14,931,170	13,640,881

	2020 US$	2019 US$
Financial assets measured at fair value through other comprehensive income:		
Local government	**16,027,459**	2,880,043
Foreign governments	**2,042,581**	-
Corporates and credit institutions	**8,572,749**	1,772,366
	26,642,789	4,652,409
Allowances for expected credit losses		
Local government	**(4,929)**	(1,236)
Foreign governments	**(2,437)**	-
Corporates and credit institutions	**(3,094)**	(1,016)
	(10,460)	(2,252)

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:

	2020 US$	2019 US$
Derivative financial assets		
- currency swaps	**988,202**	524,750
Derivative financial liabilities		
- currency swaps	**140,339**	33,798

6. Derivative financial instruments - continued

The Bank enters into derivative contracts, mainly currency swaps, principally to hedge the foreign currency exposures arising out of amounts owed to customers, accordingly for risk management purposes. 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 held at 31 December 2020 for risk management purposes relate to the forward purchase of £2,500,000 (2019: £3,000,000) and the forward purchase of €24,330,000 (2019: €20,500,000) against US$ maturing within one year from the end of the reporting period at the average contractual rate of 1.3350 (2019: 1.2308) and 1.1974 (2019: 1.1059) respectively.

In addition, during 2020, the Bank transacted certain derivatives to create risk management solutions for clients. Derivative financial instruments held in this respect at 31 December 2020 relate to the a forward sale of £250,000 against the € at a contractual rate of 1.1048, as well as the forward purchase of €1,170,000 against the US$ at a contractual rate of 1.2152 and the forward purchase of US$2,126,336 against the € at an average contractual rate of 0.845, all of which mature within one year from the end of the reporting period.

The foreign exchange risk from positions entered into with clients is managed as part of the Bank's overall foreign exchange risk management framework, mainly by ensuring that on a daily basis its exposure to foreign currencies is within prescribed limits as approved by the Board. Net open positions are typically brought to within the Board's appetite through the use of spot foreign exchange trades, unless the use of forward contracts is deemed more practicable.

7. Loans and advances to banks

	2020	2019
	US$	US$
Repayable on call and at short notice	**25,280,651**	27,071,193
Term loans and advances	**25,673,953**	15,581,626
Allowances for expected credit losses	**(94,275)**	(34,212)
	50,860,329	42,618,607

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

	2020 US$	2019 US$
Gross term loans and advances to customers	**65,477,030**	51,022,365
Allowances for expected credit losses	**(1,530,313)**	(1,004,271)
Net term loans and advances to customers	**63,946,717**	50,018,094

	2020 US$	2019 US$
Credit loss allowances:		
Allowances booked under Stage 1	**717,643**	450,488
Allowances booked under Stage 2	**158,787**	219,069
Allowances booked under Stage 3	**653,883**	334,714
	1,530,313	1,004,271

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$11,210,660 (2019: US$17,988,312) are subject to fixed interest rates ranging from 0% to 12% (2019: 0% to 12.00%) while US$54,266,370 (2019: US$33,034,053) are subject to variable interest rates ranging from 4.23% to 11.25% (2019: 4.89% to 12.89%). In addition, as at 31 December 2019, the Bank had discounting arrangements amounting to US$3,108,229 subject to fixed interest rates ranging between 6.34% and 6.49%. As at 31 December 2020, the Bank did not have any discounting arrangements.

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 2019					
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**
Year ended 31 December 2020					
Opening net book amount	5,166	15,475	139,865	6,408	166,914
Additions	-	-	8,527	989	9,516
Depreciation charge	(2,589)	(8,872)	(48,054)	(4,382)	(63,897)
Closing net book amount	**2,577**	**6,603**	**100,338**	**3,015**	**112,533**
At 31 December 2020					
Cost	73,043	217,789	366,010	61,309	718,151
Accumulated depreciation	(70,466)	(211,186)	(265,672)	(58,294)	(605,618)
Net book amount	**2,577**	**6,603**	**100,338**	**3,015**	**112,533**

10. Intangible assets

	Computer software US$
At 1 January 2019	
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**
Year ended 31 December 2020	
Opening net book amount	2,384,516
Additions	66,578
Amortisation charge	(293,615)
Closing net book amount	**2,157,479**
At 31 December 2020	
Cost	3,185,118
Accumulated amortisation	(1,027,639)
Net book amount	**2,157,479**

11. Right-of-use assets and lease liabilities

The Bank leases office space, premises for a branch as well as vehicles for executive use. Lease contracts are typically made for fixed periods with any extension or termination options exercisable only by the Bank and not by the respective lessor.

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	**2020**	2019
	US$	US$
At 1 January	**1,265,943**	-
Impact of application of IFRS 16	**-**	1,596,371
Depreciation	**(253,902)**	(330,428)
At 31 December	**1,012,041**	1,265,943

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 are split into maturity groupings as follows:

Lease liabilities at 31 December	**2020**	2019
Current	**254,285**	223,174
Non-current	**829,555**	1,092,021
At 31 December	**1,083,840**	1,315,195

	2020	**2019**
The income statement reflects the following amounts relating to leases:		
Depreciation charge of right-of-use assets	**253,902**	330,428
Interest expense	**20,399**	26,753
Expense relating to short-term leases (included in administrative expenses)	**36,699**	16,703

The total cash payments for leases, including short-term leases, in 2020 was US$348,855 (2019: US$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% (2019: 35%).

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

	2020 US$	2019 US$
At beginning of year	**1,567,777**	2,238,492
Recognised in profit or loss		
- Deferred taxes on temporary differences arising on depreciation of property, plant and equipment	**155,519**	157,406
- Deferred taxes on temporary differences arising on expected credit losses	**206,133**	(1,863,631)
- Deferred taxes on tax losses arising during the year	**37,239**	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	**(241,290)**	(92,817)
Amounts reclassified to profit or loss on disposal of financial assets measured at fair value through other comprehensive income	**35,489**	54,849
At end of year	**1,760,867**	1,567,777

The balance at 31 December represents temporary differences attributable to:

	2020 US$	2019 US$
At 31 December		
Fair valuation of financial assets measured at fair value through other comprehensive income	**(153,938)**	51,863
Expected credit losses	**574,683**	368,550
Depreciation of property, plant and equipment	**229,405**	73,886
Tax losses carried forward	**1,110,717**	1,073,478
	1,760,867	1,567,777

The recognised deferred tax assets are expected to be recovered/settled principally after more than twelve months. The Bank has concluded that the deferred tax assets will be recoverable using the estimated future taxable income.

13. Accrued income and other assets

	2020 US$	2019 US$
Receivable from immediate parent company	**3,328,080**	3,526,923
Allowances for expected credit losses	**(12,404)**	(9,491)
	3,315,676	3,517,432
Accrued interest income	**679,811**	588,231
Allowances for expected credit losses	**(4,474)**	(4,269)
	675,337	583,962
Amounts attributable to the Depositor Compensation Scheme	**592,181**	665,232
Prepayments	**413,007**	344,764
Indirect taxation	**65,584**	46,876
Other receivables	**35,982**	68,616
	5,097,767	5,226,882

14. Share capital

	2020 US$	2019 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

	2020 US$	2019 US$
Term and other deposits	**83,337,898**	77,693,495
Fiduciary deposits	**39,950,115**	10,409,475
Call accounts	**30,551,180**	32,972,222
	153,839,193	121,075,192

Amounts owed to customers are classified as liabilities at amortised cost and are subject to fixed interest rates except for call accounts, which are subject to re-pricing at the discretion of the Bank.

Balances consisting of cash collateral and notice account amounting to US$4,850,234 (2019: US$2,646,633) and US$10,379,970 (2019: US$12,011,377) respectively are included within 'Term and other deposits' in the table above.

Fiduciary accounts, which are all of a fixed term nature, refer to placements made by other banks or investment firms in their own name but on behalf of retail depositors.

18. Amounts owed to banks

	2020 US$	2019 US$
Term loans and advances	**11,000,000**	-

Term loans and advances are subject to fixed interest rates and are secured by a pledge over financial asset measured at fair value through other comprehensive income as disclosed in Note 5. These liabilities relate to the Bank's participation in the European Central Bank's US Dollar operation

19. Other liabilities

	2020 US$	2019 US$
Accrued interest expense	**353,756**	327,372
Other payables and accrued expenses	**403,971**	427,915
	757,727	755,287

20. Contingent liabilities and commitments

Contingencies related to legal proceedings

As at 31 December 2020 the Bank had one (2019: one) legal proceeding, which has been outstanding against it since 2018, arising in its normal course of business for the amount of €133,138, equivalent to US$163,773 (2019: US$149,607) together with interest and costs. The Bank is vigorously contesting the claim 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 and commitments not yet withdrawn amounting to US$13,638,823 (2019: US$8,669,653).

21. Interest income

	2020 US$	2019 US$
On loans and advances to customers	**4,405,745**	6,056,174
On financial assets measured at fair value through other comprehensive income		
- coupon interest	**216,780**	109,247
- net amortisation of premiums and discounts	**(142,280)**	40,938
On loans and advances to banks	**31,270**	217,960
On financial assets mandatorily measured at fair value through profit or loss	**892,757**	1,258,495
	5,404,272	7,682,814

22. Interest expense

	2020 US$	2019 US$
On amounts owed to customers	**1,706,976**	1,865,591
On amounts owed to banks	**58,824**	102,264
On lease liabilities	**20,399**	26,753
	1,786,199	1,994,608

23. Fee and commission income and expense

(a) Fee and commission income

	2020 US$	2019 US$
Trade service-related fees	**733,916**	1,184,293
Transfer commissions	**311,717**	292,090
Other fees	**59,918**	38,503
	1,105,551	1,514,886

(b) Fee and commission expense

	2020 US$	2019 US$
Loan servicing fees payable to a related party	-	58,713
Correspondent bank charges	**505,286**	39,357
Portfolio management fees	**110,035**	158,387
Deposit introducer fees	**74,636**	20,055
Other fees	**36,354**	31,371
	726,311	307,883

24. Net trading (losses)/gains

	2020 US$	2019 US$
Foreign exchange differences	**(615,950)**	(1,397,701)
Net fair value gains on foreign exchange derivative contracts	**348,780**	536,904
Net (losses)/gains on financial assets mandatorily measured at fair value through profit or loss	**(175,014)**	967,764
	(442,184)	106,967

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

	2020 US$	2019 US$
Change in expected credit losses in profit or loss on:		
- Loans and advances to customers including accrued interest and other assets	**529,160**	(5,352,661)
- Balances with central banks	**(270)**	668
- Loans and advances to banks	**60,064**	27,159
Financial assets measured at fair value through other comprehensive income	**8,208**	(2,327)
Amounts written off	**-**	6,698,644
Recoveries	**-**	(710,905)
	597,162	660,578

26. Administrative expenses

	2020 US$	2019 US$
Staff costs		
- Directors' remuneration	**448,803**	446,365
- Other staff salaries	**1,730,057**	1,775,799
- Social security costs	**85,326**	77,511
Directors' fees	**101,460**	153,457
Depreciation of property, plant and equipment and right-of use asset (Notes 9 and 11)	**317,799**	415,651
Amortisation of intangible assets (Note 10)	**293,615**	291,289
Short term lease expenses	**-**	16,703
Legal and professional fees	**173,961**	609,940
Other administrative expenses	**1,025,754**	914,494
	4,176,775	4,701,209

Other administrative expenses mainly comprise contributions to the Depositor Compensation Scheme, maintenance expenditure, marketing and other 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:

	2020	2019
- Managerial	**5**	6
- Clerical	**26**	24
	31	30

26. Administrative expenses - continued

Auditor's remuneration

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

	2020 US$	2019 US$
Annual statutory audit	**73,200**	96,050
Tax compliance and advisory services	**9,000**	4,746
Other non-audit services	**61,500**	74,580
	143,700	175,376

27. Tax income/(expense)

	2020 US$	2019 US$
Deferred tax income/(expense) (Note 12)	**398,891**	(632,747)
	398,891	(632,747)

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:

	2020 US$	2019 US$
(Loss)/profit before tax	**(1,117,410)**	1,797,102
Tax on (loss)/profit at 35%	**(391,094)**	628,985
Tax effect of:		
Disallowable expenses	**22,592**	3,762
Unrecognised deferred tax in prior year	**(30,389)**	-
	(398,891)	632,747

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:

	2020 US$	2019 US$
Cash in hand (Note 4)	**5,391**	5,235
Cash with Central Bank of Malta (Note 4)	**11,548,043**	13,605,266
Loans and advances to banks (Note 7)	**37,926,355**	39,275,894
	49,479,789	52,886,395

29. Related party transactions

IIG Malta Ltd is the Bank's immediate parent (refer to Note 30). This immediate parent is wholly owned by IIG Trade Opportunities Fund N.V. (refer to Note 30). All entities which were ultimately controlled by IIG Trade Opportunities Fund N.V. and managed by the Fund's Asset Manager, IIG Trade Finance LLC, were considered related parties.

On 3 September 2019, IIG Trade Opportunities Fund N.V. was put into administration by the Curacao Courts, and control was passed from IIG Trade Opportunities Fund NV asset managers to a Trustee, Ms. Maria Valerie Petronila. IIG Trade Finance LLC and other related entities have since not been considered as related parties.

Prior to this, as part of its operations, the Bank entered into participation transactions initiated by IIG Trade Finance LLC in the normal course of business. All such transactions 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 payable to IIG Trade Finance LLC, as loan arrangement fees. No such transactions occurred during 2020.

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

30. Statutory information

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

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

Additional Regulatory Disclosures
31 December 2020

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 loss, expressed as a percentage of average total assets, for the reporting period ended 31 December 2020 is -0.51%.

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, 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 Bank's direct financing of international trade and discounting of receivables.

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:

	2020 Average value US$	**2020 Year end exposure value US$**
Central governments or central banks	26,123,151	30,088,627
Multilateral development banks	707,184	760,704
Institutions	44,228,545	62,860,696
Corporates	77,139,872	85,898,992
Exposures in default	3,800,776	3,657,310
Covered bonds	367,640	388,625
Exposures in the form of units or shares in CIUs	10,448,886	12,753,833
Other items	12,580,239	12,949,366
	175,396,293	**209,358,153**

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 2020	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	12,013,195	-	-	18,075,432	-	30,088,627
Multilateral development banks	-	-	-	760,704	-	760,704
Institutions						
Corporates	4,006,020	3,840,951	9,154,776	11,906,093	33,952,856	62,860,696
Exposures in default	21,629,860	22,369,376	18,643,483	23,256,272	-	85,898,991
Covered bonds	-	-	-	3,657,310	-	3,657,310
Exposures in the form of units or shares in CIUs	-	-	-	388,625	12,753,833	13,142,458
Other items	-	-	-	-	12,949,366	12,949,366
Total	**37,649,075**	**26,210,327**	**27,798,259**	**58,044,436**	**59,656,055**	**209,358,152**

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$63,946,717 are due from a limited number of customers. As at 31 December 2020, loans and advances to customers amounting to US$60,684,606 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 2020	**Latin America US$**	**Malta US$**	**Other EU countries US$**	**Rest of world US$**	**Total US$**
Central governments or central banks	-	28,046,046	2,042,581	-	30,088,627
Multilateral development banks	-	-	-	760,704	760,704
Institutions		21,163,240	2,178,977	39,518,479	62,860,696
Corporates	951,289	3,575,358	12,178,823	69,193,521	85,898,991
Exposures in default	2,185,196	-	1,472,114	-	3,657,310
Covered bonds	-	-	388,625	-	388,625
Exposures in the form of units or shares in CIUs	-	12,753,833	-	-	12,753,833
Other items	-	12,949,366	-	-	12,949,366
Total	**3,136,485**	**78,487,843**	**18,261,120**	**109,472,704**	**209,358,152**

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	30,088,627	-	-	-	-	-	30,088,627
Financial services	-	63,621,400	4,382,918	-	13,142,458	-	81,146,776
Wholesale trade of commodity products	-	-	37,000,011	3,657,310			40,657,321
Manufactured / processed commodity products	-	-	5,142,333	-	-	-	5,142,333
Mining	-	-	-	-	-	-	
Transport	-	-	19,771,627	-	-	-	19,771,627
Other	-	-	19,602,102	-	-	12,949,366	32,551,468
Total	**30,088,627**	**63,621,400**	**85,898,991**	**3,657,310**	**13,142,458**	**12,949,366**	**209,358,152**

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 2020	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	-	-	124.468	388,625	513,093
A+ to A-	2	28,046,046	-	20,945,571	-	48,991,617
BBB+ to BBB-	3	2042581	760,704	29,386,732	-	32,190,017
BB+ to BB-	4	-	-	18,314,286	-	18,314,286
B+ to B-	5	-	-	16,457,335	-	16,457,335
CCC+ and below	6	-	-	2,364,669	-	2,364,669
Total		**30,088,627**	**760,704**	**87,593,061**	**388,625**	**118,831,017**

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 2020	**US$**
Performing exposures	60,943,291
Past due exposures	-
Impaired exposures	3,003,426
Total loans and advances to customers	**63,946,717**

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 2020	1,834,957
Amounts written off	-
Increases during the period	1,168,469
At 31 December 2020	3,003,426

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 2020	Total exposure US$	Cash or quasi cash US$	Exposure value after credit risk mitigants US$
Corporates	63,946,717	4,850,234	59,096,483

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 2020 amounted to US$327,474 requiring minimum regulatory capital of US$26,198.

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 2020			
Financial assets	54,266,370	126,886,567	181,152,937
Financial liabilities	30,552,656	123,196,217	153,748,873
Net exposure	**23,713,714**	**3,690,350**	**27,404,064**

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 2020 on the fair valuation of its investments carried at fair value (debt securities and units in the money market fund) amounts to US$149,312. 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 increase by US$462,090.

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 2020					
Financial assets	114,050,174	6,672,884	19,849,725	40,574,763	181,147,546
Financial liabilities	70,867,352	20,365,980	25,408,881	48,196,980	164,839,193
Interest rate gap	**43,182,822**	**(13,693,096)**	**(5,559,156)**	**(7,622,217)**	
Cumulative gap	**43,182,822**	**29,489,726**	**23,930,570**	**16,308,353**	

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 2020					
Financial assets	99,200,786	4,037,294	77,907,257	7,601	181,152,937
Financial liabilities	39,390,015	7,107,066	107,251,730	61	153,748,873
Net on balance sheet position	59,810,771	(3,069,772)	(29,344,473)	7,540	27,404,064
Off-balance sheet net notional Position		3,069,000	29,515,878	-	
Net currency exposure		**(772)**	**171,405**	**7,540**	

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$5,965,349 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 2020						
Financial assets	72,868,101	26,430,766	32,310,927	41,799,116	13,346,014	186,754,924
Financial liabilities	70,967,577	21,082,662	25,507,262	49,263,598	-	166,821,099
Maturity gap	1,900,524	5,348,104	6,803,665	(7,464,482)		
Cumulative gap	**1,900,524**	**7,248,628**	**14,052,293**	**6,587,811**		

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 2020						
Financial liabilities	71,076,233	21,290,232	26,552,731	50,837,529	169,756,725	166,680,760

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 2020 amounted to US$780,853.

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 2020, 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 2020 is analysed as follows:

	2020 No. of shares	2019 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$592,181, pledged in favour of the Depositor Compensation Scheme as at 31 December 2020, 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 2020. The transitional disclosure template is set out below.

	As at 31 December 2020 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	(1,625,307)
Accumulated other comprehensive income (and other reserves)	586,034
IFRS 9 transitional adjustment	259,499
CET1 capital before regulatory adjustments	25,720,226
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets and other deductions	(4,431,413)
Total regulatory adjustments to CET1	21,288,813
CET1 capital	21,288,813
Total risk weighted assets	**146,994,073**
Capital ratios	
CET1 capital	**14.48%**
Tier 1 capital	**14.48%**
Total capital	**14.48%**
Institution specific buffer requirement	**5.80%**
of which: capital conservation buffer	1.25%
of which: countercyclical buffer	0.06%
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.

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	15,006,630	9,152,361	9,152,361	0.08	0
Malta	63,806,069	26,711,373	26,711,373	0.23	0
United Arab Emirates	12,209,292	9,364,092	9,364,092	0.08	0
United Kingdom	8,974,241	7,580,651	7,580,651	0.06	0
Germany	406,480	609,720	609,720	0.01	0
Singapore	4,064,710	4,064,710	4,064,710	0.03	0
Luxembourg	101185	20237	20,237	0.00	0.25
Brazil	2,549,782	3,438,001	3,438,001	0.03	0
British Virgin Islands	5,404,664	4,896,575	4,896,575	0.04	0
Nigeria	5,690,594	4,471,181	4,471,181	0.04	0
Turkey	9,062,806	5,455,248	5,455,248	0.05	0
Monaco	4,410,515	4,259,613	4,259,613	0.04	0
France	800,800	651,025	651,025	0.01	0
United States	701,076	1,051,614	1,051,614	0.01	0
Mauritania	0	0	0	0.00	0
Russia	661,106	991,658	991,658	0.01	0
Hong Kong	6,347,353	6,299,332	6,299,332	0.05	1
Norway	855,533	1,283,299	1,283,299	0.01	1
Sweden	107,156	110,129	110,129	0.00	0
Other	29,036,053	26,870,550	26,870,550	0.23	0
Total	**170,196,045**	**117,281,369**	**117,281,369**		

7. Capital risk management - continued

7.2 Capital requirements - continued

	2020
Total risk amount	US$117,281,369
Institution-specific countercyclical buffer rate	0.06%
Institution-specific countercyclical buffer requirement	US$70,369

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

At 31 December 2020	Exposure value US$	Risk weighted assets US$	Capital required US$
Central governments or central banks	30,088,627	-	-
Multilateral development banks	760,704	380,352	30,428
Institutions	62,860,696	37,761,925	3,020,954
Corporates	84,401,529	73,081,761	5,846,541
Exposures in default	4,498,857	6,748,286	539,863
Covered bonds	388,625	77,725	6,218
Exposures in the form of units or shares in CIUs	12,753,833	5,757,465	460,597
Other items	12,949,366	11,316,109	905,289
Credit risk	**208,702,237**	**135,123,623**	**10,809,890**
Foreign exchange risk		396,429	31,714
Operational risk		11,474,022	917,922
Total capital required		**146,994,074**	**11,759,526**
Own funds			
Common Equity Tier 1 capital			21,288,813
Total own funds			21,288,813
Total capital ratio			**14.48%**

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 Remuneration Committee is mandated by the Board of Directors to act directly and resolve on its behalf on matters relating to the fixed and variable remuneration packages and employee incentive schemes of the executive members of the Board, executive management and all other employees of the Bank.

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 fixed remuneration in line with their position within the Bank which includes a fixed annual pension contribution and 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 five 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$951,179	NIL

Total Non-Executive Directors' fees attributable for the financial year ended 31 December 2020 amounted to US$110,106 (2019: US$153,041).

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.

	2020 US$
Tier 1 capital	21,288,813
Total exposure measure for the purposes of the leverage ratio	196,305,200
Leverage ratio	**10.84%**

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

	2020 US$
On-balance sheet exposures (excluding derivatives)	
On-balance sheet items (excluding derivatives)	196,651,565
Asset amounts deducted in determining Tier 1 capital	(4,276,701)
On-balance sheet exposures (excluding derivatives and SFTs)	192,374,864
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	13,638,823
Adjustments for conversion to credit equivalent amounts	(9,708,487)
Off-balance sheet exposures	**3,930,336**

9. Leverage - continued

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

	2020 US$
Total assets as per published financial statements	192,281,826
Adjustment for off-balance sheet items	3,930,336
Other adjustments	
Deduction for intangible assets	(2,078,365)
Adjustment for Depositor Compensation Scheme	(592,181)
Leverage ratio exposure	**193,541,616**

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

	2020 US$
Total on-balance sheet exposures (excluding derivatives and intangible assets), of which:	**192,000,309**
Covered bonds	388,625
Exposures treated as sovereigns	30,088,627
Exposures to Multilateral developments banks	760,704
Institutions	62,860,696
Corporate	84,401,529
Exposures in default	4,498,857
Other exposures	9,001,271

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 2020 US$	Fair value of encumbered assets 2020 US$	Carrying amount of unencumbered assets 2020 US$	Fair value of unencumbered assets 2020 US$
Assets of the reporting institution	16,736,611	-	176,150,412	-
Loans on demand	16,736,611	-	20,554,486	-
Investments in money market funds	-	-	12,753,833	-
Debt securities	-	-	41,912,559	-
Loans and advances other than loans on demand	-	-	90,757,608	-
Other assets	-	-	10,171,926	-

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 2020 US$	Assets and collateral received 2020 US$
Carrying amount of selected financial liabilities	-	4,850,234

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	5
James Douglas Nelson	Non-Executive Director	-
Joseph Grioli	Non-Executive Director	24
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

	2020	2019	2018	2017	2016
	US$	US$	US$	US$	US$
ASSETS					
Cash and balances with Central Bank of Malta	**12,018,099**	14,321,696	8,935,815	940,849	3,869,089
Investment securities	**54,327,792**	30,881,337	39,519,639	52,543,038	37,901,743
Derivative financial instruments	**988,202**	524,750	-	538,587	-
Loans and advances to banks	**50,860,329**	42,618,607	28,232,864	52,555,939	20,679,444
Loans and advances to customers	**63,946,717**	50,018,094	94,908,645	81,228,230	89,031,527
Property, plant and equipment	**112,533**	166,914	234,730	159,113	148,669
Intangible assets	**2,157,479**	2,384,516	2,403,120	931,783	61,127
Right-of-use asset	**1,012,041**	1,265,943	-	-	-
Deferred tax assets	**1,760,867**	1,567,777	2,238,492	122,238	131,534
Accrued income and other assets	**5,097,767**	5,226,882	1,781,240	2,518,376	2,286,279
Total assets	**192,281,826**	148,976,516	178,254,545	191,538,153	154,109,412
EQUITY AND LIABILITIES					
Equity					
Share capital	**26,500,000**	26,500,000	26,500,000	26,500,000	22,500,000
Fair value reserve	**285,885**	(96,317)	(166,828)	256,013	377,085
Other reserve	**300,149**	300,149	300,149	50,924	14,790
(Accumulated losses)/Retained earnings	**(1,625,307)**	(906,788)	(2,071,143)	1,729,914	2,855,529
Total equity	**25,460,727**	25,797,044	24,562,178	28,536,851	25,747,404
Liabilities					
Amounts owed to customers	**153,839,193**	121,075,192	145,728,868	159,873,126	120,670,756
Amounts owed to banks	**11,000,000**	-	6,000,079	670,614	3,350,010
Derivative financial instruments	**140,339**	33,798	45,347	-	1,374,781
Current tax liabilities	**-**	-	877,424	877,424	1,860,218
Deferred tax liabilities	**-**	-	-	-	-
Lease liabilities	**1,083,840**	1,315,195	-	-	-
Other liabilities	**757,727**	755,287	1,040,649	1,580,138	1,106,243
Total liabilities	**166,821,099**	123,179,472	153,692,367	163,001,302	128,362,008
Total equity and liabilities	**192,281,826**	148,976,516	178,254,545	191,538,153	154,109,412
MEMORANDUM ITEMS					
Commitments	**13,638,823**	8,669,653	3,132,077	2,619,531	5,524,573

Five Year Summary

Statement of comprehensive income

	2020 US$	2019 US$	2018 US$	2017 US$	2016 US$
Interest and similar income	**5,404,272**	7,682,814	8,625,374	8,354,770	8,408,071
Interest and similar expense	**(1,786,199)**	(1,994,608)	(2,485,950)	(2,803,508)	(2,891,888)
Net interest income	**3,618,073**	5,688,206	6,139,424	5,551,262	5,516,183
Fee and commission income	**1,105,551**	1,514,886	1,630,716	1,040,499	1,538,090
Fee and commission expense	**(726,311)**	(307,883)	(381,704)	(556,090)	(725,047)
Net fee and commission income	**379,240**	1,207,003	1,249,012	484,409	813,043
Net trading (losses)/gains	**(442,184)**	106,967	(2,557,263)	(695,567)	(339,696)
Net gains/(losses) on disposal of financial assets measured at fair value through other comprehensive income/available-for-sale financial assets	**101,398**	156,713	(29,527)	1,019,252	5,395,295
Operating income	**3,656,527**	7,158,889	4,801,646	6,359,356	11,384,825
Net reversal of loan impairment charges	-	-	-	83,552	(4,111,992)
Change in expected credit losses and other credit impairment charges	**(597,162)**	(660,578)	(5,951,577)	-	-
Administrative expenses	**(4,176,775)**	(4,701,209)	(3,916,726)	(3,782,859)	(2,905,467)
(Loss)/profit before tax	**(1,117,410)**	1,797,102	(5,066,657)	2,660,049	4,367,366
Tax income/(expense)	**398,891**	(632,747)	1,757,759	(949,529)	(1,549,276)
(Loss)/profit for the period	**(718,519)**	1,164,355	(3,308,898)	1,710,520	2,818,090
Other comprehensive income:					
Items that may be subsequently reclassified to profit or loss					
Fair valuation of available-for-sale financial assets:					
Net changes in fair value arising during the period, before tax	**689,400**	265,192	(490,555)	832,988	1,606,039
Reclassification adjustments – net amounts reclassified to profit or loss upon disposal, before tax	**(101,397)**	(156,713)	29,527	(1,019,252)	(5,395,295)
Income tax relating to components of other comprehensive income	**(205,801)**	(37,968)	161,360	65,192	1,326,240
Other comprehensive income/(loss) for the period, net of tax	**382,202**	70,511	(299,668)	(121,072)	(2,463,016)
Total comprehensive (loss)/income for the period	**(336,317)**	1,234,866	(3,608,566)	1,589,448	355,074

Five Year Summary
Statement of cash flows

	2020 US$	2019 US$	2018 US$	2017 US$	2016 US$
Operating activities					
Interest and commission income received	**6,617,172**	9,194,434	10,691,973	9,484,815	10,691,842
Interest and commission expense paid	**(2,490,351)**	(2,350,719)	(2,913,045)	(3,270,259)	(3,715,806)
Net income from foreign exchange transactions	**2,822,532**	1,267,445	316,844	(5,940,494)	1,040,671
Tax paid	-	(861,074)	-	(1,857,835)	(2,310,146)
Cash payments to employees and suppliers	**(3,459,886)**	(4,333,774)	(3,917,900)	(3,582,387)	(2,758,990)
Cash flows generated from/(used in) operating activities before changes in operating assets and liabilities	**3,489,467**	2,916,312	4,177,872	(5,166,160)	2,947,571
Changes in operating assets and liabilities:					
Net (increase)/decrease in balances with Central Bank of Malta	**(246,800)**	209,896	16,515	(234,825)	(27,007)
Net (increase)/decrease in loans and advances to banks	**(9,317,573)**	2,057,010	(1,312,858)	6,424,378	1,291,498
Net decrease/(increase) in amounts attributable to DCS	**73,051**	152,098	40,409	(42,237)	(160,296)
Net (increase)/decrease in loans and advances to customers	**(9,945,088)**	34,633,860	(20,183,514)	7,886,849	(10,957,419)
Net increase/(decrease) in amounts owed to customers	**23,214,013**	(24,653,676)	(14,149,356)	39,206,068	(23,000,583)
Net increase/(decrease) in amounts owed to banks	**11,000,000**	(6,000,079)	5,329,465	(2,679,396)	(16,113,197)
Net cash generated from/(used in) operating activities	**18,267,070**	9,315,421	(26,081,467)	45,394,677	(46,019,433)
Investing activities					
Purchase of financial assets measured at fair value through other comprehensive income / available-for-sale financial assets	**(22,834,682)**	(4,665,219)	(5,407,684)	(32,076,439)	(46,732,962)
Purchase of financial assets mandatorily measured at fair value through profit or loss	**(8,479,561)**	(11,429,782)	(32,714,457)	N/A	N/A
Purchase of financial assets designated as at fair value through profit or loss	**N/A**	N/A	N/A	(11,720,608)	(9,218,300)
Proceeds from disposal and redemptions of financial assets measured at fair value through other comprehensive income/available-for-sale financial asset	**3,014,465**	9,390,803	4,061,087	33,320,299	67,024,392
Proceeds from disposal and redemptions of financial assets mandatorily measured at fair value through profit or loss	**7,030,652**	15,912,382	44,299,125	N/A	N/A
Purchase of property, plant and equipment	**(9,516)**	(17,407)	(166,870)	(61,283)	(33,319)
Purchase of intangible assets	**(66,578)**	(272,685)	(1,614,101)	(918,838)	(18,202)
Net cash (used in)/generated from investing activities	**(21,345,220)**	8,918,092	8,457,100	(11,456,869)	11,021,609
Financing activities					
Issue of ordinary share capital	-	-	-	4,000,000	6,200,000
Dividends paid to equity holders	-	-	-	(2,800,000)	(4,250,000)
Principal element of lease payment	**(328,456)**	(281,176)	-	-	-
Net cash (used in)/generated from financing activities	**(328,456)**	(281,176)	-	1,200,000	1,950,000
Net movement in cash and cash equivalents	**(3,406,606)**	17,952,337	(17,624,367)	35,137,808	(33,047,824)
Cash and cash equivalents at beginning of year	**52,886,395**	34,934,058	52,558,425	17,420,617	50,468,441
Cash and cash equivalents at end of year	**49,479,789**	52,886,395	34,934,058	52,558,425	17,420,617