FCM Bank Limited

C 50343

Annual Report

2017

Contents

FCM Bank Limited

Directors, officer and other information

Directors:	John Soler Anthony Mahoney Dusan Benda Petr Cumba Ondrej Korecky Martin Farsky Joseph Falzon
Secretary:	Nicholas Warren, Chetcuti Cauchi Advocates
Registered office:	14-16 Princess Elizabeth Street, Ta' Xbiex, XBX1102, 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 2017

The directors present their report and the audited financial statements of FCM Bank Limited ('the Bank') for the year ended 31 December 2017.

Principal activities

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

Change in the shareholding

On 30th November 2017, SAB Europe Holding Ltd and SAB Finance a.s. acquired a 100% shareholding in the Bank with the Share Purchase Agreement (SPA) having been concluded in April 2017 with SAB Group. SAB Europe Holding Ltd and SAB Finance a.s. are part of SAB Group, a Czech based strong financial group. The acquisition was approved by all relevant authorities in line with European Union regulation (i.e. Malta Financial Services Authority as the national competent authority and the European Central Bank as the final decision authority).

SAB Group has a long and successful 17 year business history with its main focus being on corporate customers. The Group presently services 16 thousand corporate customers with an annual turnover of EUR 8 billion. SAB Group has deep know-how in corporate payment business and spot foreign exchange services and is a leader in the Czech market. It has extensive experience in banking and financial services and has a fully developed infrastructure and significant resources at its disposal. It also owns regulated financial institutions in other European locations: United Kingdom, with operations in London, Slovakia and a stake in a Czech credit institution.

The acquisition of FCM Bank Limited is in line with SAB's international growth strategy. The synergies created between the Bank and SAB will make the Bank stronger and will create significant opportunities for all the stakeholders. Customers will benefit from increased benefits, new services and products.

The Bank will be extending a high quality service to corporate, private and retail banking customers in Malta with a clearly defined vision to extend similar services in other countries in the European Union. SAB plans to invest heavily in resources to grow and develop the Bank and contribute towards the Maltese economy. A high quality service will be extended to customers by a strong and fully trained workforce.

Following the change of the ownership, the Bank sold at a profit the majority of its investment portfolio and the available liquidity will be gradually employed in two main revenue streams – provision of corporate and real estate lending and FX spot business. New revenue streams will be implemented during first half of 2018.

Performance Review

The Bank recognised a loss of just under EUR1m for the year under review compared to a loss of just under EUR1.2m in the previous year for the reasons highlighted below. Throughout the year there was also a successful focus on reducing operating costs. The Bank continued to streamline its operations to cope with the current business environment but carried on investing in its IT systems and robust risk management and governance framework.

The operating income for the year increased by 28% from EUR296,981 to EUR379,479. This resulted primarily from one off material gains on an early redemption of an investment. The decrease in net interest and dividend income was due to the Bank not fully investing its available funds, and remaining very liquid as it focused its efforts on a change in shareholding.

During the year customer deposits increased by EUR4.1m taking total deposits to over EUR60.9m despite minimal advertising and lower interest rates being offered. Notwithstanding a growing local economy, the retail savings landscape remained challenging throughout 2017 with historically low interest rates. The Bank did not offer high rates to establish itself as the first choice Bank for deposits but focussed on providing a high quality customer service to mitigate any loss of business due to this low interest rate scenario.

In 2017 the Bank increased its issued share capital by a further EUR1m bringing the total share capital to EUR13.25m with a total equity of EUR8.1m after deducting the investment revaluation reserve and accumulated losses.

The Bank measures the achievement of its objectives through the use of the following financial and non-financial measures:

The Bank measures its Liquidity Risk with a minimum regulatory ratio at 30% as per BR05 and its Liquidity Coverage Ratio with a minimum of 80%. In both cases the Bank's ratios were significantly higher by a multiple factor.

With reduced interest rates, the average deposit cost of the Bank came down from 3.1% at 31 December 2016 to 2.9% at 31 December 2017.

Following the change in ownership in November 2017, the Bank started the process to implement the new business model. This has a clear objective for a complete turnaround in the bottom line and to have the Bank profitable in the last quarter of 2018 and beyond. The Balance Sheet forecast for the year ending 2018 is expected to increase slightly to EUR72m with a corporate and real estate loan portfolio of EUR53m.

The Bank is committed to Corporate Social Responsibility and supported a number of initiatives throughout the year with the participation of its members of the staff.

Principal risks and uncertainties

The Board has designed a risk management framework and set the risk appetite for the Bank. The Bank's risk management approach depends on the interaction of a number of key components from risk identification through to mitigation, assessment and quantification. This ensures that the Bank's plans are consistent with the Board's risk appetite and ensures that optimal risk-return decisions are taken within appropriate review and challenge structures. The ultimate responsibility for risk management rests with the Directors who have identified the following principal risks and uncertainties facing the Bank:

People risk

With its limited size, the Bank is exposed to people risk arising principally from the loss of, or dependency on, key employees and lack of succession planning. The Bank mitigates the risk of single dependency through ensuring continuity in the absence of any individual.

Strategy risk

The delay in finalising the change in shareholding led to non-maximisation of profits and non-optimal resource allocation. The Bank is well capitalised and has in place a clearly defined strategy. A complete turnaround is expected in Q4 of 2018 and beyond.

Reputation risk

The Bank's reputation is essential in attracting deposits as any damage to its good standing would negatively impact the trust that depositors require in order to be willing to place their savings at an institution. The Bank is fully focused on developing and maintaining its good name.

Business risk management

Strategic and Business risk is the risk of losses due to failed or inadequate strategy execution, marketing and sales practices, distribution channels, pricing, handling of customer complaints or late reaction to changes in the business environment. The Bank has a strong governance framework to mitigate this risk.

Financial risk management

Note 24 to the financial statements provides details in connection with the Bank's use of financial instruments, its financial risk management objectives and policies and the financial risks to which it is exposed.

Result and dividends

The result for the year ended 31 December 2017 is shown in the statement of profit or loss and other comprehensive income on page twelve. The loss for the year after tax was EUR975,476. This is mainly due to the Bank being under invested and with a consequent excess liquidity for most of the year. Negotiations and discussions between the previous shareholder and the new investors were concluded in April 2017 whereas the authorisation from the local Regulator and the ECB for the acquisition to go through was issued in November 2017.

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

Future business developments

Following the acquisition, the Bank changed the business model and will focus on implementing the new revenue streams in the second quarter of 2018 – provision of corporate and real estate loans and FX spot business. The objective is to become profitable in last quarter of 2018.

Directors

The directors who served during the period were:

John Soler
Ronald Huggett (resigned on 11th April 2018)
Anthony Mahoney
Oyvind Oanes (resigned on 30th November 2017)
Dusan Benda (appointed on 30th November 2017)
Peter Cumba (appointed on 30th November 2017)
Luke Calleja (appointed on 30th November 2017, resigned on 11th April 2018)
Roman Koch (appointed on 30th November 2017, resigned on 31st January 2018)
Ondrej Korecky (appointed on 31st January 2018)
Prof. Joseph Falzon (appointed 20th April 2018)
Martin Farksy (appointed 20th April 2018)

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

Auditors

A decision to select and appoint an auditor will be made at the forthcoming annual general meeting.

Approved by the Board of Directors on 26 April 2018 and signed on its behalf by:

John Soler
Director

Dusan Benda
Director

FCM Bank Limited

Preparation of financial statements and directors' responsibilities

The Directors are required by the Companies Act (Cap.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 (Cap.371) and the Companies Act (Cap.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.

Deloitte Audit Limited
Deloitte Place
Mriehel Bypass
Mriehel BKR 3000
Malta

Tel: +356 2343 2000, 2134 5000
Fax: +356 2133 2606
info@deloitte.com.mt
www.deloitte.com/mt

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of FCM Bank Limited (the Bank), set out on pages 12 to 51 which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of FCM Bank Limited as at 31 December 2017, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap.386) and the Banking Act (Cap.371).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* (Maltese Code) that are relevant to our audit of the financial statements in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and the Maltese Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In conducting our audit, we have remained independent of the Bank and have not provided any of the non-audit services prohibited by article 18A(1) of the Accountancy Profession Act.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters were addressed in the context of our audit of the individual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of recognition of deferred tax asset

In accordance with *IAS 12 Income Taxes* a deferred tax asset should be recognised in the financial statements to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. At 31 December 2017 the Bank's available future deductions arising from unutilised tax losses and other temporary differences amounted to EUR5,965,216 (resulting in a potential deferred asset of EUR2,087,826). The likelihood of crystallisation of the deferred tax asset is based on estimates of future profitability which require significant management judgement. The forecasts prepared by management reflect a change in business model and strategy as outlined in the Bank's business plan approved by the Malta Financial Services Authority (MFSA) towards the end of 2017. Management has exercised judgement in the determination of the extent to which a deferred tax asset on these losses should be recognised in the financial statements and a deferred tax asset of *EUR839,974* was recognised as at 31 December 2017*(2016 – EUR839,974)*.

Our audit procedures focused on performing a review of management's assumptions underlying the budget preparation in order to ascertain the reasonableness of the assumptions being made and the assessment on the estimate of future taxable profits and resulting level of deferred tax assets recognised on balance sheet including the time horizon used for utilisation of losses and other temporary differences. Furthermore, we reviewed the calculations for mathematical accuracy.

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Independent auditor's report (continued)

to the members of
FCM Bank Limited

Appropriateness of recognition of deferred tax asset (continued)
The key assumptions reviewed and assessed for reasonableness were:

- the ability to attract the targeted level of funding,
- the ability to grow the loan portfolio
- the reasonability of the target interest margin and
- the creation of a significant revenue stream from foreign exchange business

The Bank's disclosures about the deferred tax asset are included in Notes 3 and 16, which explain that the directors have assessed the appropriateness of the recognition of the deferred tax asset.

Information Other than the Financial Statements and the Auditor's Report Thereon
The directors are responsible for the other information. The other information comprises the company information on page 2, the directors' report on pages 3 to 6, the statement of directors' responsibilities on 7, the regulatory disclosures on pages 52 to 64, the five year summary on pages 65 to 66 but does not include the financial statements and our auditor's report thereon.

Except for our opinion on the directors' report in accordance with the Companies Act (Cap. 386), our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

With respect to the Directors' report, we also considered whether the Directors' report includes the disclosure requirements of article 177 of the Companies Act (Cap. 386).

In accordance with the requirements of sub-article 179(3) of the Companies Act (Cap. 386) in relation to the Directors' Report on pages 3 to 6, in our opinion, based on the work undertaken in the course of the audit:

- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Directors' Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Responsibility of the Directors and the Audit Committee for the Financial Statements
As explained more fully in the Statement of directors' responsibilities on page 7, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with in accordance with IFRSs as adopted by the EU, the requirements of the Companies Act (Cap.386) and the Banking Act (Cap.371), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors have delegated the responsibility for overseeing the Bank's financial reporting process to the Audit Committee.

Deloitte.

Independent auditor's report (continued)

to the members of
FCM Bank Limited

Auditor's Responsibilities for the Audit of the Financial Statements

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

In terms of article 179A(4) of the Companies Act (Cap.386), the scope of our audit does not include assurance on the future viability of the audited entity or on the efficiency or effectiveness with which the directors have conducted or will conduct the affairs of the entity.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Deloitte.

Independent auditor's report (continued)

to the members of
FCM Bank Limited

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

Report on Other Legal and Regulatory Requirements

Additional matters on which we are required to report pursuant to the Banking Act (Cap. 371)
In our opinion:

- Proper accounting records have been kept so far as it appears from our examination thereof;
- The financial statements are in agreement with the accounting records; and
- We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

Matters on which we are required to report by exception pursuant to the Companies Act (Cap. 386) in addition to those reported above
We have responsibilities to report to you if in our opinion:

- Proper returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the returns.

We have nothing to report to you in respect of these responsibilities.

Consistency of the audit report with the additional report to the Audit Committee
Our audit opinion is consistent with the additional report to the Audit Committee in accordance with the provisions of Article 11 of the EU Audit Regulation No. 537/2014.

Auditor tenure
We were first appointed to act as statutory auditor of the Bank by the Directors for the first financial period of the Bank, being the financial year ended 31 December 2011, and were subsequently reappointed as statutory auditors by the members of the Bank on an annual basis. The period of total uninterrupted engagement as statutory auditor including previous reappointments of the firm is 7 financial years.

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

26 April 2018

FCM Bank Limited

Statement of profit or loss and other comprehensive income
Year ended 31 December 2017

	Notes	**2017**	2016
		EUR	EUR
Interest income	*4*	**768,389**	1,614,165
Dividend income	*12*	**851,555**	128,730
Interest expense	*5*	**(1,815,000)**	(1,738,855)
Net interest and dividend income		**(195,056)**	4,040
Fee and commission expense		**(70,779)**	(74,003)
Net fair value loss on financial assets at fair value through profit or loss		**15,965**	(58,198)
Gains on financial assets not measured at fair value through profit or loss	*6*	**633,569**	334,731
Foreign exchange gains/(losses)		**(4,220)**	13,892
Other income		**-**	76,519
Operating income		**379,479**	296,981
Administration expenses		**(845,923)**	(919,162)
Employee compensation and benefits	*7*	**(509,032)**	(576,430)
Loss before income tax	*8*	**(975,476)**	(1,198,611)
Income tax credit	*9*	**-**	-
Loss for the year		**(975,476)**	(1,198,611)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
- change in fair value		**(113,705)**	468,625
- deferred tax thereon		**37,908**	(163,071)
Other comprehensive income/(loss) for the year net of tax		**(75,797)**	305,554
Total comprehensive loss for the year		**(1,051,273)**	(893,057)

FCM Bank Limited

Statement of financial position

31 December 2017

	Notes	2017 EUR	2016 EUR
Assets			
Cash and cash equivalents	15	**65,834,631**	9,042,019
Depositor compensation scheme account with Central Bank of Malta		**509,474**	460,823
Financial assets at fair value through profit or loss	11	**2,121,882**	2,261,896
Available-for-sale investments	12.1	**151,059**	34,715,762
Held-to-maturity investments	12.2	**-**	13,603,710
Loans and receivables	12.3	**-**	4,059,557
Intangible assets	14	**196,811**	191,995
Property, plant and equipment	13	**11,258**	15,385
Deferred tax	16	**877,882**	839,974
Prepayments and accrued income	17	**134,394**	520,860
Other assets		**25,412**	40,193
Total assets		**69,862,802**	65,752,174
Liabilities			
Amounts owed to customers	18	**60,955,858**	56,849,001
Other liabilities		**47,186**	22,991
Trade and other payables	19	**730,102**	699,253
Total liabilities		**61,733,146**	57,571,245
Equity			
Share capital	20	**13,250,000**	12,250,000
Investment revaluation reserve	21	**48,082**	123,879
Accumulated losses	21	**(5,168,426)**	(4,192,950)
Total equity		**8,129,656**	8,180,929
Total liabilities and equity		**69,862,802**	65,752,174

The financial statements on pages 12 to 51 were approved by the Board of Directors on 26 April 2018 and signed on its behalf by:

John Soler
Director

Dusan Benda
Director

FCM Bank Limited

Statement of changes in equity
Year ended 31 December 2017

	Share capital EUR	Revaluation reserves EUR	Accumulated losses EUR	Total EUR
Balance at 1 January 2016	10,350,000	(181,675)	2,994,339	7,173,986
Loss for the year	-	-	(1,198,611)	(1,198,611)
Other comprehensive loss, net of tax				
Available-for-sale investments:				
-Change in fair value, net of tax	-	305,554	-	305,554
Total comprehensive loss for the year	-	305,554	(1,198,611)	(893,057)
Issue of share capital	1,900,000	-	-	1,900,000
Balance at 1 January 2017	12,250,000	123,879	(4,192,950)	8,180,929
Loss for the year	-	-	(975,476)	(975,476)
Other comprehensive income, net of tax				
Available-for-sale investments:				
-Change in fair value, net of tax	-	(75,797)	-	(75,797)
Total comprehensive loss for the year	-	(75,797)	(975,476)	(1,051,273)
Issue of share capital	1,000,000	-	-	1,000,000
Balance at 31 December 2017	**13,250,000**	**48,082**	**(5,168,426)**	**8,129,656**

FCM Bank Limited

Statement of cash flows

Year ended 31 December 2017

	2017 EUR	2016 EUR
Cash flows from operating activities		
Interest received	**1,263,332**	2,014,479
Dividend and other income	**851,555**	205,249
Interest paid	**(1,790,666)**	(1,695,146)
Cash payment to employees and suppliers	**(693,095)**	(1,195,858)
Operating loss before changes in operating assets and liabilities	**(364,927)**	(671,276)
Cash flows from operating activities before changes in operating assets and liabilities		
Net increase in deposits from customers	**4,106,856**	7,942,351
Net increase in other assets	**39,116**	(54,833)
Net increase in other liabilities	**30,711**	953
Net cash from operating activities	**3,811,756**	7,888,471
Cash flows from investing activities		
Purchase of property, plant and equipment	**(6,094)**	(2,550)
Purchase of intangible assets	**(82,768)**	(41,787)
Acquisition of financial instruments	**(8,060,083)**	(29,228,436)
Proceeds from sale of financial instruments	**60,129,802**	10,808,833
Net cash used in investing activities	**(51,980,856)**	(18,463,940)
Cash flows from financing activities		
Proceeds from issue of share capital	**1,000,000**	1,900,000
Net cash from financing activities	**1,000,000**	1,900,000
Net movement in cash and cash equivalents	**56,792,612**	(9,346,745)
Cash and cash equivalents at beginning of the year	**9,042,019**	18,388,764
Cash and cash equivalents at the end of the year (note 15)	**65,834,631**	9,042,019

1. Reporting entity

FCM Bank Limited (hereafter 'the Bank') is a limited liability company incorporated in Malta with registration number C50343. The registered address of the company is 14-16, Princess Elizabeth Street, Ta' Xbiex, XBX 1102

On 30th November 2017, SAB Europe Holding Ltd and SAB Finance a.s. acquired a 100% shareholding of the Bank. SAB Europe Holding Ltd and SAB Finance a.s. are part of SAB Group, a Czech based strong financial group. The acquisition was approved by all relevant authorities in line with European Union regulation (i.e. Malta Financial Services Authority as the national competent authority and the European Central Bank as the final decision authority).

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 (Cap. 371) and the Companies Act (Cap. 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. Summary of significant accounting policies

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

Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses – The Bank have applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The amendments also clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary differences.

Furthermore, the amendments explain the circumstances in which the estimate of probable future taxable profit may include the recovery of an entity's assets for more than their carrying amount. The application of these amendments has had no impact on these financial statements

International Financial Reporting Standards in issue but not yet effective

The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'.

The Standard supersedes all previous versions of IFRS 9.

IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held

The Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. Based on a preliminary assessment undertaken to date by the management of the Bank in respect of the financial instruments held as at 31 December 2017, the estimated impact of the adoption of IFRS 9 in relation to the classification of assets on the opening balance of the Bank's equity as at 1 January 2018 is not expected to be significant on the basis of the change in strategy of the Bank going forward.

Debt instruments that will be measured at amortised cost or at fair value through profit or loss will be subject to the new impairment rules in IFRS 9 which are based on an expected loss model instead of an incurred loss model.

IFRS 15 Revenue from contracts with customers issued in May 2014 is the result of a convergence project between the IASB and the FASB. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 'Revenue', IAS 11 'Construction Contracts' and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions being leases, financial instruments and insurance contracts. By virtue of an amendment issued on 11 September 2015, the effective date of the Standard was deferred by one year to annual periods beginning on or after 1 January 2018, with earlier application being permitted.

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)

IFRS 16 Leases- the new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains substantially unchanged (except for a requirement to provide enhanced disclosures) and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations. IFRS 16 is effective for periods beginning on or after 1 January 2019. Early application is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers.

The directors assessed the impact that the adoption of these International Financial Reporting Standards on the financial statements of the company in the period of initial application as not material.

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.

2.5.1 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.

2. Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

2.5.1 Financial assets at fair value through profit or loss (continued)

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. If other than an insignificant amount of held-to-maturity assets were to be sold, the entire category would be tainted and reclassified as available-for-sale. 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.

2.5.4 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. Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

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.

2.6 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.

2. Summary of significant accounting policies (continued)

2.6 Financial liabilities and equity instruments (continued)

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.

2.8 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.

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 (continued)

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, 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.

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.

2. Summary of significant accounting policies (continued)

2.14 Taxation (continued)

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.

Dividend income from financial assets classified as available for sale are recognised in the statement of profit or loss and other comprehensive income when the Bank's right to receive payment is established. Usually this is the ex-dividend date for equity securities.

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, other than the one disclosed below, 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.

3. Use of estimates and judgements (continued)

Recognition of deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. The Bank makes an annual assessment of whether or not it will have sufficient taxable profits in the future to realise the deferred tax assets. This is a matter of careful judgement and based on facts and circumstances available as further explained in note 16.

4. Interest income

	2017 EUR	2016 EUR
On debt and other fixed income instruments		
- available-for-sale	**200,567**	453,473
- held-to-maturity	**641,856**	1,009,189
- fair value through profit or loss	**-**	127,473
- loans and receivables	**54,626**	255,254
- from banks	**4,152**	-
	901,201	1,845,389
Amortisation of discounts and premiums		
- available-for-sale	**(27,963)**	(53,459)
- held-to-maturity	**(103,811)**	(180,361)
- loans and receivables	**(1,038)**	2,596
	(132,812)	(231,224)
	768,389	1,614,165

5. Interest expense

	2017 EUR	2016 EUR
On amounts owed to customers	**1,782,269**	1,738,855
Negative interest on call re-deposits	**32,731**	-
	1,815,000	1,738,855

6. Gains on financial assets not measured at fair value through profit and loss

	2017 EUR	2016 EUR
Gain on redemption of available-for-sale investments	**369,181**	321,149
Gain on redemption of held-to-maturity investments	**264,388**	13,582
	633,569	334,731

7. Employee compensation and benefits

7.1 Key management personnel compensation

	2017 EUR	2016 EUR
Short-term benefits		
Directors' emoluments:		
- Directors' fees	**55,667**	57,000
- Directors' remuneration	**131,935**	133,712
	187,602	190,712

7.2 Analysis of personnel expenses for the year

	2017 EUR	2016 EUR
Wages and salaries	**493,773**	558,424
Social security costs	**15,259**	18,006
	509,032	576,430

7.3 Average number of persons employed for the year including executive and non-executive directors

	2017 No.	2016 No.
Non-executive directors	**3**	3
Managerial	**3**	4
Other	**5**	6
	11	13

8. Loss before tax

Loss before tax is stated after charging:

	2017 EUR	2016 EUR
Total remuneration payable to the Bank's auditors for:		
- the audit of the financial statements	**15,000**	15,000
- total fees payable to the company's auditor for non-audit services other than other assurance services and tax advisory services	**4,482**	11,222
	19,462	26,222

9. Income tax credit

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

	2017 EUR	2016 EUR
Loss before tax	**975,476**	1,198,611
Tax charge at the applicable rate of 35%	**341,417**	419,514
Tax effect of:		
Difference between depreciation and amortisation charge and capital allowances	**(30,861)**	(31,463)
Disallowed expenses	**-**	(22)
Unabsorbed tax losses for the year	**(310,556)**	(388,029)
Total income tax credit	**-**	-

10. Operating leases

The Bank recognised minimum lease payments under operating leases amounting to EUR56,463 (2016: EUR48,962) as an expense for the year.

Operating lease payments represent rentals payable by the Bank for the use of office premises.

11. Financial assets at fair value through profit or loss

	2017 EUR	2016 EUR
Debt and other fixed income instruments		
Issued by public bodies:		
- local government	**1,828,830**	1,877,247
- foreign government	**293,052**	384,649
	2,121,882	2,261,896
Listing status		
-local listed	**1,828,830**	1,877,247
-foreign listed	**293,052**	384,649
	2,121,882	2,261,896
Summary of movements during the year:		
At the beginning of the year	**2,261,896**	3,795,780
Acquisitions	**59,887**	228,821
Matured	**(171,546)**	(1,589,553)
Movement in fair value	**(28,355)**	(173,152)
At the end of the year	**2,121,882**	2,261,896

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 Credit and Risk Committee.

12. Investments

	2017 EUR	2016 EUR
Debt and other fixed income instruments		
- available-for-sale	**151,059**	5,671,494
- held-to-maturity	**-**	13,603,710
- loans and receivables	**-**	4,059,557
	151,059	23,334,761
Exchange traded debt funds		
- available-for-sale	**-**	29,044,268
	151,059	52,379,029

Exchange traded debt funds earn dividend income which is included in the statement of profit or loss and other comprehensive income.

The investment portfolio was sold in December 2017 in line with the change in the strategy of the Bank following the change in the shareholder. The available liquidity will be gradually employed in two main new revenue streams – provision of corporate loans and FX spot.

12.1 Debt, other fixed income instruments and fund investments classified available-for-sale

	2017 EUR	2016 EUR
Issued by other issuers:		
- foreign other	**151,059**	34,715,762
Listing status:		
- foreign listed	**151,059**	34,715,762
Summary of movements during the year:		
At the beginning of the year	**34,715,762**	8,644,587
Acquisitions	**8,000,196**	28,999,615
Disposals	**(42,399,837)**	(3,453,131)
Amortisation	**(27,963)**	(53,459)
Movement in foreign exchange	**(23,394)**	109,525
Movement in fair value	**(113,705)**	468,625
At the end of the year	**151,059**	34,715,762

12. Investments (continued)

12.2 Debt and other fixed income instruments classified as held-to-maturity

	2017 EUR	2016 EUR
Issued by other issuers:		
- foreign other	-	13,603,710
Listing status:		
- foreign listed	-	13,603,710
Summary of movements during the year:		
At the beginning of the year	**13,603,710**	17,149,606
Redemptions	**(13,499,899)**	(3,365,535)
Amortisation	**(103,811)**	(180,361)
At the end of the year	-	13,603,710

At 31 December 2017, the fair value of held-to-maturity securities amounted to EURNil (2016: EUR14,007,138) as the Bank did not hold any such instruments at the end of the reporting period.

12.3 Debt and other fixed income instruments classified as loans and receivables

	2017 EUR	2016 EUR
Issued by other issuers:		
- foreign other	-	4,059,557
Listing status:		
- foreign unlisted	-	4,059,557

	2017 EUR	2016 EUR
Summary of movements during the year:		
At the beginning of the year	**4,059,557**	6,457,575
Acquisitions	-	-
Disposals	**(4,058,519)**	(2,400,614)
Amortisation	**(1,038)**	2,596
At the end of the year	-	4,059,557

At 31 December 2016, the fair value of loans and receivables amounted to EURNil (2016: EUR4,063,521) as the Bank did not hold any such instruments at the end of the reporting period.

13. Property, plant and equipment

	Furniture and fittings EUR	Computers, hardware and peripherals EUR	Total EUR
Cost			
At 1 January 2016	91,835	36,242	128,077
Additions	-	2,550	2,550
At 1 January 2017	91,835	38,792	130,627
Additions	1,284	4,810	6,094
At 31 December 2017	93,119	43,602	136,721
Depreciation			
At 1 January 2016	60,200	32,708	92,908
Charge for the year	18,403	3,931	22,334
At 1 January 2017	78,603	36,639	115,242
Charge for the year	9,513	708	10,221
At 31 December 2017	88,116	37,347	125,463
Carrying amounts			
Balance at 31 December 2016	13,232	2,153	15,385
Balance at 31 December 2017	**5,003**	**6,255**	**11,258**

14. Intangible assets

	Software EUR
Cost	
At 1 January 2016	314,916
Additions	41,787
At 1 January 2017	356,703
Additions	82,768
At 31 December 2017	439,471
Amortisation	
At 1 January 2016	97,148
Charge for year	67,560
At 1 January 2017	164,708
Charge for year	77,952
At 31 December 2017	242,660
Carrying amount	
At 31 December 2016	191,995
At 31 December 2017	**196,811**

15. 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 on call with banks.

	2017 EUR	2016 EUR
Repayable on call and at short notice	**65,834,631**	9,042,019

Currently, deposit accounts repayable on call and at short notice earn no interest or incur negative interest.

16. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2017 EUR	2016 EUR
Tax value of losses and capital allowances carry-forwards	**903,774**	903,774
Fair value re-measurement of financial instruments	**(25,892)**	(63,800)
	877,882	839,974

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. The directors believe that the Bank is well placed to manage its business risks successfully and have a reasonable expectation that the deferred tax asset will crystallise in the foreseeable future. In assessing whether the deferred tax asset should be recognised, the Directors have taken into account the business plan and commitments made by the incoming investor. The Directors will continue to monitor the position on an ongoing basis.

At 31 December 2017 the Bank had unutilised tax losses of EUR3,456,982 (2016:EUR2,476,109) for which no deferred tax asset is recognised in the statement of financial position. The crystallisation of the deferred tax asset amounting to EUR1,209,944(2016: EUR866,638) is uncertain due to the expected pattern of income in future years and has therefore not been recognised

17. Prepayments and accrued income

	2017 EUR	2016 EUR
Accrued income	**-**	362,131
Prepaid expenses	**134,394**	158,729
	134,394	520,860

18. Amounts owed to customers

	2017 EUR	2016 EUR
Term deposits	**57,481,475**	54,705,409
Savings accounts	**3,474,383**	2,143,592
	60,955,858	56,849,001

19. Trade and other payables

	2017	2016
	EUR	EUR
Interest payable	**657,305**	632,971
Accrued expenses	**72,797**	66,282
	730,102	699,253

20. Share capital

	2017	2016
	EUR	EUR
Authorised:		
Ordinary shares at EUR1 each	**20,000,000**	20,000,000
Issued and paid up:		
Ordinary shares at EUR1 each fully paid	**13,250,000**	12,250,000

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 4 May 2017 and 10 October 2017, the issued share capital was increased by EUR500,000 and EUR500,000 respectively. The EUR1,000,000 increase in issued and called up share capital was effected via cash.

On 29 February 2016, 26 May 2016, 5 October 2016 and 6 December 2016, the issued share capital was increased by EUR500,000, EUR500,000, EUR400,000 and EUR500,000 respectively. The EUR1,900,000 increase in issued and called up share capital was effected via cash.

21. Reserves

21.1 Investment revaluation reserve

The revaluation reserve is used to record movements in fair value of available for sale investments net of deferred tax thereon. The revaluation reserve is not available for distribution.

21.2 Accumulated losses

Accumulated losses represent the total value of losses incurred by the Bank since incorporation.

Accumulated losses include an amount of EUR509,474 (2016: EUR460,823) allocated to the Depositor Compensation Scheme Reserve. This reserve is excluded for the purposes of Own Funds calculation.

22. Related parties

Related party transactions during the year were as follows:

	2017 EUR	2017 Total EUR	2017 % of total
Interest expense on deposits	2,951	1,815,000	0.1%
Compensation to key management personnel			
Directors' fee and remuneration	187,602	187,602	100%
Balances with related parties			
Other assets	-	25,412	0%
Deposits from customers	92,040	60,955,858	0.15%
Accrued interest on deposits from customers	1,473	657,305	0.22%
Transaction with related parties			
Operating expenses	87,420	919,162	10%

Related party transactions during the year were as follows:

	2016 EUR	2016 Total EUR	2016 % of total
Interest expense on deposits	2,404	1,738,855	0.1%
Compensation to key management personnel			
Directors' fee and remuneration	180,712	180,712	100%
Balances with related parties			
Other assets	39,478	40,193	98%
Deposits from customers	93,631	54,705,409	0.17%
Accrued interest on deposits from customers	1,132	632,971	0.18%
Transaction with related parties			
Operating expenses	72,249	395,918	18%

22. Related parties (continued)

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 (2016: *EUR Nil*).

Since 30 November 2017, the immediate parent company of the Bank is SAB Europe Holding Ltd. and ultimate parent company is SAB Financial Group a.s. The ultimate controlling party is Mr. Radomir Lapcik.

23. Fair values of financial assets and financial liabilities

At 31 December 2017 the fair value of amounts owed to customers amounted to EUR61,649,806 (2016: EUR57,768,000).

The fair values of held-to-maturity investments amounted to EURNil at the end of the reporting period (2016: EUR14,007,138). The fair value of loans and receivables amount to EURNil (2016: EUR4,057,271) at the end of the reporting period.

At 31 December 2017 and 2016 the carrying amounts of financial assets and financial liabilities, other than those described above, approximated their fair values due to the short term maturities of these assets and liabilities.

	Level 1	Level 2	Level 3	Total
	EUR	EUR	EUR	EUR
2017				
Financial assets at fair value through profit or loss				
- foreign listed debt instruments	293,052	-	-	293,052
- local listed debt instruments	1,828,830	-	-	1,828,830
	2,121,882	-	-	2,121,882
Available for sale investments				
- foreign listed debt instruments	151,059	-	-	151,059
- foreign exchange traded debt funds	-	-	-	-
	151,059	-	-	151,059
	2,272,941	-	-	2,272,941

23. 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 EUR	Level 2 EUR	Level 3 EUR	Total EUR
2016				
Financial assets at fair value through profit or loss				
- foreign listed debt instruments	384,649	-	-	384,649
- local listed debt instruments	1,877,247	-	-	1,877,247
	2,261,896	-	-	2,261,896
Available-for-sale investments				
- foreign listed debt instruments	21,481,980	-	-	21,481,980
- foreign exchange traded debt funds	13,233,782	15,810,486	-	29,044,268
	34,715,762	15,810,486	-	50,526,248
Total	36,977,658	15,810,486	-	52,788,144

There were no such investments in held as at 31 December 2017.

	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
2016				
Held-to maturity investments				
- foreign listed debt instruments	14,007,138	-	-	14,007,138
Loans and receivables				
- foreign unlisted debt instruments	-	4,063,521		4,063,521
	14,007,138	4,063,521	-	18,070,659

24. Financial risk management

24.1 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.

- *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.

24. Financial risk management (continued)

24.2 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.

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:

	2017	2016
	EUR	EUR
Financial assets at fair value through profit and loss	**2,121,882**	2,261,896
Held-to-maturity investments	-	13,603,710
Available-for sale investments	**151,059**	34,715,762
Loans and receivables	-	4,059,557
Cash and cash equivalents	**65,834,631**	9,042,019
Depositor compensation scheme account with Central Bank of Malta	**509,474**	460,823
Accrued income	-	362,131
Other assets	**25,412**	40,193
	68,642,458	64,546,091

24. Financial risk management (continued)

24.2 Credit risk management (continued)

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:

	2017	2016
	EUR	EUR
Concentration by sector		
Central Government	**59,145,845**	6,302,066
Institutions	**9,345,554**	5,462,672
Collective investment schemes	**-**	29,044,268
Corporates	**151,059**	23,737,085
	68,642,458	64,546,091

Exposures analysed by location

As at 31 December 2017

	North America	**Europe**	**Total**
	EUR	**EUR**	**EUR**
Central Government	**-**	**59,145,845**	**59,145,845**
Institutions	**-**	**9,345,554**	**9,345,554**
Collective investment schemes	**-**	**-**	**-**
Corporates	**-**	**151,059**	**151,059**
	-	**68,642,458**	**68,642,458**

As at 31 December 2016

	North America	Europe	Total
	EUR	EUR	EUR
Central Government	-	6,302,066	6,302,066
Institutions	-	5,462,672	5,462,672
Collective investment schemes	-	29,044,268	29,044,268
Corporates	1,057,770	22,679,315	23,737,085
	1,057,770	63,488,321	64,546,091

24. Financial risk management (continued)

24.2 Credit risk management (continued)

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 eligible External Credit Assessment Institutions (ECAIs), in accordance with article 135 of the Capital Requirements Regulation.

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

	2017	2016
	EUR	EUR
A or higher	**293,052**	2,266, 345
BBB-	**1,828,830**	-
BB+ or lower	**151,059**	23,330,313
Total	**2,272,941**	25,596,658

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

As at 31 December 2017, the Bank held shares in exchange traded debt funds with a carrying value of *EUR0* (2016: *EUR29,044,268*). The credit risk attributable to this holding depends on the underlying funds' portfolio. 54.53% of the underlying exchange traded debt funds invest predominantly in covered bonds which are rated as Aa1 or higher by Moody whilst the remaining underlying funds invest predominantly in corporate bonds rated between BB+ and B- in accordance with Standard and Poor.

24.3 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 and withdrawals from savings. 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.

24. Financial risk management (continued)

24.3 Liquidity risk (continued)

The Bank uses four key liquidity measures to monitor its liquidity risk, namely the ratio of liquid assets to deposit liabilities, the maturity ladder which comprises projected cash flows, the Liquidity Coverage Ratio ('LCR'), the Net Stable Funding Ratio ('NSFR') and an internal cash flow model, which is a minimum buffer of liquid assets set based on expected gross outflows.

As at both 31 December 2017 and 31 December 2016, the Bank's liquidity ratios were significantly above the regulatory liquidity ratios of 30% prescribed by Banking Rule 5 and 60% prescribed by the Capital Requirements Regulation.

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

	Carrying amount	Gross outflow/(inflow)	Less than 1 month	1-3 months	3 months - 1 year	1 - 5 years
	EUR	EUR	EUR	EUR	EUR	EUR
At 31 December 2017						
Deposits from customers	60,955,958	63,629,012	5,005,990	4,533,537	17,359,875	36,729,610
At 31 December 2016						
Deposits from customers	56,849,001	56,849,001	4,511,669	3,411,091	9,827,834	39,098,407

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.

	Less than 3 months	3 months - 1 year	1-5 years	5+ years	Other	Total
	EUR	EUR	EUR	EUR	EUR	EUR
As at 31 December 2017						
Financial Assets at fair Value through profit or loss	2,121,882	-	-	-	-	2,121,882
Available-for-sale investments	-	-	151,059	-	-	151,059
Held-to-maturity investments	-	-	-		-	-
Loans and receivables	-	-	-	-	-	-
Cash and Cash equivalents	65,834,631	-	-	-	-	65,834,631
Depositor compensation scheme account with Central Bank of Malta	-	-	-	-	509,474	509,474
Accrued income	-	-	-	-	-	-
Other assets	25,412	-	-	-	-	25,412
	67,981,924	-	151,059	-	509,474	68,642,458
Liabilities						
Amounts owed to customers	(11,695,649)	(16,966,952)	(32,293,356)	-	-	(60,955,958)

24. Financial risk management (continued)

24.3 Liquidity risk (continued)

	Less than 3 months EUR	3 months - 1 year EUR	1-5 years EUR	5+ years EUR	Other EUR	Total EUR
As at 31 December 2016						
Financial Assets at fair Value through profit or loss	2,261,896	-	-	-	-	2,261,896
Available-for-sale investments	-	-	3,449,419	2,222,075	29,044,268	34,715,762
Held-to-maturity investments	-	-	12,315,649	1,288,061	-	13,603,710
Loans and receivables	-	-	2,079,215	1,980,342	-	4,059,557
Cash and Cash equivalents	9,042,019	-	-	-	-	9,042,019
Depositor compensation scheme account with Central Bank of Malta	-	-	-	-	460,823	460,823
Accrued income	362,131	-	-	-	-	362,131
Other assets	40,193	-	-	-	-	40,193
	11,706,239	-	17,844,283	5,490,478	29,505,091	64,546,091
Liabilities						
Amounts owed to customers	7,922,760	9,827,834	39,098,408	-	-	(56,849,001)

24.4 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.

24. Financial risk management (continued)

24.4 Market risk (continued)

Exposure to interest rate risk (continued)

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 EUR	3 months - 1 year EUR	1-5 years EUR	5+ years EUR	Others EUR	Total EUR
At 31 December 2017						
Financial assets at fair value through profit or loss	-	-	896,428	1,225,454	-	2,121,882
Available-for-sale investments	-	-	151,059	-	-	151,059
Loans and receivables	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	-
Cash and cash equivalents	65,834,631	-	-	-	-	65,834,631
Depositor compensation scheme account with Central Bank of Malta	-	-	-	-	509,474	509,474
Accrued income	-	-	-	-	-	-
Other assets	-	-	-	-	25,412	25,412
	65,834,631	-	1,047,488	1,225,454	534,886	68,642,458
Liabilities						
Amounts owed to customers	11,695,649	16,966,952	32,293,356	-	-	60,955,958
Gap	54,138,981	(16,966,952)	(31,245,868)	1,225,454	534,886	
Cumulative Gap	54,138,981	37,172,029	5,926,161	7,151,615	7,686,501	

	Less than 3 months EUR	3 months - 1 year EUR	1-5 years EUR	5+ years EUR	Others EUR	Total EUR
At 31 December 2016						
Financial assets at fair value through profit or loss	142,099	31,097	925,313	1,163,387	-	2,261,896
Available-for-sale investments	1,171,413	29,043,667	2,270,788	2,229,895	-	34,715,762
Loans and receivables	4,059,557	-	-	-	-	4,059,557
Held-to-maturity investments	1,000,337	-	11,321,349	1,282,024	-	13,603,710
Cash and cash equivalents	9,042,019	-	-	-	-	9,042,019
Depositor compensation scheme account with Central Bank of Malta	-	-	-	-	460,823	460,823
Accrued income	-	-	-	-	362,131	362,131
Other assets	-	-	-	-	40,193	40,193
	15,415,425	29,074,764	14,517,450	4,675,306	863,147	64,546,091
Liabilities						
Amounts owed to customers	7,922,760	9,827,834	39,098,408	-	-	56,849,001
Gap	7,492,665	19,246,930	(24,580,958)	4,675,306	863,147	
Cumulative Gap	7,492,665	26,739,595	2,158,637	6,833,943	7,697,090	

24. Financial risk management (continued)

24.4 Market risk (continued)

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

	Rate Instruments	
	Fixed	Variable
	EUR	EUR
As at 31 December 2017		
Interest earning assets		
Financial assets at fair value through profit or loss	2,121,882	-
Available-for-sale investments	151,059	-
Held-to-maturity investments	-	-
Loans and receivables	-	-
Cash and cash equivalents	-	65,834,631
	2,272,941	65,834,631
Interest bearing liabilities		
Amounts owed to customers	(57,481,575)	(3,474,383)

	Rate Instruments	
	Fixed	Variable
	EUR	EUR
As at 31 December 2016		
Interest earning assets		
Financial assets at fair value through profit or loss	2,261,896	-
Available-for-sale investments	4,500,081	1,171,413
Held-to-maturity investments	12,603,373	1,000,337
Loans and receivables	-	4,059,557
Cash and cash equivalents	-	9,042,019
	19,365,350	15,273,326
Interest bearing liabilities		
Amounts owed to customers	(56,849,001)	(1,414,053)

24. Financial risk management (continued)

24.4 Market risk (continued)

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 2017 was estimated at EUR940,063 (EUR131,787 at the end of 2016).

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 materially exposed to currency risk through transactions in foreign currencies at the end of the reporting period.

Price risk

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.

24.5 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.

24. Financial risk management (continued)

24.5 Operational risk (continued)

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.

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.

24. Financial risk management (continued)

24.6 Capital risk management (continued)

On 1 January 2014 the Capital Requirements Directive (CRD) and the Capital Requirements Regulations (CRR) came into effect, constituting the European implementation of the Basel capital and liquidity agreement of 2010. The Bank has made necessary changes in order to ensure that it is compliant with Pillar I capital requirements set by the CRR. Other material risks are also allocated capital as part of the Internal Capital Adequacy Process (ICAAP) embedded in the Pillar II process. This process helps to measure with greater risk sensitivity the amount of regulatory capital which the Bank requires to cover risks assumed in the course of its business, including risks not covered in Pillar I.

During the financial year, the Bank has monitored adequacy of its capital and gave strategic direction on the most efficient use of capital.

During the year under review and during the comparative period, the Bank has complied with the externally imposed capital requirements.

The following table shows the components and basis of calculation of the Bank's capital adequacy ratios:

	2017	2016
	EUR	EUR
Original own funds		
Ordinary shares	**13,250,000**	12,250,000
Accumulated losses	**(5,168,427)**	(4,192,950)
Depositor compensation reserve	**(509,474)**	(460,823)
Investment revaluation reserve	**48,082**	123,879
Deductions		
Intangible assets	**(196,811)**	(191,995)
Deferred tax assets that rely on future profitability and arise from temporary differences	**(877,882)**	(839,974)
Other transitional adjustments	**330,662**	418,168
Total Tier 1 Capital	**6,876,110**	7,106,305
Total own funds	**6,876,110**	7,106,305

24. Financial risk management (continued)

24.6 Capital risk management (continued)

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.

The capital adequacy ratio at 31 December 2017 stood at 243% (15.9% at 31 December 2016).

25. 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 BR/07/2014 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.

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 is 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.

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.

1. Risk management (continued)

1.3 Key risk components (continued)

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.

The Credit and Risk Committee is responsible for approving all acquisitions of securities and placements of deposits with banks. In accordance with policies set by the Board 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.

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 2017, no securities were deemed to be prohibited large exposures.

2. **Credit risk (continued)**

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

	North America EUR	Europe EUR	Total EUR
Central Government	-	59,145,845	59,145,845
Institutions	-	9,345,554	9,345,554
Collective investment schemes	-	-	-
Corporates	-	151,059	151,059
	-	68,642,458	68,642,458

Exposures analysed by residual maturity

	Less than 1 year EUR	1-5 years EUR	5+ years EUR	Other EUR	Total EUR
Central Government	56,514,489	896,428	1,225,454	509,474	59,145,845
Institutions	9,320,142	-	-	25,412	9,345,554
Collective investment schemes	-	-	-	-	-
Corporate	-	151,059	-	-	151,059
	65,834,631	1,047,487	1,225,454	534,886	68,642,458

2. Credit risk (continued)

Asset quality

The Bank assigns risk weights to the credit risk of its assets 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:

	Central Government	Institutions	Collective investment schemes	Corporates	Total
	EUR	EUR	EUR	EUR	EUR
Credit Quality Step 1	293,052	-	-	-	**293,052**
Credit Quality Step 2	58,852,793	-	-	-	**58,852,793**
Credit Quality Step 3	-	6,320,147	-	-	**6,320,147**
Credit Quality Step 4	-	-	-	-	**-**
Credit Quality Step 5	-	-	-	-	**-**
Credit Quality Step 6	-	-	-	151,059	**151,059**
Not rated	-	3,025,407	-	-	**3,025,407**
					68,642,458

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, after 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).

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 2017 was estimated at EUR940,063 (EUR131,787 at the end of 2016).

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

	Fixed EUR	Variable EUR
As at 31 December 2017		
Interest earning assets		
Financial Assets at fair value through profit or loss	2,121,882	-
Available-for-sale investments	151,059	-
Held-to-maturity investments	-	-
Loans and receivables	-	-
Cash and cash equivalents	65,834,631	-
	68,107,572	-

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	3 months - 1 year EUR	1-5 years EUR	5+ years EUR	Others EUR	Total EUR
At 31 December 2017						
Financial assets at fair value through profit or loss	-	-	905,657	1,216,225	-	2,121,882
Available-for-sale investments	-	-	151,059	-	-	151,059
Loans and receivables	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	-
Cash and cash equivalents	65,834,631	-	-	-	-	65,834,631
Depositor compensation scheme account with Central Bank of Malta	-	-	-	-	509,474	509,474
Accrued income	-	-	-	-	-	-
Other assets	-	-	-	-	25,412	25,412
	65,834,631	-	1,056,717	1,216,225	534,886	68,642,458
Liabilities						
Amounts owed to customers	11,695,649	16,966,952	32,293,356	-	-	60,955,958
Gap	54,138,981	(16,966,952)	(31,236,639)	1,216,225	534,886	
Cumulative Gap	54,138,981	37,172,029	5,935,390	7,151,615	7,686,501	

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 significant 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 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 assets and financial liabilities into relevant maturity groupings, based on the remaining period at the reporting date to the contractual maturity date.

	Less than 3 months EUR	3 months - 1 year EUR	1-5 years EUR	5+ years EUR	Other EUR	Total EUR
As at 31 December 2017						
Financial Assets at fair Value through profit or loss	-	-	905,657	1,216,225	-	2,121,882
Available-for-sale investments	-	-	151,059	-	-	151,059
Held-to-maturity investments	-	-	-		-	-
Loans and receivables	-	-	-	-	-	-
Cash and Cash equivalents	65,834,631	-	-	-	-	65,834,631
Depositor compensation scheme account with Central Bank of Malta	-	-	-	-	509,474	509,474
Accrued income	-	-	-	-	-	-
Other assets	25,412	-	-	-	-	25,412
	65,860,042	-	1,056,717	1,216,225	509,474	68,642,458

Assets available to meet these liabilities, and to cover outstanding commitments, include cash deposits 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. The capital requirement for operational risk under this method was calculated at *EUR50,782*.

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.

On 1 January 2014 the Capital Requirements Directive (CRD) and the Capital Requirements Regulations (CRR) came into effect, constituting the European implementation of the Basel capital and liquidity agreement of 2010. The Bank has made necessary changes in order to ensure that it is compliant with Pillar I capital requirements set by the CRR. Other material risks are also allocated capital as part of the Internal Capital Adequacy Process (ICAAP) embedded in the Pillar II process. This process helps to measure with greater risk sensitivity the amount of regulatory capital which the Bank requires to cover risks assumed in the course of its business, including risks not covered in Pillar I.

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

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.

6. Capital management (continued)

6.1 Capital adequacy (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.

	Carrying Amount EUR	Risk Weighted Amount EUR	Capital Requirement EUR
Central governments	**59,145,845**	-	-
Institutions	**9,345,554**	1,864,030	149,122
Corporates	**151,059**	226,589	18,127
Collective Investment schemes	-	-	-
Other items	1,220,345	171,010	13,681
Total credit risk	69,862,802	2,261,629	180,930
Foreign exchange risk		-	-
Operational risk		568,371	45,470
Total		**2,830,000**	**226,400**
Own funds		**6,876,110**	
Capital adequacy ratio		**243%**	

6. Capital management (continued)

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 2014 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.

The ICAAP process was led by the Bank's Directors, and was challenged by the internal auditors. The final document was approved by the Bank's Board of Directors in June 2015 and presented to the MFSA.

The 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.
- European Banking Authority Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013.

7 **Remuneration Policy (continued)**

Total remuneration payable to senior management, which includes the CEO and two other beneficiaries, in 2017 was *EUR276,829* of which *EUR250,829* was fixed and *EUR26,000* variable. No variable remuneration awarded during the year was deferred.

FCM has appointed a Remuneration Committee whose objective is to ensure that all remuneration, including benefits and variable remuneration, follows legal requirements and market rates. All members appointed on the Remuneration Committee are not management members except for the CEO, whose membership is ex-officio. The Remuneration Committee meets at least twice a year and minutes are formally kept by the Company Secretary. The Remuneration Committee undertakes periodic studies into compensation market rates, including variable rates, and other benefits. All variable compensation for senior management is submitted to be authorised by the Remuneration Committee. The Remuneration Policy is subject to the Remuneration Committee's scrutiny and authorisation.

FCM will determine the employee's remuneration and benefits by reference to market rates for specific roles and FCM's own needs at a particular time. Remuneration for senior management staff is recommended to the Remuneration Committee for authorisation. FCM incentive schemes are tied to the performance evaluation system and will always be subject to the Remuneration Committee's approval on the basis of a structured and measured approach, which must be tied to the adoption of sound operating procedures and risk practices. FCM will not implement incentive schemes which will encourage its management and employees to commit FCM to take on risks which in the view of the Board of Directors are not in line with the risk profile of FCM. FCM will also not implement incentive schemes which will constrain or endanger its financial position or capital base.

1. Variable remuneration will not encourage excessive risk-taking beyond the tolerated risk level of FCM;
2. Variable remuneration will be in line with business strategy, long-term bank objectives and the avoidance of conflicts of interest.
3. The implementation of basic remuneration policy (salaries) is subject to the Remuneration Committee's authorisation both at contracting stage and at periodic increase stage. The implementation of the variable remuneration policy is subject to the Remuneration Committee's scrutiny and authorisation both at initial stages, when drawing up performance targets and measures, and at recommendation stage, prior to decisions made on variable remuneration levels.
4. Staff in control functions are independent from the business units they oversee and are remunerated according to independent market rates and according to the targets and measures included in their performance evaluation forms.

7 Remuneration Policy (continued)

Variable remuneration shall be subject to FCM's overall performance, to the achievement of targets previously established, which targets include behavioural objectives and to the following considerations:

1. FCM does not offer guaranteed variable remuneration unless the latter is part of the initial contracting process, which would only happen as a one-off factor during the first year of employment.
2. The total variable remuneration value shall not in any manner constrain FCM's capital base.
3. The total level of variable remuneration shall not exceed 25% of the level of basic salary, unless specifically authorised by the Board of Directors in exceptional circumstances. In the case of the latter, such a decision would not constrain FCM's capital base and would not be higher than 50% of basic salary.
4. Variable remuneration of the most senior Bank officers may be set in a multi-year framework which will take into consideration FCM's longer-term performance and its underlying business cycle. This may include variable remuneration being settled over a period of years corresponding to FCM's business cycle.

8 Recruitment policy

FCM is an equal opportunity employer and will not discriminate between candidates on grounds of race, religion, sex, status and disability. FCM will strive to identify candidates who are best suited to the post on the basis of their academic achievements, work experience and career history.

9 Internal audit

The Bank outsources its Internal Audit function to an independent professional services firm. The Internal Auditors support 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 are communicated to the management responsible via formal audit reports. The Audit Committee and Board of Directors are informed of findings and actions being taken to implement improvements.

The Internal Auditors have unrestricted access to all accounts, books and records and are provided with all information and data needed to fulfil their duties. Coordination and close cooperation with the external auditors plays an important role to enhance the efficiency of Internal Audit's work.

10 Encumbered and unencumbered assets

	Carrying amount of encumbered assets EUR	Fair value of encumbered assets EUR	Carrying amount of unencumbered assets EUR	Fair value of unencumbered assets EUR
At 31 December 2017				
Assets	**509,474**	**509,474**	**69,353,328**	**69,353,328**

11 Return on assets

The return on assets as at 31 December 2017 is -1.40%. This is calculated as loss after tax divided by total assets.

12 Leverage

	EUR
Total Assets	69,862,802
Leverage ratio exposure	69,862,802
Tier 1 Capital	6,876,110
Total on-balance sheet exposures	69,862,802
Total Exposures	69,862,802
Leverage ratio	9.84%

5 Year Summary

Statement of profit or loss and other comprehensive income

	Year ended 31 December 2017 EUR	Year ended 31 December 2016 EUR	Year ended 31 December 2015 EUR	Year ended 31 December 2014 EUR	Year ended 31 December 2013 EUR
Interest income	768,389	1,614,165	2,085,709	1,429,583	475,699
Dividend income	851,555	128,730	-	-	-
Interest expense	(1,815,000)	(1,738,855)	(1,620,346)	(1,174,149)	(332,083)
Net interest income	(195,056)	4,040	465,363	255,434	143,616
Fee and commission expense	(70,779)	(74,003)	(23,967)	(17,696)	(14,162)
Net fair value loss on financial assets at fair value through profit or loss	15,965	(58,198)	(37,391)	4,198	273,996
Gains on financial assets not measured at fair value through profit or loss	633,569	334,731	-	-	-
Foreign exchange gain/(loss)	(4,220)	13,892	(349)	-	-
Other income	-	76,519	5,566	17,500	145,628
Impairment of assets	-	-	(182,587)	-	-
Operating income	379,479	296,981	226,635	259,436	549,078
Administrative expense	(845,923)	(919,162)	(1,009,832)	(1,041,563)	(683,511)
Employee compensation and benefits	(509,032)	(576,430)	(672,960)	(594,881)	(469,068)
Loss before income tax	(975,476)	(1,198,611)	(1,456,157)	(1,377,008)	(603,501)
Income tax credit	-	-	64,747	471,338	212,003
Loss for the year/period	(975,476)	(1,198,611)	(1,391,410)	(905,670)	(391,498)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale investments:					
- change in fair value	(113,705)	468,625	(319,150)	(250,477)	52,317
-impairment of available for sale investments	-	-	182,587	-	-
- deferred tax thereon	37,908	(163,071)	47,797	87,667	(18,311)
Other comprehensive (loss)/ income for the year/period net of tax	(75,797)	305,554	(88,766)	(162,810)	34,006
Total comprehensive loss for the year/period	(1,051,273)	(893,057)	(1,480,176)	(1,068,480)	(357,492)

FCM Bank Limited

Additional Regulatory Disclosures

In terms of Banking Rule 07 for the year ended 31 December 2017

5 Year Summary

Statement of financial position

	2017	2016	2015	2014	2013
	EUR	EUR	EUR	EUR	EUR
Assets					
Cash and cash equivalents	65,834,631	9,042,019	18,388,764	9,140,956	7,711,356
Depositor compensation scheme with Central Bank of Valletta	509,474	460,823	310,048	129,536	10,697
Financial assets at fair value through profit or loss	2,121,882	2,261,896	3,832,700	1,227,536	599,743
Other investments	151,059	52,379,029	32,251,768	37,252,418	15,843,386
Intangible assets	196,811	191,995	217,768	203,564	134,813
Property, plant and equipment	11,258	15,385	35,169	57,842	68,300
Deferred tax	877,882	839,974	1,003,045	888,177	329,315
Other assets	25,412	40,193	136,135	149,673	64,617
Prepayments and accrued income	134,394	520,860	628,532	585,367	293,492
Total assets	69,862,802	65,752,174	56,803,929	49,635,069	25,055,719
Liabilities					
Amounts owed to customers	60,955,858	56,849,001	48,906,650	38,430,577	16,206,021
Other liabilities	47,186	22,991	22,034	2,517,302	1,005,065
Accruals and deferred income	730,102	699,253	701,259	883,028	471,991
Total liabilities	61,733,146	57,571,245	49,629,943	41,830,907	17,683,077
Equity					
Share capital	13,250,000	12,250,000	10,350,000	9,500,000	8,000,000
Investment revaluation reserve	48,082	123,879	(181,675)	(92,909)	69,901
Accumulated losses	(5,168,426)	(4,192,950)	(2,994,339)	(1,602,929)	(697,259)
Total equity	8,129,656	8,180,929	7,173,986	7,804,162	7,372,642
Total liabilities and equity	69,862,802	65,752,174	56,803,929	49,635,069	25,055,719