FCM Bank Limited

C 50343

Annual Report

2013

Contents

FCM Bank Limited

Directors, officer and other information

Directors:	Timothy Babich John Soler Ronald Huggett Thomas Meston
Secretary:	Rachael Cassar Torreggiani
Registered office:	Aragon House Business Centre Dragonara Road, St Julians STJ 3140, Malta
Country of incorporation:	Malta
Company registration number:	C 50343
Auditor:	Deloitte Audit Limited Deloitte Place, Mriehel Bypass, Mriehel BKR 3000, Malta

FCM Bank Limited

Directors' report

For the year ended 31 December 2013

The directors have pleasure in submitting their third annual report, together with the audited financial statements of FCM Bank Limited ("the Bank") for the year ended 31 December 2013.

Principal activities

The Bank is licensed as a credit institution under the Banking Act, Cap.371.

Performance review

During the year ended 31 December 2013, the Bank recorded a loss before tax of EUR 603,501 (2012: EUR 276,569). After accounting for a deferred tax credit, the loss after tax amounted to EUR 391,498 (2012: EUR 179,629). The Bank continued to grow its deposit base through its attractive product offering .

The year involved further work on strengthening the FCM brand and significant work was carried out on the implementation of a market leading core banking platform that will best suit the needs of the various stakeholders, with the focus being client experience.

Future business developments

The Bank will continue to focus on growing its customer base to attract deposits and acquire high quality investment securities. The business model of the Bank continues to be to gather retail deposits and invest in a diversified portfolio across countries and sectors, predominantly in developed European economies. There are no other planned business developments which require disclosure in these financial statements.

Results and dividends

The results for the year ended 31 December 2013 are shown in the statement of comprehensive income on page 8. The loss for the year after taxation is EUR 391,498 (2012: EUR 179,629). This is as a result of minimal trading activity in the year due to the Bank still being in its early stages.

No dividend is being recommended as the company did not have any distributable reserves at the end of the reporting period.

Going concern

The Bank's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk are detailed in note 25 to the financial statements. The directors believe that the Bank is well placed to manage its business risks successfully despite the current uncertain economic outlook and have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis has been adopted in preparing these financial statements.

FCM Bank Limited

Directors' report (continued)

For the year ended 31 December 2013

Directors

The directors who served during the period were:

Timothy Babich (served as Chairman till 6 June 2013)
Michael Warrington (removed 28 May 2013)
John Soler
Ronald Huggett (served as Chairman from 6 June 2013)
Thomas Meston (appointed 30 August 2013)

In accordance with the company's articles of association all the directors are to remain in office.

Auditors

A resolution to reappoint Deloitte Audit Limited as auditor of the company will be proposed at the forthcoming annual general meeting.

Approved by the Board of Directors on 10 March 2014 and signed on its behalf by:

John Soler
Director

Ronald Huggett
Director

FCM Bank Limited

Preparation of financial statements and directors' responsibilities

The Directors are required by the Companies Act (Chap.386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the profit or loss of the Bank for the year then ended. In preparing the financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business as a going concern.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Bank, and which enable the Directors to ensure that the financial statements comply with the Banking Act (Chap.371) and the Companies Act (Chap.386 of the Laws of Malta). This responsibility includes designing, implementing and maintaining such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. The Directors 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.

After reviewing the Bank's plans for the coming financial periods, the Directors are satisfied that at the time of approving the financial statements, it is appropriate to continue adopting the going concern basis in preparing the financial statements.

Deloitte.

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Company Ref No: C51312
VAT Reg No: MT2013 6121
Exemption number: EXO2155

Independent auditor's report
to the members of

FCM Bank Limited

Report on the financial statements

We have audited the accompanying financial statements of FCM Bank Limited set out on pages 8 to 46, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As explained more fully in the statement of directors' responsibilities in the Directors' Report on page 5, the directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Companies Act (Chap. 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2013 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Deloitte.

Independent auditor's report (continued)
to the members of

FCM Bank Limited

Report on other legal and regulatory requirements

Auditor's responsibility

The Banking Act (Chap. 371) requires us to report whether we have obtained all the information and explanations which to the best of our knowledge and belief are necessary for the purposes of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof, whether the financial statements are in agreement with the books, and whether 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 law in the manner so required and give a true and fair view.

We are also required to state whether the financial statements have been properly prepared in accordance with the provisions of the Companies Act (Chap. 386).

Opinion

We have obtained all the information and explanations, which to the best of our knowledge and belief are necessary for the purposes of our audit. In our opinion, proper books of account have been kept so far as appears from our examination thereof and the financial statements are in agreement with the books.

In our opinion, the financial statements have been properly prepared in accordance with the Banking Act (Chap. 371) and the Companies Act (Chap. 386).

Sarah Curmi as Director
in the name and on behalf of
Deloitte Audit Limited
Registered auditor

10 March 2014

FCM Bank Limited

Statement of comprehensive income

Year ended 31 December 2013

	Notes	2013 EUR	2012 EUR
Interest income	4	475,933	264,322
Interest expense	5	(332,083)	(25,993)
Net interest income		**143,850**	238,329
Fee and commission expense	6	(14,162)	(3,053)
Net trading gains	7	274,754	178,949
Net gain arising from derecognition of financial assets measured at amortised cost	8	144,636	76,878
Operating income		**549,078**	491,103
Administrative expense		(683,511)	(429,331)
Employee compensation and benefits	9	(469,068)	(338,341)
Loss before income tax	10	**(603,501)**	(276,569)
Income tax credit	11	212,003	96,940
Loss for the year		**(391,498)**	(179,629)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
- change in fair value		107,538	55,223
- deferred tax thereon		(37,637)	(19,328)
Other comprehensive income for the year net of tax		69,901	35,895
Total comprehensive loss for the year		**(321,597)**	(143,734)

FCM Bank Limited

Statement of financial position
31 December 2013

	Notes	2013 EUR	2012 EUR
Assets			
Cash and cash equivalents	17	**7,722,053**	829,387
Financial assets at fair value through profit or loss	13	**599,743**	937,081
Investments	14	**15,843,386**	7,033,367
Intangible assets	16	**134,813**	14,300
Property, plant and equipment	15	**68,300**	80,858
Deferred tax	18	**329,315**	135,621
Other assets		**64,617**	18,875
Prepayments and accrued income	19	**293,492**	215,270
Total assets		**25,055,719**	9,264,759
Liabilities			
Amounts owed to customers	20	**16,206,021**	2,487,906
Other liabilities		**1,005,065**	4,173
Trade and other payables	21	**471,991**	42,546
Total liabilities		**17,683,077**	2,534,625
Equity			
Share capital	22	**8,000,000**	7,000,000
Investment revaluation reserve		**69,901**	35,895
Accumulated losses		**(697,259)**	(305,761)
Total equity		**7,372,642**	6,730,134
Total liabilities and equity		**25,055,719**	9,264,759

The financial statements on pages 8 to 46 were approved by the Board of Directors on 10 March 2014 and signed on its behalf by:

John Soler
Director

Ronald Huggett
Director

FCM Bank Limited

Statement of changes in equity
Year ended 31 December 2013

	Total EUR	Share capital EUR	Investment revaluation reserve EUR	Accumulated losses EUR
Balance at 1 January 2012	6,873,868	7,000,000	-	(126,132)
Loss for the year	(179,629)	-	-	(179,629)
Other comprehensive income, net of tax				
Available-for-sale investments:				
-Change in fair value, net of tax	35,895	-	35,895	-
Total comprehensive loss for the year	(143,734)	-	35,895	(179,629)
Balance at 1 January 2013	6,730,134	7,000,000	35,895	(305,761)
Loss for the year	(391,498)	-	-	(391,498)
Other comprehensive income, net of tax				
Available-for-sale investments:				
-Change in fair value, net of tax	34,006	-	34,006	-
Total comprehensive loss for the year	(357,492)	-	34,006	(391,498)
Issue of share capital	1,000,000	1,000,000	-	-
Balance at 31 December 2013	**7,372,642**	**8,000,000**	**69,901**	**(697,259)**

FCM Bank Limited

Statement of cash flows
Year ended 31 December 2013

	Notes	**2013 EUR**	2012 EUR
Cash flows from operating activities			
Interest and commission received		**446,653**	230,403
Interest and commission paid		**(161,724)**	(3,885)
Cash payments to employees and suppliers		**(893,492)**	(751,031)
Operating loss before changes in operating assets and liabilities		**(608,563)**	(524,513)
Cash flows from operating activities before changes in operating assets and liabilities			
Net increase in deposits from customers		**13,718,115**	2,374,582
Net (increase) in other assets		**(23,630)**	(5,899)
Net (decrease)/increase in other liabilities		**1,000,892**	4,173
Net cash from operating activities		**14,086,814**	1,848,343
Cash flows from investing activities			
Purchase of property, plant and equipment		**(11,765)**	(94,540)
Purchase of intangible assets		**(125,299)**	(22,243)
Acquisition of financial instruments		**(13,130,035)**	(7,967,517)
Proceeds from sale of financial instruments		**5,072,951**	2,537,125
Net cash used in investing activities		**(8,194,148)**	(5,547,175)
Cash flows from financing activities			
Proceeds from the issue of share capital		**1,000,000**	-
Increase/(decrease) in cash and cash equivalents		**6,892,666**	(3,698,832)
Cash and cash equivalents at the beginning of the year		**829,387**	4,528,219
Cash and cash equivalents at the end of the year	*17*	**7,722,053**	829,387

1. Reporting entity

FCM Bank Limited (hereafter 'the Bank') is a limited liability company domiciled in Malta.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared and presented in accordance with the provisions of the Banking Act (Chap. 371) and the Companies Act (Chap. 386) enacted in Malta, which requires adherence to International Financial Reporting Standards as adopted by the EU (hereafter referred to "IFRSs as adopted by the EU").

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as at fair value through profit or loss and available-for-sale investments which are stated at their fair values. The significant accounting policies adopted are set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines when transfers are deemed to have occurred between levels in the hierarchy at the end of each reporting period.

2.2 Initial application of an International Financial Reporting Standard and International Financial Reporting Standards in Issue but not yet effective

Initial application of an International Financial Reporting Standard

In the current year, the company has applied the following:

The June 2011 Amendments to IAS 1, Presentation of Items of Other Comprehensive Income applicable for annual periods beginning on or after 1 July 2012 (with earlier application being permitted). These Amendments require companies to group together items of other comprehensive income into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. These Amendments also introduce new terminology, which is not mandatory, for the income statement and the statement of comprehensive income. The IAS 1 Amendments have been applied retrospectively.

2. Summary of significant accounting policies (continued)

2.2 Initial application of an International Financial Reporting Standard and International Financial Reporting Standards in Issue but not yet effective (continued)

Initial application of an International Financial Reporting Standard (continued)

The December 2011 Amendments to IFRS 7, Disclosures – Offsetting Financial Assets and Financial Liabilities applicable for annual periods beginning on or after 1 January 2013 (with earlier application being permitted). The Amendments include additional disclosures for (i) all recognised financial instruments that are set off in accordance with IAS 32 and for (ii) recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether these are set off in accordance with IAS 32. These Amendments are applied retrospectively.

The IAS 1 Amendment resulting from the May 2012 Annual Improvements to IFRSs 2009 – 2011 Cycle. The Amendment is applicable for annual periods beginning on or after 1 January 2013 (with earlier application being permitted). The Amendment is applied retrospectively. In accordance with this Amendment, the previous requirement to disclose the related notes to the third statement of financial position is no longer required to the extent that the disclosures in IAS 8 are provided. This relief is not available when additional comparative information is provided on a voluntary basis.

IFRS 13 Fair Value Measurement, applicable for annual periods beginning on or after 1 January 2013 (with earlier application being permitted). IFRS 13 defines fair value, establishes a single source of guidance for fair value measurements and requires disclosures about fair value measurements. IFRS 13 requires prospective application. In accordance with the transitional provisions set out in the Standard, entities need not apply the disclosure requirements in comparative information provided for periods before the initial application of the Standard. Consequently, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period. The application of IFRS 13 in the current year has resulted in the financial statements incorporating the additional disclosures that are required by the Standard for certain financial and/or non-financial items.

International Financial Reporting Standards in Issue but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

The mandatory effective date of IFRS 9 Financial Instruments was removed from 1 January 2015 by virtue of the November 2013 amendment to provide sufficient time for preparers of financial statements to make the transition to the new requirements. A new date will be decided upon when the entire IFRS 9 project is closer to completion. This Standard represents the completion of the classification and measurement part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This Standard addresses the classification and measurement of certain financial assets and financial liabilities. IFRS 9 requires financial assets that fall within its scope to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Standard requires financial assets to be subsequently measured at amortised cost or at fair value. The new requirements in relation to financial liabilities address the problem of volatility in profit or loss arising from an issuer that measures its own debt at fair value.

2. Summary of significant accounting policies (continued)

2.2 Initial application of an International Financial Reporting Standard and International Financial Reporting Standards in Issue but not yet effective (continued)

International Financial Reporting Standards in Issue but not yet effective (continued)

The November 2013 amendments (i) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; (ii) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and (iii) remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

The directors anticipate that the adoption of International Financial Reporting Standards that were in issue at the date of authorisation of these financial statements, but not yet effective, will have no material impact on the financial statements of the company in the period of initial application.

2.3 Functional and presentation currency

The financial statements are presented in Euro, which currency represents the functional currency of the Bank.

2.4 Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to Euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euro at foreign exchange rates ruling at the date the fair value was determined.

2.5 Financial assets

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

2. Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

2.5.1 Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking after initial recognition, financial assets at fair value through profit and loss are measured at their fair value. Gains and losses arising from a change in fair value are recognised in profit or loss in the period in which they arise.

2.5.2 Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that upon initial recognition are designated as at fair value through profit or loss, those that are designated as available-for-sale financial assets and those that meet the definition of loans and receivables are classified as held-to-maturity investments.

After initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process.

When applying the effective interest method, the annual amortisation of any discount or premium is aggregated with other investment income receivable over the term of the instrument, if any, so that the revenue recognised in each period represents a constant yield on the investment.

2.5.3 Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are either designated in this category by the Bank or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at their fair value. Gains and losses arising from a change in fair value are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest method is recognised in profit or loss.

2.5 Financial assets (continued)

2.5.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the company may not recover substantially all of its initial investment other than because of credit deterioration.

2.5.5 Impairment

All assets are tested for impairment except for financial assets measured at fair value through profit or loss and deferred tax assets.

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

In the case of financial assets that are either carried at amortised cost or classified as available-for-sale investments, objective evidence of impairment includes observable data about the following loss event – significant financial difficulty of the issuer or counterparty.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

For loans and receivables or held-to maturity investments, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through an allowance account, but so that the reversal does not result in a carrying amount that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative impairment loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment and is measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

2. Summary of significant accounting policies (continued)

2.6 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and the definitions of a financial liability and an equity instrument.

Financial liabilities are initially measured at fair value plus, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to their issue. Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss, which are measured at fair value.

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and those designated at fair value through profit or loss upon initial recognition. During the current period the Bank did not designate any financial liabilities as at fair value through profit or loss upon initial recognition.

Financial liabilities that are measured at amortised cost using the effective interest method include amounts owed to customers. The gain or loss on financial liabilities classified as at fair value through profit or loss is recognised in profit or loss.

For financial liabilities carried at amortised cost, the gain or loss is recognised in profit or loss when the financial liability is derecognised and through the amortisation process whereby any difference between the proceeds net of transaction costs, and the settlement or redemption is recognised over the term of the financial liability.

Equity instruments are recorded at the proceeds received, net of direct issue costs.

2.7 Recognition, de-recognition and offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument.

All purchases and sales of securities are recognised and derecognised on trade date, which is the date the Bank becomes party to the contract.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the Bank transfers the financial asset and the transfer qualifies for derecognition. A financial liability is derecognised when it is extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2. Summary of significant accounting policies (continued)

2.8 Classification of financial assets and financial liabilities at fair value through profit or loss upon initial recognition

The Bank considers the statement of comprehensive income to be the primary report of performance within the annual financial statements and ensures that, as far as practicable, all aspects of its performance are wholly and fairly reflected in profit or loss.

Financial assets and liabilities are designated at fair value through profit or loss on initial recognition where such designation results in more relevant information because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

- a group of financial assets, financial liabilities or both, is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management and investment strategy, and information about the group is provided internally on that basis to key management personnel, including the Board of Directors.

2.9 Property, plant and equipment

Property, plant and equipment are classified into the following class – office furniture and fittings.

Property, plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount 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. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from de-recognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of de-recognition.

Tangible assets are stated at cost less any accumulated depreciation and any accumulated impairment losses.

2.10 Depreciation

Depreciation on property, plant and equipment commences when these assets are available for use and are charged to profit or loss so as to write off the cost of assets, less any estimated residual value, over their estimated useful life, using the straight line method, on the following bases:

Office furniture and fittings 10% per annum
Computers, hardware and peripherals 33% per annum

The depreciation method applied, the residual value and the useful life are reviewed at the end of each reporting period.

2. Summary of significant accounting policies (continued)

2.11 Impairment of property, plant and equipment

At the end of each reporting period the Bank reviews the carrying amount of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount, as calculated. The recoverable amount is the higher of fair value less costs to sell and value in use.

An impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the loss is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus for that asset. An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment reversals are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the impairment reversal is recognised in other comprehensive income, unless an impairment loss on the same asset was previously recognised in profit or loss.

2.12 Intangible assets

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Expenditure on an intangible asset is recognised as an expense in the period when it is incurred unless it forms part of the cost of the asset that meets the recognition criteria.

The useful life of intangible assets is assessed to determine whether it is finite or indefinite. Intangible assets with a finite useful life are amortised. Amortisation is charged to profit or loss so as to write off the cost of the intangible asset less any estimated residual value, over their estimated useful lives. The amortisation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from de-recognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of de-recognition. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the company's development of software is recognised only if all of the following can be demonstrated by the company:

- the technical feasibility, the availability of resources and the intention and ability of completing the asset so that it will be available for use or sale,
- available for use or sale,
- how the asset will generate probable future economic benefits, and
- the ability to measure reliably the expenditure attributable to the asset during its development.

2. Summary of significant accounting policies (continued

2.12 Intangible assets (continued)

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. After initial recognition, internally-generated intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally-generated intangible assets are amortised on a straight-line basis over their estimated useful lives from the date when they become available for use, which is generally assumed to be five years.

2.13 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

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. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset 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. Contingent assets are not recognised. Contingent assets are disclosed where an inflow of economic benefits is probable.

2.14 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity, in which case it is also dealt with in the statement of comprehensive income or in equity as appropriate.

2. Summary of significant accounting policies (continued)

2.14 Taxation (continued)

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax assets and liabilities are offset when the Bank has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset when the Bank has a legally enforceable right to set off its current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.15 Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Bank and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to that instrument's net carrying amount. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the instrument but not future credit losses. The calculation includes payments and receipts that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums.

Fees and commissions that are earned on the execution of a significant act are recognised as revenue when the significant act has been completed. Fees and commissions that are earned as services are provided to the customer are recognised as revenue as the services are provided. Where fees are charged to cover the cost of a continuing service, these are recognised on an appropriate basis over the relevant period.

2. Summary of significant accounting policies (continued)

2.16 Employee benefits

The Bank contributes towards the state pension in accordance with local legislation. The only obligation of the Bank is to make the required contributions. Costs are expensed in the period in which they are incurred.

2.17 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand or with a contractual period to maturity of less than 90 days; advances to banks repayable within 90 days from the date of the advance; balances with the Central Bank of Malta, excluding reserve deposit requirements and treasury bills with an original maturity of less than 90 days. Amounts owed to banks that are repayable on demand or with a contractual period to maturity of less than 90 days and which form an integral part of the Bank's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

2.18 Dividends payable

Dividends payable on ordinary shares are recognised as liabilities on the date they are declared.

2.19 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases. Lease classification is made at the inception of the lease, which is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

Rentals payable under operating leases, less the aggregate benefit of incentives received from the lessor, are recognised as an expense in profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

3. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In the process of applying the Bank's accounting policies, management has made no judgements which can significantly affect the amounts recognised in the financial statements and, at the end of the reporting period, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. Interest income

	2013 EUR	2012 EUR
On bank deposits	**1,134**	6,311
On debt and other fixed income instruments		
-available for sale	**95,737**	16,748
-held-to-maturity	**450,116**	202,691
-fair value through profit or loss	**-**	38,572
	545,853	258,011
Amortisation of discounts and premium		
-available for sale	**(8,627)**	-
-held-to-maturity	**(62,427)**	-
	(71,054)	-
	475,933	264,322

5. Interest expense

	2013 EUR	2012 EUR
On amounts owed to banks	**-**	27
On amounts owed to customers	**332,083**	25,966
	332,083	25,993

6. Fee and commission expense

	2013 EUR	2012 EUR
On loans and advances, sale of financial products and similar activities	**14,162**	3,053

7. Trading income

	2013 EUR	2012 EUR
Fair value movements and net gains on sale of financial instruments at fair value through profit or loss	**274,754**	178,949

8. Net gain arising from derecognition of financial assets measured at amortised cost

During the year two bonds which had been classified as held-to-maturity were restructured by the issuer as a result of which the original bonds were derecognised and a gain of €144,636 was recognised upon sale of such bonds. This disposal was not deemed to have tainted the held-to-maturity investment class.

During the prior year a bond which had been classified as held-to-maturity was restructured as a result of which the original bond was derecognised and a gain of €76,878 was recognised with reference to the fair value of the new bonds issued by way of the restructuring and designated as a FVTPL investment. The exchange between the old bonds and the new bonds was not deemed to have tainted the held-to-maturity investment class.

9. Employee compensation and benefits

9.1 Key management personnel compensation

	2013 EUR	2012 EUR
Short-term benefits		
Directors' emoluments:		
- Directors' fees	**32,000**	23,602
- Directors' remuneration	**46,296**	92,051
	78,296	115,653

9.2 Personnel expenses incurred during the year are analysed as follows:

	2013 EUR	2012 EUR
Wages and salaries	**453,625**	327,543
Social security costs	**15,443**	10,798
	469,068	338,341

9.3 The average number of persons employed during the year including the executive director was as follows:

	2013 No.	2012 No.
Managerial	**4**	4
Other	**5**	2
	9	6

10. Loss before tax

Loss before tax is stated after charging:

	2013	2012
	EUR	EUR
Total remuneration payable to the Bank's auditors for:		
- the audit of the financial statements	**9,500**	9,500
- total fees payable to the company's auditor for non-audit services other than other assurance services and tax advisory services	**9,688**	6,619
	19,188	16,119

11. Income tax credit

	2013	2012
	EUR	EUR
Deferred tax credit	**212,003**	96,940

Tax applying the statutory domestic income tax rate and the income tax expense for the year are reconciled as follows:

	2013	2012
	EUR	EUR
Loss before tax	**603,501**	276,569
Tax at the applicable rate of 35%	**211,225**	96,800
Tax effect of:		
Amount in respect of prior year	**778**	140
Total income tax credit	**212,003**	96,940

12. Operating leases

The Bank recognised minimum lease payments under operating leases amounting to EUR 39,086 (2012 – EUR 24,524) as an expense for the year.

Operating lease payments represent rentals payable by the Bank for the use of office premises. The Bank's lease agreement provides for the rental of office premises for three years extendable for a further two years at the lessee's option. The lease agreement is cancellable upon the payment of a penalty equal to one year's rent.

13. Financial assets at fair value through profit or loss

	2013 EUR	2012 EUR
Debt and other fixed income instruments		
Issued by public bodies:		
- foreign government	**599,743**	-
Issued by other issuers:		
- foreign other	**-**	937,081
	599,743	937,081
Listing status		
- foreign listed	**599,743**	937,081
	599,743	937,081
Summary of movements during the year:		
At the beginning of the year	**937,081**	2,362,723
Acquisitions	**602,540**	936,948
Disposals	**(871,167)**	(2,391,539)
Matured	**(65,914)**	(150,000)
Movement in fair value	**(2,797)**	178,949
At the end of the year	**599,743**	937,081

Financial assets are designated at fair value through profit or loss on initial recognition where such designation results in more relevant information because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or recognising the gains and losses on them on different bases; or

- a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management and investment strategy, and information about the position is provided internally on that basis to key management personnel, including the Board of Directors and Chief Executive Officer.

14. Investments

	2013 EUR	2012 EUR
Debt and other fixed income instruments:		
- available-for-sale	**7,425,467**	743,340
- held-to-maturity	**8,417,919**	6,290,027
	15,843,386	7,033,367

14.1 Debt and other fixed income instruments available-for-sale

	2013 EUR	2012 EUR
Issued by other issuers:		
- foreign other	**7,425,467**	743,340
	7,425,467	743,340
Listing status		
- foreign listed	**7,425,467**	743,340
	7,425,467	743,340
Summary of movements during the year:		
At the beginning of the year	**743,340**	-
Acquisitions	**8,335,243**	680,000
Disposals	**(1,779,483)**	-
Amortisation	**18,829**	8,117
Movement in fair value	**107,538**	55,223
At the end of the year	**7,425,467**	743,340

14. Investments (continued)

14.2 Debt and other fixed income instruments held-to-maturity

	2013 EUR	2012 EUR
Issued by other issuers:		
- foreign other	**8,417,919**	6,290,027
	8,417,919	6,290,027
Listing status		
- foreign listed	**8,417,919**	5,277,604
- foreign unlisted	**-**	1,012,423
	8,417,919	6,290,027
Summary of movements during the year:		
At the beginning of the year	**6,290,027**	-
Acquisitions	**4,292,500**	7,175,344
Disposals	**(2,114,124)**	-
Redemptions	**-**	(892,376)
Amortisation of premium/discount	**(50,484)**	7,059
At the end of the year	**8,417,919**	6,290,027

At 31 December 2013 the fair value of held-to-maturity securities amounted to €8,571,540 (2012: €6,477,600.)

15. Property, plant and equipment

	Furniture and fittings EUR	Computers, hardware and peripherals EUR	Total EUR
Cost			
At 1 Jan 2012	2,006	-	2,006
Additions	69,706	24,379	94,085
At 1 January 2013	71,712	24,379	96,091
Additions	6,461	5,304	11,765
At 31 December 2013	78,173	29,683	107,856
Depreciation			
At 1 January 2012	-	-	-
Charge for the year	9,311	5,922	15,233
At 1 January 2013	9,311	5,922	15,233
Charge for the year	14,980	9,343	24,323
At 31 December 2013	24,291	15,265	39,556
Carrying amount			
At 31 December 2012	62,401	18,457	80,858
At 31 December 2013	**53,882**	**14,418**	**68,300**

16. Intangible assets

	Software EUR
Cost	
At 1 January 2012	-
Additions	16,620
At 1 January 2013	16,620
Additions	125,299
At 31 December 2013	141,919
Amortisation	
At 1 January 2012	-
Charge for the year	2,320
At 1 January 2013	2,320
Charge for the year	4,786
At 31 December 2013	7,106
Carrying amount	
At 31 December 2012	14,300
At 31 December 2013	**134,813**

17. Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash in hand and deposits held at call with banks.

	2013 EUR	2012 EUR
Repayable on call and at short notice	**7,722,037**	828,693
Cash in hand	**16**	694
	7,722,053	829,387

18. Deferred tax assets/(liabilities)

Recognised deferred tax assets/(liabilities)

Deferred tax assets/(liabilities) are attributable to the following:

	2013 EUR	2012 EUR
Tax value of losses and capital allowances carry-forwards	**366,952**	154,949
Fair value re-measurement of financial instruments	**(37,637)**	(19,328)
	329,315	135,621

The following is an analysis of the deferred tax balances:

	2013 EUR	2012 EUR
Deferred tax liabilities	**(37,637)**	(19,328)
Deferred tax assets	**366,952**	154,949
	329,315	135,621

19. Prepayments and accrued income

	2013 EUR	2012 EUR
Accrued income	**291,673**	191,339
Prepayments	**1,819**	23,931
	293,492	215,270

20. Amounts owed to customers

	2013 EUR	2012 EUR
Term deposits	**16,206,021**	2,487,906

21. Trade and other payables

	2013 EUR	2012 EUR
Trade payables	139,308	-
Interest payable	182,825	12,466
Accrued expenses	149,858	30,080
	471,991	42,546

22. Share capital

	2013 and 2012 No. of shares	2013 and 2012 EUR
Authorised:		
Ordinary shares at €1 each	20,000,000	20,000,000
Issued and paid up:		
Ordinary shares at €1 each fully paid	8,000,000	7,000,000

The holders of ordinary 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.

On 17 March 2013 the issued share capital was increased by €1,000,000. The €1,000,000 increase in issued and called up share capital was effected via cash.

23. Related parties

Related party transactions during the year were as follows:

	2013 EUR	2013 Total EUR	2013 % of total
Interest expense on deposits	835	332,083	-
Balances with related parties			
Other assets	31,646	64,617	49
Deposits from customers	10,000	16,206,021	-
Accrued interest on deposits from customers	-	322,083	-
Compensation to key management personnel			
Directors' fees	32,000	32,000	100
Personnel expenses	46,296	469,068	10

23. Related parties (continued)

	2012 EUR	2012 Total EUR	2012 % of total
Interest expense on deposits	2,269	25,993	9

Balances with related parties			
Other assets	8,316	18,874	44
Deposits from customers	61,261	2,487,906	2
Accrued interest on deposits from customers	692	12,466	6

Compensation to key management personnel			
Directors' fee	23,602	23,602	100
Personnel expenses	92,051	338,341	27

No expense has been recognised in the year for bad and doubtful debts in respect of amounts due from related parties and there are no provisions for doubtful debts in respect of outstanding amounts due by related parties (2012: Eur Nil).

The immediate and ultimate parent company of the Bank is Gramercy Match Trust and the ultimate controlling party is Timothy Charles Babich.

24. Fair values of financial assets and financial liabilities

At 31 December 2013 and 2012 the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively approximated their fair values due to the short term maturities of these assets and liabilities.

The fair values of non-current financial assets and non-current financial liabilities that are not measured at fair value are not materially different from their carrying amounts.

The fair values of held-to-maturity investments amounted to EUR8,571,540 at the end of the reporting period (2012 – EUR6,477,600).

24. Fair values of financial assets and financial liabilities (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3.

	Level 1	Level 2	Level3	Total
	EUR	EUR	EUR	EUR
2013				
Financial assets at fair value Through profit or loss				
-foreign listed debt instruments	599,743	-	-	599,743
	599,743	-	-	599,743
Available-for-sale investments				
-foreign listed debt instruments	7,425,467	-	-	7,425,467
	7,425,467	-	-	7,425,467
Total	**8,025,210**	-	-	**8,025,210**
2012				
Financial assets at fair value Through profit or loss				
-local listed debt instruments	-	-	-	-
-foreign listed debt instruments	937,081	-	-	937,081
Available-for-sale investments				
-foreign listed debt instruments	743,340	-	-	743,340
	743,340	-	-	743,340
Total	**1,680,421**	-	-	**1,680,421**

24. Fair values of financial assets and financial liabilities (continued)

The following table provides an analysis of financial instruments that are not measured subsequent to initial recognition at fair value, other than those with carrying amounts that are reasonable approximations of fair value, grouped into Levels 1 to 3.

	Level 1	Level 2	Level 3	Total
	EUR	EUR	EUR	EUR
2013				
Held to maturity investments				
-foreign listed debt instruments	8,417,919	-	-	8,417,919
	8,417,919	-	-	**8,417,919**
2012				
Held to maturity investments				
-foreign listed debt instruments	5,277,604	-	-	5,277,604
-foreign unlisted debt instruments	-	1,012,423	-	1,012,423
	5,277,604	1,012,423	-	6,290,027

25. Financial risk management

25.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- *Credit risk:* Credit risk stems from the possible non-prompt repayment or non-payment of existing and contingent obligations by the Bank's counterparties, resulting in the loss of equity and profit, as well as risk that 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 from which the asset originates. 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:
(1) Market (product) liquidity risk: Risk of losses arising from difficulty in accessing a product or market at the required time, price and amount.
(2) 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.

25. Financial risk management (continued)

25.1 Introduction and overview (continued)

- *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, the 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's approach to management of credit, market and liquidity risks is addressed in this note.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

25.2 Credit risk management

In order to minimise the credit risk undertaken, counterparty credit limits are defined with respect to investment activities, which limits consider a counterparty's creditworthiness, the value of collateral and guarantees pledged, which can reduce the overall credit risk exposure, as well as the type and the duration of the credit asset. In order to examine a counterparty's creditworthiness, country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates are considered. The Board of Directors has the final say in the approval process of new and existing assets or credit facilities.

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved regularly by the Board of Directors.

The Bank's main exposures to credit risk on financial instruments can be classified in the following categories:

- Financial assets recognised on-balance sheet and cash at bank. The maximum exposure to credit risk of these financial assets equals their carrying amount.

25. Financial risk management (continued)

25.2 Credit risk management (continued)

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

	2013	2012
	EUR	EUR
Financial assets at fair value through profit or loss	**599,743**	937,081
Available-for sale investments	**7,425,467**	743,340
Held-to-maturity investments	**8,417,919**	6,290,027
Cash at bank	**7,722,053**	828,693
	24,165,182	8,799,141

Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector, industry and by geographical location. An analysis of concentrations of credit risk at the reporting date is shown below:

	2013	2012
	EUR	EUR
Concentration by sector		
Monetary financial institutions	**7,722,053**	828,693
Other financial institutions	-	743,340
General Government	**599,743**	-
Corporate	**15,843,386**	7,227,108
	24,165,182	8,799,141

25. Financial risk management (continued)

25.2 Credit risk management (continued)

Concentrations of credit risk (continued)

Exposures analysed by location

As at 31 December 2013

	North America EUR	**Europe EUR**	**Total EUR**
General Government	-	6,393,160	**6,393,160**
Monetary financial institutions	-	1,928,636	**1,928,636**
Corporate	2,103,938	13,739,448	**15,843,386**
Total	**2,103,938**	**22,061,244**	**24,165,182**

As at 31 December 2012

	North America EUR	Europe EUR	Total EUR
Monetary financial institutions	-	828,693	828,693
Other financial institutions	-	743,340	743,340
Corporate	1,007,388	6,219,720	7,227,108
Total	1,007,388	7,791,753	8,799,141

The bank had no exposures to Greece, Ireland, Portugal, Spain and Cyprus economies as at year end (2012 – nil exposures to the said economies).

Asset quality

The Bank assigns risk weights to the credit risk of the investments portfolio in accordance with the rating assigned by Fitch, Moody's and S&P, all of which are MFSA eligible External Credit Assessment Institutions (ECAIs), in accordance with article 3.9 of Appendix 2 – Section 1.4 Credit Risk Standardised Approach – BR 04.

The credit quality of the securities as determined by the nominated ECAIs is as follows:

	2013 EUR	2012 EUR
AAA	**599,743**	-
BBB-	-	1,680,421
BB+ or lower	**15,843,386**	5,277,604
Unrated	-	1,012,423
Total	**16,443,129**	7,970,448

Cash at bank is placed with reliable financial institutions rated BBB and higher.

25. Financial risk management (continued)

25.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity risk management

The Bank monitors and manages this risk by maintaining sufficient cash and, where possible, financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs. The Bank is exposed to calls on its available cash resources from maturing term deposits. In order to ensure that maturing funds are always available to meet expected demand for cash, the Board sets parameters within which maturities of assets and liabilities may be mismatched. Unmatched positions potentially enhance profitability, but also increase the risk of losses. In addition, the Bank manages its risk to a shortage of funds by monitoring forecast and actual cash flows, by monitoring the availability of raising funds to meet commitments associated with financial instruments and by holding financial assets which are expected to generate cash inflows that will be available to meet cash outflows on liabilities.

The key measure used by the Bank for managing liquidity risk is the same calculation used to measure the Bank's compliance with the liquidity limit established by the Malta Financial Services Authority, that is, the ratio of net liquid assets to deposits from customers and banks. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market whereas eligible deposits include deposits from banks and other borrowings excluding intra-group borrowings with less than seven days term to maturity and deposits from customers with three months or less remaining term to maturity. As at both 31 December 2013 and 31 December 2012, the Bank's liquidity ratio was significantly above the regulatory liquidity ratio of 30% prescribed by Banking Rule 5.

The table below analyses the Bank's financial liabilities into relevant maturity groupings, based on the remaining period at the reporting date to the contractual maturity date.

As at 31 December 2013	Carrying amount EUR	Gross outflow EUR	Less than 1 month EUR	1 to 3 months EUR	3 months to 1 year EUR	1 to 5 years EUR
Deposits from customers	(16,206,021)	(18,994,727)	(29,581)	(193,917)	(2,157,035)	(16,614,194)
As at 31 December 2012						
Deposits from customers	(2,487,906)	(2,796,524)	(54,812)	(11,346)	(1,298,310)	(1,432,056)

Assets available to meet these liabilities, and to cover outstanding commitments, include cash at bank and marketable securities.

The table below analyses the principal assets and liabilities that are recognised in the statement of financial position into relevant maturity groupings, based on the remaining period at balance sheet date to their contractual maturity date.

25. Financial risk management (continued)

25.3 Liquidity risk (continued)

	Less than 3 months	Between 3 months and a year	Between 1 and 5 years	Over 5 years	Total
	EUR	EUR	EUR	EUR	EUR
As at 31 December 2013					
Assets					
Financial assets at fair value through profit or loss	599,743	-	-	-	599,743
Available-for-sale investments	-	-	3,349,037	4,076,430	7,425,467
Held-to-maturity investments	-	-	3,155,248	5,262,671	8,417,919
Cash and cash equivalents	7,722,053	-	-	-	7,722,053
	9,337,516	-	6,504,285	5,077,187	24,165,182
Liabilities					
Amounts owed to customers	223,471	2,029,666	13,952,884	-	16,206,021
As at 31 December 2012					
Assets					
Financial assets at fair value through profit or loss	-	-	-	937,081	937,081
Available-for-sale investments	-	-	-	743,340	743,340
Held-to-maturity investments	-	-	2,114,124	4,175,903	6,290,027
Cash and cash equivalents	829,387	-	-	-	829,387
	829,387	-	2,114,124	5,856,324	8,799,835
Liabilities					
Amounts owed to customers	53,517	1,265,435	1,168,954	-	2,487,906

25. Financial risk management (continued)

25.4 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Exposure to interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in different amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands.

The following table sets out the carrying amount, by reference to the earlier of the next contractual interest rate re-pricing date and maturity of interest bearing financial instruments:

	Less than 3 months	Between 3 months and a year	Between 1 and 5 years	Over 5 years	Total
	EUR	EUR	EUR	EUR	EUR
As at 31 December 2013					
Assets					
Financial assets at fair value through profit or loss	599,743	-	-	-	599,743
Available-for-sale investments	1,008,500	-	2,340,537	4,076,430	7,425,467
Held-to-maturity investments	-	-	3,155,248	5,262,671	8,417,919
Cash and cash equivalents	7,722,053	-	-	-	7,722,053
	9,330,296	-	5,495,785	9,339,101	24,165,182
Liabilities					
Amounts owed to customers	223,471	2,029,666	13,952,884	-	16,206,021
	223,471	2,029,666	13,952,884	-	16,206,021
Gap	9,106,825	(2,029,666)	(8,457,099)	9,339,101	
Cumulative gap	9,106,825	7,077,159	(1,379,940)	7,959,161	

25. Financial risk management (continued)

25.4 Market risk (continued)

Exposure to interest rate risk (continued)

	Less than 3 months	Between 3 months and a year	Between 1 and 5 years	Over 5 years	Total
	EUR	EUR	EUR	EUR	EUR
As at 31 December 2012					
Assets					
Financial assets at fair value through profit or loss	937,081	-	-	-	937,081
Available-for-sale investments	-	-	743,340	-	743,340
Held-to-maturity investments	-	-	2,114,124	4,175,903	6,290,027
Cash and cash equivalents	829,387	-	-	-	829,387
	1,766,468	-	2,857,464	4,175,903	8,799,835
Liabilities					
Amounts owed to customers	53,517	1,265,435	1,168,954	-	2,487,906
	53,517	1,265,435	1,168,954	-	2,487,906
Gap	**1,712,951**	**(1,265,435)**	**1,688,510**	**4,175,903**	
Cumulative gap	**1,712,951**	**447,516**	**2,136,026**	**6,311,929**	

At the end of the reporting period the interest rate profile of the Bank's interest bearing financial instruments is as follows:

	Rate Instruments Fixed	Variable
	EUR	EUR
As at 31 December 2013		
Interest earning assets		
Financial assets at fair value through profit and loss	599,743	-
Available-for-sale investments	6,416,967	1,008,500
Advances to banks	2,997,027	-
	10,013,737	1,008,500
Interest bearing liabilities		
Amounts owed to customers	16,206,021	-
	16,206,021	-

25. Financial risk management (continued)

25.4 Market risk (continued)

	Rate Instruments Fixed EUR	Rate Instruments Variable EUR
As at 31 December 2012		
Interest earning assets		
Financial assets at fair value through profit and loss	-	937,081
Available-for-sale investments	-	743,340
	-	1,680,421
Interest bearing liabilities		
Amounts owed to customers	2,487,906	-
	2,487,906	-

For financial instruments held or issued, the Bank has used a sensitivity analysis technique that measures the change in the fair value and cash flows of the Bank's financial instruments at the end of the reporting period for hypothetical changes in the relevant market risk variables. The sensitivity due to changes in the relevant risk variables is set out below. The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analysis is for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

The net effect of an immediate 200 basis point increase/decrease in yields at the end of 2012 was estimated at €64,683 (€24,030 at the end of 2012).

Exposure to foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Board of Directors sets limits on the level of exposure by currency and in total.

The Bank was not exposed to currency risk through transactions in foreign currencies at the end of the reporting period.

Price risks

Price Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

25. Financial risk management (continued)

25.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

25.6 Capital risk management

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

- To comply with the capital requirements set by the Malta Financial Services Authority (MFSA) with respect to the Bank's operations;
- 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.

Accordingly, the purpose of the Bank's capital management is essentially that of ensuring efficient use of capital taking cognisance of the Bank's risk appetite and profile as well as its objectives for business development.

The Bank is subject to externally imposed capital requirements only in respect of the Bank's activities as a credit institution.

25. Financial risk management (continued)

25.6 Capital risk management (continued)

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives, as implemented by the MFSA for supervisory purposes. The Bank's capital management is based on the regulatory requirements established by local laws and regulations which are modelled on the requisites of the European Union Directive on Capital Requirements ('CRD').

The CRD consists of three pillars: Pillar I contains a set of rules for a mathematical calculation of the capital requirement; Pillar II describes the supervisory review process and contains requirements for the internal calculation of the capital requirement whilst Pillar III deals with market discipline and sets forth disclosure requirements for risk and capital management. The sum of the capital requirement calculated under Pillar I and the additional requirement identified under Pillar II represents the total capital actually required under the CRD.

The following is an analysis of the Bank's Capital Base in accordance with the CRD's requirements:

	2013	2012
	EUR	EUR
Original own funds		
Ordinary shares	**8,000,000**	7,000,000
Accumulated losses	**(697,259)**	(305,761)
Depositor compensation reserve	**(10,697)**	-
Intangible assets	**(134,813)**	(14,300)
Total original own funds	**7,157,231**	6,679,939
Additional own funds		
Available-for-sale reserve	**69,901**	35,895
Total additional own funds	**69,901**	35,895
Total own funds	**7,227,132**	6,715,834

Minimum capital requirements are computed for credit, market and operational risks. The MFSA requires a bank to maintain a ratio of total regulatory capital to risk-weighted assets and instruments (the Capital requirements ratio) at or above the prescribed minimum of 8%. The Capital requirements ratio expresses own funds as a proportion of risk-weighted assets and off-balance sheet items in relation to Credit Risk together with notional risk-weighted assets in respect of Operational Risk and Market Risk.

25. Financial risk management (continued)

25.6 Capital risk management (continued)

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses. Risk-weighted assets are measured using the 'standardised approach' for credit risk with risk weights being assigned to assets and off-balance sheet items according to their asset class and credit assessment. For the determination of credit assessments, independent rating agencies are nominated as required.

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8 per cent) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

The capital adequacy ratio at 31 December 2013 stood at 29.9% (59.8% at 31 December 2012).

26. Contingent liability

The Bank has received a litigation claim from a former member of staff relating to alleged unfair dismissal. The Bank is of the opinion this claim will not succeed but in the unlikely event of the decision going against the Bank, any award is not thought to be material.

1. Risk management

1.1 Overview of risk disclosures

These disclosures have been prepared in accordance with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule 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 will be published by the Bank on an annual basis as part of the Annual Report. The Rule follows the disclosure requirements of the EU Directive 2006/48/EC; more specifically to the disclosure requirements of Chapter 5 of the Directive (Articles 145 to 149 – Disclosures by credit institutions) and Annex XII (Technical criteria on disclosure).

As per banking regulations, this report is not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements which adhere to International Financial Reporting Standards (IFRS) as adopted by the EU. The Bank is satisfied that internal verification procedures ensure that these Additional Regulatory Disclosures are presented fairly.

In accordance with the Bank's Pillar 3 disclosure policy which sets out the disclosure process, verification and frequency, this report is currently published once a year.

1.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank has in place a Credit and Risk Committee that are responsible for developing and monitoring the Bank's risk management policies in its specific areas. The aim of risk management is to create value for shareholders by supporting the Bank in achieving its goals and objectives, and ultimately ensuring that the risks are commensurate with the rewards.

The Bank considers risk management a core competency that helps produce consistently high returns for its various stakeholders. The Bank's business involves taking on risks in a targeted manner and managing them professionally. The Bank aims to manage all major types of risk by applying methods that meet best practice. The Bank considers it important to have a clear distribution of responsibilities within risk management. One of the main tasks of the Bank's executive management is to set the framework for this area. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

1.3 Key risk components

The Bank's Board of Directors is empowered to set out the overall risk policies and limits for all material risk types. The Board also decides on the general principles for managing and monitoring risks.

1. Risk management (continued)

1.3 Key risk components (continued)

To ensure coherence between the Bank's strategic considerations regarding risk-taking and day-to-day decisions, from time to time, the Bank establishes risk appetite as a strategic tool. Risk appetite is the maximum risk that the Bank is willing to assume to meet business targets. The Bank's 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.

In terms of MFSA Banking Rule 02: Large exposures of Credit Institutions authorised under the Banking Act, 1994, 'an exposure' is the amount at risk arising from the Bank's assets and off-balance sheet items.

The Bank has exposure to the following risks from its use of financial instruments:

- *Credit risk:* Credit risk stems from the possible non-prompt repayment or non-payment of existing and contingent obligations by the Bank's counterparties, resulting in the loss of equity and profit, as well as risk that 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 from which the asset originates. 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:* Market risk is the risk of reductions in earnings and/or asset values arising from unexpected changes in financial prices, including interest rates, exchange rates and equity prices. It is managed by a variety of different techniques.

- *Liquidity risk*: Liquidity risk may be divided into two sub-categories:
(1) Market (product) liquidity risk: Risk of losses arising from difficulty in accessing a product or market at the required time, price and amount.
(2) 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, the system or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks.

2. Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises from deposits with other banks and on its securities portfolio.

2. Credit risk (continued)

The Credit and Risk Committee is responsible for approving all acquisitions of securities and placements of deposits with banks. These decisions are based on the Bank's insight into the counterparty's financial position, which is regularly monitored and reported to the Board.

In order to minimise the credit risk undertaken, counterparty credit limits are defined, which consider a counterparty's creditworthiness. In order to examine a counterparty's creditworthiness, country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates are considered.

The Bank's cash is placed with high quality financial institutions. Credit risk in respect of concentration of investments is not considered by the directors to be significant in view of the credit standing of the issuers.

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical locations, industry sector or counterparty type. These risks are managed through adherence to Board approved investment criteria. As at 31 December 2013, no securities were deemed to be prohibited large exposures, prior to any eligible exemptions, in accordance with the requirements of the Banking Rule BR 02: Large Exposures of Credit Institutions authorised under the Banking Act, 1994.

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.

Exposures analysed by location

	Europe EUR	North America EUR	Total EUR
Central governments	6,393,160	-	**6,393,160**
Credit Institutions	1,928,636	-	**1,928,636**
Corporates	13,739,448	2,103,938	**15,843,386**
Other	699,635	56,089	**755,724**
Total	**22,760,879**	**2,160,027**	**24,920,906**

The bank had no exposures to Greece, Ireland, Portugal, Spain and Cyprus economies as at year end (2012 – nil exposures to the said economies).

2. Credit risk (continued)

Exposures analysed by residual maturity

	Less than one year	Over 1 but less than 5 years	Over 5 years	Total
	EUR	EUR		EUR
Central governments	6,393,160	-	-	**6,393,160**
Credit institutions	1,928,636	-	-	**1,928,636**
Corporates	4,253,294	6,512,905	5,077,187	**15,843,386**
Other items	755,724	-	-	**755,724**
Total	**13,330,814**	**6,512,905**	**5,077,187**	**24,920,906**

Exposures analysed by sector

	General governments	Monetary financial institutions	Corporates	Other	Total
	EUR	EUR	EUR	EUR	EUR
Central governments	6,393,160				6,393,160
Credit Institutions		1,928,636			1,928,636
Corporates			15,843,386		15,843,386
Other	3,495		288,178	464,051	755,724
Total	6,396,655	1,928,636	16,131,564	464,051	24,920,906

Asset quality

The Bank assigns risk weights to the credit risk of the investments portfolio in accordance with the rating assigned by Fitch, Moody's and S&P, all of which are MFSA eligible External Credit Assessment Institutions (ECAIs), in accordance with article 3.9 of Appendix 2 – Section 1.4 Credit Risk Standardised Approach – BR 04.

2. Credit risk (continued)

The credit quality of the securities as determined by the nominated ECAIs is as follows:

	Credit Quality Step 1	Credit Quality Step 2	Credit Quality Step 3	Credit Quality Step 4	Credit Quality Step 5	Credit Quality Step 6	Unrated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Central governments	599,743	-	5,793,417	-	-	-	-	**6,393,160**
Credit Institutions	-	493,596	1,435,040	-	-	-	-	**1,928,636**
Corporates	-	-	-	-	15,843,386	-	-	**15,843,386**
Other	-	-	-	-	-	-	755,724	**755,724**
Total	**599,743**	**493,596**	**7,228,457**	**-**	**15,843,386**	**-**	**755,724**	**24,920,906**

3. Market risk

Market risk for the Bank consists of three elements:

- Interest rate risk, which is the risk of losses through changes in interest rates;
- Currency risk, which is the risk of losses on the Bank's positions in foreign currency through changes in exchange rates; and
- Price 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 (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

3.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or at different amounts. The Bank places deposits with Banks at both fixed and floating rates and for varying maturity periods. This risk is managed through the matching of the interest resetting dates on assets and liabilities as much as it is practicable. However, the Bank seeks to manage its net interest spread, over considering the cost of capital by investing funds in a portfolio of securities with a longer tenure than the liabilities (therefore carrying a negative maturity gap position) through the effective management of shorter term liabilities over the medium to longer term.

3. Market risk (continued)

3.1 Interest rate risk (continued)

The net effect of an immediate 200 basis point increase/decrease in yields at the end of 2012 was estimated at €64,683 (€24,030 at the end of 2012).

At the end of the reporting period the interest rate profile of the Bank's interest bearing financial instruments is as follows:

	Rate Instruments Fixed EUR	Variable EUR
As at 31 December 2013		
Interest earning assets		
Financial assets at fair value through profit and loss	599,743	-
Available-for-sale investments	6,416,967	1,008,500
Advances to banks	2,997,027	-
	10,013,737	1,008,500
Interest bearing liabilities		
Amounts owed to customers	16,206,021	-
	16,206,021	-

The following table sets out the carrying amount, by reference to the earlier of the next contractual interest rate repricing date and maturity:

	Less than 3 months EUR	Between 3 months and a year EUR	Between 1 and 5 years EUR	Over 5 years EUR	Total EUR
As at 31 December 2013					
Assets					
Financial assets at fair value through profit or loss	599,743	-	-	-	599,743
Available-for-sale investments	1,008,500	-	2,340,537	4,076,430	7,425,467
Held-to-maturity investments	-	-	3,155,248	5,262,671	8,417,919
Cash and cash equivalents	7,722,053	-	-	-	7,722,053
	9,330,296	-	5,495,785	9,339,101	24,165,182
Liabilities					
Amounts owed to customers	223,471	2,029,666	13,952,884	-	16,206,021
	223,471	2,029,666	13,952,884	-	16,206,021
Gap	9,106,825	(2,029,666)	(8,457,099)	9,339,101	
Cumulative gap	9,106,825	7,077,159	(1,379,940)	7,959,161	

3. Market risk (continued)

3.2 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Board of Directors sets limits on the level of exposure by currency and in total.

The Bank was not exposed to currency risk through transactions in foreign currencies at the end of the reporting period.

4. Liquidity risk

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

Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. It is the Bank's objective to maintain a diversified and stable funding base with the objective of enabling the Bank to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank manages this risk by ensuring that its assets and liabilities are matched in terms of maturities as much as is practicable. The Bank holds significant liquid assets in the form of cash and covered bonds. In order to ensure that maturing funds are always available to meet unexpected demand for cash, the Board sets parameters within which maturities of assets and liabilities may be mismatched. Unmatched positions potentially enhance profitability, but also increase the risk of losses. The Board of Directors monitors the Bank's Liquidity Gap analysis on a monthly basis. In addition, it maintains an on-going oversight of forecast and actual cash flows, by monitoring the availability of funds to meet commitments associated with financial instruments.

4. Liquidity risk (continued)

The table below analyses Bank financial liabilities into relevant maturity groupings, based on the remaining period at the reporting date to the contractual maturity date.

	Less than 3 months	Between 3 months and a year	Between 1 and 5 years	Over 5 years	Total
	EUR	EUR	EUR	EUR	EUR
As at 31 December 2013					
Assets					
Financial assets at fair value through profit or loss	599,743	-	-	-	599,743
Available-for-sale investments	-	-	3,349,037	4,076,430	7,425,467
Held-to-maturity investments	-	-	3,155,248	5,262,671	8,417,919
Cash and cash equivalents	7,722,053	-	-	-	7,722,053
	9,337,516	-	6,504,285	5,077,187	24,165,182
Liabilities					
Amounts owed to customers	223,471	2,029,666	13,952,884	-	16,206,021

Assets available to meet these liabilities, and to cover outstanding commitments, include cash at bank and marketable securities.

5. Operational risk

Operational risk is the risk of direct or indirect losses arising from a variety of causes associated with the Bank's processes such as:
- deficient or erroneous internal procedures
- human or system errors
- external events, including legal events
- internal and external fraud
- employment practices and workplace safety
- clients, products and business practices
- damage to physical assets
- business disruption and system failures
- execution, delivery and process management

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

Operational risks are, thus, non-financial risks. Operational risk management relies on a framework of policies overseen by the Board of Directors.

5. Operational risk (continued)

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

A financial measurement of this risk is arrived at by the Bank for the purpose of allocating risk capital using the Basic Indicator Approach under the CRD rules. The capital requirement for operational risk under this method was calculated at €24,078.

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

- To comply with the capital requirements set by the Malta Financial Services Authority (MFSA) with respect to the Bank's operations;
- 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.

Accordingly, the purpose of the Bank's capital management is essentially that of ensuring efficient use of capital taking cognisance of the Bank's risk appetite and profile as well as its objectives for business development.

6. Capital management

6.1 Capital adequacy

The Bank is subject to externally imposed capital requirements only in respect of the Bank's activities as a credit institution.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives, as implemented by the MFSA for supervisory purposes. The Bank's capital management is based on the regulatory requirements established by local laws and regulations which are modelled on the requisites of the European Union Directive on Capital Requirements ('CRD'). The CRD consists of three pillars: Pillar I contains a set of rules for a mathematical calculation of the capital requirement; Pillar II describes the supervisory review process and contains requirements for the internal calculation of the capital requirement whilst Pillar III deals with market discipline and sets forth disclosure requirements for risk and capital management. The sum of the capital requirement calculated under Pillar I and the additional requirement identified under Pillar II represents the total capital actually required under the CRD.

6. Capital management (continued

6.1 Capital adequacy (continued)

The following is an analysis of the Bank's Capital Base in accordance with the CRD's requirements:

	2013 EUR	2012 EUR
Original own funds		
Ordinary shares	**8,000,000**	7,000,000
Accumulated losses	**(697,259)**	(305,761)
Depositor compensation reserve	**(10,697)**	-
Intangible assets	**(134,813)**	(14,300)
Total original own funds	**7,157,231**	6,679,939
Additional own funds		
Available-for-sale reserve	**69,901**	35,895
Total additional own funds	**69,901**	35,895
Total own funds	**7,227,132**	6,715,834

Minimum capital requirements are computed for credit, market and operational risks. The MFSA requires a bank to maintain a ratio of total regulatory capital to risk-weighted assets and instruments (the Capital requirements ratio) at or above the prescribed minimum of 8%. The Capital requirements ratio expresses own funds as a proportion of risk-weighted assets and off-balance sheet items in relation to Credit Risk together with notional risk-weighted assets in respect of Operational Risk and Market Risk.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses. Risk-weighted assets are measured using the 'standardised approach' for credit risk with risk weights being assigned to assets and off-balance sheet items according to their asset class and credit assessment. For the determination of credit assessments, independent rating agencies are nominated as required.

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8 per cent) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

6. Capital management (continued)

6.1 Capital adequacy (continued)

	Carrying Amount EUR	Risk Weighted Amount EUR	Capital Requirement EUR
Central governments	6,393,160	-	-
Credit institutions	1,928,636	385,727	30,858
Corporates	15,843,386	22,743,732	1,819,499
Other items	755,724	755,724	60,458
Total credit risk	24,920,906	23,885,184	1,910,815
Foreign exchange risk		26,000	2,080
Operational risk		300,975	24,078
Total		**24,212,159**	**1,936,973**
Own funds		**7,227,132**	
Capital adequacy ratio		**29.9%**	

6.2 Internal capital adequacy assessment process (ICAAP)

The Bank developed a comprehensive Internal Capital Adequacy Assessment Process ("ICAAP"), as part of its 2012 plan to enhance its risk management process, in accordance with Banking Rule 12 'The Supervisory Review Process' (BR12). As part of this process, the Bank is required to assess its overall capital adequacy in relation to risk profile and a strategy for maintaining capital levels.

The purpose of the ICAAP is to formalise the process by which the Bank performs ongoing assessment of its risks, mitigates those risks and determines how much current and future capital is necessary having considered other mitigating factors.

The ICAAP has therefore been adopted by both the Board of Directors and the Bank's senior management to ensure that there is adequate identification, measurement and monitoring of the Bank's risks and that adequate internal capital is held by the Bank in relation to its risk profile. Furthermore, the Bank has utilised this ICAAP to assess its current risk management practices and to determine those practices which need to be developed further.

For this ICAAP, the Bank adopted a minimum capital requirement approach, using the audited figures as at 31 December 2012 as the benchmark year, which is based on Pillar I capital requirements together with the assessment of extra capital proportionate to Pillar II risks and supplementary stress testing to assess the impact of a possible prolonged economic recession on the Bank.

6. Capital management (continued)

6.2 Internal capital adequacy assessment process (ICAAP) (continued)

As part of its first ICAAP, the Bank developed its risk management framework, identified the risks which the Bank is exposed to, and performed formal risk assessment procedures for each risk identified.

The ICAAP process was led by the Bank's Directors, and was challenged by external consultants. The final document was approved by the Bank's Board of Directors in June 2013 and presented to the MFSA.

The first year's results show the Bank comfortably meeting its capital and liquidity targets over the regulatory minimum even in times of stress.

7 Remuneration Policy

The Bank's Remuneration Policy is based on the following principles:

- Clarity and transparency for all stakeholders;
- Adherence to the Bank's long-term objectives with reference to the relevant level of risk involved in attaining these goals;
- Maintaining a reasonable proportion between the fixed and variable part of remuneration package;
- The review of the annual staff remuneration considers the Bank's results, performance, as well as local market trends in the financial sector and individual performance in view of the risk level involved in the long term;
- Market data is considered and target remuneration brackets per job position are set in view to level of expertise, years in the position, attraction of talent and high performers.

The remuneration paid during the year to the executive directors, whose actions have a material impact on the risk profile of the Bank are EUR46,296. Directors' fees paid to non-executive directors during the year were EUR32,000.

8 Internal audit

In 2013 the Bank outsourced its Internal Audit to an independent professional services firm. The Internal Audit will be supporting the Board of Directors by independently assessing the effectiveness of the Bank's system of internal controls and compliance of the Bank with statutory, legal and regulatory requirements. All key issues raised by Internal Audit will be communicated to the management responsible via formal audit reports. The Board of Directors will be informed of important findings.

Internal Audit will have unrestricted access to all accounts, books and records and will be provided with all information and data needed to fulfil its duties. Coordination and close cooperation with the external auditors will be important to enhance the efficiency of Internal Audit's work.

FCM Bank Limited

Additional Regulatory Disclosures
In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2013

3 Year Summary

Statement of comprehensive income

	Year ended 31 December 2013 EUR	Year ended 31 December 2012 EUR	Period from 30 July 2010 to 31 December 2011 EUR
Interest income	475,933	264,322	119,723
Interest expense	(332,083)	(25,993)	(1,079)
Net interest income	143,850	238,329	118,644
Fee and commission expense	(14,162)	(3,053)	(2,048)
Net trading gains/(losses)	274,754	178,949	(91,844)
Net gain arising from derecognition of financial assets measured at amortised cost	144,636	76,878	-
Operating income	549,078	491,103	24,752
Administrative expense	(683,511)	(429,331)	(161,028)
Employee compensation and benefits	(469,068)	(338,341)	(47,866)
Loss before income tax	(603,501)	(276,569)	(184,142)
Income tax credit	212,003	96,940	58,010
Loss for the year/period	(391,498)	(179,629)	(126,132)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
- change in fair value	107,538	55,223	-
- deferred tax thereon	(37,637)	(19,328)	-
Other comprehensive income for the year/period net of tax	69,901	35,895	-
Total comprehensive loss for the year/period	(321,597)	(143,734)	(126,132)

FCM Bank Limited

Additional Regulatory Disclosures
In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2013

3 Year Summary

Statement of financial position

	2013 EUR	2012 EUR	2011 EUR
Assets			
Cash and cash equivalents	7,722,053	829,387	4,528,219
Financial assets at fair value through profit or loss	599,743	937,081	2,362,723
Investments	15,843,386	7,033,367	-
Intangible assets	134,813	14,300	-
Property, plant and equipment	68,300	80,858	2,006
Deferred tax	329,315	135,621	58,010
Other assets	64,617	18,875	2,417
Prepayments and accrued income	293,492	215,270	39,582
Total assets	25,055,719	9,264,759	6,992,957
Liabilities			
Amounts owed to customers	16,206,021	2,487,906	100,000
Other liabilities	1,005,065	4,173	2,171
Accruals and deferred income	471,991	42,546	16,918
Total liabilities	17,683,077	2,534,625	119,089
Equity			
Share capital	8,000,000	7,000,000	7,000,000
Investment revaluation reserve	69,901	35,895	-
Accumulated losses	(697,259)	(305,761)	(126,132)
Total equity	7,372,642	6,730,134	6,873,868
Total liabilities and equity	25,055,719	9,264,759	6,992,957

FCM Bank Limited

Additional Regulatory Disclosures
In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2013

3 Year Summary

Statement of cash flows

	2013 EUR	2012 EUR	2011 EUR
Cash flows from operating activities			
Interest and commission received	**446,653**	230,403	119,723
Interest and commission paid	**(22,416)**	(3,885)	-
Cash payments to employees and suppliers	**(1,032,800)**	(751,031)	(212,020)
Operating loss before changes in operating assets and liabilities	**(608,563)**	(524,513)	(92,297)
Cash flows from operating activities before changes in operating assets and liabilities			
Net increase in deposits from customers	**13,718,115**	2,374,582	100,000
Net (increase) in other assets	**(23,630)**	(5,899)	(41,999)
Net (decrease)/increase in other liabilities	**1,000,892**	4,173	19,089
Net cash from/(used in) operating activities	**14,086,814**	1,848,343	(15,207)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(11,765)**	(94,540)	(2,006)
Purchase of intangible assets	**(125,299)**	(22,243)	-
Acquisition of financial instruments	**(13,130,035)**	(7,967,517)	(2,454,568)
Proceeds from sale of financial instruments	**5,072,951**	2,537,125	-
Net cash used in investing activities	**(8,194,148)**	(5,547,175)	(2,456,574)
Cash flows from financing activities			
Proceeds from the issue of share capital	**1,000,000**	-	7,000,000
Increase/(decrease) in cash and cash equivalents	**6,892,666**	(3,698,832)	4,528,219
Cash and cash equivalents at the beginning of the year/period	**829,387**	4,528,219	-
Cash and cash equivalents at the end of the year/period	**7,722,053**	829,387	4,528,219