FCM Bank Limited

Annual Report and Financial Statements
31 December 2019

Company Registration Number: C 50343

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Directors' report

The directors present their report and the audited financial statements of FCM Bank Limited ('the Bank') for the year ended 31 December 2019.

Principal activities

The Bank is licensed as a credit institution under the Maltese Banking Act (Cap. 371).

Performance Review

The Bank recognised a profit of €84,892 for the year under review, compared to a loss of €3,638,209 in the previous year, whilst operating profit for the year stood at €1,953,608 compared to an operating loss of €1,542,813 for the previous year. The improvement in the overall performance of the Bank was largely driven by a gain on the sale of the Bank's portfolio of debt securities which were held as at 31 December 2018, an increase in interest income and fee income as a result of growth its corporate lending business, and a decrease in interest expense on amounts due to customers. The Bank remained highly liquid and very well capitalised as it focussed its efforts on developing its business.

During the year, the Bank focused its efforts on its corporate lending business which was launched in November 2018, as a result of which its portfolio of loans and advances to customers increased by €15,892,954, bringing the total loans and advances to customers as at the financial year end to €17,652,802. The Bank's customer deposits decreased by €11,318,776 during the year, bringing total deposits down to €34,138,102. The decrease in deposits was a managed process, with the Bank allowing a number of deposits to mature and naturally transition out due to the excess liquidity on the balance sheet. As part of the retail strategy, average interest rates were reduced from 2.1% at the beginning of the year, to 1.8% by year-end. Notwithstanding historically low interest rates, the Bank still maintained a deposit portfolio with above-average interest rates allowing the depositors to benefit from such rates.

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 BR/05/2007 Liquidity Requirements Of Credit Institutions Authorised Under The Banking Act 1994, and its Liquidity Coverage Ratio with a minimum of 90%. In both cases, the Bank's ratios were significantly higher by a very large margin.

With reduced interest rates, the average deposit cost of the Bank came down from 2.1% at 31 December 2018 to 1.8% at 31 December 2019.

Directors' report - continued

Key performance indicators

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

	2019	2018
	€	€
Profit/(loss) for the year	**84,892**	(3,638,209)
Total own funds	**9,842,994**	10,010,614
Capital adequacy ratio	**30%**	287%
Leverage ratio	**21%**	17%

Principal risks and uncertainties

The Board has designed a solid risk management framework and set a prudent 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 assessment, quantification and mitigation. 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

In spite of its small size and growth in staff numbers, the Bank is exposed to people risk arising principally from the loss of, or dependency on, key employees and more difficult succession planning. The Bank mitigates the risk of single dependency through ensuring continuity in the absence of any individual.

Strategy risk

During 2019, the Bank registered a significant growth its corporate lending business in line with its strategy and business plan. The Bank is well capitalised and has in place a clearly defined strategy.

Directors' report - continued

Reputation risk

The Bank's reputation is, of course, of vital importance to its continued progress and is essential in attracting deposits, since 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 2 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 2019 is shown in the statement of profit or loss and other comprehensive income on pages 16 and 17. The profit for the year was €84,892 (2018: loss for the year of €3,638,209). The balance of accumulated losses as at 31 December 2019 amounted to €8,825,623 (2018: €8,910,515).

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

Future business developments

The Bank will continue to focus on the development of its product portfolio in line with its strategy and business plan, and to continue growing its corporate lending business. The Bank remains committed to continue seeking further growth in its business portfolio and the directors are confident that the outlook is positive.

Directors' report – continued

Directors

The directors who served during the period were (including the changes after year-end):

John Soler
Petr Cumba
Ondrej Korecky
Martin Farsky
Michael Borg Costanzi
Lino Casapinta (appointed on 22nd March 2019)
Dusan Benda (resigned on 1st January 2019)
Joseph Falzon (resigned on 1st January 2019)

Changes in the Board of Directors have been in accordance with the Bank's articles of association and all the current directors are to remain in office.

Statement of Directors' responsibilities for the financial statements

The directors are required by the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386) to prepare financial statements that give a true and fair view of the state of affairs of the Bank as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business as a going concern.

The financial statements of the Bank for the year ended 31 December 2019 are included in the Annual Report 2019, which is published in hard-copy printed form and is available on the Bank's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

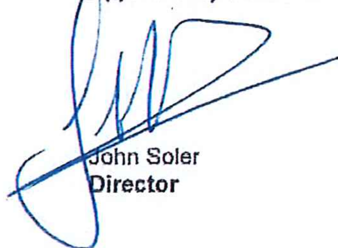
The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report - continued

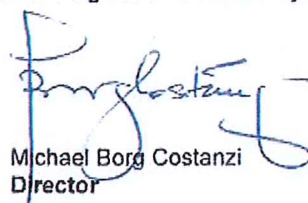
Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 25 June 2020 and signed on its behalf by:



John Soler
Director



Michael Borg Costanzi
Director

Registered Office:
Suite 3, Tower Business Centre,
Tower Street, Swatar
Birkirkara, BKR 4013
Malta

Independent auditor's report

To the Shareholders of FCM Bank Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- FCM Bank Limited's financial statements give a true and fair view of the Bank's financial position as at 31 December 2019, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

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

What we have audited

FCM Bank Limited's financial statements, set out on pages 15 to 59, comprise:

- the statement of financial position as at 31 December 2019;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independent auditor's report - *continued*

To the Shareholders of FCM Bank Limited

Independence

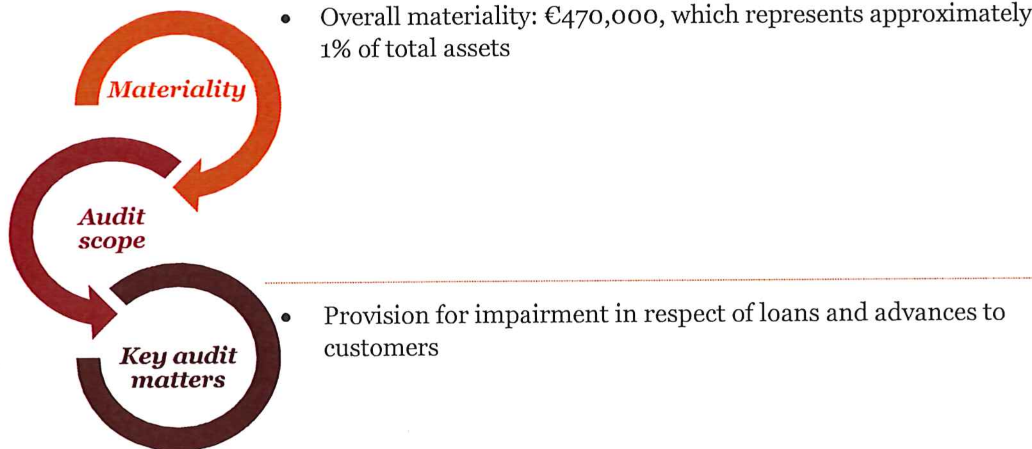
We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the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

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

The non-audit services that we have provided to the Bank, in the period from 1 January 2019 to 31 December 2019, are disclosed in note 24 to the financial statements.

Our audit approach

Overview



- Overall materiality: €470,000, which represents approximately 1% of total assets

- Provision for impairment in respect of loans and advances to customers

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

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

Materiality

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

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

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

Overall materiality	€470,000
How we determined it	Approximately 1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, the assets held are considered as the key driver of the business and the determinant of the Bank's value. We chose 1% based on professional judgement, noting that it is within the range of quantitative materiality thresholds that we consider acceptable.

We have applied a lower materiality of €64,000 solely for financial statement line items in the income statement, since the engagement team deemed that misstatements in those line items of a lower amount than overall materiality might reasonably influence stakeholders.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €23,500 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditor's report - *continued*

To the Shareholders of FCM Bank Limited

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter

Provision for impairment in respect of loans and advances to customers
 	
Loans and advances to customers represent funds advanced to Maltese and Czech non-financial corporates, all of which are considered individually significant.
 	
These loans have predominantly been originated during 2019 and in terms of IFRS 9 they have been classified as Stage 1 exposures. The staging classification is relevant to management's best estimate of Expected Credit Losses ('ECLs') at the end of reporting period.
 	
A considerable level of judgement is required to measure ECLs in accordance with IFRS 9.
 	
In respect of the Bank's loan portfolio and its current development stage, judgement is required to determine the appropriate stage classification, i.e. to allocate loans to Stages 1, 2 and 3, specifically to determine when an increase in credit risk or a default has occurred.
 	
Staging is determined based on a combination of criteria including days past due criteria, the regular monitoring of the performance of borrowers against forecasts, as well as strategic developments affecting the borrowers' future repayment abilities.
 	
In this regard, credit loss allowances relating to all non-defaulted loans and advances are determined at portfolio level through the use of an ECL model.
	Our audit procedures in respect of loans and advances to customers and specifically expected credit losses attributable to the Bank's loan portfolio included the following:
	
	• We have agreed the terms of these loans to supporting loan documentation and ensured that the granting of these facilities was performed in accordance with the approval criteria of the Bank;
	
	• We critically assessed the criteria used for determining whether significant increase in credit risk or default events had occurred, thereby concluding on the appropriateness of the stage classification of these loans. We carried this out by:
	
	  • Testing controls that management has established to identify which loans and advances show signs of increased credit risk or unlikeliness to pay. This includes controls over the compilation and review of the credit file review processes, the monitoring of arrears, and controls in respect of whether the necessary follow up actions have been resolved satisfactorily. We tested the design and operating effectiveness of these controls and determined that we could rely on these controls for the purposes of our audit.
	
	  • Reviewing borrowers' financial performance, on a sample basis, and independently assessing the borrowers' ability to meet loan repayments.
	
	Based on the evidence obtained we found the stage allocation of the Bank's loan portfolio to be appropriate.

Key audit matter	How our audit addressed the Key audit matter
This model estimates ECLs on the basis of peer data as available at the reporting date. Since the estimation of ECLs is subjective in nature and inherently judgemental, the Bank's application of the IFRS 9 impairment requirements is deemed to be an area of focus. Relevant references in the Annual Report and Financial Statements: – Accounting policy: Note 1.3; – Credit risk: Note 2.1, (a); – Note on loans and advances to customers: Note 6; and – Note on changes in expected credit losses: Note 22.	We also critically assessed the model used to determine the ECL in respect of the Bank's loans as at the financial reporting date. In particular, we tested the completeness and accuracy of the critical data that is utilised within the models for the purposes of the year-end ECL calculation. Based on the evidence obtained, we found the model assumptions, calculations and data used within the model to be reasonable.

Independent auditor's report - *continued*

To the Shareholders of FCM Bank Limited

Other information

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

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

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

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

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

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

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

Independent auditor's report - continued

To the Shareholders of FCM Bank Limited

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

Independent auditor's report - *continued*

To the Shareholders of FCM Bank Limited

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Bank's trade, customers and suppliers, and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Independent auditor's report - continued

To the Shareholders of FCM Bank Limited

Report on other legal and regulatory requirements

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

In our opinion:

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

Other matters on which we are required to report by exception

We also have a responsibility under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion, returns adequate for our audit have not been received from branches not visited by us.

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

Appointment

We were first appointed as auditors of the Bank on 29 May 2018. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 2 years.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

F Axisa

Fabio Axisa
Partner

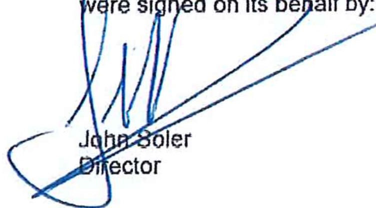
25 June 2020

Statement of financial position

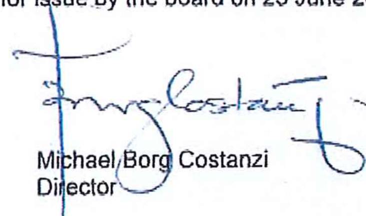
	Notes	As at 31 December 2019 €	2018 €
ASSETS			
Cash and balances with Central Bank of Malta	4	**13,317,530**	42,919,512
Loans and advances to banks	5	**8,104,291**	4,558,166
Loans and advances to customers	6	**17,564,550**	1,757,511
Financial investments	7	**4,471,393**	6,772,622
Derivative financial instruments	8	**124,328**	-
Property, plant and equipment	9	**68,449**	21,739
Intangible assets	10	**250,161**	130,456
Deferred tax assets	11	**1,243,284**	903,774
Prepayments and other assets	12	**911,730**	360,244
Total assets		**46,055,716**	57,424,024
EQUITY AND LIABILITIES			
Equity			
Share capital	13	**20,250,000**	20,250,000
Fair value reserve	14	**79,911**	-
Accumulated losses		**(8,825,623)**	(8,910,515)
Total equity		**11,504,288**	11,339,485
Liabilities			
Amounts owed to customers	15	**34,138,102**	45,456,878
Other liabilities	16	**413,326**	627,661
Total liabilities		**34,551,428**	46,084,539
Total equity and liabilities		**46,055,716**	57,424,024
MEMORANDUM ITEMS			
Commitments	17	**13,414,615**	-

The notes on pages 20 to 59 are an integral part of these financial statements.

The financial statements on pages 15 to 59 were authorised for issue by the board on 25 June 2020 and were signed on its behalf by:



John Soler
Director



Michael Borg Costanzi
Director

Income statement

	Notes	Year ended 31 December 2019 €	2018 €
Interest income	18	**497,027**	131,526
Interest expense	19	**(934,511)**	(1,608,632)
Net interest expense		**(437,484)**	(1,477,106)
Fee income	20	**175,764**	3,025
Fee expense	20	**(134,013)**	(72,703)
Net fee income/(expense)		**41,751**	(69,678)
Other income – net	21	**903,840**	3,971
Realised gains on disposal of financial investments		**1,445,501**	-
Operating income		**1,953,608**	(1,542,813)
Change in expected credit losses	22	**(85,915)**	(78,550)
Employee compensation and benefits	23	**(936,908)**	(780,475)
Administrative expenses	24	**(1,226,948)**	(1,236,371)
Loss before tax		**(296,163)**	(3,638,209)
Tax income	25	**381,055**	-
Profit/(loss) for the year		**84,892**	(3,638,209)

The notes on pages 20 to 59 are an integral part of these financial statements.

Statement of comprehensive income

		Year ended 31 December	
	Notes	**2019** €	2018 €
Profit/(loss) for the year		**84,892**	(3,638,209)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Fair valuation of financial investments measured at fair value through other comprehensive income:			
Net changes in fair value arising during the year, before tax	14	**121,456**	-
Income tax relating to components of other comprehensive income		**(41,545)**	-
Other comprehensive income for the year, net of tax		**79,911**	-
Total comprehensive income for the year		**164,803**	(3,638,209)

The notes on pages 20 to 59 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital €	Fair value reserve €	Accumulated losses €	Total equity €
Balance at 1 January 2018		13,250,000	-	(5,272,306)	7,977,694
Comprehensive income					
Loss for the year		-	-	(3,638,209)	(3,638,209)
Transaction with owners					
Issue of share capital	12	7,000,000	-	-	7,000,000
Balance at 31 December 2018		20,250,000	-	(8,910,515)	11,339,485
Balance at 1 January 2019		**20,250,000**	**-**	**(8,910,515)**	**11,339,485**
Comprehensive income					
Profit for the year		**-**	**-**	**84,892**	**84,892**
Other comprehensive income:					
Fair valuation of financial investments measured at fair value through other comprehensive					
Net changes in fair value arising during the year, net of tax	14	**-**	**79,911**	**-**	**79,911**
Total comprehensive income		**-**	**79,911**	**84,892**	**164,803**
Balance at 31 December 2019		**20,250,000**	**79,911**	**(8,825,623)**	**11,504,288**

The notes on pages 20 to 59 are an integral part of these financial statements.

Statement of cash flows

	Notes	As at 31 December 2019 €	2018 €
Cash flows used in operating activities			
Interest and fee income received		**443,859**	112,205
Other income		**914,201**	1,522
Interest and fee expense paid		**(1,246,875)**	(1,681,335)
Cash payments to employees and suppliers		**(2,069,890)**	(2,074,777)
Cash flows used in operating activities before changes in operating assets and liabilities		**(1,958,705)**	(3,642,385)
Changes in operating assets and liabilities:			
Net decrease in cash and balances with Central Bank of Malta		**174,814**	-
Net increase in loans and advances to customers		**(15,534,545)**	(1,757,511)
Net increase in other assets		**(436,161)**	(133,130)
Net decrease in amounts owed to customers		**(11,318,776)**	(15,498,982)
Net cash used in operating activities		**(29,073,373)**	(21,032,008)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	**(65,963)**	(18,711)
Purchase of intangible assets	10	**(200,770)**	(14,778)
Purchase of financial investments		**(11,662,254)**	(4,833,139)
Proceeds from sale of financial investments		**15,121,317**	-
Net cash generated from/(used in) investing activities		**3,192,330**	(4,866,628)
Cash flows from financing activities			
Proceeds from issue of share capital	13	**-**	7,000,000
Net cash generated from financing activities		**-**	7,000,000
Net movement in cash and cash equivalents		**(25,881,043)**	(18,898,636)
Cash and cash equivalents at beginning of year		**46,935,995**	65,834,631
Cash and cash equivalents at end of year	26	**21,054,952**	46,935,995

The notes on pages 20 to 59 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented.

1.1 Basis of preparation

The Bank's financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Banking Act, (Cap. 371) and the Maltese Companies Act, (Cap. 386). These financial statements are prepared under the historical cost convention, as modified by the fair valuation of financial assets measured at fair value through other comprehensive income.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors to exercise their judgment in the process of applying the Bank's accounting policies (see Note 3 - Critical accounting estimates, and judgments in applying accounting policies).

Standards, interpretations and amendments to published standards effective in 2019

During the financial year ended 31 December 2019, the Bank adopted new standards, amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2019. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Bank's accounting policies, except for the adoption of IFRS 16 'Leases'.

The Bank has adopted the requirements of IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The new accounting policy is disclosed in note 1.8. As at 1 January 2019, the Bank had one lease arrangement in place for the rental of office premises and car spaces. The lease contract is a perpetual contract made for fixed periods of 1 year such that it is automatically renewable annually but has a termination option. The termination option held is exercisable by both the Bank and by the respective lessor without permission from the other party by giving 6 months' notice in writing. The lease term is therefore deemed to be the earliest point in time at which both parties can leave the contract and its contractual obligations, being 6 months. In applying IFRS 16 for the first time, in accordance with the practical expedients permitted by the standard, the lease has been accounted for as a short-term lease at the commencement date. Accordingly, on adoption, the Bank did not recognise a lease liability and corresponding right-of-use asset.

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

1.1 Basis of preparation - continued

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

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

1.2 Foreign currency transactions and balances

a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euro, which is the Bank's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.3 Financial assets

i. Initial recognition

The Bank recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Accordingly, the Bank uses trade date accounting for regular way contracts when recording financial asset transactions. All financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the financial asset.

ii. Classification and subsequent measurement

The classification varies depending on whether the financial asset is a debt or an equity instrument.

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

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

On initial recognition the Bank classifies its debt instruments in the following measurement categories: (a) amortised cost; (b) fair value through profit or loss (FVPL); or FVOCI.

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

1.3 Financial assets - continued

Classification and subsequent measurement of debt instruments depends on: (i) the Bank's business model for managing the asset; and (ii) the cash flow characteristic of the asset. Based on these factors, the Bank classified its debt instruments into one of the following two measurement categories.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance recognised and measured as described in Note 1.3(iv). Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

Business model assessment: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the outstanding principal and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

The Bank reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

1. Summary of significant accounting policies - continued

1.3 Financial assets - continued

iii. De-recognition of financial assets

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

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

iv. Impairment of amortised cost and FVOCI financial assets

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

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified as 'Stage 1' and has its credit risk continuously monitored by the Bank. At initial recognition, an impairment allowance (or provision) is required for ECLs resulting from default events that are possible within the next 12 months ('12-month ECLs').
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. An allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Assets in Stage 3 also carry a lifetime ECL.

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

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

Significant increase in credit risk (stage 2)

The Bank's principal financial assets carried at amortised cost and FVOCI include balances with the Central Bank of Malta and loans and advances to banks and customers and debt securities. Debt securities are classified and measured at FVOCI.

Balances with the Central Bank of Malta and the majority of the Bank's loans and advances to banks and debt securities are rated. All rated financial instruments attract an 'investment grade' rating from Rating agencies such as Standard & Poor's and Moody's. The Bank considers these financial assets as having 'low credit risk' in terms of paragraphs 5.5.10 and B5.5.23 of IFRS9. This consideration is made in the light of the fact that all obligors within these categories are considered by the Bank to have a strong capacity to meet their obligations, and that adverse changes in economic conditions should not reduce their ability to fulfil obligations.

1. Summary of significant accounting policies - continued

1.3 Financial assets - continued

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

Significant increase in credit risk (stage 2) - continued

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

The Bank also has unrated financial assets measured at 'Amortised cost' – primarily loans and advances to customers, but also certain loans and advances to banks and debt securities. In respect of these financial assets, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. While it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk, the Bank considers that a financial asset has experienced a significant increase in credit risk when on or more of the following backstop criteria have been met.

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

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

Definition of default and credit impaired assets (stage 3)

The Bank determines that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily when there are indications that the obligor is unlikely to pay. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery.

Measurement of ECL

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

1. Summary of significant accounting policies - continued

1.3 Financial assets - continued

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

Measurement of ECL - continued

In the case of models used by the Bank for financial assets other than loans and advances to customers, PD, LGD, and EAD are defined as follows:

- The PD estimates are estimates at date of calculating ECL allowances. In the absence of sufficient internal historical default data, in order to estimate its PDs, the Bank makes reference to external information published by S&P. More specifically, the Bank assigns a PD to each of its exposures on the basis of the external credit rating of the counterparty or issuer, by reference to S&P default rates.

  In the case of unrated loans and advances to banks and unrated debt securities, the Bank calibrates unrated counterparties to S&P default rates by reference to external ratings of comparable financial assets. The Bank assigns a 1-year default rate to all exposures deemed to have low credit risk, and for very short-term financial assets, the 1-year default rate is scaled down to estimate a PD over a one or two day horizon, dependable on the said exposure. This is consistent within the meaning of paragraph 5.5.10 of IFRS 9, at the reporting date.

  A 100% probability of default is assigned to exposures classified as 'stage 3'.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12 EAD) or over the remaining lifetime (Lifetime EAD).

- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. In estimating LGD, the Bank refers to the historical recovery rates by rating group, including sovereigns, financial institutions and corporates published by Moody's.

The ECL is calculated as a factor of the 12-month PD, LGD and EAD.

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

Similarly, to determine the ECL in respect of loans and advances to customers and other receivables, in the absence of sufficient internal historical default data, the Bank makes reference primarily to external information published by the European Banking Authority ('EBA').

Presentation of ECL in statement of financial position

For financial assets that are measured at amortised cost, the ECL allowance is presented against the carrying amount of the assets on the balance sheet, thereby reducing the carrying amount. For financial assets measured at fair value through other comprehensive income, the loss allowance is presented within other comprehensive income and not against the carrying amount of the assets. The carrying amount of the asset is always the fair value.

1. Summary of significant accounting policies - continued

1.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.5 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use specific software. These costs are amortised over their estimated useful lives of five years. Costs associated with maintaining computer software programme are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

At the end of each reporting period, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable (Note 1.7).

1.6 Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, as follows:

	%
Furniture and fittings	10
Computer hardware	33

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.7).

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

1. Summary of significant accounting policies - continued

1.7 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test can also be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

1.8 Leases

The Bank is the lessee

Policy applicable from 1 January 2019

At the inception of a contract, the Bank assesses if the contract is or contains lease components that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank has lease agreements in place related to the lease of property used as office space and car spaces. In accordance with the practical expedients permitted by the standard, in respect of property leases, the Bank has elected not to separate lease and any associated non-lease components and instead accounts for these as a single lease component.

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

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

The Bank measures the associated right-of-use assets at an amount equal to the lease liability at the date at which the leased asset is made available for use. The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

In accordance with IFRS 16, the Bank elects not to recognise a right-of-use asset and a lease liability for short-term leases. Short-term leases are leases with a lease term of 12 months or less from the commencement date. Instead, payments associated with these short-term leases, are recognised as an expense in profit or loss on a straight-line basis over the term of the lease. If a lease for which the short-term lease exemption has been taken is subsequently modified or the lease term is changed, it is accounted for as a new lease.

Policy applicable before 1 January 2019

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

1. Summary of significant accounting policies - continued

1.9 Current and deferred tax

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

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

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

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

1.10 Share capital

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

1.11 Financial liabilities

The Bank recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Bank's financial liabilities are not at fair value through profit or loss under IFRS 9.

Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost using the effective interest method.

The Bank derecognises a financial liability from its statement of financial position when it is extinguished, the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

Financial liabilities measured at amortised cost comprise principally of accrued expenses and other liabilities.

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

1.12 Provisions and contingent liabilities

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

1.13 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'Interest income' and 'Interest expense' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.14 Fee income and expense

Fee income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate and treated as part of interest income and expense.

Other fee income, including account servicing fees are recognised as the related services are performed. Fee expense relate mainly to transaction and service fees which are expensed as the services are received.

1. Summary of significant accounting policies - continued

1.15 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

1.16 Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the Bank's financial statements in the period in which the dividends are approved by the Bank's shareholders.

2. Financial risk management

2.1 Financial risk factors

The Bank's activities expose it to a variety of financial risks and these activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the entity's financial performance.

The Board of Directors 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.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; accordingly, management carefully manages its exposure to this risk.

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

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

	2019 €	2018 €
Financial assets measured at fair value through other comprehensive income:		
Debt securities	**4,471,393**	-
Financial assets measured at fair value through profit or loss:		
Derivative financial instruments	**124,328**	-
Financial assets measured at amortised cost:		
Balances with the Central Bank of Malta	**13,317,311**	42,919,223
Loans and advances to banks	**8,104,291**	4,558,166
Loans and advances to customers	**17,564,550**	1,757,511
Debt securities	**-**	6,772,622
Other assets	**787,371**	181,489
Total gross carrying amount/fair value on-balance sheet	**44,369,244**	56,189,011
Commitments	**13,414,615**	-
Total nominal amount off-balance sheet	**13,414,615**	-
	57,783,859	56,189,011

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

	31 December 2019			31 December 2018		
	Stage classification	**Gross carrying amount €**	**Allowance for ECL €**	Stage classification	Gross carrying amount €	Allowance for ECL €
Amortised cost						
Balances with Central Bank of Malta	**Stage 1**	**13,319,066**	**1,755**	Stage 1	42,920,978	1,755
Loans and advances to banks	**Stage 1**	**8,104,869**	**578**	Stage 1	4,558,744	578
Loans and advances to customers	**Stage 1**	**17,652,802**	**88,252**	Stage 1	1,759,848	2,337
Other assets	**Stage 1**	**787,373**	**-**	Stage 1	181,489	-
Debt securities	**Stage 1**	**-**	**-**	Stage 1	6,775,378	2,756
		39,864,110	**90,585**		**56,196,437**	**7,426**

As at 31 December 2019, the carrying amount of financial assets measured at fair value through other comprehensive income ('FVOCI'), classified as stage 1, comprising solely of debt securities, is €4,471,393. The allowance for ECL in respect of these securities, presented within other comprehensive income amounts to €2,756.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

As at 31 December 2018, the Bank's only financial asset at FVOCI was classified in 'Stage 3'. As at that date, the fair value of this financial asset, originally acquired for an amount of GBP233,000 (equivalent to €290,705 on acquisition date), was written down in full. This financial asset was disposed of to a related party during 2019 for an amount equivalent to the original acquisition price, being GBP 233,000 (equivalent to €273,860 as at 31 December 2019). The amount of €273,860 is recognised as a gain on disposal of financial investments in profit or loss.

Other than for the financial asset classified as at FVOCI referred to in the preceding paragraph, as at 31 December 2019 and 31 December 2018, all the Bank's financial assets are classified in 'Stage 1'. Accordingly, the Bank recognises 12-month allowances for expected credit losses in respect of these financial assets.

At the end of the reporting period, the Bank has no past due or impaired financial assets within these asset categories. Similarly, as at 31 December 2019 and 2018 none of the Bank's exposures were classified as forborne.

At 31 December 2019, the Bank held €124,329 (2018: nil) of financial assets in the form of derivative financial instruments which were subject to credit risk, but not subject to impairment rules in accordance with IFRS 9. These instruments are held are fair value through profit or loss and therefore any movements in the fair value of these assets is immediately recorded in the income statement.

The change in allowances for financial assets measured at amortised cost during the year amounting to €85,915 (2018: €3,331) is predominantly the result of volume movements arising from the origination of new loans. During the year, the Bank did not experience any transfer of financial assets between stages. As a result, there is no re-measurement of ECL arising from transfer of stages.

The impact of changes in risk parameters, i.e. changes in PDs and LGDs, is immaterial.

Due to the fact that the Bank is still in its infancy, the ECL outcome is considered by management to be immaterial. As a result, management does not consider the sensitivity of the ECL outcome against different forward-looking economic conditions to be significant

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 and the value of collateral and guarantees pledged if any, 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, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates are considered.

Loans and advances to customers

To manage its principal credit risk exposure, arising primarily from its loans and advances to customers, the Bank compiles and updates due diligence reports through which the Bank primarily evaluates the capacity of customers to repay loans from sources other than collateral. The evaluation includes a review of the client's borrowings and repayments history and a financial analysis to assess profitability, liquidity, and debt capacity using both historical and projected financial information where necessary. The value of the collateral in place is also evaluated.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Loans and advances to customers - continued

Loan approval limits are in place. These are currently allocated between the Bank's Management Credit Committee (comprising of the CEO, Head of Corporate, Head of Risk and the Senior Risk Officer), and the Board of Directors. The Credit Committee is responsible for approving facilities which fall within the defined limits. The approval of credit facilities exceeding such limits are evaluated by the Credit Committee and recommended to the Board, with the Board of Directors having the final say. Furthermore, approval is also reserved to the Board in respect of approving participation or syndicate lending provided in the Czech Republic as well as in approving related party lending.

Credit review procedures are in place to identify at an early stage, exposures which require more detailed monitoring and review. Exposure to credit risk is managed through regular analysis of the ability of counterparties and potential counterparties to meet interest and capital repayment obligations.

Collateral

The Bank's approach when granting credit facilities is based on the customer's capacity to repay rather than placing primary reliance on credit risk mitigants. Notwithstanding, as part of the Bank's credit risk mitigation techniques, the Bank holds collateral against loans and advances to customers, which nature and level generally depends on the amount of the exposure, the type of facility provided, the term of the facility and the level of credit risk involved.

As at 31 December 2019, loans with a value of €11,427,802 were considered fully collateralised, a loan with a value of €1,850,000 was uncollateralised and a loan with a value of €4,375,000 was considered partially collateralised.

Concentration

In respect of its loans and advances to customers the Bank is exposed to three key concentration risks, namely name concentration, sector concentration and country concentration.

Firstly, a significant concentration of credit risk arises due to the limited number of customers to which the Bank has extended lending. As at 31 December 2019, out of 21 customers, exposures to 6 customers, with a value of €11,698,046 were deemed to be large exposures, as defined in the Capital Requirements Regulations (CRR). The allowance for ECL in respect of such large exposures amounted to €58,491. As at 31 December 2019 and 2018, no loans and advances to customers were deemed to be prohibited large exposures in terms of the CRR.

With respect to sector concentration, as at 31 December 2019, out of loans and advances to customers amounting to €17,652,802, exposures with a value of €14,597,400 were deemed to be concentrated within the construction/real estate sector.

Finally, with respect to country concentration, as at 31 December 2019, 5 loans, with a value of €5,716,842 were extended to borrowers whose activity is in the Czech Republic. The other borrowers operate in Malta.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Asset quality of debt securities and other financial assets

The Bank uses ratings of financial investments to highlight exposures which require closer management attention. The following tables present an analysis of the Bank's financial investments by rating agency based on Standard and Poor's ratings.

	2019	2018
	€	€
AA	**298,827**	284,592
A-	**665,003**	6,488,030
BBB-	**1,587,534**	-
Unrated	**1,920,029**	-
	4,471,393	6,772,622

As at 31 December 2019, the Republic of Malta and accordingly the Central Bank of Malta had a credit rating of A-, A2 and A+ (2018: A-, A3 and A+) from the three international credit rating agencies, S&P, Moody's and Fitch respectively.

Meanwhile, as at 31 December 2019 and 2018 credit ratings in respect of placements with counterparty banks range between BBB- and A+.

(b) Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies that are different from the Bank's functional currency.

The Bank's exposure to currency risk primarily results from transactions in CZK and GBP. As at 31 December 2019, the Bank's financial assets in CZK amounted to €1,405,679. The Bank entered into a cross currency interest rate swap to hedge its CZK on-balance sheet exposures, with a notional of €1,341,990 (CZK 34,000,000), leading to a CZK net currency exposure of €66,689. Similarly, the Bank's financial assets and financial liabilities in GBP as at 31 December 2019 amounted to €1,726,491 and €1,507,594 respectively, resulting in a net on-balance sheet exposure of €218,897. The net exposure as at 31 December 2019 is not considered significant taking into account the amounts reported in the statement of financial position. Accordingly, a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary. Similarly, the Bank was not materially exposed to currency risk through transactions in foreign currencies at the end of 2018.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is managed principally through monitoring interest rate gaps.

The exposure to cash flow and fair value interest rate risk as at 31 December 2019 and 2018 are shown below:

	Floating rates	**Fixed rates**	**Total**
	€	**€**	**€**
As at 31 December 2019			
Interest bearing assets			
Balances with Central Bank of Malta	**12,984,799**	**-**	**12,984,799**
Loans and advances to banks	**8,104,291**	**-**	**8,104,291**
Loans and advances to customers	**11,879,733**	**5,684,817**	**17,564,550**
Financial investments	**-**	**4,471,393**	**4,471,393**
Derivative financial instruments	**-**	**124,328**	**124,328**
	32,968,823	**10,280,538**	**43,249,361**
Interest bearing liabilities			
Amounts owed to customers	**7,275,817**	**26,862,285**	**34,138,102**
	7,275,817	**26,862,285**	**34,138,102**
Net exposure	**25,693,006**	**(16,581,747)**	**9,111,259**

	Floating rates	Fixed rates	Total
	€	€	€
As at 31 December 2018			
Interest bearing assets			
Amortised cost:			
Balances with Central Bank of Malta	42,375,442	-	42,375,442
Loans and advances to banks	-	1,687,461	1,687,461
Loans and advances to customers	-	1,757,511	1,757,511
Financial investments	-	6,772,622	6,772,622
	42,375,442	10,217,594	52,593,036
Interest bearing liabilities			
Amounts owed to customers	6,266,715	39,190,163	45,456,878
Net exposure	36,108,727	(28,972,569)	7,136,158

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

Financial instruments issued at fixed rates potentially expose the Bank to fair value interest rate risk. Loans and advances to banks and customers and amounts owed to customers are measured at amortised cost and are therefore not subject to fair value interest rate risk.

As at 31 December 2019, the Bank's instruments that are fair valued and which are subject to fair value interest rate risk comprise the Bank's investments in debt securities measured at FVOCI. These investments were subject to fixed interest rates. The estimated impact of an immediate 100 basis point increase in yields as at 31 December 2019 amounted to a loss of €264,282.

As outlined above, the Bank was also exposed to cash flow interest rate risk principally in respect of certain financial assets and liabilities which were subject to floating interest rates. Financial assets and liabilities issued at variable rates expose the Bank to cash flow interest rate risk.

At the end of the reporting period, if interest rates had increased by 1% (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, in particular foreign currency rates, the post-tax result for the year would increase by €238,192 (2018: increase by €234,705). Taking cognisance of the current low interest rate environment, the Bank does not expect interest rates to decrease by a further 100 basis points. Accordingly, the disclosure relating to an assumed decrease in interest rates by a 100 basis points is not deemed necessary.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

The following table summarises the Bank's exposures to interest rate risk. It includes the entity's financial instruments at carrying amounts, categorised by re-pricing dates, taking cognisance of the instruments' interest rate terms. The re-pricing periods in respect of the entity's interest-bearing assets and liabilities subject to fixed interest rates is equivalent to the remaining period to maturity.

	On demand or less than three months	Within one year but over three months	Within five years but over one year	More than five years	Total
	€	€	€	€	€
As at 31 December 2019					
Financial assets					
Interest bearing assets					
Balances with Central Bank of Malta	12,984,799	-	-	-	12,984,799
Loans and advances to banks	8,104,291	-	-	-	8,104,291
Loans and advances to customers	11,879,733	1,850,000	3,834,817	-	17,564,550
Financial investments	-	-	1,577,550	2,893,843	4,471,393
Derivative financial instruments	124,328	-	-	-	124,328
	33,093,151	1,850,000	5,412,367	2,893,843	43,249,361
Financial liabilities					
Interest bearing liabilities					
Amounts owed to customers	9,457,198	5,349,812	19,292,305	38,787	34,138,102
	9,457,198	5,349,812	19,292,305	38,787	34,138,102
Interest rate gap	23,635,953	(3,499,812)	(13,879,938)	2,855,056	
Cumulative gap	23,635,953	20,136,141	6,256,203	9,111,259	

2. Financial risk management - continued

2.2 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk – continued

	On demand or less than three months €	Within one year but over three months €	Within five years but over one year €	More than five years €	Total €
As at 31 December 2018					
Financial assets					
Interest bearing assets					
Balances with Central Bank of Malta	42,375,442	-	-	-	42,375,442
Loans and advances to banks	1,687,461	-	-	-	1,687,461
Loans and advances to customers	-	1,757,511	-	-	1,757,511
Financial investments	-	57,536	1,080,618	5,634,468	6,772,622
	44,062,903	1,815,047	1,080,618	5,634,468	52,593,026
Financial liabilities					
Interest bearing liabilities					
Amounts owed to customers	24,137,413	8,056,098	13,263,367	-	45,456,878
Interest rate gap	19,925,490	(6,241,051)	(12,182,749)	5,634,468	
Cumulative gap	19,925,490	13,684,439	1,501,690	7,136,158	

(c) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments.

The Bank manages this risk, by maintaining a strong base of shareholders' capital considering the stages of its operations. The Bank manages its asset base with liquidity in mind and monitors future cash flows and changes in available liquidity on a regular basis.

The Bank 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. The Assets and Liabilities Committee ensures that funds are always available to meet the expected demand for cash. 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.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

All liquidity policies and procedures are subject to review and approval by the Board of Directors.

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.

During the years ended 31 December 2019 and 31 December 2018, the Bank's liquidity ratios were significantly above the Bank's appetite of 35% in respect of the ratio of liquid assets to deposit liabilities and above 100% in respect of both the LCR and NSFR.

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

	On demand or less than three months €	Within one year but over three months €	Within five years but over one year €	More than five years €	Total €
As at 31 December 2019					
Financial assets					
Balances with Central Bank of Malta	13,317,311	-	-	-	13,317,311
Loans and advances to banks	8,104,291	-	-	-	8,104,291
Loans and advances to customers	11,879,733	1,850,000	3,834,817	-	17,564,550
Financial investments	-	-	1,577,550	2,893,843	4,471,393
Derivative financial instruments	124,328	-	-	-	124,328
Other assets	787,371	-	-	-	787,371
	34,213,034	1,850,000	5,412,367	2,893,843	44,369,244
Financial liabilities					
Amounts owed to customers	9,457,198	5,349,812	19,292,305	38,787	34,138,102
Other liabilities	299,347	-	-	-	299,347
	9,756,545	5,349,812	19,292,305	38,787	34,437,449
Maturity gap	24,456,489	(3,499,812)	(13,879,938)	2,855,056	
Cumulative gap	24,456,489	20,956,677	7,076,739	9,931,795	

2. **Financial risk management** - continued

2.1 **Financial risk factors** - continued

(c) Liquidity risk - continued

	On demand or less than three months €	Within one year but over three months €	Within five years but over one year €	More than five years €	Total €
As at 31 December 2018					
Financial assets					
Balances with Central Bank of Malta	42,919,223	-	-	-	**42,919,223**
Loans and advances to banks	4,558,166	-	-	-	**4,558,166**
Loans and advances to customers	-	1,757,511	-	-	**1,757,511**
Financial investments	-	57,536	1,080,618	5,634,468	**6,772,622**
Other assets	181,489	-	-	-	**181,489**
	47,658,878	**1,815,047**	**1,080,618**	**5,634,468**	**56,189,011**
Financial liabilities					
Amounts owed to customers	24,845,913	7,347,598	13,263,367	-	**45,456,878**
Other liabilities	578,669	-	-	-	**578,669**
	25,424,582	**7,347,598**	**13,263,367**	**-**	**46,035,547**
Maturity gap	**22,234,296**	**(5,532,551)**	**(12,182,749)**	**5,634,468**	
Cumulative gap	**22,234,296**	**16,701,745**	**4,518,996**	**10,153,464**	

The following table analyses the Bank's principal undiscounted cash flows payable under non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

	On demand or less than three months €	Within one year but over three months €	Within five years but over one year €	More than five years €	Total €	Carrying amount €
As at 31 December 2019						
Amounts owed to customers	9,589,703	5,707,976	19,614,234	38,807	**34,950,720**	**34,138,102**
Other liabilities	299,347	-	-	-	**299,347**	**299,347**
	9,889,050	**5,707,976**	**19,614,234**	**38,807**	**35,250,067**	**34,437,449**
As at 31 December 2018						
Amounts owed to customers	24,853,820	7,398,776	13,635,153	-	**45,887,749**	**45,456,878**
Other liabilities	578,669	-	-	-	**578,669**	**578,669**
	25,432,489	**7,398,776**	**13,635,153**	**-**	**46,466,418**	**46,466,418**

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

As at 31 December 2019, the contractual undiscounted cash inflows and outflows attributable to the Bank's derivative transactions, which were all due within three months, amounted to €1,465,847 and €1,337,188 respectively, resulting in a net inflow of €128,659.

(d) Operational risk

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

The Bank's 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; and
- risk mitigation, including insurance where this is effective.

2.2 Capital risk management

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

- to comply with the capital requirements set by the MFSA;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on an ongoing basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives and Regulations, as implemented by the MFSA for supervisory purposes.

The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets ("Capital requirements ratio") above the prescribed minimum level of 8% as well as a capital conservation buffer of 2.5% and countercyclical buffer requirement at a maximum 2.5%. During the year, the Bank has met all externally imposed capital requirements.

The minimum capital requirements are calculated for credit, market and operational risks. During the year, the Bank utilised the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method for foreign exchange risk in order to calculate the Pillar 1 minimum capital requirements. For credit risk, under the standardised approach, risk weights are determined according to credit ratings provided by internationally recognised credit agencies such as Fitch or their equivalents and by using the applicable regulatory risk weights for unrated exposures. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income, while the Basic Method requires the Bank to allocate 8% of its overall net foreign exchange position to calculate the capital requirement for foreign exchange risk.

2. **Financial risk management** - continued

2.2 Capital risk management - continued

The following table shows the components of own funds and accordingly the basis for the calculation of the Bank's capital adequacy ratio:

	2019	2018
	€	€
Common Equity Tier 1 (CET1) capital		
Share capital	**20,250,000**	20,250,000
Accumulated losses	**(8,825,623)**	(8,910,515)
Fair value reserve	**79,911**	-
Less:		
Intangible assets	**(250,161)**	(130,456)
Deferred tax assets that rely on future profitability and arise from temporary differences	**(1,243,284)**	(903,774)
Depositor compensation scheme	**(332,512)**	(492,236)
Other transitional adjustments	**164,663**	197,595
CET1 capital	**9,842,994**	10,010,614
Total capital / own funds	**9,842,994**	10,010,614

2.2 Fair value of financial instruments

Financial instruments measured at fair value

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

Fair values are consequently determined according to the following hierarchy:

- *Level 1 – quoted market price:* financial instruments with quoted prices for identical instruments in active markets.
- *Level 2 – valuation technique using observable inputs:* financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- *Level 3 – valuation technique with significant unobservable inputs:* financial instruments valued using models where one or more significant inputs are unobservable.

As at 31 December 2019, all of the Bank's financial assets measured at fair value through, comprising debt securities amounting to €4,471,393 were classified in level 1. The fair value of financial instruments traded in active markets (i.e. level 1) is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price.

2. Financial risk management - continued

2.2 Fair value of financial instruments - continued

Financial instruments measured at fair value - continued

As at 31 December 2018, the Bank had a financial asset with a carrying amount of nil categorised within level 3 comprises of debt securities issued by a corporate. The exposure was categorised as such in view of the fact that the market within which the securities trade was illiquid.

Financial instruments not measured at fair value

Loans and advances to banks and customers and amounts owed to customers and to banks are carried at amortised cost in the statement of financial position. The directors consider the carrying amounts of loans and advances to banks and customers and amounts owed to banks to be a reasonable estimate of their fair value principally in view of the relatively short periods to repricing or maturity from the end of the reporting periods.

The fair value of the majority of fixed interest deposits, is not deemed to be significantly different from their carrying amounts, based on discounted cash flows at current market interest rates, particularly due to the relatively short periods to maturity. These estimates are considered level 3 fair value estimates.

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

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgments made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

The directors believe that there are no areas involving a higher degree of judgement that have a significant risk of resulting in a material adjustment and that may have a significant effect on the amounts recognised in the financial statements; and there are no key assumptions and key sources of estimation uncertainty relating to estimates that require directors' most difficult, subjective or complex judgments.

4. Cash and balances with Central Bank of Malta

	2019	2018
	€	€
Cash in hand	**219**	289
Balances with Central Bank of Malta	**13,319,066**	42,920,978
Allowance for expected credit losses - balances with Central Bank of Malta	**(1,755)**	(1,755)
	13,317,530	42,919,512

Balances held with Central Bank of Malta include reserve deposits relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB amounting to €36,690 (2018: €51,780), which attracts interest at the rate of 0%. Other balances with the Central Bank of Malta are charged interest at the deposit facility rate set by the European Central Bank (ECB).

Balances with Central Bank of Malta also include a balance of €332,512 (2018: €492,236) that is pledged in favour of the Depositor Compensation Scheme ("DCS") in terms of the Depositor Compensation Scheme Regulations (Subsidiary Legislation, 371.09) of the Laws of Malta.

5. Loans and advances to banks

	2019	2018
	€	€
Repayable on call and at short notice	**8,104,869**	4,558,744
Allowances for expected credit losses	**(578)**	(578)
	8,104,291	4,558,166

Loans and advances to banks repayable on call and at short notice are included in cash and cash equivalents for the purposes of the statement of cash flows (Note 26).

6. Loans and advances to customers

	2019 €	2018 €
Term loans and advances	**17,652,802**	1,759,848
Allowances for expected credit losses	**(88,252)**	(2,337)
	17,564,550	1,757,511

Loans and advances to customers at 31 December 2019 includes a credit exposure to a group undertaking amounting to €1,850,000 (2018: €1,759,848) prior to ECL that is subject to an interest rate of 5.50% per annum, unsecured and due on 25 July 2020, and a credit exposure to a related party amounting to €4,375,000 (2018: nil), prior to ECL that is subject to an interest rate of 4.79% per annum, secured and due on 19 December 2029.

7. Financial investments

	2019 €	2018 €
Financial investments measured at FVOCI:		
Debt securities	**4,471,393**	-
Financial investments measured at amortised cost:		
Debt securities	-	6,775,378
Allowance for expected credit losses	-	(2,756)
	4,471,393	6,772,622

As at 31 December 2019, an expected credit loss ("ECL") allowance amounting to €2,756 was accounted for in respect of the Bank's financial investments measured at FVOCI in terms of IFRS 9.

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

	2019 €	2018 €
Financial investments measured at FVOCI:		
- local government	**730,000**	-
- local entities	**1,853,326**	-
- foreign government	**310,517**	-
- foreign entity	**1,577,550**	-
	4,471,393	-
Financial investments measured at amortised cost:		
- local government	-	6,487,385
- foreign government	-	285,237
	-	6,772,622

7. **Financial investments** – continued

In accordance with the Bank's policy, changes in the business model of financial assets are possible yet expected to be very infrequent. Upon adoption of IFRS 9, on 1 January 2018, the Bank determined that a portfolio of debt securities was being held predominantly for collection of contractual cash flows. As a result, these securities were deemed to be held within the 'Held-to-collect' business model and were accordingly measured at amortised cost. As at 31 December 2018, the carrying amount of the portfolio amounted to €6,772,622.

During 2019, the Bank's management changed its intentions for managing this portfolio. The change in intention was driven by the introduction of the Bank's corporate lending platform, at which time management decided to hold the securities with an intention to sell in the short term, with the objective of utilising the proceedings to fund new loan originations.

As a result, the entire portfolio of debt securities originally held with an intention to collect contractual cash flows was disposed of during the year. The Bank recorded a gain on the disposal of this portfolio amounting to €1,179,766. The change in business model was approved by the Board of Directors based on the recommendations presented and documented by management.

In accordance with IFRS 9, the reclassification date is defined as *"the first day of the first reporting period following the change in the business model that results in the entity reclassifying the financial assets"*. In this case, the reclassification date would be 1 January 2020, i.e. the first day of the next reporting period.

Given that the portfolio was disposed of in its entirety during 2019, there are no effects arising from such reclassification as of 1 January 2020. Simultaneously, the Bank has determined that the debt securities that have been acquired during 2019, have been acquired with the intention both to collect contractual cash flows and sell financial assets. All debt securities acquired during 2019 have accordingly been classified and measured at fair value through other comprehensive income (FVOCI). As at 31 December 2019, the Bank recognised unrealised fair value gains on the portfolio of debt securities acquired during 2019 in other comprehensive income amounting to €79,911, net of tax.

8. **Derivative financial instruments**

The Bank enters into cross currency interest rate swaps to hedge the foreign currency exposures arising out of loans and advances to customers. While these derivative transactions provide effective economic hedges, hedge accounting under the requirements of IFRS 9 has not been adopted in this respect. Accordingly, these derivative contracts held for risk management purposes have been classified as held-for-trading in these financial statements in accordance with IFRS 9.

The derivative financial instruments at 31 December 2019 relate to a cross currency interest rate swap whereby the Bank borrowed CZK34,000,000 from a related party bank in exchange for EUR, maturing within one year from the end of the reporting period. The CZK borrowing was over-collateralised by 10%, in view of the higher counterparty credit risk that the Bank is deemed to have as compared to the related party bank. This swap was entered into at the average contractual rate of 23.238 being the rate after factoring in collateral at the rate of 10% and accordingly a multiplier of 1.1 to the spot rate.

9. Property, plant and equipment

	Furniture and fittings €	Computer hardware €	Total €
At 1 January 2018			
Cost	93,112	42,754	135,866
Accumulated depreciation	(88,109)	(36,499)	(124,608)
Net book amount	5,003	6,255	11,258
Year ended 31 December 2018			
Opening net book amount	5,003	6,255	11,258
Additions	-	18,711	18,711
Depreciation charge	(3,584)	(4,646)	(8,230)
Closing net book amount	1,419	20,320	21,739
At 31 December 2018			
Cost	93,112	61,465	154,577
Accumulated depreciation	(91,693)	(41,145)	(132,838)
Net book amount	1,419	20,320	21,739
Year ended 31 December 2019			
Opening net book amount	1,419	20,320	21,739
Additions	36,291	29,672	65,963
Depreciation charge	(3,968)	(15,285)	(19,253)
Closing net book amount	**33,742**	**34,707**	**68,449**
At 31 December 2019			
Cost	129,403	91,137	220,540
Accumulated depreciation	(95,661)	(56,430)	(152,091)
Net book amount	**33,742**	**34,707**	**68,449**

10. Intangible assets

	Computer software €
At 1 January 2018	
Cost	439,471
Accumulated amortisation	(242,660)
Net book amount	196,811
Year ended 31 December 2018	
Opening net book amount	196,811
Additions	14,778
Amortisation charge	(81,133)
Closing net book amount	130,456
At 31 December 2018	
Cost	454,249
Accumulated amortisation	(323,793)
Net book amount	130,456
Year ended 31 December 2019	
Opening net book amount	**130,456**
Additions	**200,770**
Amortisation charge	**(81,065)**
Closing net book amount	**250,161**
At 31 December 2019	
Cost	**655,019**
Accumulated amortisation	**(404,858)**
Net book amount	**250,161**

11. Deferred tax assets

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

	2019	2018
	€	€
At beginning of year	**903,774**	877,882
Impact arising on transition to IFRS 9	**-**	25,892
Recognised in profit or loss		
- Deferred taxes on tax losses carried forward	**381,055**	-
Recognised in other comprehensive income		
- Deferred taxes on fair valuation of financial investments measured at FVOCI	**(41,545)**	-
	1,243,284	903,774

The balance at 31 December represents temporary differences attributable to:

	2019	2018
	€	€
Unabsorbed tax losses	**1,284,829**	903,774
Fair valuation of financial investments measured at FVOCI	**(41,545)**	-
	1,243,284	903,774

The recognised deferred tax assets are expected to be recovered after more than twelve months from the end of the reporting period.

Deferred tax assets are recognised for all unabsorbed 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 shareholder. The directors will continue to monitor the position on an ongoing basis.

At 31 December 2019 the Bank had unabsorbed tax losses of €9,296,606 (2018: €9,101,358) for which no deferred tax asset is recognised in the statement of financial position. The crystallisation of the deferred tax asset amounting to €3,253,812 (2018: €3,185,475) is uncertain due to the expected pattern of income in future years and has therefore not been recognised. Unabsorbed tax losses have no expiry date.

12. Prepayments and other assets

	2019 €	2018 €
Prepayments	**124,357**	178,755
Amounts due from immediate parent company	**565,509**	72,334
Amounts due from group undertakings	**92,518**	-
Other assets	**129,346**	109,155
	911,730	360,244

Amounts due from immediate parent company and group undertakings are unsecured, non-interest bearing and repayable on demand.

13. Share capital

	2019 €	2018 €
Authorised:		
Ordinary shares at €1 each	**25,000,000**	25,000,000
Issued and paid up:		
Ordinary shares at €1 each fully paid	**20,250,000**	20,250,000

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 general meetings of the Bank. All shares rank equally with regards to the Bank's residual assets.

On 15 February 2018 and 14 December 2018, the issued share capital was increased by €3,000,000 and €4,000,000, respectively.

14. Fair value reserve

The fair value reserve reflects the effects of the fair value measurement of financial instruments classified as at fair value through other comprehensive income, net of deferred taxes (refer to Note 11). In respect of debt securities, any gains or losses are not recognised in profit or loss until the debt security has been sold.

15. Amounts owed to customers

	2019 €	2018 €
Term deposits	**26,862,285**	39,190,163
Repayable on call and at short notice	**7,275,817**	6,266,715
	34,138,102	45,456,878

15. Amounts owed to customers - continued

The Bank charges 0.50% (2018: 0.5%) annual interest rate on savings account and a bonus of 0.25% (2018: 0.25%) variable annual interest rate if no withdrawal is made from the savings accounts during 12 consecutive months, and 0.78% to 3.70% (2018: 0.58% to 4.60%) annual interest rate on fixed term deposits.

16. Other liabilities

	2019	2018
	€	€
Accrued interest expense	**262,708**	436,482
Other accrued expenses	**113,979**	142,187
Other liabilities	**36,639**	48,992
	413,326	627,661

Other liabilities are unsecured and non-interest bearing.

17. Commitments

Operating lease commitments

As at 31 December 2018, the Banks's operating lease commitments, which related to lease of property, were subject to the following future minimum lease payments:

	2018
	€
Not later than one year	67,125
	67,125

As at 31 December 2019, the Bank has a lease agreement in place related to the lease of property used as office space and car spaces. The lease contract is a perpetual contract made for fixed periods of 1 year such that it is automatically renewable annually but has a termination option, exercisable by both the Bank and the lessor, which as explained in Note 24, qualifies as a short-term lease. The lease to which the Bank is committed as at 31 December 2019 is the same lease to which the short-term lease expense disclosed in Note 24 relates.

Undrawn credit facilities

At the end of the reporting period, the Bank had undrawn credit facilities amounting to €13,414,615 (2018: nil).

18. Interest income

	2019 €	2018 €
On loans and advances to banks	**7,935**	13,648
On financial investments	**127,252**	65,932
On loans and advances to customers	**361,840**	51,946
	497,027	131,526

19. Interest expense

	2019 €	2018 €
On amounts owed to customers	**811,324**	1,400,682
On derivative financial instruments	**2,785**	-
Negative interest on balances with Central Bank of Malta	**120,402**	207,950
	934,511	1,608,632

20. Net fee income/(expense)

	2019 €	2018 €
Fee income		
Loan servicing fees	**175,764**	3,025
Fee expense		
Bank charges	**65,566**	63,254
Other fee expenses	**68,447**	9,449
	134,013	72,703
Net fee income/(expense)	**41,751**	(69,678)

21. Other income - net

	2019 €	2018 €
Foreign exchange differences	**(10,361)**	2,449
Net income from foreign exchange activities	**1,822**	1,522
Other income - net	**912,379**	-
	903,840	3,971

Other income at 31 December 2019 include income from one-off advisory services provided by the Bank to a related party amounting to €912,379 (2018: nil) (Note 27).

22. Changes in expected credit losses

	2019 €	2018 €
Change in expected credit losses in profit or loss on:		
- Balances with Central Bank of Malta	**-**	(532)
- Loans and advances to banks	**-**	(427)
- Loans and advances to customers	**85,915**	2,337
- Financial investments	**-**	78,405
Exchange differences	**-**	(1,233)
	85,915	78,550

23. Employee compensation and benefits

	2019 €	2018 €
Wages and salaries		
- Directors' remuneration excluding directors' fees	**109,897**	131,773
- Other staff salaries	**781,324**	617,096
Social security costs	**45,687**	31,606
	936,908	780,475

Average number of persons employed by the Bank throughout the financial year:

	2019	2018
Managerial	**10**	7
Other	**14**	9
	24	16

24. Administrative expenses

	2019 €	2018 €
IT support	**456,125**	417,447
Short-term/Operating lease expenses	**146,078**	84,956
Legal fees	**52,688**	74,210
Amortisation of intangible assets (Note 10)	**81,065**	81,133
Depositor compensation scheme contribution	**17,817**	59,688
Directors' fees	**53,468**	58,328
Depreciation of property, plant and equipment (Note 9)	**19,253**	8,230
Other administrative expenses	**400,454**	452,379
	1,226,948	1,236,371

24. Administrative expenses - continued

Other administrative expenses mainly comprise of supervision fees, internal audit fees and other services or expense items that are incurred in the course of the Bank's operations.

The Bank has a lease agreement in place related to the lease of property used as office space and car spaces. The lease contract is a perpetual contract made for fixed periods of 1 year such that it is automatically renewable annually but has a termination option. The termination option held is exercisable by both the Bank and by the respective lessor without permission from the other party by giving 6 months' notice in writing. The lease term is therefore deemed to be the earliest point in time at which both parties can leave the contract and its contractual obligations, being 6 months. Accordingly, the lease qualifies as a short-term lease at the commencement date. The lease payments are recognised on a straight-line basis as an expense in profit or loss over the term of the lease.

Auditor's remuneration

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

	2019	2018
	€	€
Annual statutory audit	**35,000**	15,000
Other non-audit assurance services	**1,500**	-
Tax compliance and advisory services	**1,500**	15,500
Other non-audit services	**7,000**	5,000
	45,000	35,500

25. Income tax

The tax on the Bank's profit before tax, which relates solely to deferred tax income, differs from the theoretical amount that would arise using the effective tax rate applicable to the Bank as follows:

	2019	2018
	€	€
Loss before tax	**(296,163)**	(3,638,209)
Tax at applicable rate 35%	**103,657**	1,273,373
Tax effect of:		
Difference between depreciation and amortisation charge and capital allowances	**-**	7,089
Expenses not deductible for tax purposes	**209**	-
Unabsorbed tax losses for the year	**-**	(1,280,462)
Recognition of previously unrecognised deferred tax asset attributable to unabsorbed tax losses	**277,189**	-
	381,055	-

26. Cash and cash equivalents

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

	2019	2018
	€	€
Cash and balances with Central Bank of Malta	**12,950,083**	42,377,251
Loans and advances to banks	**8,104,869**	4,558,744
Per Statement of cash flows	**21,054,952**	46,935,995
Adjustments to reflect:		
Depositor compensation scheme and reserve deposit requirement	**369,202**	544,016
ECL in respect of balances with Central Bank of Malta	**(1,755)**	(1,755)
ECL in respect of loans and advances to banks	**(578)**	(578)
Per Statement of financial position	**21,421,821**	47,477,678

	2019	2018
	€	€
Analysed as follows		
Cash and balances with Central Bank of Malta (Note 4)	**13,317,530**	42,919,512
Loans and advances to banks (Note 5)	**8,104,291**	4,558,166
	21,421,821	47,477,678

27. Related party transactions

Related parties of the Bank include the ultimate parent company, SAB Financial Group a.s., all entities controlled by the ultimate parent company, key management personnel, close family members of key management personnel and entities which are controlled or jointly controlled by key management personnel or their close family members. The ultimate controlling party of FCM Bank Limited is Mr Radomir Lapcik, who holds a 100% stake in the share capital of SAB Financial Group a.s. All entities ultimately controlled by Mr Radomir Lapcik are also considered to be related parties.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Bank, being the directors of the Bank.

The following table provides the total amount of transactions which have been entered with, and balances with related parties by the Bank for the relevant financial year:

	2019	2018
	€	€
Assets		
Loans and advances to banks	**343,916**	-
Loans and advances to customers	**6,225,000**	1,757,511
Derivative financial instruments	**124,328**	-
Prepayments and other assets	**676,568**	72,334
Liabilities		
Amounts owed to customers	**-**	230,853
Other liabilities	**-**	330
Income statement		
Other income – net	**912,379**	-
Interest expense	**2,785**	1,393
Directors' fees and remuneration	**163,365**	190,101
Administrative expenses	**147,078**	44,548

During 2019, the Bank sold a financial asset at FVOCI, which had been classified in 'Stage 3' and therefore written down in full, to a related party for an amount of GBP 233,000 (equivalent to €273,860). The amount of €273,860 is recognised as a gain on disposal of financial investments in profit or loss.

28. Events after the reporting period

The directors considered the emergency and spread of COVID-19 to be a non-adjusting subsequent event that may have an impact on the Bank's future financial position and results.

The outbreak of the COVID-19 virus has severely impacted many local economies around the world. There is a wide expectation that the outbreak will result in a global economic recession resulting from decreased levels of demand as governments take the necessary measures to contain the spread of the virus. These measures trigger significant disruptions to businesses worldwide and are similarly expected to impact the local economy, in which the Bank operates, to an extent which is yet unknown. The impact for the Bank will be heavily dependent on how the pandemic is contained in Malta over the remainder of the year.

Since the global outbreak, the Bank has formed a dedicated COVID-19 focus group which meets daily basis to discuss and manage developments.

The impact on FCM Bank has to date been as follows:

- *Operations*

  The Bank has implemented its business continuity plan, with the majority of staff working remotely, except for skeleton staff necessary to keep the day-to-day running of the Bank which was mainly limited to reception staff and other front liners. Safeguarding of the Bank's employees and customers was a priority, with the necessary precautions being taken in line with advice issued by the relevant authorities. No significant impact on the Bank's operations has been experienced.

- *Loan portfolio*

  It is reasonable to expect that some borrowers will be impacted by the disruption to the economy which in turn causes delays in customers' loan repayments. In mitigating this risk, the Bank adopted a proactive approach to identify and support customers adversely affected by the COVID-19. Accordingly, with the outbreak of the pandemic in Malta, the Bank has been in contact with all its customers, and where warranted, has granted moratoria on capital and/or interest repayments in line with Directive 18 of the Central Bank of Malta and other communication issued by the Malta Financial Services Authority and the European Banking Authority. No instances of default have taken place to date. Furthermore, the directors believe that the loan portfolio is adequately secured with sufficient margins of collateral available.

- *Investment portfolio*

  The Bank's investment portfolio suffered a downward revaluation of approximately €250,000 (ca 2.6%) during the first half of 2020, which impact however is not considered to be material. Management continues to monitor the situation very closely with the expectation that the portfolio will stabilise throughout the year.

Determining accurately the full impact of COVID-19 on the Bank is judgmental and subjective in nature, given that such assessment would also need to consider the likely duration of the crisis.

Nonetheless, the Bank has compiled a detailed analysis of potential losses on the basis of information available to it at the date of approval of the financial statements and has revised its financial projections under different forward-looking adverse scenarios that the Bank might potentially experience due to the COVID-19 pandemic crisis.

28. Events after the reporting period - continued

The revised projections primarily consider a significantly curtailed increase in lending as a result of the current economic downturn. In spite of this, FCM Bank continues to seek opportunities for further business growth and ways to diversify its loan portfolio. In fact, the Bank has targeted a number of loans with respect to the COVID-19 Government Guarantee Scheme, in which the Bank has finalised a risk sharing and service level agreement with the Malta Development Bank.

Furthermore, although no defaults have been recorded to date, the projections also consider an increase in borrower defaults.

Despite the significance of the impact that COVID-19 can have on the Bank under a worst-case scenario, the Bank would still be able to satisfy its minimum capital requirements over the foreseeable future.

This is mainly attributable to the fact that the Bank's CET1 position as at 31 December 2019 is well above the minimum regulatory requirement. Furthermore, the Bank is also expecting to increase its CET1 capital by a further €1m imminently and the Bank will also be increasing regulatory capital in the future in order to support the growth in the business and to mitigate possible negative effects of the pandemic on the Bank's capital base, should those materialise.

As a result, the directors of the Bank believe that, on the basis of the information available as at the date of approval of these financial statements, the going concern assumption in the preparation of the financial statements is appropriate and no material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern.

29. Statutory information

FCM Bank Limited is a limited liability company and is incorporated in Malta.

The immediate parent company of the Bank is SAB Europe Holding Ltd., a company incorporated and registered in Malta, the registered address of which is Suite 3, Tower Business Centre, Tower Street, Swatar, Malta.

The ultimate parent company of the Bank is SAB Finance A.S. which is incorporated and registered in Czech Republic, the registered address of which is Senovážné náměstí 1375/19 110 00 Praha 1.

Copies of the Annual Report and Accounts of the immediate and ultimate parent companies may be obtained from their registered address.

Additional Regulatory Disclosures
31 December 2019

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 Maltese Banking Act, (Cap. 371), 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 Committee and Board of Directors are responsible for approving all credit facilities, 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 2019, 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

	Europe	**Total**
	€	**€**
Central Government	**14,357,828**	**14,357,828**
Institutions	**11,659,495**	**11,659,495**
Corporates	**17,564,550**	**17,564,550**
Other assets	**787,371**	**787,371**
	44,369,244	**44,369,244**

Exposures analysed by residual maturity

	On demand or less than three months	**Within one year but over three months**	**Within five year but over one year**	**More than five years**	**Total**
	€	**€**	**€**	**€**	**€**
As at 31 December 2019					
Financial assets					
Balances with Central Bank of Malta	13,317,311	-	-	-	**13,317,311**
Loans and advances to banks	8,104,291	-	-	-	**8,104,291**
Loans and advances to customers	11,879,733	1,850,000	3,834,817	-	**17,564,550**
Financial investments	-	-	1,577,550	2,893,843	**4,471,393**
Derivative financial instruments	124,328	-	-	-	**124,328**
Other assets	787,371	-	-	-	**787,371**
	34,213,034	**1,850,000**	**5,412,367**	**2,893,843**	**44,369,244**

	On demand or less than three months	**Within one year but over three months**	**Within five year but over one year**	**More than five years**	**Total**
	€	**€**	**€**	**€**	**€**
As at 31 December 2018					
Financial assets					
Balances with Central Bank of Malta	42,919,223	-	-	-	**42,919,223**
Loans and advances to banks	4,558,166	-	-	-	**4,558,166**
Loans and advances to customers	-	1,757,511	-	-	**1,757,511**
Financial investments	-	57,536	1,080,618	5,634,468	**6,772,622**
Other assets	181,489	-	-	-	**181,489**
	47,658,878	**1,815,047**	**1,080,618**	**5,634,468**	**56,189,011**

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:

	2019	2018
	€	€
AA	**298,827**	284,592
A-	**665,003**	6,488,030
BBB-	**1,587,534**	-
Unrated	**1,920,029**	-
	4,471,393	6,772,622

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

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

	Floating rates	Fixed rates	Total
	€	€	€
As at 31 December 2019			
Interest bearing assets			
Amortised cost:			
Balances with Central Bank of Malta	12,984,799	-	12,984,799
Loans and advances to banks	8,104,291	-	8,104,291
Loans and advances to customers	11,879,733	5,684,817	17,564,550
Financial investments	-	4,471,393	4,471,393
Derivative financial instruments	-	124,328	124,328
	32,968,823	**10,280,538**	**43,249,361**
Interest bearing liabilities			
Amounts owed to customers	**7,275,817**	**26,862,285**	**34,138,102**
Net exposure	**25,693,006**	**(16,581,747)**	**9,111,259**

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

	On demand or less than three months	Within one year but over three months	Within five year but over one year	More than five years	Total
	€	€	€	€	€
As at 31 December 2019					
Financial assets					
Interest bearing assets					
Balances with Central Bank of Malta	12,984,799	-	-	-	**12,984,799**
Loans and advances to banks	8,104,291	-	-	-	**8,104,291**
Loans and advances to customers	11,879,733	1,850,000	3,834,817	-	**17,564,550**
Financial investments	-	-	1,577,550	2,893,843	**4,471,393**
Derivative financial instruments	124,328	-	-	-	**124,328**
	33,093,151	**1,850,000**	**5,412,367**	**2,893,843**	**43,249,361**
Financial liabilities					
Interest bearing liabilities					
Amounts owed to customers	**9,457,198**	**5,349,812**	**19,292,305**	**38,787**	**34,138,102**
Interest rate gap	**23,635,953**	**(3,499,812)**	**(13,879,938)**	**2,855,056**	
Cumulative gap	**23,635,953**	**20,136,141**	**6,256,203**	**9,111,259**	

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 the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments.

The Bank manages this risk, by maintaining a strong base of shareholders' capital considering the stages of its operations. The Bank manages its asset base with liquidity in mind, and monitors future cash flows and changes in available liquidity on a regular basis.

The Bank 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. The Assets and Liabilities Committee ensures that funds are always available to meet the expected demand for cash. 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.

All liquidity policies and procedures are subject to review and approval by the Board of Directors.

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 31 December 2019, 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.

4. **Liquidity risk** - continued

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

	On demand or less than three months €	Within one year but over three months €	Within five year but over one year €	More than five years €	Total €
As at 31 December 2019					
Financial assets					
Balances with Central Bank of Malta	13,317,311	-	-	-	**13,317,311**
Loans and advances to banks	8,104,291	-	-	-	**8,104,291**
Loans and advances to customers	11,879,733	1,850,000	3,834,817	-	**17,564,550**
Financial investments	-	-	1,577,550	2,893,843	**4,471,393**
Derivative financial instruments	124,328	-	-	-	**124,328**
Other assets	787,371	-	-	-	**787,371**
	34,213,034	**1,850,000**	**5,412,367**	**2,893,843**	**44,369,244**
Financial liabilities					
Amounts owed to customers	9,457,198	5,349,812	19,292,305	38,787	**34,138,102**
Other liabilities	299,347	-	-	-	**299,347**
	9,756,545	**5,349,812**	**19,292,305**	**38,787**	**34,437,449**
Maturity gap	**24,456,489**	**(3,499,812)**	**(13,879,938)**	**2,855,056**	
Cumulative gap	**24,456,489**	**20,956,677**	**7,076,739**	**9,931,795**	
As at 31 December 2018					
Financial assets					
Balances with Central Bank of Malta	42,919,223	-	-	-	**42,919,223**
Loans and advances to banks	4,558,166	-	-	-	**4,558,166**
Loans and advances to customers	-	1,757,511	-	-	**1,757,511**
Financial investments	-	57,536	1,080,618	5,634,468	**6,772,622**
Other assets	181,489	-	-	-	**181,489**
	47,658,878	**1,815,047**	**1,080,618**	**5,634,468**	**56,189,011**
Financial liabilities					
Amounts owed to customers	24,845,913	7,347,598	13,263,367	-	**45,456,878**
Other liabilities	578,669	-	-	-	**578,669**
	25,424,582	**7,347,598**	**13,263,367**	**-**	**46,035,547**
Maturity gap	**22,234,296**	**(5,532,551)**	**(12,182,749)**	**5,634,468**	
Cumulative gap	**22,234,296**	**16,701,745**	**4,518,996**	**10,153,464**	

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 risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

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; and
- risk mitigation, including insurance where this is effective.

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 €	**Risk Weighted Amount €**	**Capital Requirement €**
Central governments	14,358,047	-	-
Institutions	11,659,495	4,297,015	343,761
Corporates	17,564,550	17,564,550	1,405,164
Other items	980,179	980,179	78,414
Off-balance sheet	13,414,615	6,707,308	536,585
Total credit risk	57,976,886	29,549,052	2,363,924
Foreign exchange risk		-	-
Operational risk		3,663,015	293,041
Total		**33,212,066**	**2,656,965**
Own funds		**9,842,994**	
Capital adequacy ratio		**30%**	

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 2019 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 Risk Department, and was challenged by the bank's independent external consultant. The final document was approved by the Bank's Board of Directors in April 2019 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 in 2019 payable to senior management, which includes the CEO, was €434,157, of which €5,000 was variable.
The Bank 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.

The Bank will determine the employee's remuneration and benefits by reference to market rates for specific roles and the Bank's own needs at a particular time. Remuneration for senior management staff is recommended to the Remuneration Committee for authorisation. The Bank 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. The Bank will not implement incentive schemes which will encourage its management and employees to commit the Bank to take on risks which in the view of the Board of Directors are not in line with the risk profile of the Bank. The Bank will also not implement incentive schemes which will constrain or endanger its financial position or capital base.

- Variable remuneration will not encourage excessive risk-taking beyond the tolerated risk level of the Bank;
- Variable remuneration will be in line with business strategy, long-term bank objectives and the avoidance of conflicts of interest.
- 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.
- 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 the Bank's overall performance, to the achievement of targets previously established, which targets include behavioural objectives and to the following considerations:

- The Bank 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.
- The total variable remuneration value shall not in any manner constrain the Bank's capital base.
- 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 the Bank's capital base and would not be higher than 50% of basic salary.
- Variable remuneration of the most senior Bank officers may be set in a multi-year framework which will take into consideration the Bank's longer-term performance and its underlying business cycle. This may include variable remuneration being settled over a period of years corresponding to the Bank's business cycle.

8 Recruitment policy

The Bank is an equal opportunity employer and will not discriminate between candidates on grounds of race, religion, sex, status and disability. The Bank 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 €	Fair value of encumbered assets €	Carrying amount of unencumbered assets €	Fair value of unencumbered assets €
As at 31 December 2019				
Assets	**332,512**	**332,512**	**45,723,204**	**45,723,204**

11 Return on assets

The return on assets as at 31 December 2019 is 0.16%. This is calculated as loss after tax divided by total assets.

12 Leverage

	€
Total Assets	46,055,716
Leverage ratio exposure	46,055,716
Tier 1 Capital	9,842,994
Total on-balance sheet exposures	46,055,716
Total Exposures	46,055,716
Leverage ratio	21%

Five-year Summary

Statement of comprehensive income

	Year ended 31 December 2019 €	Year ended 31 December 2018 €	Year ended 31 December 2017 €	Year ended 31 December 2016 €	Year ended 31 December 2015 €
Interest income	**497,027**	131,526	768,389	1,614,165	2,085,709
Dividend income	**-**	-	851,555	128,730	-
Interest expense	**(934,511)**	(1,608,632)	(1,815,000)	(1,738,855)	(1,620,346)
Net interest income	**(437,484)**	(1,477,106)	(195,056)	4,040	465,363
Fee income	**175,764**	3,025	-	50	100
Fee expense	**(134,013)**	(72,703)	(70,779)	(74,053)	(24,067)
Net fee expense	**41,751**	(69,678)	(70,779)	(74,003)	(23,967)
Net trading income	**903,840**	3,971	11,746	32,213	(32,174)
Realised gain on disposal of financial investments	**1,445,501**	-	633,569	334,731	-
Dividend income	**-**	-	851,555	128,730	-
Operating income	**1,953,608**	(1,542,813)	379,480	296,981	409,222
Change in expected credit losses	**(85,915)**	(75,219)	-	-	(182,587)
Employee compensation and benefits	**(936,908)**	(838,803)	(509,032)	(576,430)	(672,960)
Administrative expense	**(1,226,948)**	(1,178,043)	(845,923)	(919,162)	(1,009,832)
Loss before income tax	**(296,163)**	(3,634,878)	(975,476)	(1,198,611)	(1,456,157)
Income tax credit	**381,055**	-	-	-	64,747
Loss for the year	**84,892**	(3,634,878)	(975,476)	(1,198,611)	(1,391,410)
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)
-impairment of available for sale investments	**-**	-	-	-	182,587
- deferred tax thereon	**-**	-	37,908	(163,071)	47,797
Other comprehensive (loss)/ income for the year net of tax	**-**	-	(75,797)	305,554	(88,766)
Total comprehensive loss for the year	**84,892**	(3,634,878)	(1,051,273)	(893,057)	(1,480,176)

Five-year Summary

Statement of financial position

	2019	2018	2017	2016	2015
	€	€	€	€	€
Assets					
Balances with Central Bank of Malta	**13,317,530**	42,921,209	57,023,963	3,597,402	15,167,026
Loans and advances to banks	**8,104,291**	4,374,130	9,320,142	5,905,440	3,531,786
Loans and advances to customers	**17,564,550**	1,751,827	-	-	-
Financial investments	**4,471,393**	6,774,605	2,272,941	54,640,925	36,084,468
Property, plant and equipment	**68,449**	21,739	11,258	15,385	35,169
Intangible assets	**250,161**	130,456	196,812	191,995	217,768
Deferred tax assets	**1,243,284**	903,774	877,882	839,974	1,003,045
Prepayment and other assets	**911,730**	360,243	159,806	561,053	764,667
Total assets	**46,055,716**	57,237,983	69,862,802	65,752,174	56,803,929
Equity					
Share capital	**20,250,000**	20,250,000	13,250,000	12,250,000	10,350,000
Investment revaluation reserve	**79,911**	-	48,082	123,879	(181,675)
Accumulated losses	**(8,825,623)**	(8,904,099)	(5,168,426)	(4,192,950)	(2,994,339)
Total equity	**11,504,288**	11,345,901	8,129,656	8,180,929	7,173,986
Liabilities					
Amounts owed to customers	**34,138,102**	45,274,146	60,955,858	56,849,001	48,906,650
Other liabilities	**413,326**	617,936	777,288	722,244	723,293
Total liabilities	**34,551,428**	45,892,082	61,733,146	57,571,245	49,629,943
Total liabilities and equity	**46,055,716**	57,237,983	69,862,802	65,752,174	56,803,929