Izola Bank p.l.c.

Annual Report

2019

Company Registration Number: C 16343

Izola Bank p.l.c.

Annual Report 2019

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Chairperson's Statement

For the Year Ended 31 December 2019

2019 has been another challenging year with the global economy delivering sluggish growth rates and the European economy showing signs of distress with negative interest rates to remain for the foreseeable future. On a positive note, the Maltese economy was one of the healthiest in the Eurozone delivering the same growth trajectory of recent years in terms of GDP and employment. It remains imperative that the relevant authorities take all necessary actions to safeguard the country's reputation and disseminate the message to the international community that the principles of good governance will be at the foundation of Malta's sustained economic growth going forward.

At Izola Bank, we remain focused on enabling our customers to achieve their ambitions for growth and delivering digital financial solutions with a human touch.

Bank Performance

During the year ended 31 December 2019, the Bank generated a profit before tax of €2,495,213 a slight increase of 2% on 2018. Profit after tax was €1,460,740, down 3% compared to the previous year.

Despite a healthy increase of 15% in the gross income of the bank, total operating expenses increased by 25% over the corresponding period, notably due to the investment in staff complement and ancillary support services, all geared towards positioning the bank for its next growth phase.

Compared to the previous year, net interest income increased by €918,388 (17%). This is the result of strong growth both in factoring activities and commercial lending portfolio, both registering impressive increases of 33% and 28% respectively over 2018.

The Bank's Cost-to-Income ratio increased to 61.4% (2018: 56.5%) which is satisfactory considering the investment in personnel and ancillary support services, increasing cost pressures relating to staff recruitment and retention as well as compliance costs.

The Bank's Cost-to-Income ratio increased to 61.4% (2018: 56.5%) which is satisfactory considering the investment in personnel and ancillary support services compounded with increasing cost pressures relating to staff recruitment, retention and compliance costs.

The total assets of the bank increased by 55% to €368,331,905, mainly driven by increases in the loan portfolio and factoring products. Deposits increased by €142,580,727 (80%) over the previous year.

As at 31 December 2019 the Capital Adequacy Ratio stood at a healthy 18.5% and liquidity ratios were significantly above European banking sector norms.

Regulatory Environment

In 2019 the Bank continued to invest in compliance and risk management and remains committed to monitor all upcoming relevant regulatory developments to ensure full compliance with its legal and regulatory obligations.

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Chairperson's Statement

For the Year Ended 31 December 2019

The Board

Technology continues to change and shape the way businesses operate, particularly with the rise of digital business models. Cyber risks and resilience have featured prominently on the regulatory front and remain important aspects of the Bank's business strategy. Given these circumstances, during the year the Bank appointed a new independent non-executive director, Mr Simon Azzopardi, who has an extensive background in product development predominantly in the financial services sector. He is currently Head of Product at a UK regulated online insurance start-up and sits on several boards of technology-focussed businesses.

Additionally, the current CEO, Mr Andrew Mifsud, was appointed as an executive director. Mr Mifsud joined the bank at its inception in 1994 and was appointed CEO in 2011.

Whilst welcoming the new Board members, I would also like to extend my thanks to Mr Charles Hertogs who stepped down from the board after nine years of sterling service.

Solidarity with the community

Having been an integral part of the Maltese economy for the last 25 years, the Bank strongly believes in taking an active role in society by investing in community-based organisations that directly address pressing issues within the country. In 2017, the Bank partnered with Foodbank Lifeline Foundation, a registered NGO which provides short-term emergency food packs to people in desperate need, regardless of race, religion and gender, until they find a path to stability.

Over the course of this relationship, Izola Bank has increased its support, both financially and in practical terms, to meet the increasing demand for Foodbank Lifeline's services – presently feeding close to 2,000 people every month. In 2020 the Bank will continue working with the Foodbank, exploring ways in which to drastically reduce food wastage which can help improve the country's carbon footprint. Staff take an active role with this NGO, participating in events and volunteering at the Foodbank's various distribution centres and stores. Our ambition is to help Foodbank Lifeline not only ease hunger in Malta, but also to significantly reduce food waste and carbon emissions.

Looking ahead

The Bank is committed to continue seeking further growth in its factoring operations, together with growth in loans and advances to customers through niche lending.

The recent outbreak of coronavirus, which is a rapidly evolving situation, has adversely impacted global commercial activities. The rapid development and fluidity of this situation precludes any prediction as to its ultimate impact, which may have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The directors do not believe there is any financial impact to the financial statements as at 31 December 2019 as a result of this subsequent event.

Management is monitoring developments relating to coronavirus and is coordinating its operational response based on existing business continuity plans and on guidance from global health organisations, relevant governmental and supervisory bodies, and general pandemic response best practices.

As at publication date it is too early to accurately estimate the financial impact of this pandemic but an adverse effect on the bank's 2020 performance is expected.

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Chairperson’s Statement

For the Year Ended 31 December 2019

Conclusion

On behalf of the Board, I would like to thank our customers for their loyalty and support. Finally, I would like to express my thanks to the management team and staff members for their continuing hard work and commitment to the Bank.

Ms. Magdalena De Roeck
Chairperson/Director
Izola Bank p.l.c.

8 April 2020

Izola Bank p.l.c.

Directors' Report

For the Year Ended 31 December 2019

The directors have prepared this report for Izola Bank p.l.c ("the Bank") in accordance with Article 177 of the Companies Act 1995 (Chapter 386, Laws of Malta) ("the Act") including the further provisions as set out in the sixth schedule of the Act, together with the financial statements of the Bank for the year ended 31 December 2019.

Board of directors

Ms. Magdalena De Roeck (Chairperson)
Ms. Caroline Van Marcke
Mr. Simon Azzopardi (i) – appointed 12 August 2019
Mr. Joseph C. Caruana (i)
Mr. Francis Gouder (i)
Mr. Charles Hertogs (i) – resigned 30 June 2019
Mr. Andrew Mifsud – appointed 15 July 2019
Mr. Guido Mizzi (i)
Mr. Patrick H. Van Leynseele (i)

(i) independent directors

Company secretary

Mr. Calvin Bartolo

Principal activities

Izola Bank p.l.c. is registered in Malta as a public limited liability company under the Companies Act, 1995 (Chapter 386, Laws of Malta). The Bank is licensed by the Malta Financial Services Authority to carry out the business of banking in terms of the Banking Act, 1994 (Chapter 371, Laws of Malta).

The Bank is principally engaged in providing corporate banking and factoring services to resident and non-resident customers including to related parties with simple and easy to use savings products for both local and foreign individuals and businesses.

Operational Review

During the financial period under review, the Bank continued growing and diversifying its retail customer depositor base, raising funding from Malta, Belgium and Germany and continued building its factoring business both in Belgium and in Malta. Furthermore, the Bank also carried on developing niche commercial lending services both in Malta and abroad and intends to continue strengthening these activities in the years ahead.

A review of the business of the Bank for the period ended 31 December 2019 and an indication of future developments are provided in the Chairperson's Statement, which can be found in the front section of this Annual Report.

Principal risks and uncertainties

The main risks that the Bank has identified are credit risk arising from changes in credit quality and the recoverability of loans and amounts due from Belgian and Maltese counterparties, concentration risk arising from an uneven distribution of counterparties mainly drawn from the Belgian property, building and construction and related services sector, the Bank's exposure to the retail sector in Malta, and liquidity and interest rate risks which are inherent in the nature of the business of banking. Other risks which are closely monitored by management include foreign exchange risk and investment price risk, reputational risk, operational risk as well as cyber-security and business continuity risks.

Risk management policies have been established to identify and analyse the risks faced by the Bank, to set out appropriate risk limits and controls, and to monitor risks and adherence to limits. A detailed overview of these risks, together with the respective financial metrics are outlined in note 4 of the Financial Statements.

Directors' responsibilities

The Companies Act, 1995 (Chapter 386, Laws of Malta) (the 'Act') requires the directors of Izola Bank p.l.c. to prepare financial statements for each financial period which give a true and fair view of the financial position of the Bank as at the end of the financial year and of the profit or loss of the Bank for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act and the Banking Act, 1994 (Chapter 371, Laws of Malta).

The directors are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors, through oversight of management, are responsible to ensure that the Bank establishes and maintains internal controls to provide reasonable assurance regarding reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight by the directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Events occurring after reporting date

The events subsequent to the reporting date, namely COVID-19, is likely to have a substantial negative impact on both global and local economies. The Bank's existing capital buffers, together with measures made available by the regulatory authorities and Government actions should provide effective mitigation against the challenges posed by this unprecedented event. An adverse influence on 2020 performance is probable but a clear determination of the overall financial impact cannot be made at this early stage, primarily due to uncertainties on both the duration of the crisis as well as the scale and effectiveness of mitigating measures provided by the local and EU authorities. The directors do not consider that any adjustments are required to the financial statements at this stage.

Dividends and reserves

The directors have proposed a final dividend of €1,500,000 in respect of 2019, representing a dividend per share of €3.75.

Going concern pursuant to Listing Rule 5.62

The financial statements are prepared on a going concern basis. The directors regard that pursuant to Listing Rule 5.62, this is appropriate, after due consideration of the Bank's profitability, liquidity, the statement of financial position, capital adequacy and solvency. Specifically, the directors have prepared financial and capital plans for the next five years which show that the Bank is able to continue operating as a going concern for the foreseeable future.

It is hereby declared that during the reporting period, there were no breaches of Standard Licence Conditions or other regulatory requirements.

Information pursuant to Listing Rule 5.64

The Bank does not have any listed securities carrying voting rights.

Information pursuant to Listing Rule 5.70.1

The Bank provides a range of banking services to the Van Marcke Group, of which the Bank itself is a member. Ms. Magdalena de Roeck, Ms. Caroline Van Marcke and Mr. Patrick Van Leynseele are indirectly interested in this business relationship by virtue of their directorships of various companies within the Van Marcke Group.

Further details can be found within note 31 of the Financial Statements.

Izola Bank p.l.c.

Directors' Report (continued)

For the Year Ended 31 December 2019

Auditors

A resolution proposing the re-appointment of KPMG as auditors of the Bank will be submitted at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 8 April 2020 and signed on its behalf by:

Mr. Andrew Mifsud Chief Executive Officer/Director	Mr. Francis Gouder Director

Registered Address

53-58 East Street
Valletta
Malta
Tel: +356 2124 1258

Izola Bank p.l.c.

Statement by the Directors on the Financial Statements included in the Annual Report

For the Year Ended 31 December 2019

Pursuant to Listing Rule 5.68, we, the undersigned, declare that to the best of our knowledge, the financial statements included in the Annual Report, and prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank, and that the Directors' Report includes a fair review of the development and performance of the business and position of the Bank, together with a description of the principal risks and uncertainties that it faces.

Signed on behalf of the Board of Directors on 8 April 2020 by:

Mr. Andrew Mifsud
Chief Executive Officer/Director

Mr. Francis Gouder
Director

Izola Bank p.l.c.

Directors' Statement of Compliance
with the Code of Principles of Good Corporate Governance

Pursuant to Listing Rule 5.97 as issued by the Listing Authority, Izola Bank p.l.c. (the 'Bank') hereby includes a Statement of Compliance reporting on the extent to which the Bank has adopted the Code of Principles of Good Corporate Governance appended as Appendix 5.1 to the said Listing Rules (the 'Principles') and the effective measures that the Bank has taken to ensure compliance with these Principles during the period under review.

Introduction

The adoption of the Principles is not mandatory, however the Board of Directors (the 'Board') of Izola Bank p.l.c. believes that the adoption of these Principles is in the best interest of the Bank and its shareholders.

The Bank applies all the provisions of the code of Principles of Good Corporate Governance (the "Code"), save where there exist circumstances that warrant non-adherence thereto, as outlined in Part Two to this Statement. During the year under review, the Bank did not apply any corporate governance practices beyond the provisions under national law.

PART ONE - Compliance with the Code

Principle 1: The Board

The Bank is headed by an effective Board and all directors exercise prudent controls which enable risk to be assessed and managed. The Board is composed of members who are honest and competent, making them fit and proper to conduct the business of the bank. The directors are of the appropriate calibre, having the necessary experience to provide leadership, integrity and judgement in directing the bank. All directors are responsible for determining the Bank's strategic aims and its organisational structure. The directors regularly review management performance and ensure that the Bank has the appropriate mix of financial and human resources to meet its objectives. Every director is conversant with the statutory and regulatory requirements connected to the business of the Bank and regularly attends meetings of the Board. Directors are appointed by the shareholders during the Bank's Annual General Meeting for a period of one year.

The Board delegates specific responsibilities to the Audit and Risk Committee, the Remuneration and Nomination Committee, the Credit Committee, the Strategy Committee and the Asset and Liability Committee. Each Committee has its own terms of reference which are in turn approved by the Board.

Principle 2: Chairperson and Chief Executive Officer (CEO)

The Bank's current organisational structure incorporate the position of a CEO and that of a Chairperson, both of which are occupied by two different individuals. In line with the Board of Directors' terms of reference, there is a clear division of responsibilities between the running of the Board and the Chief Executive Officer's responsibility in managing the bank's business. The separation of roles of the Chairperson and the CEO avoids concentration of authority and power in one individual.

The Chairperson is responsible to lead the Board and set out the agenda and ensures that the directors receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the bank. During the Board meeting, the Chairperson encourages active engagement by all Board members and ensures that the opinions of all the directors are considered in the discussion of complex or contentious issues

The Chief Executive Officer is responsible to drive and deliver performance within strategic goals and business plans agreed by the Board. He actively leads the senior management in the day-to-day running of the bank and execution of the agreed strategy. He takes decisions in all matters affecting the operations, performance and strategy of the business, except for those matters reserved for the Board or specifically delegated by the Board to its Committees.

Principle 3: Composition of the Board

The Board considers that it is of sufficient size for the requirements of the business and its members possess the required diversity of knowledge and experience to properly execute their duties as directors. Each of the directors is skilful, competent, knowledgeable and experienced to fulfil the role diligently. The Chief Executive Officer (CEO) was appointed to the Board of Directors in 2019 and provides the Board with all necessary management and operational information.

During the year under review, the Board consisted of five independent Non-Executive Directors, two Non-Independent Directors including the Chairperson (as set out in the Directors' Report) and one Executive Director, being the CEO. In determining the independence of its directors, the Board has referred to the principles relating to independence contained in the Code. Each independent non-executive director has made a declaration in writing to that effect. Moreover, all directors shall disclosure their interests and external commitment, both ahead of their appointment and, where significant changes arise, during their tenue as directors. This ensures that directors' business interests and commitments do not give rise to potential conflicts of interest and allow them to devote the necessary time and attention to properly execute their duties on the Board.

Principle 4: Responsibilities of the Board

The Board's role and responsibility is to execute the four basic roles of corporate governance namely: accountability, monitoring, strategy formation and policy development.

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy and performance objectives, and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice. The Board ensures that policies and procedures are in place to maintain the highest standards of corporate conduct, including compliance with laws, regulations, business and ethical standards by the Company and its employees. Board members are provided with regular training and information session on topical matters such as developments in banking regulation and emerging trends in the business of banking.

The Board shall require management to constantly monitor performance and report to its satisfaction, at least on a quarterly basis, fully and accurately on the key performance indicators (KPI's). Business risks and KPI's are benchmarked against industry norms so that the bank's performance can be effectively evaluated.

The Board delegates specific responsibilities to the following Committees:

Board Committees

Audit and Risk Committee

The Audit & Risk Committee's Terms of Reference include the monitoring of the financial reporting process, the effectiveness of the Bank's internal control, internal audit and risk management systems and the audit of the Bank's annual financial statements. Given that the nature of Related Party Transactions do not change from year to year, the vetting and approving of Related Party Transactions is a matter dealt with by the Board.

The Audit and Risk Committee protects the interests of the Bank's shareholders and assists the directors in conducting their role effectively so that the Bank's decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times. It ensures that the Bank maintains a robust finance function responsible for accounting and financial data. This Committee has non-executive responsibility for oversight of, and advice to, the Board on matters relating to financial reporting. The Committee monitors the integrity of the bank's financial statements, any formal announcements relating to the bank's financial performance and reviews significant financial reporting judgements contained in them.

The Committee approves the internal audit work plan, which will include assessment of controls relating to financial reporting and other risks as appropriate. The Audit and Risk Committee also has the responsibility to review and monitor the external auditor's independence and the effectiveness of the audit process.

In terms of Listing Rules 5.117, 5.118 and 5.119, the Audit and Risk Committee is composed of three non-executive directors. All three non-executive directors are considered as independent since they are free from any business, family or other relationship with the Bank or its management that may create a conflict of interest such as to impair their judgement. The Chairman of the Audit and Risk Committee is appointed by the Board of Directors.

In terms of Listing Rule 5.119, Mr Guido Mizzi is the director whom the Board considers as independent of the Bank and competent in accounting, given his extensive experience as a former managing partner of a local accountancy firm. Mr. Hertogs was for many years a business consultant with a major German multinational group, whilst Mr. Van Leynseele is a partner in a Brussels law firm and a member of the Bar in both Brussels and New York. Mr Azzopardi, who was appointed to the Committee during 2019, has an extensive background in product development predominantly in the financial services sector and is currently Head of Product at a UK regulated online insurance start-up and sits on several boards of technology-focussed businesses.

All three directors have experience serving on various other boards and are considered as competent to be a member of the Audit and Risk Committee of the Bank. The Board thus considers that the committee members have the competence relevant to the banking sector.

Meetings held: 5

Members	Attended
Mr. Guido Mizzi (Chairman)	5
Mr. Simon Azzopardi – appointed on 21.11.2019	1
Mr. Charles Hertogs – resigned on 30.06.2019	2
Mr. Patrick H. Van Leynseele	5

Other Board members have a right to attend the meetings. The Audit and Risk Committee has direct access to the Head of Finance and Treasury,, who is responsible for the preparation and integrity of financial statements, and a direct reporting line to the Risk and Compliance manager, who is responsible for ensuring proper execution of the risk management and control framework. The Head of IT, who is responsible for the maintenance of internal controls in relation to ICT, attends meetings when ICT-related topics are discussed. Both the internal and external auditors are also invited to attend meetings on an ad-hoc basis. The Company Secretary acts as Secretary to the Committee.

Remuneration and Nomination Committee

In its nomination function, the Committee is primarily tasked with identifying and nominating new Board candidates for the approval of the Board. The Committee periodically assesses the structure, size, composition and performance of the Board and makes recommendations to the Board regarding any changes. It is also tasked with reviewing the remuneration structure for the Bank's senior management and all staff; evaluating the impacts of remuneration considerations on its overall risk profile and corporate culture. This Committee is also responsible to periodically assess the skills, knowledge and experience of individual directors, and of the Board collectively, and report on this to the Board.

The Remuneration and Nomination Committee is composed of three directors and meets at least once a year. The Remuneration and Nomination Committee is tasked with oversight of performance and remuneration practices, making proposals to the Board on the remuneration policy for directors and leading the process for Board appointments. The Committee also assesses the size, composition and performance of the Board and the individual and collective suitability of directors. The terms of reference of this Committee are in line with Code Provisions of 8.A.2 - 8.A.6 and 8.B.2 - 8.B.8. Further information on the Bank's remuneration practices are included within the Report of the Remuneration and Nomination Committee immediately following this section.

Meetings held: 2

Members	Attended
Mr. Francis Gouder (Chairman)	2
Ms. Caroline Van Marcke	2
Mr. Patrick H. Van Leynseele	2

The Company Secretary acts as Secretary to the Committee.

Credit Committee

The Credit Committee is composed of two independent non-executive directors and the CEO and operates within a Board-approved credit sanctioning limit. Proposals falling outside the Committee's limits are referred together with the Committee's recommendations to the Board for consideration and determination.

Meetings held: 5

Members	Attended
Mr. Joseph C. Caruana (Chairman)	5
Mr. Francis Gouder	5
Mr. Andrew Mifsud	5

The Company Secretary acts as Secretary to the Committee. The Head of Credit regularly attends the meetings.

Strategy Committee

The Committee is responsible for making recommendations to the Board of Directors on the Bank's business model and forward-looking strategy, taking into consideration the risks and opportunities related to various strategies. The Committee is also responsible for analysing the implementation of the business model and strategy or any changes thereof, including any potential ICT consequences.

The Bank's first Strategy Committee meeting was held in the fourth quarter of 2019. It is composed of three directors and meets at least once a year. The Bank's Senior Management team and other bank executives may be invited to attend meetings. The Company Secretary acts as Secretary to the Committee.

Meetings held: 1

Members	Attended
Ms. Caroline Van Marcke	1
Mr. Simon Azzopardi	1
Mr. Andrew Mifsud	1

Management Committee

Asset and Liability Management Committee (ALCO)

The ALCO meets quarterly to monitor the Bank's financial performance, and review and manage financial risks in accordance with Bank policies, namely: interest rate, liquidity and funding risk, solvency, market sector and country risk and counterparty and foreign exchange risk. The ALCO reports to the Board on a quarterly basis.

The ALCO is chaired by the CEO and is also composed of the Head of Finance and Treasury and the Finance Assistant Manager.

Meetings held: 4

Members	Attended
Mr. Andrew Mifsud (Chairman)	4
Mr. Calvin Bartolo	4
Mr. Matthew Zammit	4

Principle 5: Board Meetings

During the financial year 2019 the Board met four times. Notice of the dates of forthcoming meetings together with all board papers were circulated well in advance to the directors so that they had ample opportunity to consider the information and prepare for the next scheduled board meeting. After each board meeting and before the next meeting, minutes that faithfully recorded attendance and decisions were prepared and circulated to all directors.

Attendance of the Board members during the said year was as follows:

Meetings Held: 4

Members	Attended
Ms. Magdalena De Roeck (Chairperson)	4
Ms. Caroline Van Marcke	4
Mr. Simon Azzopardi – appointed on 12.08.2019	1
Mr. Joseph C. Caruana	4
Mr. Francis Gouder	4
Mr. Charles Hertogs – resigned on 30.06.2019	2
Mr. Andrew Mifsud – appointed on 15.07.2019	2
Mr. Guido Mizzi	3
Mr. Patrick H. Van Leynseele	4

Company Secretary
Calvin Bartolo

Principle 6: Information and Professional Development

All new directors are briefed in detail by the CEO and Company Secretary on the Bank's organisation and activities and their responsibilities as directors.

When they judge it necessary, all directors can access independent professional advice at the Bank's expense in order to discharge their responsibilities as directors. All directors also have access to the services of the Company Secretary for advice on all governance matters.

The Bank is committed to provide for the development and training of management and employees. The Board is updated at least annually with the latest staff development programme. In accordance with Code Provision 6, the Board is responsible for the appointment of the CEO whilst, in line with Code Provision 6.5, the CEO is responsible for the recruitment and appointment of senior management. Training of management and employees is a priority and internal and external training is provided by the Bank. The Bank also has a system in place which monitors management and staff engagement. As part of succession planning and talent management, the Board and the Chief Executive Officer ensure that the Bank implements appropriate schemes to recruit, retain and motivate high quality staff members.

Principle 7: Evaluation of the Board's Performance

The Board has set up the Remuneration and Nomination Committee to periodically review and monitor the effectiveness of the Bank's suitability policy and to guide the execution of suitability assessments of directors. The Chairperson shall report on the Committee's activities and submit recommendations on areas falling within its remit upon request of the Board of Directors. Annually, the Chairperson shall compile a report of the Committee's own performance and terms of reference and submit it to the Board of Directors, covering all areas of its work.

The Committee may request information or reports from internal departments to facilitate discussions and decision-making. It may also provide guidance on how policies pertaining to performance, remuneration and training are to be communicated internally.

Principle 8: Committees

The Board established a Remuneration and Nomination Committee to oversee matters of remuneration and nomination in line with best practice. More detailed information regarding remuneration is presented in the Remuneration Statement following this Statement of Compliance with the Code of Principles of Good Corporate Governance.

Principle 9 and 10: Relations with Shareholders and with the Market and Institutional Shareholders

The Bank provides the market with regular, timely, accurate and detailed information in accordance with the requirements of the Listing Rules by way of company announcements.

The Bank communicates with its shareholders through the Bank's Annual General Meeting as well as by way of the Annual Report and Financial Statements.

The Bank has an Internal Code of Dealing Policy to give guidance to the Bank's directors and employees on procedures to be followed when dealing in the Bank's securities and on the treatment of Inside Information in line with the provisions of the Prevention of Financial Markets Act and any related subsidiary legislation and regulations.

Principle 11: Conflicts of Interest

The directors are always strongly aware of their responsibility to act in the interest of the Bank and its shareholders as a whole and of their obligation to avoid conflicts of interest. The latter may and do arise on specific matters. In such instances, the Bank ensures that such conflicts, actual or potential, are managed in the best interest of the Bank. Each director is required to disclose in full any matter where there is a potential or actual conflict of interest, whether such conflict arises from personal interests or the interests of the companies in which such person is a director or officer. A director shall not participate in a discussion concerning matters in which he has a conflict of interest unless the Board finds no objection to the presence of such director. In any event, the director shall refrain from voting on the matter.

Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance

On joining the Board, and regularly thereafter, the directors are informed of their obligations on dealing in securities of the Bank within the parameters of the law, including the Listing Rules and the directors follow the required procedures. Interests of directors are disclosed within note *31. Related Parties* of the accompanying Financial Statements.

Principle 12: Corporate Social Responsibility

Over the past 25 years, the Bank has transformed itself to be in a better position to deliver on its purpose: enabling growth. This value is at the heart of the Bank's CSR initiatives, as it continues to provide both tangible and immediate contributions to the community's welfare. The Bank's approach to CSR is through investing in community-based organisations that directly address pressing issues within the country – issues if left unattended would have dire consequences for people in need.
Foodbank Lifeline Foundation

In 2019, the Bank became an official sponsor of Foodbank Lifeline Foundation Malta, a registered NGO, which provides short-term emergency food packs to people in desperate need, regardless of race, religion and gender – till they find a path to stability. Over the course of this relationship, the Bank has increased its support, both financially and in practical terms to meet the increasing demand for Foodbank Lifeline's services – presently feeding thousands every year.

The Bank identified ways that went beyond one-off monetary donations, wanting to contribute on a continuous basis, with long-term benefits for the Foodbank. Staff take an active role with this NGO, participating in events and volunteering at the Foodbank's various distribution centres and stores. The Bank and Foodbank Lifeline share a joint vision of hoping that one day there will be no need for a foodbank in Malta. Until that day comes, the Bank is committed to supporting the community and ensuring that where possible no one should suffer the indignity of hunger.

- Supporting Foodbank Foundation's Digital Presence.

The Bank sponsored the design, development and hosting for Foodbank Lifeline's new website. The website includes a platform where Care Professionals can enter quick referrals online, where visitors can access information on how to help Foodbank Lifeline or catch up on the latest updates and where people in need can follow the steps required to obtain a referral. Maintaining a regular presence in the community is vital for Foodbank Lifeline. The Bank also sponsors the management of the Foodbank's social pages (Facebook and Instagram), through hiring interns that oversee the day to day posts, comments and messages. The Bank also injects funds to promote various campaigns that need boosting.

- Reverse Advent Calendar Campaign

Held once a year in the run up to Christmas, the Reverse Advent Calendar Campaign is a way for the community to get involved in helping the less fortunate. Participation is simple, a box with one food item placed in every day for the 24 days before Christmas, which creates a small weekly food pack for a family. The campaign is hugely popular with local schools, businesses and families. The Bank oversees the entire campaign including the media productions and bookings and press coverage.

- Food waste and carbon emissions.

With one third (approximately 1.3 billion tonnes) of food produced globally being wasted, the Bank and Foodbank Lifeline are working with sister NGOs to identify ways in which the country's food waste can be significantly reduced. The Bank's ambition is to help Foodbank Lifeline not only ease hunger in Malta, but also to significantly reduce food waste and carbon emissions.

Izola Bank p.l.c.

Directors' Statement of Compliance
with the Code of Principles of Good Corporate Governance

PART TWO – Non-Compliance with the Code

Principle 2 – Code Provision 2.3

The Chairperson of the Bank cannot be considered independent in accordance with the principles relating to independence contained in the Code.

Principle 4 – Code Provision 4.2.7

The Code Provision recommends that the Board should develop a succession policy for the future composition of the Board and particularly the executive component thereof, for which the Chairman should hold key responsibility. The Board does not have a succession policy in place for the future composition of the Board of Directors. This approach may be revised in the future in line with changes to the Bank's size and/or organisational structure.

Principle 4 – Code Provision 5.117.1

Code Provision 5.117.1 recommends that the Audit Committee is composed of entirely non-executive directors and has at least 3 members. Following the resignation of Mr Charles Hertogs, the Committee met twice before the appointment of Mr. Simon Azzopardi.

Principle 6 – Code Provision 6.4.4

Code Provision 6.4.4 recommends the CEO to establish a succession plan for senior management. The Board does not have a succession policy in place for senior management. This approach may be revised in the future in line with changes to the Bank's size and/or organisational structure.

Listing Rule 5.97.4

The information required by this Listing Rule is found in the Directors' Report, within the Directors' Responsibilities section.

Approved by the Board of Directors on 8 April 2020 and signed on its behalf by:

Mr. Andrew Mifsud
Chief Executive Officer/Director

Mr. Francis Gouder
Director

Izola Bank p.l.c.

Report of the Remuneration and Nomination Committee
For the Year Ended 31 December 2019

Remuneration Policy

The aim of the Bank's Remuneration Policy is to increase transparency in remuneration matters, to support the business goals of the Bank by efficient remuneration structures, and to create common basic values and guidelines for the Bank when offering remuneration and benefits to the senior management team of the Bank.

Remuneration Statement

Executive Management

Reference to senior management shall mean the CEO, the Head of Finance and Treasury, the Head of Operations, the Head of Credit and the Head of IT. The Board is of the opinion that the remuneration packages for senior management are in line with local market expectations and are at an appropriate level to attract and retain executives with the appropriate skills, qualities and experience to ensure the effective management of the Bank.

The terms and conditions of employment of senior management are set out in the respective indefinite contracts of employment. Senior management are not entitled to share options or profit sharing. There are no supplementary pension or early retirement schemes in place and notice periods are as established by law. Senior management are eligible for an annual salary increase and discretionary performance bonus in line with the Bank's overall performance.

Non-cash benefits to which senior management are entitled are the use of a company car. Other benefits afforded to all staff member, including senior management are personal accident, life and health insurance cover.

Loans amounting to €295,000 were advanced to key management personnel as disclosed in note 31.3 to the financial statements.

There have been no significant changes in the Bank's remuneration policy for senior management during the year under review. During 2019, the Bank continued offering all staff members, including senior management, subsidies on home loan interest rates and intends to start contributing to a personal pension scheme during 2020.

Total emoluments of senior management for the year ended 31 December 2019 are as follows:

Fixed Remuneration	Variable Remuneration	Share Options	Others
€325,509	€114,250	None	Non-cash benefits referred to immediately above.

Directors

As at 31 December 2019, the Board was composed of 7 non-executive directors and one executive director.

The maximum annual aggregate emoluments that may be paid to the directors are approved by the shareholders in a General Meeting. This amount was fixed at an aggregate sum of €150,000 at the Annual General Meeting held on 4 April 2019.

None of the directors had service contracts with the Bank as at the end of the financial year.

Furthermore, none of the directors, in their capacity as a director of the Bank, is entitled to profit sharing, share options, pension benefits or any other remuneration.

Total emoluments of directors from the Bank for the year ended 31 December 2019 are as follows.

Fixed Remuneration	Variable Remuneration	Share Options	Others
€106,826	None	None	None

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Independent Assurance Report

To the Shareholders of Izola Bank p.l.c.

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta

We were engaged by the Directors to report on specific disclosures in the Corporate Governance Statement (the "Disclosures") of Izola Bank p.l.c. (the "Company") as at 31 December 2019 as to whether these are in compliance with corporate governance regulations set out in the Listing Rules issued by the Listing Authority, the Malta Financial Services Authority (the "Listing Rules"). We are required to report in the form of an independent reasonable assurance conclusion as to whether:

(a) in light of our knowledge and understanding of the Company and its environment obtained during the course of the statutory audit, we have identified material misstatements with respect to the information requirements referred to in Listing Rule 5.97.4. Where material misstatements are identified in relation to the requirements of Listing Rules 5.97.4, as applicable, we shall, in addition to our opinion, provide an indication of the nature of such misstatements; and,

(b) the Disclosures include the other information required by Listing Rule 5.97, in so far as it is applicable to the Company.

Responsibilities of the Directors

The directors are responsible for preparing and presenting the Disclosures that are free from material misstatement and for the information contained therein.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Disclosures that is free from material misstatement whether due to fraud or error. It also includes ensuring that the Company complies with the Listing Rules, selecting and applying policies and procedures in relation to both financial and non-financial information, making estimates and judgement that are reasonable in the circumstances and for maintaining adequate records in relation to the Disclosures.

The Directors are also responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

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Independent Assurance Report

To the Shareholders of Izola Bank p.l.c.

Responsibilities of the Directors (continued)

The Directors are also responsible for ensuring that staff involved with the preparation and presentation of the Disclosures are properly trained, information systems are properly updated and that any changes in reporting encompass all significant reporting units.

Auditors' Responsibilities

Our responsibility is to examine the Disclosures and to report thereon in the form of a reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board.

That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the Disclosures are properly prepared and presented, in all material respects, in accordance with the requirements set out in the relevant Listing Rules.

The firm applies International Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements* and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, together with the ethical requirements that are relevant to our assurance engagement in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta).

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Disclosures whether due to fraud or error.

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Independent Assurance Report

To the Shareholders of Izola Bank p.l.c.

Auditors' Responsibilities (continued)

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Disclosures in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of Company's internal control over the preparation and presentation of the Disclosures. Our engagement also included assessing the appropriateness of the Disclosures, the suitability of the criteria, being the relevant Listing Rules, in preparing and presenting the Disclosures in the circumstances of the engagement and evaluating the appropriateness of the method used in the preparation and the overall presentation of the Disclosures. Reasonable assurance is less than absolute assurance.

We are not required to, and we do not, consider whether the directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Company's corporate governance procedures or its risks and control procedures, nor on the ability of the Company to continue in operational existence. Our opinion in relation to the disclosures pursuant to Listing Rule 5.97.4 is based solely on our knowledge and understanding of the Company and its environment obtained in forming our opinion on the audit of the financial statements. We have not performed any procedures by way of audit, verification or review on the underlying information from which the other disclosures required by Listing Rule 5.97 is derived.

We also read the other information included in the Annual Report in order to identify any material inconsistencies with the Disclosures.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

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

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Independent Assurance Report

To the Shareholders of Izola Bank p.l.c.

Conclusion (continued)

In our opinion:

(a) in light of the knowledge and understanding of the Company and its environment obtained during the course of our statutory audit, we have not identified material misstatements with respect to the disclosures referred to in Listing Rule 5.97.4, included in the directors' Corporate Governance Statement, as this relates to the Company's internal control and risk management systems in relation to the financial reporting process; and,

(b) the other disclosures required by Listing Rule 5.97 have been included in the directors' Corporate Governance Statement, as these apply to the Company.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Claude Ellul.

KPMG
Registered Auditors

8 April 2020

Izola Bank p.l.c.

Financial Statements

2019

Izola Bank p.l.c.

Izola Bank p.l.c.

Statement of Financial Position

As at 31 December 2019

	Note	2019 €	2018 €
ASSETS			
Cash and items in transit	29	**24,007**	816
Balances with Central Bank of Malta	29	**39,063,302**	2,512,597
Investment securities	13	**81,369,795**	42,111,712
Loans and advances to banks	14	**40,549,407**	18,788,220
Factored receivables	15	**105,412,199**	86,260,140
Other loans and advances to customers	16	**86,522,549**	74,286,614
Property and equipment	17	**11,618,961**	10,264,853
Intangible assets	18	**1,633,259**	1,653,214
Current Tax Asset		**562,378**	-
Other assets	19	**1,576,048**	1,275,436
Total assets		**368,331,905**	237,153,602
LIABILITIES			
Balance owed to Central Bank of Malta	20	**-**	13,000,000
Deposits from banks	21	**250,322**	250,068
Deposits from customers	22	**319,737,813**	177,157,086
Debt securities issued	23	**11,905,989**	11,888,899
Deferred tax liabilities	24	**777,023**	560,484
Current tax payable		**-**	802,074
Accruals	25	**1,989,742**	1,410,264
Total liabilities		**334,660,889**	205,068,875
EQUITY			
Share capital	26	**10,000,000**	10,000,000
Capital contribution	26	**17,032,675**	16,032,675
Property revaluation reserve	26	**3,696,144**	2,629,651
Fair value reserve	26	**436,837**	627,781
Depositor compensation scheme reserve	26	**628,571**	409,640
Reserve for general banking risk	26	**3,860**	6,470
Retained earnings	26	**1,872,929**	2,378,510
Total equity attributable to equity holders of the Bank		**33,671,016**	32,084,727
Total liabilities and equity		**368,331,905**	237,153,602
Memorandum items			
Commitments	27	**71,868,667**	88,918,753

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 1 to 76 were approved by the Board of Directors on 8 April 2020 and signed on its behalf by:

Mr. Andrew Mifsud
Chief Executive Officer/Director

Mr. Francis Gouder
Director

Izola Bank p.l.c.

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2019

	Note	2019 €	2018 €
Interest income calculated using the effective interest method	5	**10,158,455**	8,081,029
Interest expense	5	**(3,972,954)**	(2,627,953)
Net interest income		**6,185,501**	5,453,076
Fee and commission income	6	**135,013**	107,713
Fee and commission expense	6	**(72,662)**	(74,055)
Net fee and commission income		**62,351**	33,658
Other revenue	7	**210,986**	318,151
Operating income		**6,458,838**	5,804,885
Depreciation and amortisation	17 & 18	**(577,919)**	(619,313)
Impairment (losses)/reversals on financial instruments	8	**(90,400)**	134,698
Personnel expenses	9.2	**(1,613,018)**	(1,327,505)
Other expenses	9.4	**(1,682,288)**	(1,550,267)
Profit before tax	9	**2,495,213**	2,442,498
Income tax expense	10	**(1,034,473)**	(934,319)
Profit for the year		**1,460,740**	1,508,179
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Transfer of depreciation on revaluation surplus net of deferred tax			
- retained earnings		-	31,564
- revaluation reserve		-	(31,564)
Property revaluation		**1,228,073**	-
Deferred tax		**(161,580)**	3,803
		1,066,493	3,803
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (FVOCI debt instruments):			
- net change in fair value		**(25,000)**	(408,919)
- reclassified to profit or loss		**(255,243)**	14,733
Deferred tax		**89,299**	145,091
		(190,944)	(249,095)
Other comprehensive income for the year, net of income tax		**875,549**	(245,292)
Total comprehensive income for the year		**2,336,289**	1,262,887
Earnings per share	11	**3.65**	3.77

The accompanying notes are an integral part of these financial statements.

Izola Bank p.l.c.

Statement of Changes in Equity

For the Year Ended 31 December 2019

	Share capital	Property revaluation reserve	Fair value reserve	Depositor compensation scheme reserve	Capital contribution	Reserve for general banking risk	Retained earnings	Total
	€	€	€	€	€	€	€	€
Balance at 1 January 2019	10,000,000	2,629,651	627,781	409,640	16,032,675	6,470	2,378,510	32,084,727
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	1,460,740	1,460,740
Other comprehensive income, net of tax								
Transfer from retained earnings	-	-	-	218,931	-	(2,610)	(216,321)	-
Revaluation surplus	-	1,228,073	-	-	-	-	-	1,228,073
Transfer of depreciation on revaluation surplus								
Fair value reserve								
- net change in fair value	-	-	(255,243)	-	-	-	-	(255,243)
- reclassified to profit or loss	-	-	(25,000)	-	-	-	-	(25,000)
Deferred tax on other comprehensive income	-	(161,580)	89,299	-	-	-	-	(72,281)
Total other comprehensive income	-	1,066,493	(190,944)	218,931	-	(2,610)	(216,321)	875,549
Total comprehensive income for the year	-	1,066,493	(190,944)	218,931	-	(2,610)	1,244,419	2,336,289
Transactions with equity holders								
Contributions and distributions								
Dividends to equity holders (note 26.8)	-	-	-	-	-	-	(1,750,000)	(1,750,000)
Contributions paid by equity holders	-	-	-	-	1,000,000	-	-	1,000,000
Total contributions and distributions	-	-	-	-	1,000,000	-	(1,750,000)	(750,000)
Balance at 31 December 2019	10,000,000	3,696,144	436,837	628,571	17,032,675	3,860	1,872,929	33,671,016

The accompanying notes are an integral part of these financial statements.

Izola Bank p.l.c.

Statement of Changes in Equity

For the Year Ended 31 December 2019

	Share capital	Property revaluation reserve	Fair value reserve	Depositor compensation scheme reserve	Capital contribution	Reserve for general banking risk	Retained earnings	Total
	€	€	€	€	€	€	€	€
Balance at 1 January 2018	10,000,000	2,657,412	876,876	354,523	12,532,675	36	3,050,318	29,471,840
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	1,508,179	1,508,179
Other comprehensive income, net of tax								
Transfer from retained earnings	-	-	-	55,117	-	6,434	(61,551)	-
Transfer of depreciation on revaluation surplus	-	(31,564)	-	-	-	-	31,564	-
Fair value reserve:	-							
- net change in fair value	-	-	(408,919)	-	-	-	-	(408,919)
- reclassified to profit or loss	-	-	14,733	-	-	-	-	14,733
Deferred tax on other comprehensive income	-	3,803	145,091	-	-	-	-	148,894
Total other comprehensive income	-	(27,761)	(249,095)	55,117	-	6,434	(29,987)	(245,292)
Total comprehensive income for the year	-	(27,761)	(249,095)	55,117	-	6,434	1,478,192	1,262,887
Transactions with equity holders								
Contributions and distributions								
Dividends to equity holders (note 26.8)	-	-	-	-	-	-	(2,150,000)	(2,150,000)
Contributions paid by equity holders	-	-	-	-	3,500,000	-	-	3,500,000
Total contributions and distributions	-	-	-	-	3,500,000	-	(2,150,000)	1,350,000
Balance at 31 December 2018	10,000,000	2,629,651	627,781	409,640	16,032,675	6,470	2,378,510	32,084,727

The accompanying notes are an integral part of these financial statements.

Izola Bank p.l.c.

Statement of Cash Flows

For the Year Ended 31 December 2019

	Note	2019	2018
		€	€
Cash flows from operating activities			
Interest and commission receipts		**9,599,107**	7,385,966
Interest and commission payments		**(2,911,749)**	(2,031,436)
Payments to employees and suppliers		**(4,068,351)**	(2,759,166)
Cash from operations before changes in operating assets/liabilities		**2,619,007**	2,595,364
Increase/(decrease) in operating assets:			
- other loans and advances to customers		**(12,260,011)**	(8,485,121)
- factored receivables		**(18,699,166)**	(37,992,738)
Increase/(decrease) in operating liabilities:			
- deposits from customers		**142,580,727**	31,389,664
- balance owed to Central Bank of Malta		**(13,000,000)**	(3,300,000)
Net cash absorbed from operating activities before income tax	28	**101,240,557**	(15,792,831)
Income tax paid		**(2,190,616)**	(1,301,489)
Net cash from/(used in) operating activities		**99,049,941**	(17,094,320)
Cash flows from investing activities			
Payments to acquire property, equipment and intangible assets		**(683,999)**	(559,531)
Proceeds from disposals of investment securities		**10,672,792**	24,129,036
Payments to acquire investment securities		**(50,641,277)**	(9,412,713)
Interest received from investment securities		**1,227,372**	949,252
Dividend received		**-**	199,411
Net cash (used in)/from investing activities		**(39,425,112)**	15,305,455
Cash flow from financing activities			
Dividends paid to shareholders		**(1,750,000)**	(2,150,000)
Capital contributed by shareholders		**1,000,000**	3,500,000
Interest paid on debt securities		**(540,000)**	(540,000)
Net cash (used in)/from financing activities		**(1,290,000)**	810,000
Net movement in cash and cash equivalents		**58,334,829**	(978,865)
Cash and cash equivalents at beginning of year		**21,051,565**	22,030,430
Cash and cash equivalents at end of year	29	**79,386,394**	21,051,565

The accompanying notes are an integral part of these financial statements.

Izola Bank p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2019

1 Reporting entity

Izola Bank p.l.c. (the "Bank") is a public limited liability company domiciled and incorporated in Malta. The Bank is primarily involved in corporate and retail banking.

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"). All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretation refer to those adopted by the EU.

These financial statements have also been prepared and presented in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) and the Banking Act, 1994 (Chapter 371, Laws of Malta).

2.2 Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following material items:

Items	***Measurement basis***
Financial assets at FVTPL and at FVOCI	Fair value
Premises and improvements	Revalued amount.

2.3 Functional and presentation currency

These financial statements are presented in Euro (€), which is the Bank's functional currency.

2.4 Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

2 Basis of preparation (continued)

2.4 Use of judgements and estimates (continued)

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their descriptions as significant and critical in terms of the requirements of IAS1: *Presentation of Financial Statements.*

3 Significant accounting policies

3.1 Financial assets and financial liabilities

3.1.1 Recognition and initial measurement

The Bank initially recognises factoring receivables and other loans and advances, deposits by customers and banks and debt securities issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

3.1.2 Classification

3.1.2.1 Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.2 Classification (continued)

3.1.2.1 Financial assets (continued)

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

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 principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.2 Classification (continued)

3.1.2.1 Financial assets (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion.

The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

3.1.3 Derecognition

3.1.3.1 Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

3.1.3.1 Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3.1.4 Modifications of financial assets and financial liabilities

3.1.4.1 Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (Note 3.1.3) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.4 Modifications of financial assets and financial liabilities (continued)

3.1.4.1 Financial assets (continued)

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification the gross carrying amount of the modified financial asset is adjusted and amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

3.1.4.2 Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.4 Modifications of financial assets and financial liabilities (continued)

3.1.4.2 Financial liabilities (continued)

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.1.5 Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

3.1.6 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as ' active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.6 Fair value measurement (continued)

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments - e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure - are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.1.7 Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- factored receivables;
- loans and advances to banks; and
- other loans and advances to customers.

No impairment loss is recognised on equity investments.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.7 Impairment (continued)

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers *nostro* balances held with credit institutions in reputable jurisdictions and debt investment securities to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply this low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.7 Impairment (continued)

Restructured financial assets (continued)

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.
- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness, if any.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.7 Impairment (continued)

- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCl.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

3 Significant accounting policies (continued)

3.2 Cash and cash equivalents

Cash and cash equivalents comprise notes and coins in hand, unrestricted balances held with the Central Bank of Malta and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.3 Loans and advances

Factored receivables and other loans and advances captions in the statement of financial position include factoring receivables and other loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

3.4 Investment securities

The 'investment securities' caption in the statement of financial position includes:
- equity investment securities mandatorily measured at FVTPL. These are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:
- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

3 Significant accounting policies (continued)

3.5 Property and equipment

3.5.1 Recognition and measurement

Items of property and equipment are measured at cost or revalued amount less accumulated depreciation and any accumulated impairment losses.

Freehold property is shown at open market value based on periodic valuations by the directors in consideration of a fair value determined by an external independent valuer less subsequent depreciation. A revaluation is carried out if the fair value of the property would otherwise differ materially from the carrying amount as at the reporting date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

3.5.2 Revaluation surplus or deficit

Increases in the carrying amount arising on revaluation of property are credited to the revaluation reserve in the statement of changes in equity. Decreases that offset previous increases of the same individual asset are charged against revaluation reserve directly in equity; all other decreases are expensed in the statement of profit or loss and other comprehensive income. Any subsequent increases are credited to the statement of profit or loss and other comprehensive income up to the amount previously debited, and then to the revaluation reserve. Upon disposal of premises, the relevant portion of the revaluation reserve realised is released and transferred from revaluation reserve to retained earnings.

Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

3.5.3 Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits emanating from such component will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3 Significant accounting policies (continued)

3.5 Property and equipment (continued)

3.5.4 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment from the date they are available for use.

Land is not depreciated. Upon revaluation of property, accumulated depreciation is eliminated against the gross carrying amount of the asset.

The estimated useful lives for the current and comparative years are as follows:

Premises and improvements	20 – 100 years
Computer hardware	5 years
Other equipment	5 – 15 years
Motor vehicles	5 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.6 Intangible assets - software

Software acquired by the Bank is stated at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to fifteen years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3.7 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

3 Significant accounting policies (continued)

3.7 Impairment of non-financial assets (continued)

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 Deposits and debt securities issued

Deposits and debt securities issued are the Bank's sources of debt funding. These are initially measured at fair value less incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. The Bank did not designate any liabilities at fair value through profit or loss.

3.9 Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

3 Significant accounting policies (continued)

3.9 Interest (continued)

Effective interest rate (continued)

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:
- interest on financial assets and financial liabilities measured at amortised cost; and
- interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes:
- financial liabilities measured at amortised cost.

3 Significant accounting policies (continued)

3.9 Interest (continued)

Interest income and expense on other financial assets and financial liabilities carried at FVTPL were presented in other income under the category net income from other financial instruments at FVTPL.

3.10 Fees and commission

Fees and commission 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.

Other fees and commission income, including account servicing fees, credit administration charges and similar fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.11 Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

3.12 Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

3 Significant accounting policies (continued)

3.12 Foreign currency transactions (continued)

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss save for foreign currency differences arising from equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI.

3.13 Leases

Applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

The Bank does not have right-of-use over assets that span over a long term or that are of significant value.

<u>Short term leases and leases of low-value assets</u>
The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Applicable before 1 January 2019

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

3.14 Employee benefits

The Bank contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as an expense in profit or loss as they fall due.

3 Significant accounting policies (continued)

3.15 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset only if certain criteria are met.

3.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from the equity net of any tax effects. The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3.17 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

3 Significant accounting policies (continued)

3.17 Financial guarantees and loan commitments

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and, for other loan commitments the Bank recognises a loss allowance.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

3.18 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Board of Directors (being the chief operating decision maker), to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.19 New standards and interpretations endorsed by the EU but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted, however none of these standards shall impact the financial statements of the Bank.

4 Financial risk management and review

4.1 Organisation

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Audit and Risk Committee and the Credit Committee with the responsibility for monitoring risk in their specified areas. Non-executive directors sit on these Committees whereas the Chief Executive Officer, an executive director, is either a member of, or otherwise attends all Committees. The Committees report regularly to the Board of Directors on their activities. The Board has also established an Asset and Liability Management Committee (ALCO) which is a management committee that reports to the Board of Directors on a quarterly basis.

Risk management policies have been established to identify and analyse the risks faced by the Bank, to set out appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank has developed appropriate risk management training for the needs of the relevant staff members.

4.2 Risk exposure

The Bank is exposed to a number of risks, which it manages at different organisational levels.

The main categories of risk are:

- *Credit risk;*
- *Market risk;*
- *Liquidity risk; and*
- *Operational risk.*

4.3 Capital base

The Bank is a licensed financial services provider and must therefore comply with the laws and regulations on capital requirements. The Bank has adopted the Standardised Approach to calculate its capital requirements.

4.3.1 Capital management

The Bank must have sufficient capital to comply with regulatory capital requirements. The purpose of the Bank's capital management is to ensure an efficient use of capital in relation to risk appetite as well as business development.

4 Financial risk management and review (continued)

4.3 Capital base (continued)

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, capital contribution, retained earnings and accumulated other comprehensive income.
- Tier 2 capital consisting of any general loan-loss reserves and other reserves

Banking operations are categorised as banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and to exposures not recognised in the statement of financial position.

The Bank has complied with all capital requirements directives and rules throughout the year.

There have been no material changes in the Bank's management of capital during the year.

4.3.2 Calculation of minimum capital requirement and risk-weighted assets

The minimum capital requirements are calculated for the credit, market and operational risk. The capital ratio is calculated using the definition of regulatory capital and risk-weighted assets. The total capital ratio must not be lower than 8%.

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

4 Financial risk management and review (continued)

4.3 Capital base (continued)

4.3.2 Calculation of minimum capital requirement and risk-weighted assets (continued)

Below is the Bank’s capital requirements and capital adequacy ratio computation.

	2019	2018
	€	€
Tier 1 capital		
Ordinary share capital	**10,000,000**	10,000,000
Capital contribution	**17,032,675**	16,032,675
Retained earnings	**1,872,929**	2,378,510
Property revaluation reserve	**3,696,144**	2,629,651
Fair value movement reserve	**436,837**	627,781
Other reserves	**3,860**	-
Deductions related to intangible assets	**(1,633,259)**	(1,653,214)
	31,409,186	30,015,403
Tier 2 capital		
General Banking Risk Reserve	**-**	6,470
	-	6,470
Total regulatory capital	**31,409,186**	30,021,873

Further information on the Bank's capital adequacy ratios may be found in sections 3 and 4 of Appendix 1 - Pillar 3 disclosures as at 31 December 2019, which are subject to internal review by the Bank.

4 Financial risk management and review (continued)

4.4 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's factored receivables, other loans and advances to customers and banks, and investment debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank's credit risk policies and procedures are reviewed through internal audit.

The Bank follows standards, policies and procedures established by the Bank's Board of Directors for the control and monitoring of all risks. The Board of Directors has delegated the responsibility for the management of credit risk to the Credit Committee within a Board-approved credit sanctioning limit. The Bank's management is responsible for the oversight of the Bank's credit risk. The Bank's management, reporting to the Credit Committee and the Board of Directors, is responsible for managing the Bank's credit risk, including the following.

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the CEO, the Head of Finance and Treasury, the Credit Committee or the Board of Directors, as appropriate.
- Reviewing and assessing credit risk: the Bank's Credit department assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances and similar exposures) and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk gradings to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 6 grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by senior management.
- Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:
  - initial approval, regular validation and back-testing of the models used;
  - determining and monitoring significant increase in credit risk; and
  - incorporation of forward-looking information.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to the Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.1 Maximum exposure to credit risk

The Bank's maximum credit risk exposure to on and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements can be classified in the following categories:

- Financial assets recognised in the statement of financial position comprise balances with Central Bank of Malta, financial investments, factored receivables, and other loans and advances. The maximum exposure to credit risk of these financial assets equals their carrying amount.

- Commitments for factored receivables, overdrafts and credit cards - the maximum exposure to credit risk is the full amount of the committed facilities (note 27).

4.4.2 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Grade 1: Low risk	**40,549,407**	-	-	**40,549,407**
Grade 2: Fair risk	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Loss allowance	-	-	-	-
Carrying amount	**40,549,407**	-	-	**40,549,407**

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Grade 1: Low risk	**18,788,220**	-	-	**18,788,220**
Grade 2: Fair risk	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Loss allowance	-	-	-	-
Carrying amount	**18,788,220**	-	-	**18,788,220**

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.2 Credit quality analysis (continued)

	2019			
Debt investment & equity securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Grade 1: Low risk	**55,928,490**	**-**	**-**	**55,928,490**
Grade 2: Fair risk	**-**	**-**	**-**	**-**
Grade 3: Substandard	**-**	**-**	**-**	**-**
Grade 4: Doubtful	**-**	**-**	**-**	**-**
Grade 5: Loss	**-**	**-**	**-**	**-**
Total gross carrying amount	**55,928,490**	**-**	**-**	**55,928,490**
Loss allowance (OCI)	**-**	**-**	**-**	**-**
Carrying amount – fair value	**55,928,490**	**-**	**-**	**55,928,490**

	2018			
Debt investment & equity securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Grade 1: Low risk	**35,142,667**	**-**	**-**	**35,142,667**
Grade 2: Fair risk	**-**	**-**	**-**	**-**
Grade 3: Substandard	**-**	**-**	**-**	**-**
Grade 4: Doubtful	**-**	**-**	**-**	**-**
Grade 5: Loss	**-**	**-**	**-**	**-**
Total gross carrying amount	**35,142,667**	**-**	**-**	**35,142,67**
Loss allowance (OCI)	**(16,606)**	**-**	**-**	**(16,606)**
Carrying amount – fair value	**35,126,061**	**-**	**-**	**35,126,061**

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Factored receivables				
Grade 1: Low risk	**93,116,157**	**-**	**-**	**93,116,157**
Grade 2: Fair risk	**9,434,281**	**-**	**-**	**9,434,281**
Grade 3: Substandard	**973,624**	**-**	**-**	**973,624**
Grade 4: Doubtful	**1,422,167**	**-**	**1,093,945**	**2,516,112**
Grade 5: Loss	**200,528**	**-**	**-**	**200,528**
Loss allowance	**(124,541)**	**-**	**(703,962)**	**(828,503)**
Carrying amount	**105,022,216**	**-**	**389,983**	**105,412,199**

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Factored receivables				
Grade 1: Low risk	**84,849,585**	**-**	**-**	**84,849,585**
Grade 2: Fair risk	**1,400,109**	**-**	**-**	**1,400,109**
Grade 3: Substandard	**-**	**-**	**302,901**	**302,901**
Grade 4: Doubtful	**-**	**-**	**514,689**	**514,689**
Grade 5: Loss	**-**	**-**	**-**	**-**
Loss allowance	**(246,898)**	**-**	**(560,246)**	**(807,144)**
Carrying amount	**86,002,796**	**-**	**257,344**	**86,260,140**

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.2 Credit quality analysis (continued)

Other loans and advances to customers at amortised cost	**2019**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grade 1: Low risk	**85,250,045**	**-**	**-**	**85,250,045**
Grade 2: Fair risk	**1,345,199**	**-**	**-**	**1,345,199**
Grade 3: Substandard	**-**	**-**	**-**	**-**
Grade 4: Doubtful	**-**	**-**	**158,396**	**158,396**
Grade 5: Loss	**-**	**-**	**-**	**-**
Loss allowance	**(74,798)**	**-**	**(156,293)**	**(231,091)**
Carrying amount	**86,520,446**	**-**	**2,103**	**86,522,549**

Other loans and advances to customers at amortised cost	**2018**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grade 1: Low risk	**74,240,685**	**-**	**-**	**74,240,685**
Grade 2: Fair risk	**31,291**	**-**	**-**	**31,291**
Grade 3: Substandard	**41,550**	**-**	**-**	**41,550**
Grade 4: Doubtful	**-**	**-**	**180,103**	**180,103**
Grade 5: Loss	**-**	**-**	**-**	**-**
Loss allowance	**(26,912)**	**-**	**(180,103)**	**(207,015)**
Carrying amount	**74,286,614**	**-**	**-**	**74,286,614**

Loan commitments subject to credit loss provision (included with other loans and advances to customers) are rated as Grade 1 – Low risk and are classified within Stage 1.

The following tables sets out information about the overdue status of the carrying amount of factored receivables and loans and advances to customers in Stages 1, 2 and 3.

	2019				**2018**			
Factored receivables	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Current	**92,274,826**	**-**	**-**	**92,274,826**	78,783,469	-	-	78,783,469
Overdue < 30 days	**10,093,342**	**-**	**-**	**10,093,342**	6,600,509	-	-	6,600,509
Overdue > 30 days	**2,654,048**	**-**	**389,983**	**3,044,031**	618,818	-	257,344	876,162
Total	**105,022,216**	**-**	**389,983**	**105,412,199**	86,002,796	-	257,344	86,260,140

Other loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Current	**86,520,446**	**-**	**-**	**86,520,446**	74,240,685	-	-	74,240,685
Overdue < 30 days	**-**	**-**	**-**	**-**	31,291	-	-	31,291
Overdue > 30 days	**-**	**-**	**2,103**	**2,103**	14,638	-	-	14,638
Total	**86,520,446**	**-**	**2,103**	**86,522,549**	74,286,614	-	-	74,286,614

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.2 Credit quality analysis (continued)

The following table shows a reconciliation from the opening to the closing balance of the loss allowance of all classes of financial instruments. The basis for determining transfers due to changes in credit risk is set out in accounting policy.

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 1 January	**273,810**	**-**	**740,349**	**1,014,159**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	(3,133)	-	3,133	**-**
Net remeasurement of loss allowance	(27,981)	-	122,416	**94,435**
New financial assets originated or purchased	60,453	-	-	**60,453**
Financial assets that have been derecognised	(99,747)	-	-	**(99,747)**
Write-offs	(4,061)	-	(5,645)	**(9,706)**
Balance as at 31 December	**199,341**	-	**860,253**	**1,059,594**

4.4.3 Analysis of collateral

The Bank holds collateral against loans and advances to customers in the form of pledges over deposits held with the Bank, collateralised by receivables or by real estate. Factored receivables are without recourse but are covered by credit insurance or asset backed and partially cash secured on a first loss basis. No collateral is held against investment and loans and advances to banks.

At the reporting date, 50% (2018: 64%) of other loans and advances to customers were secured by cash amounting to €43,694,521 (2018: €47,431,963), 35% (2018: 18%) of other loans and advances to customers were secured against property, whilst 6% (2018: 9%) of other loans and advances to customers were secured against receivables and shares. The remaining 9% (2018: 9%) were unsecured.

The collateralised loans are as follows:

	Carrying amounts Loans and advances to customers	
	2019	2018
	€	€
Type of collateral		
Deposits held with the Bank	**43,694,521**	47,431,963
Bills of exchange	**3,697,259**	5,077,908
Real estate	**30,065,090**	13,203,308
Unlisted shares	**904,044**	930,098
Assignment of receivables	**700,215**	474,633
	========	========

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.3 Analysis of collateral (continued)

	Factored receivables	
	2019	2018
	€	€
Type of collateral		
Motor vehicles	**72,241,169**	53,878,924
	========	========

4.4.4 Amounts arising from Expected Credit Losses

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due (excluding factored receivables).

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.4 Amounts arising from Expected Credit Losses (continued)

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures.

The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

On commercial loans and advances, the Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as ' forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.4 Amounts arising from Expected Credit Losses (continued)

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.4 Amounts arising from Expected Credit Losses (continued)

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Loss allowance

The following table summarises the loss allowance by class of financial instrument.

2019	Gross carrying amount	Stage 1	Stage 2	Stage 3	Net amount as per SOFP
	€	€	€	€	€
Loans and advances to customers at amortised cost	**86,753,640**	**(74,800)**	**-**	**(156,291)**	**86,522,549**
Factored receivables at amortised cost	**106,240,702**	**(124,541)**	**-**	**(703,962)**	**105,412,199**
Investment securities at FVOCI – Debt instruments	**55,928,490**	**-**	**-**	**-**	**55,928,490**
Loss allowance per stage		**(199,341)**	**-**	**(860,253)**	
Total loss allowance			**(1,059,594)**		

The provision for credit losses on Balances with Central Bank, Loans and advances to banks and FVOCI securities considered insignificant.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.4 Amounts arising from Expected Credit Losses (continued)

2018	Gross carrying amount	Stage 1	Stage 2	Stage 3	Net amount as per SOFP
	€	€	€	€	€
Loans and advances to customers at amortised cost	74,493,629	(26,912)	-	(180,103)	74,286,614
Factored receivables at amortised cost	87,067,284	(246,898)	-	(560,246)	86,260,140
Investment securities at FVOCI – Debt instruments	35,142,667	(16,606)	-	-	35,126,061
Loss allowance per stage		(290,416)	-	(740,349)	
Total loss allowance			(1,030,765)		

4.4.5 Loans with renegotiated terms and forbearance

The Bank has adopted the additional accounting policies, in note 3.1.7, as requested by the European Securities and Markets Authority (ESMA) Public Statement on the Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions.

Loans with renegotiated terms are loans that have been restructured due to changing market conditions, deterioration in the borrower's financial position and other factors not related to the current or potential credit deterioration of a customer. Under certain circumstances, the Bank may renegotiate the terms and conditions of a loan in response to actual or perceived financial difficulties of a customer. This practice of renegotiation for credit purposes is known as loan forbearance.

During 2019, there was one instance (2018: Nil) where the terms and conditions of a loan amounting to €84,690 had to be renegotiated in response to perceived financial difficulties of a customer.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.6 Write-off policy

The Bank writes off a loan, security and/or factored receivable balance (and any related expected credit loss) when management determines that the loan, security and/or factored receivable is uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the current year, amounts receivable of €44,965 (2018: €141,992) were written off by the Bank.

4.4.7 Settlement risk

'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. The Bank's activities does not expose it to significant settlement risk.

4.4.8 Industry concentration

The following industry concentrations relating to loans and advances to customers are considered significant:

	2019		2018	
	€	**%**	€	%
Other sectors	**27,329,608**	**32**	5,179,722	7
Wholesale and retail trade	**26,585,666**	**31**	26,732,119	36
Real estate, renting and business activities	**32,607,275**	**37**	42,374,773	57
	86,522,549	**100**	74,286,614	100

4.4.9 Concentration risk

In addition to the industry concentration mentioned in note 4.4.8, the Bank monitors concentration of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (net of loss allowances) is shown on the next page.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.9 Concentration risk (continued)

	Loans and advances to customers		Factored receivables		Loans and advances to banks		Investment securities	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	€	€	**€**	€	**€**	€	**€**	€
Carrying amount**86,522,549**	74,286,614	**105,412,199**	86,260,140	**40,549,407**	18,788,220	**81,369,795**	42,111,712	
	========	========	========	========	========	========	========	========
Concentration by sector								
Corporate	**85,224,462**	73,141,574	**44,236,954**	32,381,216	**-**	-	**17,461,003**	13,154,388
Private individuals	**1,298,087**	1,145,040	**61,175,245**	53,878,924	**-**	-	**-**	-
Banks	**-**	-	**-**	-	**40,549,407**	18,788,220	**-**	100,050
Sovereign	**-**	-	**-**	-	**-**	-	**38,429,757**	21,871,623
Equity	**-**	-	**-**	-	**-**	-	**25,479,035**	6,985,651
	-------------	------------------	------------------	------------------	------------------	------------------	------------------	------------------
	86,522,549	74,286,614	**105,412,199**	86,260,140	**40,549,407**	18,788,220	**81,369,795**	42,111,712
	========	==========	===========	==========	===========	==========	==========	========
Concentration by location								
Europe	**85,358,098**	73,078,713	**105,412,199**	86,260,140	**40,549,407**	18,788,220	**81,369,795**	42,111,712
USA	**1,164,451**	1,207,901	**-**	-	**-**	-	**-**	-
	========	=========	==========	========	==========	=========	==========	========

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.9 Concentration risk (continued)

Concentration by location for loans and advances to customers and banks and investment securities is measured based on the location of the borrower or issuer of the security.

4.5 Market risk

Market risk comprises the risk of losses in value caused by unexpected changes in market prices (interest rates, equity prices, foreign exchange rates and credit spreads) before the affected positions can be closed out or hedged.

Market risk for the Bank consists of three elements:

- Interest rate risk, which is the risk of losses because of changes in interest rates.
- Exchange rate risk, which is the risk of losses on the Bank's positions in foreign currency because of changes in exchange rates.
- Investment price risk, which is the risk of losses because of changes in investments prices.

4.5.1 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 re-price at different times or at different amounts. The Bank accepts deposits from customers 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. However, the Bank seeks to maximise the spread over the cost of capital by investing funds in a portfolio of securities and loans and receivables with a longer tenure than the liabilities (therefore carrying a negative maturity gap position) through the efficient management of shorter-term liabilities over the medium to longer term. The table on the next page summarises re-pricing mismatches at reporting date together with the effective interest rates where applicable.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

2019	Carrying amount	Effective interest rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
	€	%	€	€	€	€	€
Assets							
Cash	24,007	-	24,007	-	-	-	-
Balances receivable from Central Bank of Malta	39,063,302	-0.5%	39,063,302	-	-	-	-
Investments:							
- Debt securities at FVOCI	55,890,760	2.5%	2,049,775	3,500,000	20,472,085	29,868,900	-
- Equity instruments	25,479,035	-	25,479,035	-	-	-	-
Loans and advances to banks	40,549,407	-0.3%	40,549,407	-	-	-	-
Other loans and advances to customers	86,522,549	3.5%	17,843,919	28,653,971	8,561,455	31,463,204	-
Factored receivables	105,412,199	-	-	-	-	-	105,412,199
Other assets	15,390,647	-	-	-	-	-	15,390,647
Total assets	368,331,905		125,009,445	32,153,971	29,033,540	61,332,104	120,802,846
Liabilities							
Balance owed to Central Bank of Malta	-	-	-	-	-	-	-
Deposits from banks	250,322	0.1%	250,322	-	-	-	-
Deposits from customers	319,737,813	1.2%	96,014,744	113,457,585	95,759,777	14,505,707	-
Debt securities issued	11,905,989	4.5%	-	-	-	11,905,989	-
Current tax payable	-	-	-	-	-	-	-
Other liabilities	2,766,765	-	-	-	-	-	2,766,765
	334,660,889		96,265,066	113,457,585	95,759,777	26,411,696	2,766,765
Equity							
Issued capital	10,000,000		-	-	-	-	10,000,000
Property revaluation reserve	3,696,144		-	-	-	-	3,696,144
Depositors' compensation scheme reserve	628,571		-	-	-	-	628,571
Fair value reserve	436,837		-	-	-	-	436,8837
Retained earnings	1,872,929		-	-	-	-	1,872,929
Reserve for general banking risk	3,860		-	-	-	-	3,860
Capital contribution	17,032,675		-	-	-	-	17,032,675
	33,671,016		-	-	-	-	33,671,016
Total liabilities and equity	368,331,905		96,265,066	113,457,585	95,759,777	26,411,696	26,411,696
Gap			28,744,379	(81,303,614)	(66,726,237)	34,920,408	84,365,064
Cumulative gap			28,744,379	(52,559,235)	(119,285,472)	(84,365,064)	-

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

2018	Carrying amount €	Effective interest rate %	Less than three months €	Between three months and one year €	Between one year and five years €	More than five years €	Others €
Assets							
Cash	816	-	-	-	-	-	816
Balances receivable from Central Bank of Malta	2,512,597	- 0.4%	2,512,597	-	-	-	-
Investments:							
- Debt securities at FVOCI	35,126,061	3.7%	1,002,100	2,657,250	21,524,473	9,942,238	-
- Equity instruments	6,985,651	-	-	-	-	-	6,985,651
Loans and advances to banks	18,788,220	- 0.3%	18,788,220	-	-	-	-
Other loans and advances to customers	74,286,614	3.3%	16,200,620	20,928,377	7,450,472	29,707,145	-
Factored receivables	86,260,140	-	-	-	-	-	86,260,140
Other assets	13,193,503	-	-	-	-	-	13,193,503
Total assets	237,153,602		38,503,537	23,585,627	28,974,945	39,649,383	106,440,110
Liabilities							
Balance owed to Central Bank of Malta	13,000,000	0%	-	-	13,000,000	-	-
Deposits from banks	250,068	0.1%	250,068	-	-	-	-
Deposits from customers	177,157,086	2.0%	87,904,790	44,850,846	35,175,448	9,226,002	-
Debt securities issued	11,888,899	4.6%	-	-	-	11,888,899	-
Current tax payable	802,074	-	-	802,074	-	-	-
Other liabilities	1,970,748	-	-	-	-	-	1,970,748
	205,068,875		88,154,858	45,652,920	48,175,448	21,114,901	1,970,748
Equity							
Issued capital	10,000,000		-	-	-	-	10,000,000
Property revaluation reserve	2,629,651		-	-	-	-	2,629,651
Depositors' compensation scheme reserve	409,640		-	-	-	-	409,640
Fair value reserve	627,781		-	-	-	-	627,781
Retained earnings	2,378,510		-	-	-	-	2,378,510
Reserve for general banking risk	6,470		-	-	-	-	6,470
Capital contribution	16,032,675		-	-	-	-	16,032,675
	32,084,727		-	-	-	-	32,084,727
Total liabilities and equity	237,153,602		88,154,858	45,652,920	48,175,448	21,114,901	34,055,475
Gap			(49,651,321)	(22,067,293)	(19,200,503)	18,534,482	72,384,635
Cumulative gap			(49,651,321)	(71,718,614)	(90,919,117)	(72,384,635)	-

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

4.5.1.1 Interest rate profile

At the reporting date, the interest rate profile of the Bank's interest bearing financial instruments was:

	2019	2018
	€	€
Fixed rate instruments		
Investments – Debt securities	**55,390,760**	33,612,753
Loans and advances to customers	**52,202,382**	53,427,914
Balance owed to Central Bank of Malta	**-**	(13,000,000)
Debt securities in issue	**(11,905,989)**	(11,888,899)
Deposits from customers	**(244,681,046)**	(110,238,815)
	(148,993,893)	(48,087,047)
Variable rate instruments		
Investments – Debt securities	**500,000**	1,513,308
Loans and advances to customers	**34,320,166**	20,858,700
Balance receivable from Central Bank of Malta	**39,063,302**	2,512,597
Loans and advances to banks	**40,549,407**	18,788,220
Deposits from banks	**(250,322)**	(250,068)
Deposits from customers	**(75,056,767)**	(66,918,271)
	(39,125,786)	(23,495,514)

4.5.1.2 Fair value sensitivity analysis for fixed rate instruments

The Bank does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

A sudden increase of 50 basis points in the yield to maturity of the benchmark 10-year Malta Government Stock would lead to a decrease in value of investments at FVOCI amounting to €140,411. Such a decrease would be recognised in other comprehensive income and in equity. A decrease of 50 basis points in interest rates would have an equal but opposite effect on other comprehensive income and equity.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

4.5.1.3 Cash flow sensitivity analysis for variable rate instruments

The sensitivity of the interest rate gaps to various interest rate scenarios is also monitored by management. Standard scenarios that are considered on a quarterly basis include a 50 basis point (bp) parallel rise or fall in all the yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates is as presented below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Impact on	
	Profit or loss	**Equity**
	€	**€**
2019		
+ 50 basis points	**195,629**	**195,629**
- 50 basis points	**(178,522)**	**(178,522)**
2018		
+ 50 basis points	(117,478)	(117,478)
- 50 basis points	117,478	117,478

4.5.1.4 Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform Interbank Offered Rates (IBOR) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Bank does not have a significant exposure to IBORs on its financial instruments that will be replaced or reformed as part of this market-wide initiative, since the Bank's exposures are either fixed rate in nature or short term and the Bank does not deal in derivative financial instruments. Furthermore, the reform of Euribor has included a change to the underlying calculation methodology but it is not expected that the Euribor benchmark rate will be replaced with a new rate.

4.5.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Bank holds and deals in foreign currency with the aim to service the foreign exchange buying and selling activity by its clients. The Bank does not speculate on its foreign exchange holdings. The Bank's foreign exchange exposure is mainly limited to the United States Dollar and Swiss Francs originating from the Bank's corporate banking business. The Bank manages this risk by ensuring that its foreign currency denominated liabilities are matched to corresponding assets in the same currency.

Exposure to foreign currencies is maintained at minimum levels and within the prescribed limits set by the Bank's Board of Directors. In the scenario whereby all foreign currencies fluctuate up or down by 20% against the Euro, the carrying amounts of financial assets and liabilities would fluctuate, up or down by €290,388 and €193,592 (2018: €373,047 and €248,698) respectively.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.2 Currency risk (continued)

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant currency groupings:

	2019			2018		
	Euro	**Other currencies**	**Total**	Euro	Other currencies	Total
	€	**€**	**€**	€	€	€
Financial assets						
Cash	**24,007**	**-**	**24,007**	816	-	816
Investment securities:						
- Debt securities	**55,890,760**	**-**	**55,890,760**	35,126,061	-	35,126,061
- Equities securities	**25,479,035**	**-**	**25,479,035**	6,985,651	-	6,985,651
Loans and advances to banks and balances receivable from Central Bank of Malta	**78,934,468**	**678,241**	**79,612,709**	20,178,375	1,122,441	21,300,816
Loans and advances to customers	**85,358,098**	**1,164,451**	**86,522,549**	73,078,714	1,207,900	74,286,614
Factored receivables	**105,412,199**	**-**	**105,412,199**	86,260,140	-	86,260,140
	351,098,567	**1,842,692**	**352,941,259**	221,629,757	2,330,341	223,960,098
Financial liabilities						
Balance owed to Central Bank of Malta	**-**	**-**	**-**	13,000,000	-	13,000,000
Debt securities issued	**11,905,989**	**-**	**11,905,989**	11,888,899	-	11,888,899
Deposits from banks	**250,322**	**-**	**250,322**	250,068	-	250,068
Deposits from customers	**319,056,674**	**681,139**	**319,737,813**	176,318,933	838,153	177,157,086
	331,212,985	**681,139**	**331,894,124**	201,457,900	838,153	202,296,053

At the reporting date, the Bank was not exposed to any significant off-balance sheet currency risk.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.3 Investment price risk

The exposure of the Bank to this risk is not significant. Frequent management reviews are carried out to ensure high quality of the portfolio.

4.5.4 Fair values of financial instruments

The fair values of financial assets that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

(a) Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates.

Fair values reflect the credit risk of the instrument and include adjustments to take account the credit risk of the counterparty as appropriate.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

4 Financial risk management and review (continued)

4.3 Market risk (continued)

4.5.4 Fair values of financial instruments (continued)

(b) Valuation framework

The Bank's only assets which are measured at fair value are the investments in Malta Government Stocks, corporate bonds which are listed on the Malta Stock Exchange and collective investment schemes. Malta Government Stocks, corporate bonds and unquoted equity securities are classified as investment securities at FVOCI. Equity investments representing units in investment schemes are classified as FVTPL. The Head of Finance and Treasury has overall responsibility for independently verifying the results of all fair value measurements.

(c) Financial instruments measured at fair value – Fair value hierarchy

The table below analyses financial instruments measured at fair value at the reporting date by the level in fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the value recognised in the statement of financial position.

	Level 1	**Level 2**	**Level 3**	**Total**
	€	€	€	€
31-Dec-19				
Investment securities:				
- Debt instruments	**55,890,760**	**-**	**-**	**55,890,760**
- Equity instruments	**25,441,305**	**-**	**37,730**	**25,479,035**
	81,332,065	**-**	**37,730**	**81,369,795**
31-Dec-18				
Investment securities:				
- Debt instruments	35,126,061	-	-	35,126,061
- Equity instruments	6,965,498	-	20,153	6,985,651
	42,091,559	-	20,153	42,111,712

Investment securities – Debt instruments

This category of assets is carried at fair value. The instrument included in this category is quoted and its fair value has been determined by reference to the market price as at 31 December 2019.

Investment securities – Equity instruments

The Bank has an interest in an open-ended investment fund as disclosed in note 13.4. This asset is carried at fair value and its fair value has been determined by reference to the net asset value of this security as at 31 December 2019.

The Bank does not have a material exposure to unquoted equity investments.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.4 Fair values of financial instruments (continued)

(d) Financial instruments not measured at fair value

The fair value of the debt securities issued as at 31 December 2019 amounted to €12,960,000 (2018: €12,720,000) whilst its carrying amount was €11,905,989 (2018: €11,888,899). The carrying amount of all the other financial instruments not measured at fair value approximates their fair value for the following reasons:

Loans and advances to banks and factored receivables

This category of assets is reported net of allowances for expected credit losses to reflect the estimated recoverable amounts. Loans and advances to banks are re-priceable within 3 months whilst factored receivables are measured at amortised cost. The carrying amounts of these financial assets therefore approximate their fair values.

Loans and advances to customers

21% (2018: 32%) of loans and advances to customers mature within 3 months and hence, the carrying amounts of these financial assets approximate their fair values. 36% (2018: 23%) mature after more than three months and within five years. The other 43% (2018: 45%) mature after more than five years. A large portion of these instruments are cash secured by deposits from customers held by the Bank. There were no significant changes in the market interest rates during the term of these advances. The fair values of these instruments therefore approximate their respective carrying amount.

Balance owed to Central Bank of Malta

The loans contracted by the Bank during the comparative year (nil during current year) with Central Bank of Malta under the Program ‘Euro-system Monetary Policy Operations - Central Bank of Malta Directive No.8’ are carried at amortised cost. Part of the Malta Government Stocks held by the Bank were pledged in favour of Central Bank of Malta as disclosed in note 13.2. The fair values of these loans approximate their respective carrying amount.

Deposits from customers

This category of liabilities is carried at amortised cost and amounts to €319,737,813 (2018: €177,157,086). 38% (2018: 50%) of the Bank’s deposits from customers have a contractual repricing term of three months or less. The carrying value of these amounts approximates their fair values. In respect of other longer-term fixed-maturity deposits, which are re-priceable upon their contractual maturity date, given the insignificant changes in market interest rates, the fair values of these liabilities approximate their respective carrying amount.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.4 Fair values of financial instruments (continued)

(d) Financial instruments not measured at fair value (continued)

Deposits from banks

This category of liabilities is carried at amortised cost and amounts to €250,322 (2018: €250,068). These are short term and the carrying value of these amounts approximates their fair values.

Debt securities issued

This category of liabilities is carried at amortised cost. The instrument included in this category is quoted and its fair value has been determined by reference to the market price as at 31 December 2019 which was EUR 108.00 per EUR 100.00 resulting in a fair value of EUR 12,960,000.

4.6 Liquidity risk

Liquidity risk is the risk that the Bank’s obligations to repay liabilities or fund new loans exceeds the Bank’s ability to raise funds from either the liquidation of assets or the acceptance of new deposits. Liquidity risk arises because a bank does not exactly match the maturity of assets with the maturity of liabilities but must always be able to meet its liabilities as they fall due. Liquidity risk may also be affected by the depth of the market in which the Bank has its assets and liabilities.

Liquidity risk is divided into two categories:

- *Market (product) liquidity risk*: risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.
- *Funding liquidity risk*: risk of losses arising from a timing mismatch between investing, *placements* and funds arising from activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

The Bank’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank’s reputation. The key elements of the Bank's liquidity strategy are as follows.

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.

4 Financial risk management and review (continued)

4.6 Liquidity risk (continued)

- Stress testing of the Bank's liquidity position against various exposures and global, country-specific and Bank-specific events.

Liquidity policies and procedures are reviewed by internal audit. All liquidity policies are subject to the review by the Asset and Liability Management Committee and the approval of the Board of Directors.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant remaining maturity groupings based on the ability of recovery or repayment:

At 31 December 2019	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	€	€	€	€	€	€
Financial assets						
Cash	24,007	-	-	-	-	24,007
Investment securities:						
- Equity securities	25,441,305	-	-	-	37,730	25,479,035
- Debt securities	2,049,775	-	3,500,000	20,472,085	29,868,900	55,890,760
Loans and advances to banks and balances receivable from Central Bank of Malta	79,612,709	-	-	-	-	79,612,709
Loans and advances to customers	17,252,283	806,799	21,034,576	10,368,875	37,060,016	86,522,549
Factored receivables	25,028,551	13,909,616	15,557,908	50,770,167	145,957	105,412,199
	149,408,630	14,716,415	40,092,484	81,611,127	67,112,603	352,941,259
Financial liabilities						
Deposits from banks	250,322	-	-	-	-	250,322
Deposits from customers	75,397,749	45,353,246	88,721,333	95,759,777	14,505,708	319,737,813
Debt securities issued	-	-	-	12,000,000	-	12,000,000
	75,648.071	45,353,246	88,721,333	107,759,777	14,505,708	331,988,135

4 Financial risk management and review (continued)

4.6 Liquidity risk (continued)

At 31 December 2018	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	€	€	€	€	€	€
Financial assets						
Cash	816	-	-	-	-	816
Investment securities:						
- Equity securities	6,965,498	-	-	-	20,153	6,985,651
- Debt securities	35,126,061	-	-	-	-	35,126,061
Loans and advances to banks and balances receivable from Central Bank of Malta	21,300,816	-	-	-	-	21,300,816
Loans and advances to customers	23,938,606	66,976	6,530,042	10,893,594	32,857,396	74,286,614
Factored receivables	18,699,663	17,844,266	11,915,609	36,469,168	1,331,434	86,260,140
	106,031,460	17,911,242	18,445,651	47,362,762	34,208,983	223,960,098
Financial liabilities						
Balance owed to Central Bank of Malta	-	-	-	13,000,000	-	13,000,000
Deposits from banks	250,068	-	-	-	-	250,068
Deposits from customers	79,616,940	8,287,848	44,850,848	35,175,448	9,226,002	177,157,086
Debt securities issued	-	-	-	-	11,888,899	11,888,899
	79,867,008	8,287,848	44,850,848	48,175,448	21,114,901	202,296,053

4 Financial risk management and review (continued)

4.6 Liquidity risk (continued)

4.6.1 Exposure to liquidity risk (continued)

The key measure used by the Bank for managing liquidity risk is the Liquidity Coverage Ratio (LCR). This ratio measures the Bank's level of High-Quality Liquid Assets (HQLAs) versus it expected net cash outflows over a period of one month. This calculation is used to measure the Bank's compliance with the ratio established by Credit Requirements Regulation. Details of the Bank's ratio at the reporting date and during the reported period are as follows:

	2019	2018
As at 31 December	**7,810%**	6,122%
Average for the year	**5,121%**	4,960%
Maximum for the year	**9,198%**	6,122%
Minimum for the year	**1,315%**	4,065%

4.6.2 Residual contractual maturities of financial liabilities

The table below shows a maturity analysis for financial liabilities by remaining contractual maturities of undiscounted cash flows:

	Carrying amount	Gross nominal outflow	Repayable on demand	Between one and three months	Between three months and one year	Between one and five years	After more than five years
	€	€	€	€	€	€	€
At 31 December 2019							
Debt securities issued	**11,905,989**	**(15,240,000)**	**-**	**-**	**(540,000)**	**(2,160,000)**	**(12,540,000)**
Deposits from banks	**250,322**	**(250,322)**	**-**	**-**	**-**	**-**	**-**
Deposits from customers	**319,737,813**	**(333,058,233)**	**(75,397,749)**	**(45,698,352)**	**(89,932,084)**	**(103,296,874)**	**(18,723,174)**
	331,894,124	**(348,548,555)**	**(75,397,749)**	**(45,698,352)**	**(90,472,084)**	**(105,456,874)**	**(31,263,174)**
At 31 December 2018							
Debt securities issued	11,888,899	(15,780,000)	-	-	(540,000)	(2,160,000)	(13,080,000)
Balance owed to Central Bank of Malta	13,000,000	(13,000,000)	-	-	-	(13,000,000)	-
Deposits from banks	250,068	(250,068)	(250,068)	-	-	-	-
Deposits from customers	177,157,086	(182,396,096)	(67,123,570)	(20,781,220)	(45,403,197)	(37,670,403)	(11,417,706)
	202,296,053	(211,426,164)	(67,373,638)	(20,781,220)	(45,943,197)	(52,830,403)	(24,497,706)

4 Financial risk management and review (continued)

4.7 Operational risks

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. Operational risks arise from all the Bank's operations.

Management of operational risk

The Bank's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness. To manage this risk in an appropriate manner the following policies have been adopted:

- To adopt policies, processes and procedures to control and/or mitigate material operational risks.
- To identify and assess the operational risk inherent in all material products, activities, processes and systems. Before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment.
- To monitor all potential operational risks and material exposures to losses.
- To monitor whether there is motive, means and opportunity, within the overall control environment to commit fraudulent acts.
- To adopt contingency and business continuity plans to ensure ability to operate on an ongoing basis and limit losses in the event of severe business disruption.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. Periodic operational risk reports are submitted to the Bank's Audit and Risk Committee.

A financial measurement of this risk is arrived at by the Bank for the purpose of allocating risk capital using the Basic Indicator Approach under the Capital Requirements Directive rules. The capital requirement for operational risk under this method was calculated at €959,000 as at 31 December 2019 (2018: €974,543).

5 Net interest income

	Note	2019 €	2018 €
Interest income			
Loans and advances to banks		**-**	4,164
Loans and advances to customers		**2,845,844**	2,224,182
Factored receivables		**6,489,408**	4,865,892
Financial assets measured at FVOCI		**1,301,489**	986,791
Amortisation on financial assets measured at FVOCI		**(478,286)**	(185,963)
Total interest income		**10,158,455**	7,895,066
Interest expense:			
Loans and advances to banks		**(182,515)**	(56,178)
Deposits from customers		**(3,233,349)**	(2,014,687)
Debts securities issued		**(540,000)**	(540,000)
Amortisation of debt issuance costs	21	**(17,090)**	(17,088)
Total interest expense		**(3,972,954)**	(2,627,953)
Net interest income		**6,185,501**	5,267,113

The Bank has elected to reclassify presentation of the 'Amortisation on financial assets measured at FVOCI' from Other Income in 2018 'to 'Interest Income'. Comparative figures have been adjusted accordingly.

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

	2019 €	2018 €
Financial assets measured at amortised cost	**9,335,252**	7,094,238
Financial assets measured at FVOCI	**823,203**	986,791
Total	**10,158,455**	8,081,029
Financial liabilities measured at amortised cost	**3,972,954**	2,627,953

6 Net fee and commission income

	2019	2018
	€	€
Account maintenance and other bank charges	**135,013**	107,713
Fee and commission income	**135,013**	107,713
SWIFT and bank charges	**(72,662)**	(74,055)
Fee and commission expense	**(72,662)**	(74,055)
Net fee and commission income	**62,351**	33,658

Performance obligations and revenue recognition policies
Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to corporate customers, including the provision of credit facilities, foreign currency transactions, account maintenance and servicing fees. Transaction-based fees for foreign currency transactions and credit facilities are charged to the customer's account when the transaction takes place. Servicing fees are charged on a periodical basis and are based on fixed rates reviewed annually by the Bank. No fees are charged to the Bank's retail customer base.	Revenue from account maintenance and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

7 Other revenue

	2019	2018
	€	€
Net gain/(loss) from other financial instruments at FVTPL	**47,102**	(449,079)
Net gain on sale of debt investment securities measured at FVOCI	**25,000**	450,896
Dividends on equity securities measured at FVTPL	**-**	199,411
Net gain from foreign exchange	**50,554**	52,545
Other income	**88,330**	64,378
	210,986	318,151

8 Impairment allowances

	2019	2018
	€	€
Write-offs		
Factored receivables	**(23,694)**	(141,992)
Other loans and advances to customers	**(21,271)**	-
	(44,965)	(141,992)
Loss allowance		
Factored receivables		
- Reversal of prior year provisions	**-**	1,034,963
- Stage 1 and 2	**122,357**	(246,898)
- Stage 3	**(143,716)**	(560,246)
Credit cards, overdrafts and other advances		
- Reversal of prior year provisions	**-**	255,886
- Stage 1 and 2	**(47,888)**	(26,912)
- Stage 3	**23,812**	(180,103)
	(45,435)	276,690
Total impairment	**(90,400)**	134,698

9 Profit before tax

9.1 Profit before income tax is stated after charging fees payable, exclusive of VAT, by the Bank's auditors during 2019 for:

	€
Auditors' remuneration	**56,660**
Other assurance services	**3,600**
Other non-audit services	**20,181**
	80,441

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

	2019	2018
	€	€
Directors' fees	**106,826**	42,000
Staff costs:		
- wages, salaries and allowances	**1,422,018**	1,214,832
- defined contribution social security costs	**84,174**	70,673
	1,613,018	1,327,505

9.3 The weekly average number of persons employed by the Bank during the year was as follows:

	2019	2018
	No.	No.
Managerial	**5**	5
Supervisory and clerical	**31**	25
	36	30

9.4 Other expenses incurred by the Bank during the year are analysed as follows:

	2019	2018
	€	€
IT hardware and software maintenance costs	**302,973**	306,056
Marketing expenses	**4,617**	158,076
Deposit compensation scheme contributions	**219,710**	82,310
Other	**1,154,988**	817,862
	1,682,288	1,364,304

10 Income tax expense

10.1 Total income tax expense

	Note	2019	2018
		€	€
Current tax expense			
Current year		**(904,480)**	(948,950)
Change in estimates for prior years		**14,265**	-
Deferred tax			
Origination and reversal of temporary differences	24	**(144,258)**	14,631
Total income tax expense		**(1,034,473)**	(934,319)

10.2

The income tax expense for the year and the result of the accounting profit multiplied by the tax rate applicable in Malta, the Bank's country of incorporation, are reconciled as follows:

	2019	2018
	€	€
Profit before income tax	**2,495,213**	2,442,498
Income tax at the applicable tax rate of 35%	**(873,325)**	(854,874)
Income tax effect of:		
- Depreciation charges not deductible by way of capital allowances	**(15,902)**	(21,622)
- Change in estimates for prior years	**14,265**	-
- Non-taxable income	**307**	181
- Change in unrecognised deductible temporary differences	**(159,818)**	(58,004)
Tax expense	**(1,034,473)**	(934,319)

11 Earnings per share

Earnings per share is calculated on the profit attributable to ordinary shareholders of the Bank for the year ended 31 December 2019 amounting to €1,460,740 (2018: €1,508,179) divided by 400,000 (2018: 400,000), being the equivalent number of ordinary shares in issue and ranking equally for dividend during the year.

12 Financial assets and financial liabilities

12.1 Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

2019	**Note**	**Mandatory at FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity instruments**	**Amortised cost**	**Total carrying amount**
Cash and items in transit	**29**	-	-	-	**24,007**	**24,007**
Balances with Central Bank of Malta	**29**	-	-	-	**39,063,302**	**39,063,302**
Investment securities	**13**	**25,441,305**	**55,890,760**	**37,730**	-	**81,369,795**
Loans and advances to banks	**14**	-	-	-	**40,549,407**	**40,549,407**
Factored receivables	**15**	-	-	-	**105,412,199**	**105,412,199**
Other loans and advances to customers	**16**	-	-	-	**86,522,549**	**86,522,549**
Other assets	**19**	-	-	-	**1,576,048**	**1,576,048**
Total financial assets		**25,441,305**	**55,890,760**	**37,730**	**273,147,512**	**354,517,307**
Balance owed to Central Bank of Malta	**20**	-	-	-	-	-
Deposits from banks	**21**	-	-	-	**250,322**	**250,322**
Deposits from customers	**22**	-	-	-	**319,737,813**	**319,737,813**
Debt securities issued	**23**	-	-	-	**11,905,989**	**11,905,989**
Accruals	**25**	-	-	-	**1,989,742**	**1,989,742**
Total financial liabilities		-	-	-	**333,883,866**	**333,883,866**

2018	**Note**	**Mandatory at FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity instruments**	**Amortised cost**	**Total carrying amount**
Cash and items in transit	**29**	-	-	-	816	816
Balances with Central Bank of Malta	**29**	-	-	-	2,512,597	2,512,597
Investment securities	**13**	6,965,498	35,126,061	20,153	-	42,111,712
Loans and advances to banks	**14**	-	-	-	18,788,220	18,788,220
Factored receivables	**15**	-	-	-	86,260,140	86,260,140
Other loans and advances to customers	**16**	-	-	-	74,286,614	74,286,614
Other assets	**19**	-	-	-	1,275,436	1,275,436
Total financial assets		6,965,498	35,126,061	20,153	183,123,823	225,235,535
Balance owed to Central Bank of Malta	**20**	-	-	-	13,000,000	13,000,000
Deposits from banks	**21**	-	-	-	250,068	250,068
Deposits from customers	**22**	-	-	-	177,157,086	177,157,086
Debt securities issued	**23**	-	-	-	11,888,899	11,888,899
Accruals	**25**	-	-	-	1,410,264	1,410,264
Total financial liabilities		-	-	-	203,706,317	203,706,317

13 Investment securities

13.1

	2019	2018
	€	€
Investment securities measured		
at FVOCI - debt instruments	**55,890,760**	35,126,061
Investment securities		
at FVOCI - equity investments	**37,730**	20,153
at FVTPL - equity investments	**25,441,305**	6,965,498
	---------------	---------------
	81,369,795	42,111,712
	=========	=========

13.2 Investment securities measured at FVOCI - debt instruments comprise:

	2019	2018
	€	€
Malta Government Stocks	**38,429,757**	21,871,623
Local corporate bonds	**17,461,003**	13,254,438
	---------------	---------------
	55,890,760	35,126,061
	=========	=========

In the comparative year 2018, part of the Malta Government Stocks held by the Bank were pledged in favour of the Central Bank of Malta to cover the Bank's participation in the Euro-system financing operations, €13,000,000 at that date. Albeit the balances were been settled in 2019, the Bank retained the pledge for future utilisation of similar participation.

13.3 Investment securities designated as at FVOCI - equity investments comprise:

	2019	2018
	€	€
Unquoted equity holding	**37,730**	20,153
	=========	=========

13.4 Investment securities mandatory measured at FVTPL - equity investments comprise:

	2019	2018
	€	€
Collective investment schemes	**25,441,305**	6,965,498
	=========	========

13 Investment securities (continued)

13.5 The movement in investment securities may be summarised as follows:

	€
At 1 January 2018	57,213,412
Acquisitions	9,542,978
Disposals	(24,129,036)
Net fair value movement	(515,642)
At 31 December 2018	42,111,712
At 1 January 2019	**42,111,712**
Acquisitions	**50,642,207**
Disposals	**(10,672,795)**
Net fair value movement	**(711,329)**
At 31 December 2019	**81,369,795**

14 Loans and advances to banks

	2019	2018
	€	€
Repayable on call and at short notice	**40,549,407**	18,788,220
	========	========

15 Factored receivables

	2019	2018
	€	€
Receivables factored without recourse		
- Invoice factoring	**33,999,533**	33,188,360
- Bills of Exchange factoring	**72,241,169**	53,878,924
	106,240,702	87,067,284
Less Impairment loss allowance	**(828,503)**	(807,144)
	105,412,199	86,260,140

16 Other loans and advances to customers

16.1 Loans and advances to customers at amortised cost

	Note	2019	2018
	Note	**€**	€
Term loans and advances to third parties		**17,689,232**	9,421,124
Term loans and advances to related parties	31.3	**49,165,451**	52,531,963
Credit cards and overdrafts		**19,898,957**	12,540,542
Less Impairment loss allowance		**(231,091)**	(207,015)
		86,522,549	74,286,614

17 Property and equipment

17.1

		Cost / Revalued amount	Cost		
	Total	Premises and improvements	Computer hardware	Other equipment	Motor vehicles
	€	€	€	€	€
Cost/revalued amount					
At 1 January 2018	11,594,458	10,282,674	573,894	631,266	106,624
Acquisitions	215,972	166,246	35,334	14,392	-
At 31 December 2018	**11,810,430**	**10,448,920**	**609,228**	**645,658**	**106,624**
At 1 January 2019	11,810,430	10,448,920	609,228	645,658	106,624
Acquisitions	343,555	293,672	33,771	16,112	-
Premises revaluation	1,228,073	1,228,073	-	-	-
At 31 December 2019	**13,382,058**	**11,970,665**	**642,999**	**661,770**	**106,624**
Depreciation					
At 1 January 2018	1,251,138	265,680	464,830	486,139	34,489
Charge for year	294,439	197,320	40,841	37,185	19,093
At 31 December 2018	**1,545,577**	**463,000**	**505,671**	**523,324**	**53,582**
At 1 January 2019	1,545,577	463,000	505,671	523,324	53,582
Charge for year	217,520	117,420	44,701	36,605	18,794
At 31 December 2019	**1,763,097**	**580,420**	**550,372**	**559,929**	**72,376**
Carrying amount					
At 1 January 2018	10,343,320	10,016,994	109,064	145,127	72,135
At 31 December 2018	10,264,853	9,985,920	103,557	122,334	53,042
At 31 December 2019	**11,618,961**	**11,390,245**	**92,627**	**101,841**	**34,248**

17 Property and equipment (continued)

17.2 The carrying amount of premises and improvements that would have been included in the financial statements had these assets not been revalued (see note 3.5) and had been carried at cost less depreciation is €7,012,822 (2018: €7,258,389).

17.3 As at 31 December 2019, capital expenditure authorised but not contracted for amounted to €nil (2018: €2,571,449) and capital expenditure authorised and contracted for amounted to €2,500,000 (2018: nil). The bulk of this expenditure will be directed toward construction and refurbishment works at what will eventually become the Bank's main premises at Castille Square.

17.4 Revaluation of premises

The Bank's premises are measured at the revalued amount less accumulated depreciation. The revaluation amount is determined on the basis of open market values provided periodically, at least every five years, by independent valuers. The Bank occupies almost the full complement of two adjacent and prestigious houses – Nos. 53 and 58 in East Street, Valletta, close to the 'Lower Barrakka' Gardens and with views of the Grand Harbour and the Three Cities. The buildings date to the eighteenth century and are structurally sound and complete of finishes of a very high standard. In 2017, the Bank acquired new premises at 4, Castille Place and as at 31 December 2019 was in the process of extensive improvements and refurbishment to the building.

The value of the new premises acquired during 2017 approximates its acquisition price and the cost of improvements to date, whilst the valuations of the other properties held since prior years were revalued by an independent professionally qualified architect during 2019 in accordance with accounting policy 3.5. The valuation was principally done using the "income capitalisation approach" whereby market value is derived by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties. The income is arrived at by analysing a number of rental rates taking cognisance of the location of the property, its size, layout, and planning and energy performance considerations. Significant unobservable inputs used in the valuation of these properties is the rental income applied in the region of €35 per square metre per month for commercial premises, and the percentage capitalisation rate of 6.5% which indicates the multiplier relationship between Net Rental Income and Property Value.

The valuation is deemed to reflect a level 3 in the fair value hierarchy.

18 Intangible assets

	Computer software
	€
Cost	
At 1 January 2018	3,230,380
Acquisitions	343,559
At 31 December 2018	**3,573,939**
At 1 January 2019	3,573,939
Acquisitions	340,444
At 31 December 2019	**3,914,383**
Depreciation	
At 1 January 2018	1,595,851
Charge for year	324,874
At 31 December 2018	**1,920,725**
At 1 January 2019	1,920,725
Charge for year	360,399
At 31 December 2019	**2,281,124**
Carrying amount	
At 1 January 2018	1,634,529
At 31 December 2018	1,653,214
At 31 December 2019	**1,633,259**

As at 31 December 2019, capital expenditure authorised but not contracted for amounted to €1,423,444 (2018: €675,279) and capital expenditure authorised and contracted for amounted to €133,000 (2018: €89,503).

19 Other assets

	2019	2018
	€	€
Accrued income	**1,225,828**	1,131,526
Accounts receivable and prepayments	**350,220**	143,910
	1,576,048	1,275,436

20 Balance owed to Central Bank of Malta

20.1 The Bank participates in the Euro-system financing operations. In this respect, part of the Malta Government Stocks held by the Bank (see note 13) were pledged in favour of the Central Bank of Malta to cover the Bank's participation.

21 Deposits from banks

	2019	2018
	€	€
Other deposits from banks	**250,322**	250,068
	250,322	250,068

22 Deposits from customers

	2019	2018
	€	€
Current deposits	**75,056,767**	66,918,271
Term deposits	**244,681,046**	110,238,815
	319,737,813	177,157,086

23 Debt securities issued

	2019	2018
	€	€
Debt securities issued at amortised cost	**11,905,989**	11,888,899
At 1 January	**11,888,899**	11,871,811
Amortisation of debt issuance costs during the year	**17,090**	17,088
At 31 December	**11,905,989**	11,888,899

In 2015, the Bank issued unsecured debt securities amounting €12,000,000 at 4.5% maturing in 2025. The debt securities issued as at 30 June 2015 constitute the general, direct, unconditional and unsecured obligations of the Bank and shall at all times rank pari passu, without any priority or preference among themselves and with other unsecured debt.

The Bank has not had any breaches with respect to debt securities neither this year nor in the comparative year.

24 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	Net	Assets	Liabilities	Net
	2019	2019	2019	2018	2018	2018
	€	€	€	€	€	€
Property and equipment, and intangible assets carried at cost	-	(377,252)	(377,252)	-	(390,756)	(390,756)
Property carried at revalued amount	-	(518,922)	(518,922)	-	(357,342)	(357,342)
Investment securities - FVOCI	-	(235,220)	(235,220)	-	(324,519)	(324,519)
Investment securities - FVTPL	-	(16,486)	(16,486)	-	157,178	157,178
Impairment allowance	370,857	-	370,857	354,955	-	354,955
	370,857	(1,147,880)	(777,023)	354,955	(915,439)	(560,484)

24 Deferred tax assets and liabilities (continued)

Movement in temporary differences relates to:

	At 1 January 2019	Recognised in profit or loss	Recognised in equity	At 31 December 2019
	€	€	€	€
Property and equipment, and intangible assets carried at cost	**(390,756)**	**13,504**	**-**	**(377,252)**
Property carried at revalued amount	**(357,342)**	**-**	**(161,580)**	**(518,922)**
Investment securities - FVOCI	**(324,519)**	**-**	**89,299**	**(235,220)**
Investment securities - FVTPL	**157,178**	**(173,664)**	**-**	**(16,486)**
Allowance for expected credit losses	**354,955**	**15,902**	**-**	**370,857**
	(560,484)	**(144,258)**	**(72,281)**	**(777,023)**

	At 1 January 2018	Recognised in profit or loss	Recognised in equity	At 31 December 2018
	€	€	€	€
Property and equipment, and intangible assets carried at cost	(350,455)	(40,301)	-	(390,756)
Property carried at revalued amount	(361,145)	-	3,803	(357,342)
Investment securities - FVOCI	(469,610)	-	145,091	(324,519)
Investment securities - FVTPL	-	157,178	-	157,178
Allowance for expected credit losses	457,201	(102,246)	-	354,955
	(724,009)	14,631	148,894	(560,484)

25 Accruals

	2019	2018
	€	€
Accrued interest payable	**1,556,222**	962,354
Other accrued expenses	**433,520**	447,910
	---------------	---------------
	1,989,742	1,410,264
	=========	=========

26 Share capital and reserves

26.1 Share capital

	Ordinary shares	
	2019	2018
	No.	No.
On issue at 1 January:		
Issued for cash	**54,762**	54,762
Issued in lieu of dividend payment	**345,238**	345,238
	---------------	---------------
On issue at 31 December – fully paid	**400,000**	400,000
	=========	=========

At 31 December 2019, the authorised and issued share capital comprised 400,000 ordinary shares (2018: 400,000) of €25 each. At 31 December 2019, IBL I Limited and IBL T Limited, which are 100% indirect subsidiaries of VMKG PLLC (the ultimate parent), held 1% and 99% of the Bank's issued ordinary shares respectively.

All shares in issue, both Class ‘A’ and Class ‘B’ shares are fully paid up and enjoy exactly the same rights in all respects.

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 shareholders’ meetings of the Bank.

26.2 Capital contribution

These amounts represent irrevocable and unconditional contributions by the shareholders and are interest free.

26.3 Property revaluation reserve

The property revaluation reserve represents the surplus arising on the revaluation of the Bank’s premises and improvements, net of related deferred tax effects, and net of that part of the surplus realised through use of the revalued property. This reserve is not distributable except on realisation of the assets through sale.

26 Share capital and reserves (continued)

26.4 Fair value reserve

The fair value reserve comprises:

- the cumulative net change in the fair value of equity securities measured at FVOCI net of deferred tax effect; and
- the cumulative net change in the fair value of debt securities measured at FVOCI net of deferred tax effect until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance, if any.

26.5 Depositor compensation scheme reserve

The depositor compensation scheme reserve represents amounts set aside by the Bank from its retained earnings. As at 31 December 2019, a total amount of €628,571, (2018: €409,640) was placed with Central Bank of Malta by the Bank and pledged in favour of the Depositor Compensation Scheme.

26.6 Reserve for general banking risk

Banking Rule 09 (BR09) requires the Bank to hold a Reserve for General Banking Risk, calculated as a percentage of non-performing loans. This reserve is required to be funded from planned dividends. In this respect, the Bank has taken a reserve at the end of this year amounting to €3,860 (2018: €6,470).

26.7 Availability of reserves for distribution

	2019	2018
	€	€
Distributable	**18,905,604**	18,411,185
Non-distributable	**4,765,413**	3,673,542
	23,671,017	22,084,727

26.8 Dividends

During the current year the Bank declared and paid a dividend amounting to €4.375 (2018: €5.375) per ordinary share that amounted to €1,750,000 (2018: €2,150,000).

After 31 December 2019, the directors proposed a dividend of €3.75 per ordinary share in respect of 2019 amounting to €1,500,000. The dividends have not been recognised as liabilities.

27 Commitments

	2019	2018
	€	€
Unutilised factoring, overdraft facilities and credit card commitments	**71,868,667**	88,918,753
	=========	=========

The Bank may unconditionally cancel factoring commitments at its discretion, other than amounts being currently utilised by customers.

28 Net cash generated from operating activities

	2019	2018
	€	€
Profit for the year	**1,460,740**	1,508,179
Adjustments for:		
Depreciation and amortisation	**577,920**	619,313
Income tax expense	**1,034,473**	934,319
Impairment reversals / (losses) on financial instruments	**90,400**	(134,698)
Interest receivable on investment securities	**(1,301,489)**	(986,791)
Interest expense on debt securities issued	**540,000**	540,000
Net loss from other financial instruments at FVTPL	**(47,102)**	449,079
Realised gains on disposal of investment securities	**(25,000)**	(450,896)
Amortisation of premiums and discounts- on debt investment securities	**478,286**	185,965
Amortisation of debt issuance costs	**17,090**	17,088
Dividend income	**-**	(199,411)
	-----------------	----------------
	2,825,318	2,482,147
Changes in loans and advances to customers and other receivables	**(12,260,011)**	(8,485,121)
Changes in factored receivables	**(18,699,166)**	(37,821,665)
Changes in deposits from banks, from customers and to Central Bank of Malta	**129,580,727**	28,089,664
Changes in accruals	**(206,311)**	(57,856)
	------------------	-------------------
	101,240,557	(15,792,831)
	===========	============

29 Cash and cash equivalents

	2019	2018
	€	€
Cash and items in transit	**24,007**	816
Balances with Central Bank of Malta	**39,063,302**	2,512,597
Loans and advances to banks with contractual maturity of three months or less	**40,549,407**	18,788,220
Deposits from banks	**(250,322)**	(250,068)
	79,386,394	21,051,565

Balances with Central Bank of Malta amounting to €628,571 (2018: €409,640) are pledged in favour of the Depositor Compensation Scheme.

30 Leases

The Bank had no operating lease agreements in force during the year ended 31 December 2019 (2018: nil).

31 Related parties

31.1 Identity of related parties, and parent and ultimate controlling party

Related parties are related by virtue of having common directors.

The Bank's immediate parent is IBL T Limited, the registered office of which is 53-58, East Street, Valletta VLT 1251, Malta.

The Bank's ultimate parent is VMKG PLLC, company number 0447.152.677. The financial results and assets and liabilities of the Bank are included in the consolidated financial statements of VMKG PLLC, the registered office of which is Paepsemlaan, 28-30, 1070 Brussels, Belgium.

Magdalena De Roeck and Caroline Van Marcke have an indirect beneficial interest in the shareholding of the Bank and have significant control in the ultimate parent.

31 Related parties (continued)

31.2 Related party transactions

Interest, fees and other income/charges in respect of related parties in the statement of comprehensive income comprise:

	2019	2018
	€	€
Interest receivable and similar income	**4,172,307**	3,506,881
Fees and commissions receivable	**89,279**	91,000
Other operating income	**88,329**	64,378
	========	========
Interest expense	**503,425**	516,420
	========	========

31.3 Related party balances

The statement of financial position includes outstanding transactions and balances in respect of related parties as follows:

	2019	2018
	€	€
Assets		
Loans and advances to customers	**49,165,451**	52,531,963
Prepayments and accrued income	**542,605**	547,255
	========	========
Liabilities		
Deposits from customers	**38,242,014**	41,199,813
Debt securities issued to directors	**290,000**	290,000
Accruals	**6,525**	126,181
	========	========

Loans and advances to customers include three loans amounting to €250,000, €20,000 and €25,000 advanced to key management personnel in 2015, 2017 and 2019 respectively. €250,000 is secured against property in Malta, bears interest at 1.75% per annum and is repayable after more than five years from the reporting date. The remaining €20,000 and €25,000 are unsecured and bear interest at 1% and 1.18% respectively per annum and are repayable after more than five years.

31.4 Transactions with key management personnel

	2019	2018
	€	€
Directors' fees	**106,826**	42,000
Compensation to key management personnel - salaries	**439,759**	416,686
	========	========

32 Operating segments

32.1 The Bank has identified one reportable operating segment, being corporate banking services, which is its only strategic business unit. Revenues earned and expenses incurred are the result of corporate banking services provided to its clients. Management does not use any other internal report for decision making which is significantly different from information disclosed in the statement of profit or loss and other comprehensive income.

32.2 Geographical information

The Bank provides all its services from Malta. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	2019	2018
	€	€
Revenue		
Malta	**4,613,534**	3,712,443
Belgium	**5,853,962**	4,476,299
	10,467,496	8,188,742
Non-current assets		
Malta – property, equipment and intangible assets	**13,252,220**	11,918,067

The Bank's major customer is the Group of which it forms part. Belgium is the country of domicile of this Group.

Information about revenues, costs and balances as a result of transactions with this Group is set out in note 31.

33 Subsequent events

The events subsequent to the reporting date, namely COVID-19, is likely to have a substantial negative impact on both global and local economies. The Bank's existing capital buffers, together with measures made available by the regulatory authorities and Government actions should provide effective mitigation against the challenges posed by this unprecedented event. An adverse influence on 2020 performance is probable but a clear determination of the overall financial impact cannot be made at this early stage, primarily due to uncertainties on both the duration of the crisis as well as the scale and effectiveness of mitigating measures provided by the local and EU authorities. The directors do not consider that any adjustments are required to the financial statements at this stage.

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Independent Auditors' Report

To the Shareholders of Izola Bank p.l.c.

1 Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Izola Bank p.l.c. (the "Bank" or the "Company"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

(a) give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

(b) have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Banking Act, 1994 (Chapter 371, Laws of Malta) (the "Banking Act").

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 *Auditors' responsibilities for the audit of the financial statements* section of our report. During the course of our audit, we maintained our independence from the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta) ("APA"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

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 (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. 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.

We summarise below the key audit matter, together with our response by way of the audit procedures we performed to address that matter in our audit, and key observations arising with respect to such risks of material misstatement.

Our audit approach to the 'expected credit loss' on financial exposures

Accounting policy notes 3.1, 3.3, 3.4 and 3.17 to the financial statements and note 4.4, 12, 13, 14, 15, 16 and 27.

Expected credit loss ("ECL") allowance, amounting to €1,059,594, on:

— financial assets carried at fair value through other comprehensive income ("FVOCI"), net of ECL
Debt securities within 'Investment securities' €55,890,760.
— financial exposures carried at amortised cost, net of ECL and related commitments
'Factored receivables' €105,412,199,
'Other loans and advances to customers' €86,522,549,
'Loans and advances to banks' €40,549,407, and
Commitments related to customer lending and factoring facilities included in 'Commitments' €71,868,667.

The Company is required by the applicable financial reporting framework to estimate impairment provisioning based on ECL models. We do not consider the measurement of ECL for the various financial exposures (including also related commitments) held by the Company, referred to in this key audit matter, to be subject to a high risk of material misstatement resulting from judgement. Nonetheless, the calculation of the ECL is considered of most significance in our audit of the financial statements, due to the audit effort involved, particularly in assessing the models and related inputs that derive the Probability of Default ("PD").

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Key audit matters (continued)

Our response

In relation to factored receivables, loans and advances to customers and commitments to lend, as part of our procedures:

— we assessed the design and implementation as well as the operating effectiveness of the control around the sanctioning of facilities in line with the established authorisation limits as per the Company's credit policy.

— specifically in relation to receivables related to bills of exchange factoring, we also assessed the design and implementation as well as the operating effectiveness of the controls which monitor receipts from debtors in accordance with the applicable repayment terms.

— we evaluated the Company's credit risk grading methodology used in determining the PD for these exposures. As part of our testing in relation to that methodology:

  - specifically in relation to loans and advances to customers which are cash secured, we evaluated whether the balance securing the exposure was in excess of the respective exposure amount outstanding;
  - we performed assessments (referred to as credit reviews) on a sample of non-cash secured loans and advances to customers, focusing on the borrowers' ability to repay from normal operations, the performance history and receipts after the financial reporting date, using relevant internal and external information on those exposures. We evaluated those credit reviews in the light of the Company's internal credit risk assessment on those exposures;
  - specifically for factored receivables with overdue exposures at the reporting date, we evaluated the timeliness of receipts, considering the number of days overdue, against the contractual repayment dates, to assess possible indicators of any unidentified non-performing factored receivables;
  - specifically in relation to overdue factoring exposures and for the sample of non-cash secured loans and advances (noted above), we also:
    - assessed whether a significant increase in credit risk was appropriately identified by the Company, if any; and
    - evaluated whether these exposures were graded in line with the Company's credit policy, and evaluated any deviations therefrom by reference to relevant supporting documentation.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Key audit matters (continued)

In relation to debt securities and loans and advances to banks, as part of our procedures:

- we evaluated credit risk for each counterparty by reference to the respective counterparty's external credit rating, or to relevant market information (in relation to unrated exposures), in assessing the appropriateness of the Bank's credit risk ratings used in determining the PD; and
- we evaluated the appropriateness of the Company's ECL primarily by:
  - evaluating the sensitivity of PDs to reasonably possible changes in credit risk grading and,
  - specifically in the case of debt securities, by also comparing the fair value at initial recognition to the quoted prices in an active market at the financial reporting date, and evaluating whether those differences represent a deterioration in credit risk.

We have no key observations to report, specific to this matter.

Other information

The directors are responsible for the other information which comprises:

- the 'Chairperson's Statement';
- the 'Directors' Report';
- the 'Statement by the Directors on the Financial Statements included in the Annual Report';
- the 'Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance';
- the 'Remuneration Report'; and
- the appendices to the annual report ('Appendix I – Pillar 3 Disclosures', 'Appendix II – Five-Year Summary' and 'Appendix III – Supplementary Financial Information'),

but does not include the financial statements and our auditors' report thereon.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Other information (continued)

Our opinion on the financial statements does not cover the other information and, other than in the case of the directors' report on which we report separately below in our 'Opinion on the Directors' Report', we do not express any form of assurance conclusion thereon.

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act and the Banking Act, 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 Company'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 Company or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the financial reporting process.

Auditors' 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 auditors' 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.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Auditors' responsibilities for the audit of the financial statements (continued)

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.

- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- 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 Company's internal control.

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

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Auditors' responsibilities for the audit of the financial statements (continued)

- 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and 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 the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

2 Opinion on the Directors' Report

The directors are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Listing Rule 5.62 issued by the Listing Authority in Malta.

We are required to consider whether the information given in the directors' report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, we are also required to:

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and

- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

Pursuant to Listing Rule 5.62 of the Listing Rules issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;

- we have not identified material misstatements in the directors' report; and

- we have nothing to report in relation to the statement on going concern.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

3 Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Act, specific to public-interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors on 8 June 1994 by the board of directors, and subsequently reappointed by the shareholders at the Company's general meetings for each financial year thereafter. Excluding the initial appointment period following the set-up of the Company, the period of total uninterrupted engagement is twenty-five years;

- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and

- we have not provided any of the prohibited services as set out in the APA.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Matters on which we are required to report by the Banking Act and by exception by the Act

Pursuant to article 31(3)(a), (b) and (c) of the Banking Act, 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 thereof; and

- the Bank's financial statements are in agreement with the books of account.

Furthermore, we have nothing to report in respect of the above matters, where the Act requires us to report to you by exception pursuant to articles 179(10) and 179(11).

Pursuant to article 31(3)(d) of the Banking Act, in our opinion and to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

The Principal authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report is Claude Ellul.

KPMG
Registered Auditors

8 April 2020

Izola Bank p.l.c.

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Appendix I - Pillar 3 Disclosures as at 31 December 2019

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Appendix I - Pillar 3 Disclosures as at 31 December 2019

INTRODUCTION

Background to Pillar 3 disclosures

The objective of Basel III Pillar 3 is to improve market discipline through effective public disclosure and to complement requirements under Pillar 1 and Pillar 2. To that end, Pillar 3 introduces substantial new public disclosure requirements, and represents a significant increase in the amount of information made publicly available by banks and investment firms regarding capital structure, capital adequacy, risk management and risk measurement.

Nature of Disclosures

This document serves as the Basel III Pillar 3 disclosures of Izola Bank p.l.c. in accordance with the Malta Financial Services Authority ('MFSA') Banking Rule 7 (BR07).

The Annual Report of Izola Bank p.l.c. has been filed with the MFSA Registry of Companies and the MFSA Banking Unit. These Pillar 3 disclosures refer to the financial year ended 31st December 2019 and have been included in the Annual Report for 2019.

The Bank has in place a formal policy to comply with the disclosure requirements laid down in Banking Rule BR/07/2018. The Directors, after due consideration of the size and complexity of the Bank, do not feel it necessary to produce Pillar 3 disclosures more frequently than annually.

Banking Rule BR/07 requirements are incorporated in this document if they are deemed relevant for the Bank. The Bank's management is responsible for the verification of these Pillar 3 disclosures. They are also subject to review and verification by the Bank's Audit and Risk Committee.

1 RISK MANAGEMENT OBJECTIVES AND POLICIES

The principal risks to which Izola Bank p.l.c. is exposed are business, credit concentration, operational and interest rate risk in the non-trading book. Counterparty risk is also recognised as important.

Business risk

Business risk is the risk that the Bank may not be able to carry out its business plan or its desired strategy and could therefore suffer losses if its income falls. This is a risk that every business faces. The two main contributors to the business risk arise from the Bank's dependence on the Group as its anchor client and the general business environment in Malta and Belgium. There are no specific mitigating factors though it is to be noted that the Group is itself diversified and has a large number of clients and suppliers which in turn helps to diversify the underlying risk.

Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. These risks are managed through adherence to Board approved lending criteria.

The Bank recognizes that credit concentration risk is present in the Bank's factoring business in view of the fact that factored debtors are mainly active in the property, building and construction sector in Belgium and to the retail sector in Malta. Credit concentration risk is mitigated by a comprehensive credit insurance policy covering credit risks arising from the Bank's factoring exposure in Belgium and by the Group's experience in the property, building and construction sector combined with in depth knowledge of the customer base in Belgium. The credit risk concentration to the factored receivables in Malta is mitigated through the dispersion of debtors combined with security over the underlying asset.

Operational risk

Operational risk is associated with the Bank's internal processes and systems and the potential for these not to function properly. Through implementing a robust internal control system, the Bank is able to mitigate many of the identified risks. The Bank also maintains third party insurance to cover certain risk events such as computer fraud and cybersecurity risk. Regular reporting on operational risk is made to the Audit and Risk Committee.

Interest rate risk in the banking book (IRRBB)

Market risk incorporates the loss of income which in the Bank's case would be as a result of changes to interest rates. Izola Bank p.l.c. limits this exposure to movements in interest rates by matching as much as possible its advances to deposits in the same maturity bands.

2 BOARD AND COMMITTEES STRUCTURE

The Bank's Board of Directors comprises seven non-executive directors and one executive director and meets quarterly throughout the year. In addition, the Board delegates specific responsibilities to the Remuneration and Nomination Committee, the Audit and Risk Committee, the Credit Committee, the Strategy Committee and the Asset and Liability Management Committee (ALCO).

Remuneration and Nomination Committee

Composition: The Remuneration and Nomination Committee comprises three non-executive directors.

Main Functions: The Remuneration and Nomination Committee is tasked with delving into the detail of oversight of remuneration and nomination practices.

Frequency: This Committee meets at least once a year.

Credit Committee

Composition: The Credit Committee is made up of two non-executive independent directors and the Chief Executive Officer.

Main Functions: The Credit Committee considers credit applications and keeps credit limits under review.

Frequency: The Committee meets at least four times a year.

Audit and Risk Committee

Composition: The Audit and Risk Committee comprises three non-executive independent directors.

Main Functions: The primary purpose of the Audit and Risk Committee is to protect the interests of the Bank's shareholders and assist the directors in conducting their role effectively so that the Bank's decision making capability, the accuracy of its reporting and financial results and the Bank's risk management processes are maintained at a high level at all times.

The Committee provides independent review, monitoring and assessment of:
- the integrity of the annual financial statements
- the effectiveness of management's system of internal control
- the effectiveness of the Bank's risk management processes
- the Bank's compliance with applicable laws and regulations
- the Bank's ethical and business standards.
-

Frequency: The Committee meets at least four times a year.

Strategy Committee

Composition: This Committee is made up of two non-executive directors and the Chief Executive Officer.

Main Functions: The Committee is responsible for making recommendations to the Board of Directors on the Bank's business model and forward-looking strategy, taking into consideration the risks and opportunities related to various strategies. The Committee is also responsible for analysing the implementation of the business model and strategy or any changes thereof, including any potential ICT consequences.

Frequency: The Committee meets at least once a year.

Asset and Liability Management Committee (ALCO)

Composition: This Committee is made up of the Chief Executive Officer, the Head of Finance and Treasury and a Finance Assistant Manager.

Main Functions: The ALCO:
- monitors the Bank's financial performance, and reviews and manages financial risks in accordance with Bank policies;
- manages the Bank's balance sheet in respect of the adequate matching of assets and liabilities, asset mix, liabilities and balance sheet growth;
- formulates a forward-looking strategy for the Bank in terms of the mix of assets and liabilities, given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints, foreign exchange exposure and capital adequacy.

Frequency: The Committee meets at least four times a year.

3 OWN FUNDS

During the year ended 31 December 2019, the Bank complied with all of the externally imposed capital requirements to which it was subject. The following table summarises the composition of the Bank's regulatory capital as reported to the MFSA as at 31 December 2019.

Own Funds

	2019 €
Common Equity Tier 1 (CET1) Capital: instruments and reserves	
Paid up capital instruments	27,032,675
Retained Earnings	1,872,929
Accumulated other comprehensive income (and other reserves)	4,136,841
CET1 Capital before regulatory adjustments	33,042,445
Common Equity Tier 2 (CET2) Capital: instruments and reserves	
	-
	-
Regulatory deductions and adjustments	
Deductions related to intangible assets	(1,633,259)
Total Own Funds	**31,409,186**

Composition of Own Funds

i. Ordinary Shares: At 31 December 2019, the authorised share capital comprised 400,000 ordinary shares of €25 each. All shares in issue are fully paid up. 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 shareholders' meetings of the Bank.

ii. Accumulated other comprehensive income: this includes the balance available for distribution to the shareholders.

iii. Capital Contribution: this represents a contribution by the shareholders to the distributable reserves of the Bank.

iv. Fair value reserve: this represents fair value movements on investments classified at Fair Value through Other Comprehensive Income (FVOCI), net of tax.

v. Revaluation Reserve: this represents reserves arising from the revaluation of tangible fixed assets, net of tax.

4 CAPITAL ADEQUACY

4.1 Internal Capital Adequacy Assessment Process (ICAAP)

ICAAP Methodology

The Bank's latest ICAAP report is based on 31st December 2018 figures.

The Bank has chosen to base its ICAAP on the results of the Pillar 1 calculation with additional Pillar 2 risks – business risk, credit concentration and interest rate risk in the banking book – assessed separately through stress testing and added to Pillar 1. The Bank has also further analysed its operational risk exposure through stress testing in order to determine whether an additional Pillar 2 charge for operational risk may be necessary.

The Bank's ICAAP also contains three-year projections as well as the capital plan, and the Board monitors that there are adequate capital resources to support the corporate goals contained within the plan.

In order to produce a capital plan, the Bank's ICAAP contains calculations of the capital resources requirement (effectively the minimum capital required) for each of the three years using the standardised approach for credit risk and the basic indicator approach for operational risk.

Under the standardised approach for credit risk, the Bank applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum capital requirement for credit risk.

Under the basic indicator approach for operational risk, the Bank calculates its average net income over the previous three years and provides 15% of that average net income as the minimum capital requirement for operational risk.

4.2 Credit Risk Capital Requirements by Standardised Approach Exposure Class

Capital Requirement by exposure class as at 31 December 2019	
	Capital Requirement
	€ 000s
Central Government or Central Banks	-
Corporates	6,992
Institutions	649
Retail	3,919
Exposures secured by Mortgages on Immoveable Property	787
Other	1,108
Total	**13,455**

4.3 Market Risk Capital Requirement

The market risk capital requirement of the Bank is not significant, comprising a foreign exchange risk charge of €93,873.

Izola Bank p.l.c.

Appendix I - Pillar 3 Disclosures as at 31 December 2019

4.4 Operational Risk Capital Requirement

The gross income registered by the Bank in 2019, 2018 and 2017 amounted to €6,458,838, €5,618,922 and €7,102,231 respectively. The operational risk capital requirement for 2019 amounted to €959,000.

4.5 Calculation of minimum capital requirement and risk-weighted assets

	Statement of financial position value	Risk weighted exposure	Capital requirement	Statement of financial position value	Risk weighted exposure	Capital Requirement
	2019	**2019**	**2019**	2018	2018	2018
	€	**€**	**€**	€	€	€
On balance sheet assets						
Cash and items in transit	**24,007**	**-**	**-**	**816**	**611**	**49**
Balances with Central Bank of Malta	**39,063,302**	**-**	**-**	**2,512,597**	**-**	**-**
Investments	**81,369,795**	**22,647,483**	**1,811,799**	**42,111,712**	**10,577,691**	**846,215**
Loans and advances to banks	**40,549,407**	**8,109,881**	**648,790**	**18,788,220**	**3,757,644**	**300,612**
Factored receivables	**105,412,199**	**97,548,647**	**7,803,892**	**86,260,140**	**67,338,562**	**5,387,085**
Other loans and advances to customers	**86,522,549**	**14,637,194**	**2,082,760**	**74,286,614**	**20,012,802**	**1,601,024**
Property and equipment	**11,618,961**	**11,618,961**	**929,517**	**10,264,853**	**10,264,853**	**821,188**
Intangible assets	**1,633,259**	**-**	**-**	**1,653,214**	**-**	**-**
Prepayments and accrued income	**2,227,725**	**2,227,725**	**178,218**	**1,275,436**	**1,275,436**	**102,035**
	368,421,204	**156,789,891**	**13,454,976**	**237,153,602**	**113,227,599**	**9,058,208**
Off balance sheet items						
Commitments	**71,868,667**			**88,918,753**		
Credit risk capital requirement		**156,789,891**	**13,454,976**		**113,227,599**	**9,058,208**
Foreign exchange risk capital requirement		**1,173,412**	**93,873**		**1,492,188**	**119,375**
Operational risk capital requirement		**11,987,500**	**959,000**		**12,181,788**	**974,543**
Total capital requirement		**169,950,803**			**126,901,575**	
Total own funds	**31,409,186**			**30,021,873**		
Capital adequacy ratio			**18.5%**			24%

5 CREDIT RISK

5.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to the financial instrument fails to meet its contractual obligations. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank follows standards, policies and procedures established by the Board of Directors for the control and monitoring of all risks. The Board of Directors has delegated the responsibility for the management of credit risk to the Credit Committee. The Bank's management is responsible for the oversight of the Bank's credit risk. The Bank's credit risk policies and procedures are reviewed regularly through internal audit.

5.2 Definition of 'past due' and 'impaired' for accounting purposes

Impaired factored receivables

These comprise factored receivables for which the Bank determines an expected credit loss based on the probability that it will be unable to collect all principal and interest due according to the contractual terms of the factored receivables agreements.

Allowance for impairment on factored receivables

	2019	2018
	€	€
Factored receivables – gross	**106,240,702**	**87,067,284**
12-month ECL	**124,541**	**246,898**
Lifetime ECL	**703,961**	**560,246**

Past due but not impaired

Receivables where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank. As at 31 December 2019, 4.8% (2018: 9.5%) of the Bank's factored receivables were past due but not impaired. 51% of these became due during the last week of December 2019. A substantial amount of these past due receivables have been paid by the date of issue of these financial statements.

Table 5.2 Neither past due nor impaired loans and securities

	2019	2018
	€	€
Loans and advances to customers	**86,366,258**	**74,311,766**
Loans and advances to banks	**40,549,407**	**18,788,220**
Investment securities	**81,369,795**	**42,111,712**
	208,285,460	**135,211,698**

5.3 Description of approaches and methods adopted for determining value adjustments and provisions

Allowances for impairment

The Bank establishes an allowance for expected credit losses that represents its estimate of expected losses in its factored receivables portfolio. The main components of this allowance are outlined in note 4.4 of the financial statements.

	2019	2018
	€	€
Allowance for expected credit losses on factored receivables	**828,503**	807,144

Table 5.3 Total period end and average exposures after individual impairment and prior to credit risk mitigation by exposure class.		
	Exposure as at 31/12/2019	Average Exposure for period to 31/12/2019
	€ 000s	€ 000s
Central Government or Central Banks	77,493	49,887
Corporates	119,765	134,147
Institutions	40,549	29,486
Retail	67,953	51,111
Other	62,661	36,725
Total	**368,421**	**301,356**

Table 5.4 Geographic distribution of exposure classes				
	Malta	Europe	Rest of the World	Total
	€ 000s	€ 000s	€ 000s	€ 000s
Central Government or Central Banks	77,493	-	-	77,493
Corporates	50,368	68,233	1,164	119,765
Institutions	6,204	34,345	-	40,549
Retail	67,197	756	-	67,953
Other	39,296	23,365	-	62,661
Total	**240,558**	**126,699**	**1,164**	**368,421**

Table 5.5 Distribution of the exposures by industry/counterparty type						
	Central Government or Central Banks	Corporates	Institutions	Retail	Other	Total
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
Monetary Financial Institutions	39,063	7,866	40,549	-	25,776	113,254
Sovereigns	38,430	-	-	-	-	38,430
Manufacturing	-	3,030	-	-	-	3,030
Wholesale and retail trade	-	34,869	-	-	9,786	44,655
Real estate, renting and business activities	-	10,130	-	-	3,564	13,694
Construction	-	39,278	-	-	839	40,117
Households	-	-	-	67,953	465	68,418
Other	-	24,592	-	-	22,231	46,823
Total	**77,493**	**119,765**	**40,549**	**67,953**	**62,661**	**368,421**

Table 5.6 Residual Maturity Breakdown of the exposures				
	< 1 year	1 – 5 years	> 5 years	Total
	€ 000s	€ 000s	€ 000s	€ 000s
Central Government or Central Banks	43,021	14,472	20,000	77,493
Corporates	71,727	21,299	26,739	119,765
Institutions	40,549	-	-	40,549
Retail	20,261	45,542	2,150	67,953
Other	38,740	2,527	21,394	62,661
Total	**214,298**	**83,840**	**70,283**	**368,421**

5.4 Past Due Exposures and Impaired Assets

Table 5.7 Impaired, past due exposures and provisions by industry sector		
Standardised exposure classes	Expected Credit Losses	Charged to income statement in the year ended 31 December 2019
	€ 000s	€ 000s
Central Government or Central Banks	-	-
Corporates	1,060	(45)
Institutions	-	-
Other	-	-
Total	**1,060**	**(45)**

Table 5.8 Impaired, past due exposures and provisions by geographic area		
Standardised exposure classes	Expected Credit Losses	Charged to income statement in the year ended 31 December 2019
	€ 000s	€ 000s
Malta	40	(11)
Europe	1,020	(34)
Rest of the World	-	-
Total	1,060	**(45)**

Table 5.9 Movement in allowances for impaired and past due exposures and provisions	
	Individual & collective provisions
	€ 000s
Opening balance	1,015
Expected credit loss increase	45
Closing balance	**1,060**
Amounts written off	45

6 STANDARDISED APPROACH TO CREDIT RISK

6.1 Exposure to Institutions

Fitch Rating Agency is the External Credit Assessment Institution (ECAI) used to rate exposures to institutions. The external ratings are mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings in line with Article 119 of the Credit Requirements Regulations (CRR).

The following table shows the exposure values before and after Credit Risk Mitigation associated with the credit quality step under the Standardised Approach.

Table 6.1 Institutions				
Credit Quality Step	Risk Weight	Ratings	Exposure	Exposure After CRM
			€ 000s	€ 000s
1	20%	- Fitch AAA to A	40,549	8,110

6.2 Exposure to Central Government and Central Bank

Exposures to central government and central bank denominated and funded in the domestic currency of the central government and central bank are assigned a risk weight of 0% in line with Article 114(4) of the CRR.

Table 6.2 Central Government and Central Bank				
Credit Quality Step	Risk Weight	Banking Regulation	Exposure	Exposure After CRM
			€ 000s	€ 000s
1	0%	Art. 114(4)	39,063	-
2	0%	Art. 114(4)	38,429	-

6.3 Exposure to Retail & Corporates (including SMEs)

A large part of corporate exposures have a 0% risk weighting as they are cash secured. A number of corporate exposures are secured by real estate and are allocated a 35% or 50% risk weighting. The rest are allocated a 75% or 100% risk weighting as they are unsecured.

Table 6.3 Corporates				
Credit Quality Step	Risk Weight	Banking Regulation	Exposure	Exposure After CRM
			€ 000s	€ 000s
1	0%	Art. 400(1)g	42,015	-
2	35%	Art. 125 (a)	4,102	1,436
3	50%	Art. 124 (2) / Art. 126 (1)	16,804	8,402
4	75%	Art. 123 (a) to (c)	65,325	48,994
5	100%	Art. 122 (2)	59,472	59,472

7 REMUNERATION POLICY

The Board has established a Remuneration Policy the aim of which is to increase transparency when offering remuneration and benefits to the Bank's staff.

8 CREDIT RISK MITIGATION

8.1 Collateral

Analysis of collateral is disclosed in Note 4.4.3 of the Annual Report 2019.

Table 8.1 Exposure value covered by eligible financial collateral	
	€ 000s
Central Government or Central Banks	-
Corporates	74,397
Institutions	-
Retail	64,962
Total	**139,359**

9. CONCLUSION

This disclosure document has been prepared in accordance with the requirements of Banking Rule 7 issued by the Malta Financial Services Authority (MFSA).

Izola Bank p.l.c.

Appendix II - Five-Year Summary

Statement of Profit or Loss and Other Comprehensive Income

	2019	2018	2017	2016	2015
	€	€	€	€	€
Interest receivable and similar income	**10,158,455**	8,081,029	7,065,787	4,292,747	4,665,066
Interest payable and similar charges	**(3,972,954)**	(2,627,953)	(2,544,779)	(2,314,406)	(2,273,514)
Net interest income	**6,185,501**	5,453,076	4,521,008	1,978,341	2,391,552
Fee and commission income	**62,351**	33,658	431,604	2,438,376	2,775,879
Other operating income	**210,986**	318,151	2,149,619	1,717,951	880,645
Other operating charges	**(3,873,224)**	(3,497,085)	(3,195,559)	(2,391,099)	(1,983,298)
Net impairment gain/losses	**(90,400)**	134,698	(349,741)	(28,431)	(481,736)
Profit before tax	**2,495,213**	2,442,498	3,556,931	3,715,138	3,583,042
Income tax expense	**(1,034,473)**	(934,319)	(1,295,527)	(1,448,751)	(1,197,022)
Profit for the year	**1,460,740**	1,508,179	2,261,404	2,266,387	2,386,020
Other comprehensive income for the year, net of income tax	**875,549**	(245,292)	(117,779)	(431,410)	974,495
Total comprehensive income for the year	**2,336,289**	1,262,887	2,143,625	1,834,977	3,360,515
Earnings per share	**3.65**	3.77	5.65	5.67	5.97

Izola Bank p.l.c.

Appendix II - Five-Year Summary

Statement of Financial Position

	2019	2018	2017	2016	2015
	€	€	€	€	€
ASSETS					
Cash and items in transit	**24,007**	816	2,587	2,084	1,656,731
Balances with Central Bank of Malta	**39,063,302**	2,512,597	1,948,344	10,351,518	989,261
Investments	**81,369,795**	42,111,712	57,213,412	66,925,325	52,537,656
Loans and advances to banks	**40,549,407**	18,788,220	20,079,499	31,788,316	32,471,446
Factored receivables	**105,412,199**	86,260,140	48,583,631	20,237,200	19,639,543
Other loans and advances to customers	**86,522,549**	74,286,614	65,524,805	61,350,109	58,439,875
Property and equipment	**11,618,961**	10,264,853	10,343,320	3,226,026	3,150,034
Intangible assets	**1,633,259**	1,653,214	1,634,529	1,560,192	1,100,934
Other assets	**1,576,048**	1,275,436	1,299,677	1,979,181	1,414,231
Current tax asset	**562,378**	-	-	-	-
Total assets	**368,331,905**	237,153,602	206,629,804	197,419,951	171,399,711
LIABILITIES					
Balance owed to Central Bank of Malta	**-**	13,000,000	16,300,000	21,300,000	21,700,000
Deposits from banks	**250,322**	250,068	-	-	-
Deposits from customers	**319,737,813**	177,157,086	145,767,422	132,337,023	107,261,236
Debt securities in issue	**11,905,989**	11,888,899	11,871,811	11,854,721	11,837,631
Deferred tax liabilities	**777,023**	560,484	724,009	1,579,636	1,515,335
Current tax payable	**-**	802,074	1,154,671	549,126	286,575
Accruals	**1,989,742**	1,410,264	1,340,051	1,330,887	1,118,970
Total liabilities	**334,660,889**	205,068,875	177,157,964	168,951,393	143,719,747
EQUITY					
Called up share capital	**10,000,000**	10,000,000	10,000,000	10,000,000	10,000,000
Property revaluation reserve	**3,696,144**	2,629,651	2,657,412	961,468	1,048,190
Fair value reserve	**436,837**	627,781	876,876	2,663,593	3,020,434
Depositor compensation scheme reserve	**628,571**	409,640	354,523	238,387	238,387
Reserve for general banking risk	**3,860**	6,470	36	217	217
Capital contribution	**17,032,675**	16,032,675	12,532,675	11,436,521	10,482,904
Retained earnings	**1,872,929**	2,378,510	3,050,318	3,168,372	2,889,832
Total equity attributable to equity holders of the Bank	**33,671,016**	32,084,727	29,471,840	28,468,558	27,679,964
Total liabilities and equity	**368,331,905**	237,153,602	206,629,804	197,419,951	171,399,711
Memorandum items Commitments	**71,868,667**	88,918,753	60,202,304	42,580,312	33,128,620

Izola Bank p.l.c.

Appendix II - Five-Year Summary

Statement of Cash Flows

	2019	2018	2017	2016	2015
	€	€	€	€	€
Net cash from operating activities	**99,049,941**	(17,094,320)	(23,180,595)	21,140,824	19,126,796
Cash flows from investing activities					
Payments to acquire property, equipment and intangible assets	**(683,999)**	(559,531)	(5,839,157)	(852,138)	(1,134,576)
Payments to acquire investments	**(50,641,277)**	(9,412,713)	(12,604,899)	(20,884,368)	(16,403,055)
Proceeds from disposals of investments	**10,672,792**	24,129,036	21,170,143	7,353,517	10,464,323
Interest received from investments	**1,227,372**	949,252	1,524,330	1,625,087	3,159,361
Dividend received	**-**	199,411	262,536	227,943	194,820
Net cash used in investing activities	**(39,425,112)**	15,305,456	4,512,953	(12,529,959)	(3,719,127)
Cash flows from financing activities					
Dividends paid to shareholders	**(1,750,000)**	(2,150,000)	(2,000,000)	(2,000,000)	(2,250,000)
Net capital contribution received	**1,000,000**	3,500,000	1,096,154	953,617	1,629,006
Issue of debt securities, net of transaction costs	**-**	-	-	-	3,498,144
Redemption of debt securities	**-**	-	-	-	(669,000)
Interest paid on debt securities	**(540,000)**	(540,000)	(540,000)	(540,000)	(481,500)
Net cash from / (used in) financing activities	**(1,290,000)**	810,000	(1,443,846)	(1,586,383)	1,726,650
Net movement in cash and cash equivalents	**58,334,829**	(978,865)	(20,111,488)	7,024,482	17,134,319

Izola Bank p.l.c.

Appendix II - Five-Year Summary

Accounting Ratios

	2019	2018	2017	2016	2015
	%	%	%	%	%
Net interest income and other operating income to total assets	**1.75**	2.45	3.44	3.11	3.53
Operating expenses to total assets	**1.08**	1.42	1.72	1.23	1.44
Profit before tax to total assets	**0.68**	1.03	1.72	1.88	2.09
Pre-tax return on capital employed	**8.63**	8.60	13.90	15.10	15.33
Profit after tax to equity	**4.34**	4.70	7.67	7.96	8.62

Izola Bank p.l.c.

Appendix III – Supplementary Financial Information

Directors' interest in the share capital of the Bank or in any related company as at 31 December 2019

No director has a direct beneficial or non-beneficial interest in the share capital of the Bank.

Magdalena De Roeck and Caroline Van Marcke have an indirect beneficial interest in the shareholding of the Bank through their indirect shareholding in VMKG PLLC, a company registered in Belgium with registration number 0447.152.677. VMKG PLLC is the ultimate holding company of the Group to which the Bank belongs.

Furthermore, Magdalena De Roeck and Caroline Van Marcke are also directors of IBL I Limited and IBL T Limited and other companies forming part of the Group. VMT S.A and IVM S.A are the trading and industrial holding companies of the Van Marcke Group respectively.

	Type & class of shares	Issued shares	Percentage paid up	Nominal value per share
IBL I Limited C 16321				
VMT S.A	Ordinary	24,999	100	€24.79
IVM S.A	Ordinary	1	100	€24.79
IBL T Limited C 16322				
VMT S.A	Ordinary	24,999	100	€24.79
IVM S.A	Ordinary	1	100	€24.79
Shareholders holding 5% or more of the Share Capital as at 31st December 2018				
IBL I Limited	Ordinary "A"	1	100	€25.00
IBL T Limited	Ordinary "B"	399,999	100	€25.00

Number of Shareholders

Class	Number of Shares	Number of Holders
Class A	1	1
Class B	399,999	1

Range	Class "A"	Class "B"
1 – 5,000	1	-
5,001 & over	-	1

As at date of publication of the annual report, no changes were effected to the shareholding structure.