IIG BANK (MALTA) LTD

Annual Report and Financial Statements
31 December 2023

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Directors' report

The directors present their annual report and the audited financial statements of IIG Bank (Malta) Ltd (the "Bank") for the year ended 31 December 2023.

Principal activities

The principal activity of IIG Bank (Malta) Ltd is the operation of a credit institution under the Banking Act, Cap 371 of the Laws of Malta, in accordance with the credit institution licence granted by the Malta Financial Services Authority ("MFSA"). As at 31 December 2023 the Bank had one branch located in Malta.

The Bank's primary activity consists of international trade finance. It is a lender and facilitator to a client base of traders engaged in the import and export of essential commodities, consumer consumables, energy products and other goods traded all over the world, including business opportunities involving emerging markets. Funding for this core business activity is sourced primarily from the domestic market attracting savers with competitive interest rates for term deposits denominated in EUR, GBP and USD ranging from one to five years maturity.

Review of the business

Performance: The Bank has continued to focus on its speciality business model as a niche lender to traders involved internationally in the supply chain of commodities with a global reach. However, early in 2023, the Bank took stock of the situation and recognised that the war in Ukraine and the spike in inflation had taken its toll on a significant segment of its borrowing base clients. To counter such shortfall in loan assets and transactional volumes, the Bank decided to introduce an additional lending proposition. Through this initiative, the Bank seeks to create a limited portfolio directed towards the domestic market consisting of short to medium term loans to property developers.

At the start of the year, it became quite clear that the troubles faced in 2022 were going to perpetuate and set the scene for 2023. The conflict in Ukraine was going to continue with shifting fortunes with devastating results to the two sides in a war of attrition. Central Banks continued to struggle to get inflation under control by continuing to make money more expensive. Any hopes that life would get back to normal were quickly dispelled. However, as we have seen historically, in the ebbs and flows of commerce and trade, the collective need to survive through access of essential commodities, has led to the creation of a "new normal" as alternative trade routes were established to circumvent logistical and geo-political barriers, creating unlikely partners along the way, with the likes of China and India multiplying their trade volumes with Russia, and Ukraine managing to deliver most of its annual grain crop to the West via multiple transport means through Poland and Romania, both long time competitors, after Russia pulled out of the safe channel agreement through the Black Sea in May 2023.

Another even greater factor that has hindered trade volumes is a direct result of inflation and the strong US Dollar. Whereas the Russia/Ukraine conflict may be considered regional, inflation has disrupted markets globally. Many emerging economies do not have the money to pay for their essential imports. Countries in West Africa, Egypt, Turkiye, Pakistan, Bangladesh, not to mention Argentina and many other LATAM countries which are in great difficulties and seeking aid and/or bailout agreements with the IMF. The good news, so far, is that after 2 years of struggle, the Central Banks appear to have tamed the dragon. The ECB may be inclined to introduce a rate cut earlier than was predicted in Q4 2023, and as early as June 2024. The resilience of the US economy may lead the FED to take longer to start cutting rates.

Despite the major difficulties in the external environment, the Bank managed to navigate through 2023 with better results than 2022, generating more gross and net interest income, despite the smaller balance sheet. The decrease in transactional volumes resulted in less fee income, but the major plus was the recovery in value on its bond book. The Bank generated US$6.3 million of operating income compared to US$1.5 million in the previous year. The Bank has recognised 4 problematic loans for which it is allocating US$1.8 million as impairment charges and thereby reporting a net loss for the year before tax of US$229K.

Directors' report - continued

The detailed analysis of the income statement and the statement of financial position:

Income statement: In 2023, the Bank generated a total of net interest and net fee income of US$5,716K, which is in line with that of 2022 – US$5,544K. In 2023, the Bank experienced a significant improvement in operating income as a result of a net trading gain of US$501K as against trading losses incurred of US$3,917K in 2022. This improvement in operating income was offset by an increase in administrative expenses, together with an impairment provision of US$1,841K (2022: US$28K). The increase in provision in 2023 was driven by an increase in coverage of non-performing loans, where the average coverage ratio increased from 28% in 2022 to 41% in 2023. On two of the four non-performing loans, an 81% provision coverage has been assigned. One of the other remaining non-performing loans is fully collateralised and the entity is currently fulfilling its obligations in line with the restructured agreement. The remaining non-performing exposure relates to a default that occurred towards the end of the year and a prudent level of impairment in line with historical loss rates was taken.

Statement of financial position: The year-end statement of financial position of US$132,431,801 (2022: US$184,438,900), was lower than the average during the year. The main contributors for this reduction result from a significant reduction of the US Dollar funding requirement which the Bank draws for short term liquidity in the currency under the LTRO programme facilitated by the Central Bank of Malta, and the gradual reduction in the deposits held with the Bank. Nevertheless, the Bank's overall liquidity is still robust with excess amounts being held as overnight placement with banks and generating income. The Balance Sheet denotes a highly liquid position with cash at the central bank of US$17 million (2022: US$28 million); investment securities of US$38 million (2022: US$51 million); loans and advances to banks of US$39 million (2022: US$54 million) and loans to customers of US$32 million (2022: US$41 million). The Capital Adequacy Ratio ("CAR") has strengthened, from 18.8% as at end of 2022 to 23.9% as at 31 December 2023. In May 2021, the MFSA established the Bank's Total SREP Capital Ratio ("TSCR") of 14.5%, and since then the Bank's CAR has remained at a healthy level above that floor. As mentioned, the Bank continues to maintain a strong short-term liquidity position as indicated at year end by the Liquidity Coverage Ratio of 1213% (regulatory minimum of 80%), and a stable funding source as indicated by Net Stable Funding Ratio which stands at 294% (regulatory minimum of 100%).

Outlook for 2024: With a backdrop of two very difficult years for business, we are hopeful that 2024 will bring with it opportunities for growth, both in the core business as trade volumes increase and EM countries start recovering some of their ability to increase imports of essential products. Late in 2023 and during Q1, the bank has been introducing new clients to its borrowing base. The domestic lending proposition which started to roll out around mid-year 2023 is fully allocated to identified borrowers. The approved loans are expected to be drawn in their majority by the end of 2024, thereby generating additional interest and commission income. The business segment traditionally allocated for ship trading and pre-demolition finance, and which has been dormant for the past two years, shows signs of revival. All this is indicative that these 3 potential fronts for business appear set to regenerate loan assets values and transactional volumes which suffered in the difficult years since 2020. Whilst we do not expect all the bumps to disappear in the short term, we are seeing positive signs in our core business.

The Bank is also working on new ideas to increase customer deposits and the possibility of introducing a new product offering to savers. There is harsh competition for deposits, but the Bank is careful to grow its balance sheet in a sustainable manner by ensuring that growth comes with marginal gain and not at the expense of an erosion in its established positive net margins. In the meantime, the Bank continues to service its loyal client base, providing quality service to its depositing customers and continues to support its borrowing base clients with funding and through facilitation offering structured commodity finance products.

Directors' report – continued

Change of ownership

In our reports of the past 4 years since 2020, we disclosed the events that led to the dissolution of the Fund, IIG TOF NV, which to date, is still our ultimate parent. Enjoying the support of the Trustee in charge, the Bank has since moved on undeterred with its regular business operations. We are pleased to report that the Bank continues to be in good standing and compliant with all the applicable laws, regulation and rules to conduct its business. In the meantime, we continue to pursue the process to identify and select a suitable candidate to acquire the Bank.

In May last year, the MFSA informed us that it was turning down the application for the acquisition of the Bank, which was in process at the time, citing as the primary reason, that the Authority has a policy against ownership by a single Ultimate Beneficial Owner. Since then, another candidate has presented a Letter of Intent and has presented its credentials to the Authority to be considered as a qualifying bidder to acquire 100% ownership of the Bank. This bidder brings with it banking experience which is compatible with the core business activity of IIG Bank.

Key performance indicators

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

	2023	2022
Loss before tax	**(US$228,915)**	(US$2,766,920)
Cost to income ratio	**98%**	245%
Return on equity	**(1.0%)**	(12.3%)
Capital Adequacy Ratio	**24.81%**	18.80%

The Board of Directors does not monitor any specific non-financial KPIs.

Directors' report - continued

Risk management

IIG Bank faces a range of business, financial and operational risks. The Bank adopts a robust corporate governance framework with a bank-wide risk management approach, to understand what its risks are, what element of risk is acceptable to generate income, and to be able to manage it to preserve value for shareholders while meeting regulatory requirements ensuring integrity, and ethical and transparent behaviour.

At a strategic level, the Bank's financial risk management objectives are:

i. To ensure appropriate identification of the Bank's significant risks;
ii. To ensure that the Bank's plans are consistent with its Risk Appetite;
iii. To optimise risk/return decisions focused as closely as possible on the business, while establishing strong and independent review and challenge structures; and
iv. To help the Bank's Management improve the control and co-ordination of risk taking across the business.

Also, as part of embedding a strong risk culture, the Bank recognises the need to have the required resources in place for effective risk management. In this respect, during 2023, the Bank has supported its dedicated risk management team with training and its enhanced IT infrastructure.

A detailed review of the Bank's use of financial instruments, its exposure to liquidity risk, credit risk and market risk, and the respective financial risk management objectives and policies, is included in Note 2 to the financial statements.

Results and dividends

The income statement is set out on page 20. Similar to 2022, during 2023, the directors have not proposed any dividends relative to the financial year ended 31 December 2023.

Directors

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

Joseph Grioli - Chairman
Raymond Busuttil
James Douglas Nelson
Karl Vella

In accordance with the Bank's articles of association, the directors remain in office until they resign or are otherwise removed from office.

Directors' report - continued

Statement of directors' responsibilities for the financial statements

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

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

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

The financial statements of IIG Bank (Malta) Ltd for the year ended 31 December 2023 are included in the Annual Report 2023, which is published in hard-copy printed form and may be made available on the Bank's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

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

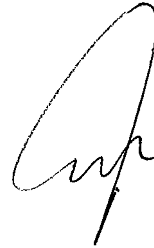
Directors' report - continued

Auditors

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

On behalf of the board

Joseph Grioli
Director



Raymond Busuttil
Director

Registered Office:
Level 20
Portomaso Business Tower
St. Julians STJ4011
Malta

Company Secretary:
Karl Vella

Telephone number: 22484500

4 April 2023

Independent auditor's report

To the Shareholders of IIG Bank (Malta) Ltd

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of IIG Bank (Malta) Ltd (the Bank) as at 31 December 2023, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

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

What we have audited

IIG Bank (Malta) Ltd's financial statements, set out on pages 19 to 85, comprise:

- the statement of financial position as at 31 December 2023;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

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

Independent auditor's report - *continued*

To the Shareholders of IIG Bank (Malta) Ltd

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

The non-audit services that we have provided to the Bank, in the period from 1 January 2023 to 31 December 2023, are disclosed in note 25 to the financial statements.

Our audit approach

Overview

Materiality	• Overall materiality: US$1,326,000, which represents approximately 1% of total assets
Key audit matters	• Credit loss allowances in respect of loans and advances to customers

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

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

Materiality

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

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	US$1,326,000
How we determined it	Approximately 1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, the assets held are considered to be the key driver of the business and the determinant of the Bank's value. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted asset-related thresholds.

We have applied a specific lower materiality of US$82,000 solely for financial statement line items in the income statement, since we deemed that misstatements of a lower amount than overall materiality in those line items might reasonably influence stakeholders.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$66,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances in respect of loans and advances to customers	
Credit loss allowances in respect of loans and advances to customers represent management's best estimate of the expected credit losses ('ECLs') within the Bank's loan portfolio at the reporting date. A considerable level of judgement is required to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9. All loans and advances to customers are considered individually significant. As a result, credit loss allowances relating to all loans and advances within the portfolio are determined at an instrument level. For non-defaulted (Stages 1 and 2) exposures, the Bank uses an ECL model that relies specifically on the following key inputs: probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'). The maximum period considered when measuring ECL is the maximum period over which the Bank is exposed to credit risk. The PDs and LGDs used within the model are estimated using development data based on the Bank's own experience as available at the reporting date.	During our audit of the financial statements for the year ended 31 December 2023, we continued to focus on the key drivers of the estimation of ECL. Discussions with management focused mainly on modelling assumptions and parameters in the context of the current economic environment, as well as on the key assumptions in respect of the discounted cashflow models used to determine expected credit losses on defaulted/Stage 3 exposures. In respect of the ECL calculation for non-defaulted exposures we performed the following procedures: • We tested the completeness and accuracy of the critical data, extracted from the underlying systems, that is utilised within the models for the purposes of the year-end ECL calculation. This includes completeness of data used in the computation of the PD, LGD and EADs. • Tested a sample of loans to independently review the borrower's financial performance and ability to meet loan repayments and assessed the appropriateness of the internal credit ratings, and hence the stage classification assigned by management.

Key audit matter	How our audit addressed the Key audit matter
PDs are based on the Bank's historical default data while LGDs are based on the Bank's recovery history. For defaulted (Stage 3) exposures, discounted cash flow models are utilised in order to estimate ECLs. Judgement is required to estimate the expected future cash flows related to that loan under multiple scenarios, which are highly dependent on assumptions in respect of forecasted operating cash flows. Judgement is also required to determine when an increase in credit risk or default has occurred and as a result, to allocate the appropriate stage classification. Staging is determined based on a combination of criteria including days past due, borrowers' performance and how strategic and economic developments affect borrowers' future payment capabilities. Under IFRS 9, the Bank is required to incorporate multiple forward-looking economic scenarios, reflecting management's view of potential future economic developments, into ECL estimates. The complexity attributable to this factor requires management to develop multiple macro-economic scenarios involving the use of significant judgements.	• Tested the appropriateness of model design and formulas applied to determine the ECL as well as the calculations performed in the model. • Tested the reasonableness of macro-economic variables used to determine PDs under different forward-looking scenarios and formed a view on the probability weightings assigned to different scenarios. Based on the evidence obtained, we found the model assumptions and data used within the model to determine expected credit losses for non-defaulted loans to be reasonable. The appropriateness of management's judgements was also independently considered in respect of defaulted exposures. In this respect, we performed the following procedures: • Reviewed the credit files of defaulted loans to understand the latest developments at the level of the borrower and the basis of measuring the ECL provisions and considered whether key judgements were appropriate given the borrowers' circumstances. • Determined different scenarios and their respective probability weights independently, and formed our view (based on detailed loan and customer information in the credit file) on the recoverability of the selected corporate loans. Based on the evidence obtained, we found management's judgements to be reasonable.

Key audit matter	How our audit addressed the Key audit matter
We focused on credit loss allowances due to the subjective nature of the calculations and the subjective judgements involved in both timing of recognition of impairment and the estimation of the size of any such impairment. Accordingly, summarising the key areas relevant to the Bank's measurement of ECLs would include: • Allocation of loans to Stage 1, 2, or 3 using criteria in accordance with IFRS 9; • Modelling assumptions used to build the models that calculate the ECL; • Completeness and accuracy of data used to calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple macro-economic scenarios and the respective probability weights; and • Measurements of individually assessed credit losses including the assessment of multiple scenarios. Relevant references in the Annual Report and Financial Statements: – Accounting policy: Note 1.3; – Credit risk management: Note 2.1 (a); – Critical accounting estimates, and judgements in applying accounting policies: Note 3; – Note on Loans and advances to customers: Note 8; and – Note on Change in expected credit losses and other credit impairment charges: Note 24.	

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

The Annual Report and Financial Statements 2023 contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

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

Area of the *Annual Report and Financial Statements 2023* and the related Directors' responsibilities	**Our responsibilities**	**Our reporting**
Directors' report (on pages 1 to 6) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

Independent auditor's report - *continued*
To the Shareholders of IIG Bank (Malta) Ltd

Area of the *Annual Report and Financial Statements 2023* and the related Directors' responsibilities	Our responsibilities	Our reporting
	Other matters prescribed by the Maltese Banking Act (Cap. 371) In terms of the requirements of the Maltese Banking Act (Cap. 371), we are also required to report whether: • we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; • proper books of account have been kept by the bank, so far as appears from our examination of those books; • the Bank's financial statements are in agreement with the books of account; • in our opinion, and to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law which may from time to time be in force in the manner so required.	In our opinion: • we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; • proper books of account have been kept by the bank, so far as appears from our examination of those books; • the Bank's financial statements are in agreement with the books of account; and • to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law in force in the manner so required.

Area of the *Annual Report and Financial Statements 2023* and the related Directors' responsibilities	Our responsibilities	Our reporting
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.	We have nothing to report to you in respect of these responsibilities.

Independent auditor's report - *continued*

To the Shareholders of IIG Bank (Malta) Ltd

Other matter – use of this report

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

Appointment

We were first appointed as auditors of the Bank for the period ended 31 December 2010 on 22 March 2010. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 14 years.

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

Norbert Paul Vella
Principal

For and on behalf of
PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

4 April 2024

Statement of financial position

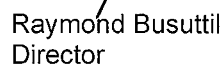
	Notes	As at 31 December 2023 US$	2022 US$
ASSETS			
Cash and balances with Central Bank of Malta	4	**16,719,619**	28,330,575
Investment securities	5	**37,519,633**	51,418,420
Derivative financial instruments	6	**122,742**	181,520
Loans and advances to banks	7	**39,001,142**	54,275,947
Loans and advances to customers	8	**32,048,792**	41,132,450
Right-of-use assets	9	**94,522**	333,667
Property, plant and equipment	10	**196,397**	60,809
Intangible assets	11	**1,744,563**	2,031,016
Deferred tax assets	12	**1,597,251**	1,886,723
Accrued income and other assets	13	**3,387,140**	4,787,773
Total assets		**132,431,801**	184,438,900
EQUITY AND LIABILITIES			
Equity			
Share capital	14	**26,500,000**	26,500,000
Fair value reserve	15	**(190,072)**	(369,517)
Accumulated losses		**(4,100,719)**	(3,686,763)
Total equity		**22,209,209**	22,443,720
Liabilities			
Amounts owed to customers	16	**104,245,579**	153,907,685
Amounts owed to banks	17	**5,000,000**	7,000,000
Derivative financial instruments	6	**-**	4,366
Lease liabilities	9	**138,017**	389,883
Other liabilities	18	**838,996**	693,246
Total liabilities		**110,222,592**	161,995,180
Total equity and liabilities		**132,431,801**	184,438,900
MEMORANDUM ITEMS			
Commitments and other contingencies	19	**13,152,415**	18,937,636

The official closing middle rate of exchange applicable between US dollar and euro published by the European Central Bank as at 30 December 2023 was 1.1050 (31 December 2022: 1.0666).

The notes on pages 24 to 85 are an integral part of these financial statements.

The financial statements on pages 19 to 85 were authorised for issue by the board on 4 April 2024 and were signed on its behalf by:

Joseph Grioli
Director



Raymond Busuttil
Director

Income statement

	Notes	Year ended 31 December 2023 US$	2022 US$
Interest income	20	**6,894,821**	5,965,690
Interest expense	21	**(2,315,991)**	(1,684,626)
Net interest income		**4,578,830**	4,281,064
Fee and commission income	22	**1,413,136**	1,598,066
Fee and commission expense	22	**(275,793)**	(335,039)
Net fee and commission income		**1,137,343**	1,263,027
Net trading income	23	**500,790**	(3,917,455)
Net losses on disposal of financial assets measured at fair value through other comprehensive income		**-**	(87,960)
Other income		**83,361**	-
Operating income		**6,300,324**	1,538,676
Change in expected credit losses and other credit impairment charges	24	**(1,840,789)**	(28,317)
Administrative expenses	25	**(4,688,450)**	(4,277,279)
Loss before tax		**(228,915)**	(2,766,920)
Tax expense	26	**(185,041)**	-
Loss for the year		**(413,956)**	(2,766,920)

The notes on pages 24 to 85 are an integral part of these financial statements.

Statement of comprehensive income

	Note	Year ended 31 December	
		2023 **US$**	2022 US$
Loss for the year		**(413,956)**	(2,766,920)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income:			
Net changes in fair value arising during the year, before tax		**283,876**	(825,844)
Reclassification adjustments - net amounts reclassified to profit or loss upon disposal, before tax		**-**	87,960
Income tax relating to components of other comprehensive Income	12	**(104,431)**	258,259
Other comprehensive income for the year, net of tax		**179,445**	(479,625)
Total comprehensive income for the year		**(234,511)**	(3,246,545)

The notes on pages 24 to 86 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital US$	Fair value reserve US$	Accumulated losses US$	Total equity US$
Balance at 31 December 2021		**26,500,000**	**110,108**	**(919,843)**	**25,690,265**
Comprehensive income					
Loss for the year		-	-	(2,766,920)	(2,766,920)
Other comprehensive income:					
Fair valuation of financial assets measured at fair value through other comprehensive income					
Net changes in fair value arising during the year, net of tax	5,12	-	(536,799)	-	(536,799)
Reclassification adjustments - net amounts reclassified to profit or loss, net of tax		-	57,174	-	57,174
Total comprehensive income		-	(479,625)	(2,766,920)	(3,246,545)
Balance at 31 December 2022		**26,500,000**	**(369,517)**	**(3,686,763)**	**22,443,720**
Comprehensive income					
Loss for the year		**-**	**-**	**(413,956)**	**(413,956)**
Other comprehensive income:					
Fair valuation of financial assets measured at fair value through other comprehensive income					
Net changes in fair value arising during the year, net of tax	5,12	**-**	**179,445**	**-**	**179,445**
Total comprehensive income		**-**	**179,445**	**(413,956)**	**(234,511)**
Balance at 31 December 2023		**26,500,000**	**(190,072)**	**(4,100,719)**	**22,209,209**

The notes on pages 24 to 85 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2023 US$	2022 US$
Operating activities			
Interest and commission income received		**8,542,444**	7,525,149
Interest and commission expense paid		**(2,490,383)**	(2,115,649)
Net income from foreign exchange transactions		**(1,782,979)**	1,030,691
Cash payments to employees and suppliers		**(4,128,242)**	(3,773,300)
Cash flows generated from operating activities before changes in operating assets and liabilities		**140,840**	2,666,891
Changes in operating assets and liabilities:			
Net decrease in reserve deposit with Central Bank of Malta	4	**135,103**	204,160
Net increase in loans and advances to banks	7	**(6,590,617)**	(3,734,390)
Net decrease in other assets	13	**1,279,973**	314,487
Net decrease in loans and advances to customers	8	**7,248,570**	19,883,794
Net (decrease)/increase in amounts owed to customers	16	**(49,662,106)**	5,520,531
Net decrease in amounts owed to banks	17	**(2,000,000)**	(10,000,000)
Net cash (used in)/generated from operating activities		**(49,448,237)**	14,855,473
Investing activities			
Purchase of financial assets mandatorily measured at fair value through profit or loss	5	**(10,000,000)**	(532,150)
Purchase of financial assets measured at amortised cost	5	**(15,307,179)**	(17,936,959)
Proceeds from disposal and redemptions of financial assets measured at fair value through other comprehensive income	5	**112,620**	15,579,407
Proceeds from disposal and redemptions of financial assets mandatorily measured at fair value through profit or Loss		**18,623,954**	16,360,706
Proceeds from redemption of financial assets measured at amortised cost	5	**23,140,457**	-
Purchase of property, plant and equipment	10	**(163,790)**	(22,521)
Purchase of intangible assets	11	**(98,098)**	(327,052)
Net cash generated from investing activities		**16,307,964**	13,121,431
Financing activities			
Principal element of lease payment	9	**(260,005)**	(256,631)
Net cash used in financing activities		**(260,005)**	(256,631)
Net movement in cash and cash equivalents		**(33,400,278)**	27,720,273
Cash and cash equivalents at beginning of year		**68,673,156**	40,952,883
Cash and cash equivalents at end of year	27	**35,272,878**	68,673,156

The notes on pages 24 to 85 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of material accounting policies

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

1.1 Basis of preparation

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

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

Assessment of going concern assumption

In 2019, the Bank's ultimate parent, IIG Trade Opportunities Fund N.V. (the Fund), was put into administration triggering a wind-down of the Fund's assets, including the sale of the Fund's stake in the Bank. The Bank has since moved on undeterred with its regular business operations and continues to pursue the process to identify and select a suitable candidate to acquire the Bank.

Until completion of the change in control process, the Bank's management will continue to focus the Bank's business strategy on servicing its depositing customers and providing trade facilitation through the provision of funding and trade and commodity finance products to its borrowing customers.

Despite the above circumstances, the Bank maintained a strong capital and liquidity base which remained in excess of the regulatory requirements throughout the financial reporting period until the date of authorisation for issue of the financial statements. Further, the Bank has reacted to these new economic conditions and taken necessary measures to ensure that negative impacts on overall business is mitigated to the extent possible.

In the meantime, management is confident that the Bank's strategy is feasible and tenable. On the basis of these considerations, it is the view of the Board of Directors that there is a reasonable expectation that the Bank is able to continue in business for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

1. Summary of material accounting policies - continued

1.1 Basis of preparation - continued

Standards, interpretations and amendments to published standards effective in 2023

In 2023, the Bank adopted a number of interpretations and amendments to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2023. These changes did not have a significant impact on the Bank's accounting policies and on the financial performance and financial position. There were no new standards adopted during the year.

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

Certain new amendments to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Bank's accounting periods beginning on or after 1 January 2024. The Bank has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Bank's Directors are of the opinion that there are no requirements that will have possible significant impacts on the Bank's financial statements in the period of initial application.

1.2. Foreign currency transactions and balances

a) Functional and presentation currency

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

b) Transactions and balances

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

1. Summary of material accounting policies - continued

1.3 Financial assets

i. Initial recognition

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

ii. Classification and subsequent measurement

On initial recognition the Bank classifies its financial assets in the following measurement categories: (a) amortised cost; (b) fair value through profit or loss ('FVPL'); or fair value through other comprehensive income ('FVOCI'). The classification varies depending on whether the financial asset is a debt or an equity instrument.

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

Classification and subsequent measurement of debt securities depends on:

- The Bank's business model for managing the asset; and
- The cash flow characteristic of the asset.

Based on these factors, the Bank classifies its debt securities into one of the following three measurement categories.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance recognised and measured as described in Note 3. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

1. Summary of material accounting policies - continued

1.3 Financial assets - continued

ii. Classification and subsequent measurement - continued

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss within 'Net trading income' in the period in which it arises, unless it arises from debt securities that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net trading income'. Interest income from these financial assets is included in 'Interest Income' using the effective interest rate method.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets ('Amortised cost") or is to collect both the contractual cash flows and cash flows arising from the sale of assets ('FVOCI'). If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified and measured at FVPL.

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

iii. De-recognition of financial assets

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

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

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

1.3 Financial assets - continued

iv. Impairment of amortised cost and FVOCI financial assets

Expected credit losses ('ECL') are recognised for loans and advances to banks and customers, debt securities measured at amortised cost and at FVOCI, other financial assets measured at amortised cost, and certain credit related commitments.

At initial recognition, an allowance (or provision in the case of credit related commitments) is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months ('12-month ECL'). In the event of a significant increase in credit risk ('SICR'), an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'Stage 1'; financial assets which are considered to have experienced a significant increase in credit risk would be classified as 'Stage 2'; and financial assets for which there is objective evidence of impairment, and which are so considered to be in default or otherwise credit impaired, would be classified as 'Stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently.

Credit impaired (Stage 3)

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

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit impaired when contractual payment terms are modified due to significant credit distress of the borrower. Renegotiated loans, that are not derecognised, remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows. These loans could be transferred to Stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Loans that arise following derecognition events may be considered POCI.

1. Summary of material accounting policies - continued

1.3 Financial assets – continued

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

Loan modifications that are not credit impaired

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Bank's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Significant increase in credit risk (Stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. While it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk, the Bank considers that a financial asset has experienced a significant increase in credit risk when one or more of the following backstop criteria have been met:

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

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

The Bank considers certain financial assets as having 'low credit risk' in terms of paragraphs 5.5.10 and B5.5.23 of IFRS 9. These include balances with the Central Bank of Malta, loans and advances to banks and debt securities measured at amortised cost and FVOCI. This consideration is made in the light of the fact that all obligors within these categories are considered by the Bank to have a strong capacity to meet their obligations, and that adverse changes in economic conditions should not reduce their ability to fulfil obligations.

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

1. Summary of material accounting policies - continued

1.3 Financial assets – continued

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

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

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

Movement between stages

Financial assets can be transferred between the different categories (other than POCI). Financial instruments are transferred out of Stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Financial instruments are transferred out of Stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not derecognised will continue to be in Stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment.

Measurement of expected credit losses

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months ('12M PD'), or over the remaining lifetime ('Lifetime PD') of the obligation.

- The EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months ("12 EAD") or over the remaining lifetime ("Lifetime EAD"). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- The LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to me made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

1. Summary of material accounting policies - continued

1.3 Financial assets - continued

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

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together effectively calculating the ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile is developed by applying forward looking macroeconomic variables to historical default rates, taking into consideration the likelihood of survival. As part of this process, marginal PDs are determined through interpolation. For the Lending portfolio, the historical default rates are based on the Bank's historical experience. For assets that are defined to have low credit risk in terms of IFRS 9, to derive coherent PDs, proxy unconditional PDs taken from reputable credit rating agencies are used.

The 12-month and lifetime EADs are determined based on the expected payment profile, based on contractual repayments owed by the borrower.

The LGD is determined based on factors which impact the recoveries made post default. This is primarily based on collateral type and projected collateral values, discounts to values, time to repossession and recovery costs observed.

The Bank applies forward-looking economic scenarios into the calculation of ECL by incorporating the effect of projected macroeconomic variables into the estimation of the term structure of the PD under two scenarios. They represent a 'most likely outcome' (the Baseline scenario), and a less likely 'Alternative' scenario, weighted by an appropriate probability of occurrence.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

1.4 Offsetting financial instruments

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

1.5 Derivative financial instruments

Derivative financial instruments, including currency forwards and swaps, are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. Fair values for currency forwards are determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

1. Summary of material accounting policies - continued

1.6 Intangible assets

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

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

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

At the end of each reporting period, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable (Note 1.8).

1.7 Property, plant and equipment

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

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

1. Summary of material accounting policies - continued

1.7 Property, plant and equipment - continued

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

	%
Leasehold improvements	20
Furniture and fittings	20
Computer hardware	20
Office equipment	33

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.8).

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

1.8 Impairment of non-financial assets

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

1.9 Leases

The Bank is the lessee

At the inception of a contract, the Bank assesses if the contract is or contains a lease and hence conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

The Bank measures the associated right-of-use assets at an amount equal to the lease liability at the date at which the leased asset is made available for use.

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

1. Summary of material accounting policies - continued

1.9 Leases - continued

The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Reassessment is required when the terms and conditions of a contract are changed. Lease liabilities are remeasured when:

- There are changes in future lease payments arising from changes in an index or rate;
- There are changes in the Bank's assessment of whether it will exercise an extension option; or
- There are modification in the scope or the consideration of the lease that was not part of the original term.

Lease liabilities are remeasured with a corresponding adjustment to the right-of-use assets, or an adjustment in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero and there is a further reduction in the measurement of the lease liability.

The Bank elects not to recognise right-of-use assets and lease liabilities for low value leases or leases with a term shorter than 12 months. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

1.10 Current and deferred tax

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

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Bank has a legal right to offset.

1.11 Share capital

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

1. Summary of material accounting policies - continued

1.12 Financial liabilities

The Bank recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Bank's financial liabilities are composed of financial liabilities at fair value through profit or loss (classified as 'Derivative financial instruments') and financial liabilities which are not at fair value through profit or loss (classified as "Other liabilities") under IFRS 9. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability, these liabilities are subsequently measured at amortised cost. The Bank derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

Financial liabilities measured at amortised cost comprise principally amounts owed to banks, amounts to customers, and other payables.

Derivatives are categorised as financial liabilities classified as held for trading. Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included directly in profit or loss and are reported as 'Net trading income'. Interest expense on financial liabilities held for trading is included in 'Net interest income'.

1.13 Contingent liabilities

A contingent liability is (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Where the Bank undertakes to make a payment on behalf of its customers for guarantees issued such as for performance bonds or as irrevocable letters of credit for which an obligation to make a payment has not arisen at the reporting date, those are included in these financial statements as contingent liabilities.

Other contingent liabilities primarily include irrevocable letters of credit such as shipping guarantees.

1.14 Provisions

The Bank may, in the normal course of business, receive legal claims against it. Where appropriate the Bank recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation. As at the end of the reporting period, there were no legal claims against the Bank.

1. Summary of material accounting policies - continued

1.15 Commitments

Where the Bank has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees whether cancellable or not or letters of credit and the Bank has not made payments at the end of the reporting period, those instruments are included in these financial statements as commitments

1.16 Interest income and expense

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

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

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

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

1.17 Fee and commission income and expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees received by the Bank for loans which are probable of being drawn down, are an integral part of generating an involvement with the resulting financial instrument and, together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate on the loan using the effective interest method. Commissions and fees arising from negotiating a transaction are recognised on completion of the underlying transaction.

1.18 Net trading income

Trading income represents income from foreign exchange transactions and balances, net income from derivatives, as well as gains and losses from changes in fair value on all financial assets measured at FVPL.

1.19 Employee benefits

Funded defined contribution plan

The Bank operates a post-employment scheme, which consists of a defined contribution pension plan. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Expenses relating to defined contribution plans are recognised as an expense in profit or loss, within administrative expenses.

1. Summary of material accounting policies - continued

1.20 Cash and cash equivalents

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

2. Financial risk management

2.1 Financial risk factors

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

The Board of Directors oversees credit, market, funding and liquidity, operational and strategic business risks. The Bank has developed an integrated risk management framework to identify, assess, manage and report risks and risk adjusted returns.

The Bank's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Board is responsible for the overall effectiveness of the risk management function, which function is however carried out by all the members of the Bank's management.

The Bank's treasury function is responsible for managing assets, liabilities and the overall financial position and is also responsible for the management of funding and liquidity risks. The Bank's risk oversight function has the overall responsibility for the development of the entity's risk strategy and the implementation of risk principles, framework, policies and related limits.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business. Accordingly, management carefully manages its exposure to this risk. Credit exposures arise principally through the Bank's participation in trade financing transactions (including exposures to certain banks), its investments in debt securities, and also through the Bank's transactions with correspondent banks, and other exposures arising from activities such as those relating to derivative transactions.

2. Financial risk management - continued

2.1 Financial risk factors – continued

(a) Credit risk – continued

The following table presents the maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements. For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their carrying amount. For lending related commitments and contingencies that are irrecoverable over the life of the respective facilities, the maximum exposure to credit risk is generally the full amount of the Bank's irrevocable obligations.

	2023	2022
	US$	US$
Credit risk exposures relating to on-balance sheet assets:		
Financial assets mandatorily measured at fair value through profit or loss:		
Debt securities (Note 5)	**414,640**	8,322,767
Financial assets measured at fair value through other comprehensive income:		
Debt securities (Note 5)	**5,290,436**	4,914,177
Financial assets held for trading:		
Derivative financial instruments (Note 6)	**122,742**	181,520
Amortised cost:		
Balances with Central Bank of Malta (Note 4)	**16,717,157**	28,327,136
Debt securities (Note 5)	**31,814,557**	38,181,476
Loans and advances to banks (Note 7)	**39,001,142**	54,275,947
Loans and advances to customers (Note 8)	**32,048,792**	41,132,450
Accrued interest income and other receivables (Note 13)	**2,889,126**	4,176,526
	128,298,592	179,511,999
Credit risk exposures relating to off-balance sheet instruments:		
Commitments and contingencies (Note 19)	**13,152,415**	18,937,636

The exposures set out in the preceding table are based on carrying amounts as reported in the statement of financial position. The table represents a worst-case scenario of credit risk exposure to the Bank as at 31 December 2023 and 2022, without taking account of any collateral held or any other credit enhancements attached.

2. Financial risk management - continued

2.1 Financial risk factors – continued

(a) Credit risk – continued

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

	31 December 2023		31 December 2022	
	Gross carrying/nominal amount US$	**Allowance for ECL US$**	Gross carrying/nominal amount US$	Allowance for ECL US$
Amortised cost				
Balances with Central Bank of Malta	**16,718,009**	**852**	28,328,917	1,781
Debt securities	**31,830,274**	**15,717**	38,197,107	15,631
Loans and advances to banks	**39,079,526**	**78,384**	54,412,405	136,458
Loans and advances to customers	**35,059,392**	**3,010,600**	42,762,993	1,630,543
Accrued income and other assets	**2,971,110**	**81,984**	4,194,424	17,898
Total gross carrying amount on- balance sheet	**125,658,311**	**3,187,537**	167,895,846	1,802,311
Commitments and other contingencies	**13,152,415**	**-**	18,937,636	-
Total nominal amount off-balance sheet	**13,152,415**	**-**	18,937,636	-
	138,810,726	**3,187,537**	186,833,482	1,802,311

	31 December 2023		31 December 2022	
	Fair value US$	**Memorandum allowance for ECL US$**	Fair value US$	Memorandum allowance for ECL US$
Financial assets measured at fair value through other comprehensive income				
Debt securities	**5,290,436**	**3,352**	4,914,177	2,820
	5,290,436	**3,352**	4,914,177	2,820

Undrawn commitments substantially arises from loans and advances to customers. ECL in respect of undrawn commitments, which are not deemed material, have been allocated to loans and advances to customers.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

The following table presents the distribution, by stage, of financial instruments to which the impairment requirements in IFRS 9 are applied, and the associated ECL as at 31 December 2023 and as at 31 December 2022. The financial assets recorded in each stage have the following characteristics:

- Stage 1: unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised;
- Stage 2: a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised; and
- Stage 3: objective evidence of impairment, and are therefore considered to be credit impaired on which a lifetime ECL is recognised.

	Gross carrying/nominal amount				Allowance for ECL			
	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
Credit risk exposures relating to on-balance sheet assets:								
Balances with Central Bank of Malta	**16,718,009**	-	-	**16,718,009**	**852**	-	-	**852**
Investment securities	**37,120,710**	-	-	**37,120,710**	**19,069**	-	-	**19,069**
Loans and advances to banks	**39,079,526**	-	-	**39,079,526**	**78,384**	-	-	**78,384**
Loans and advances to customers	**28,759,755**	-	**6,299,637**	**35,059,392**	**435,825**	-	**2,574,775**	**3,010,600**
Accrued income and other assets	**2,971,110**	-	-	**2,971,110**	**81,984**	-	-	**81,984**
	124,649,110	-	**6,299,637**	**130,948,747**	**616,114**	-	**2,574,775**	**3,190,889**
Credit risk exposures relating to off-balance sheet:								
Commitments and other contingencies	**13,152,415**	-	-	**13,152,415**	-	-	-	-
At 31 December 2023	**137,801,525**	-	**6,299,637**	**144,101,162**	**616,114**	-	**2,574,775**	**3,190,889**
Credit risk exposures relating to on-balance sheet assets:								
Balances with Central Bank of Malta	28,328,917	-	-	28,328,917	1,781	-	-	1,781
Investment securities	43,111,284	-	-	43,111,284	18,451	-	-	18,451
Loans and advances to banks	54,412,405	-	-	54,412,405	136,458	-	-	136,458
Loans and advances to customers	36,649,511	2,349,219	3,764,263	42,762,993	426,890	165,779	1,037,874	1,630,543
Accrued income and other assets	4,157,570	15,084	21,770	4,194,424	10,518	1,006	6,374	17,898
	166,659,687	2,364,303	3,786,033	172,810,023	594,098	166,785	1,044,248	1,805,131
Credit risk exposures relating to off-balance sheet:								
Commitments and other contingencies	18,937,636	-	-	18,937,636	-	-	-	-
At 31 December 2022	185,597,323	2,364,303	3,786,033	191,747,659	594,098	166,785	1,044,248	1,805,131

2. Financial risk management - continued

2.1 Financial risk factors – continued

(a) Credit risk – continued

The heightened inflation and interest rates, exacerbated by the geopolitical developments as a result of conflict in the Middle East and the continued conflict between Russia and Ukraine have increased the level of uncertainty with respect to the identification of customers that would have experienced a SICR or that exhibit unlikeliness to pay ('UTP') characteristics.

The Bank continued to assess its lending portfolio to determine whether the current economic situations may transform into borrower financial difficulties, thereby potentially requiring a downgrade of individual exposures to Stage 2 or Stage 3 to reflect the level of change in the credit risk, as appropriate.

During 2023, the Bank determined two borrowers in Stage 1 experiencing significant financial difficulty. The Bank has accordingly granted forbearance measures to support the borrowers, and after an in-depth analysis of the borrowers condition and situations, necessitated the downgrade to Stage 3. The borrowers had a total outstanding balance of US$4,159,600, which remained outstanding as at 31 December 2023. Further, the outstanding Stage 2 exposure of the Bank as at 31 December 2022 has been fully repaid in 2023.

Loans and advances to banks and customers within the trade finance portfolio

The following table presents loans and advances to customers and loans and advances to banks within the trade finance portfolio by industry and geographical concentration and by stage allocation, as well as the associated ECL as at 31 December 2023 and 2022. For the purposes of this table, the Bank has allocated exposures to regions based on the country of domicile of the respective counterparties or customers.

	2023							
	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
By industry	US$	US$	US$	US$	US$	US$	US$	US$
Wholesale trade of commodities	26,107,757	-	3,204,948	29,312,705	318,017	-	1,218,629	1,536,646
Manufacturing of commodities	-	-	3,094,688	3,094,688	-	-	1,356,147	1,356,147
Real estate and construction	2,651,999	-	-	2,651,999	117,808	-	-	117,808
Banking	20,088,007	-	-	20,088,007	76,376	-	-	76,376
At 31 December	48,847,763	-	6,299,636	55,147,399	512,201	-	2,574,776	3,086,977
By geography								
Asia	23,819,538	-	2,608,966	26,428,504	194,970	-	682,246	877,216
EU countries	7,738,556	-	-	7,738,556	164,713	-	-	164,713
Other countries in Europe	9,289,669	-	2,146,616	11,436,285	113,851	-	1,738,125	1,851,976
Rest of the world	8,000,000	-	1,544,054	9,544,054	38,667	-	154,405	193,072
At 31 December	48,847,763	-	6,299,636	55,147,399	512,201	-	2,574,776	3,086,977

2. Financial risk management - continued

2.1 Financial risk factors – continued

(a) *Credit risk* – continued

	2022							
	Gross carrying amount				Allowance for ECL			
By industry	**Stage 1 US$**	**Stage 2 US$**	**Stage 3 US$**	**Total US$**	**Stage 1 US$**	**Stage 2 US$**	**Stage 3 US$**	**Total US$**
Wholesale trade of Commodities	35,208,877	2,349,219	1,900,881	39,458,977	410,151	165,779	800,479	1,376,409
Manufacturing of commodities	1,440,634	-	1,863,382	3,304,016	16,739	-	237,395	254,134
Banking	25,772,497	-	-	25,772,497	132,563	-	-	132,563
At 31 December	62,422,008	2,349,219	3,764,263	68,535,490	559,453	165,779	1,037,874	1,763,106
By geography								
Asia	19,348,141	-	-	19,348,141	197,984	-	-	197,984
EU countries	8,191,197	-	-	8,191,197	19,976	-	-	19,976
Other countries in Europe	20,629,044	2,349,219	1,900,881	24,879,144	201,387	165,779	800,479	1,167,645
Rest of the world	14,253,626	-	1,863,382	16,117,008	140,106	-	237,395	377,501
At 31 December	62,422,008	2,349,219	3,764,263	68,535,490	559,453	165,779	1,037,874	1,763,106

In order to manage its principal risk exposures arising from its financial assets, primarily its loans and advances to customers and loans and advances to banks under the trade finance portfolio, the Bank compiles and updates due diligence reports in respect of these financial assets.

The creditworthiness of counterparties or customers is formally evaluated and appropriate exposure limits are established. Credit review procedures are designed to identify at an early stage, exposures which require more detailed monitoring and review. Exposure to credit risk is managed through regular analysis of the ability of counterparties and potential counterparties to meet interest and capital repayment obligations and by changing the exposure limits where deemed appropriate. The Bank manages adherence to limits by reference to reporting mechanisms covering exposures and controls concentrations of risk wherever they are identified.

The Bank focuses on the compilation, together with ongoing and event-driven updating of due diligence analyses taking cognisance of actual account developments, repayment history, ability to meet commitments and collateral measurement.

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

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

The most common practice used by the Bank to mitigate credit risk with respect to loans and advances to customers is securing collateral. The main collateral types obtained by the Bank to secure against losses from loans and advances to customers are (a) cash; (b) mortgaged assets; (c) goods or commodities under shipment; as well as (d) insurance covers. The following table presents the Bank's loans and advances to customers and the related interest receivable, gross of impairment allowances, together with the type of collateral attached to the loan and the corresponding value of collateral capped at the total gross exposure, analysed by stage classification. The collateral value of goods and commodities represents their market value, which is usually in excess of the gross on-balance sheet exposure, hence in the table below are at 100%. Other collateral is included in the table at 100% of the guaranteed amount.

	Gross on-balance sheet exposure US$	**Cash US$**	**Mortgaged assets US$**	**Goods/ Commodities US$**	**Insurance US$**	**Net Maximum exposure US$**
31 December 2023						
Stage 1	**28,778,880**	**3,840,732**	**2,651,999**	**6,300,034**	**4,967,106**	**11,019,009**
Stage 2	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3	**6,305,197**	**228,498**	**-**	**1,544,054**	**-**	**4,532,645**
	35,084,077	**4,069,230**	**2,651,999**	**7,844,088**	**4,967,106**	**15,551,654**
31 December 2022						
Stage 1	36,657,409	5,727,790	-	19,048,707	7,602,481	4,278,431
Stage 2	2,364,303	-	-	2,364,303	-	-
Stage 3	3,786,033	36,697	-	1,863,381	-	1,885,955
	42,807,745	5,764,487	-	23,276,391	7,602,481	6,164,386

Loans and advances to banks as part of the trade finance portfolio are classified as Stage 1 and are unsecured.

The Bank uses external ratings such as Fitch ratings or their equivalents to monitor the credit risk exposures for its loans and advances to banks under the trade finance portfolio. The table below represents the Bank's loans and advances to banks under the trade finance portfolio by rating as at 31 December:

	2023 US$	2022 US$
B	**-**	2,594,667
B-	**16,519,459**	17,543,045
BB	**2,143,461**	-
BB-	**1,238,432**	334,178
BBB-	**110,311**	5,168,044
Total	**20,011,663**	25,639,934

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

The Bank is exposed to a significant concentration of credit risk with respect to its loans and advances to customers as they are due from a limited number of customers. The following tables sets out the loans and advances to customers deemed to be large exposures for regulatory reporting purposes, prior to any eligible exemptions, in accordance with the requirements of Part Four of the Capital Requirements Regulations (CRR), Large Exposures by stage.

	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
As at 31 December 2023:				
Gross carrying/nominal amount	**22,780,754**	**-**	**2,608,966**	**25,389,720**
Allowance for ECL	**317,645**	**-**	**682,245**	**999,890**
Percentage of loans and advances to customers	**64.98%**	**-**	**7.44%**	**72.42%**
As at 31 December 2022:				
Gross carrying/nominal amount	28,819,189	2,349,219	1,863,381	33,031,789
Allowance for ECL	324,180	165,779	237,395	727,354
Percentage of loans and advances to customers	67.39%	5.49%	4.36%	77.24%

As at 31 December 2023 and 2022, no loans and advances to customers were deemed to be prohibited large exposures in terms of the CRR.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from Stage 1 to Stage 2. Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

As at 31 December 2023 and 2022, the Bank had no loans and advances to customers and banks under the trade finance portfolio classified as Stage 2 which were past due.

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

Forbearance is objective evidence of impairment and a forborne loan is deemed to be credit impaired (i.e. Stage 3) when there has been a change in contractual cash flows as a result of a concession which the Bank would otherwise not consider, and it is probable that the customer would be unable to meet the contractual payment obligations in full. Forborne loans are not classified as credit impaired (i.e. Stage 3) where the contractual cash flows arising from the forbearance measures are expected to be collected in full.

When a loan is restructured as part of a forbearance strategy and the restructuring results in a derecognition of the existing loan, the new loan is considered forborne. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

As at 31 December 2023, the Bank classified gross exposure balances for four borrowers as forborne, all of which are classified in Stage 3 amounting to US$6,299,637. The corresponding allowance for ECL amounted to US$2,575,331. No loans and advances to banks under the trade finance portfolio were classified as forborne as at 31 December 2023 and 2022.

As at 31 December 2022, the Bank classified gross exposure balances for four borrowers as forborne, of which one borrower was classified in Stage 2 amounting to US$2,349,219 and three borrowers which were classified in Stage 3 amounting to US$3,764,263. The corresponding allowance for ECL amounted to US$165,779 and US$1,037,874, respectively.

The total renegotiated/forborne loans and advances to customers for 2023 represent 17.97% (2022: 14.30%) of total gross loans and advances to customers. The total interest income recognised in 2023 in respect of forborne assets amounted to US$291,332 (2022: US$202,722).

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

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

	2023 US$	2022 US$
At 1 January	**4,909,829**	2,716,660
Additions	**4,159,600**	4,685,740
Repayments	**(3,454,394)**	(2,111,648)
Amounts written off	**(519,051)**	-
Increase in allowances for expected credit losses	**(1,371,122)**	(380,923)
At 31 December	**3,724,862**	4,909,829

Forborne loans are analysed by geographical location as follows:

	2023 US$	2022 US$
As at 31 December		
Other countries in Europe (non-EU)	**408,491**	3,284,676
Rest of world	**3,316,371**	1,625,153
	3,724,862	4,909,829

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

Transfers across stages represent the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL of the financial instruments that are outstanding at the beginning of the year.

The 'Net remeasurement of ECL arising from stage transfers' represents the increase or decrease in ECL due to moving, for example, from a 12-month (Stage 1) to a lifetime (Stage 2) ECL measurement basis or vice versa. Net remeasurement excludes the movements resulting from changes in risk parameters such as changes in PDs and LGDs when compared to those used for the previous reporting period. This is captured, along with other credit quality movements in the 'Changes in risk parameters' line item which shows the impact of changes in risk parameters in respect of the allowances specifically for loans and advances to customers outstanding at the beginning of the year. The impact of model overlays (arising only in 2022), is also included within the 'Changes in risk parameters' line item.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk – continued

The 'Net new and further lending/repayments' represent the gross carrying/nominal amount and associated ECL impact from volume movements within the Bank's lending portfolio, i.e. originations and repayments during the financial reporting period. Accordingly, loans originated during the year are classified in the table below using the respective stage classification as at the end of the reporting period, without the effect of stage transfers from origination. The allowance in respect of these is included using the current year's risk parameters, and therefore no such impact is included within the 'Changes in risk parameters' line item. Similarly, stage transfers in respect of loans and advances originated or repaid during the year are also included within the 'Net new and further lending/repayments' line item.

As at 31 December 2023, the increase in ECLs was driven by a combination of factors, particularly an increase in ECL due to the downgrade of two borrowers from Stage 1 to Stage 3 as a result of the increase in credit risk associated with the recoverability of such exposures. The increase in ECL was neutralised by the decrease in ECL attributable to the decrease in the volume of loans and advances to customers, which includes the settlement of the Stage 2 exposure and the de-recognition and partial write-off of a Stage 3 exposure.

As at 31 December 2022, the decrease in ECLs was driven by a combination of factors, particularly a decrease in ECL due to the decrease in the volume of loans and advances to customers when compared to 31 December 2022, and the release of management overlays introduced in 2021 within the ECL model following the improvements on the Bank's loss history in respect of Stage 1 borrowers. The decrease in ECL was neutralised by the increase in ECL attributable to the downgrade of one borrower from Stage 1 to Stage 2 and of one borrower from Stage 1 to Stage 3, as a result of the increase in credit risk associated with the recoverability of such exposures.

The movement in ECL is illustrated in the following tables:

Financial risk management - continued

2.1 Financial risk factors - continued

(a) *Credit risk* – continued

	Non-credit impaired Stage 1		Stage 2		Credit impaired Stage 3		Total	
	Gross carrying amount US$	Allowance for ECL US$	Gross carrying amount US$	Allowance for ECL US$	Gross carrying amount US$	Allowance for ECL US$	Gross carrying amount US$	Allowance for ECL US$
At 31 December 2022	36,649,511	426,890	2,349,219	165,779	3,764,263	1,037,874	42,762,993	1,630,543
Transfers from Stage 1 to Stage 3	(4,159,600)	(46,102)	-	-	4,159,600	46,102	-	-
Net remeasurement of ECL arising from stage transfer	-	-	-	-	-	1,837,884	-	1,837,884
Changes in risk parameters	-	157,738	-	-	-	298,477	-	456,215
Write-off	-	-	-	-	(519,051)	(519,051)	(519,051)	(519,051)
Net new and further lending/(repayments)	(3,730,156)	(102,701)	(2,349,219)	(165,779)	(1,105,175)	(126,511)	(7,184,550)	(394,991)
At 31 December 2023	28,759,755	435,825	-	-	6,299,637	2,574,775	35,059,392	3,010,600

Change in expected credit losses on loans and advances to customers	1,380,057
Written-off	519,051
Recoveries	(64,020)
Change in expected credit losses attributable to:	
Accrued interest income and other assets	64,086
Balances with Central bank of Malta	(929)
Loans and advances to banks	(58,074)
Financial assets measured at fair value through other comprehensive income	532
Financial assets measured at fair value through amortised cost	86
Total expected credit loss charge for the year	1,840,789

Financial risk management - continued

2.1 Financial risk factors - continued

(a) *Credit risk* – continued

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying amount US$	Allowance for ECL US$	Gross carrying amount US$	Allowance for ECL US$	Gross Carrying amount US$	Allowance for ECL US$	Gross Carrying amount US$	Allowance for ECL US$
At 31 December 2021	59,107,397	827,597	-	-	3,539,390	822,730	62,646,787	1,650,327
Transfers from Stage 1 to Stage 2	(3,500,000)	(17,092)	3,500,000	17,092	-	-	-	-
Transfers from Stage 2 to Stage 3	(1,185,740)	(26,505)	-	-	1,185,740	26,505	-	-
Net remeasurement of ECL arising from stage transfer	-	-	-	154,307	-	210,117	-	364,424
Changes in risk parameters	-	(135,099)	-	-	-	-	-	(135,099)
Net new and further lending/(repayments)	(17,772,146)	(222,011)	(1,150,781)	(5,620)	(960,867)	(21,478)	(19,883,794)	(249,109)
At 31 December 2022	36,649,511	426,890	2,349,219	165,779	3,764,263	1,037,874	42,762,993	1,630,543
Change in expected credit losses and other impairment charges on loans and advances to customers								(19,784)
Change in expected credit losses attributable to:								
Accrued interest income and other assets								2,116
Balances with Central bank of Malta								1,180
Loans and advances to banks								46,003
Financial assets measured at fair value through other comprehensive income								(9,297)
Financial assets measured at fair value through amortised cost								8,039
Total expected credit loss charge for the year								28,317

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

In accordance with IFRS 9, the Bank incorporates forward-looking economic forecasts into its ECL estimates.

More specifically, the Bank applies forward economic scenarios into the calculation of ECL by incorporating the effect of macroeconomic variables into the estimation of the term structure of the PD. In order to model the impact of economic scenarios on PDs, the Bank determines, through a historical analysis, which macroeconomic variables correlate best to the Bank's default rates. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset. The macro-economic variable with the strongest correlation is the World Real GDP growth.

IFRS 9 does not require every possible scenario to be identified. However, it requires the Bank to estimate ECLs by taking into consideration multiple forward-looking macroeconomic scenarios, since the use of a single 'most likely' scenario is not deemed sufficient.

In this respect, the Bank has adopted the use of multiple scenarios representative of forecast economic conditions sufficient to calculate unbiased expected losses and sources different publicly available economic forecasts from reputable international institutions that represent a 'most likely outcome' (the Baseline scenario) and less likely 'Alternative' scenario. Each scenario is weighted by an appropriate probability of occurrence, determined on the basis of scenarios and respective probability weights judgmentally set by management. The probability weights reflect macroeconomic research representing information published both by banking authorities and reputable credit rating agencies. As a result, the measurement of ECLs in line with IFRS 9 involves the use of significant judgement firstly in selecting the baseline and alternative scenarios and secondly in determining the severity of those scenarios and as a result the respective probability of occurrence for each scenario used.

As at 31 December 2023 and 2022, the macroeconomic scenarios used in the Bank's modelling of credit loss allowances reflect the potential macroeconomic impacts arising from geopolitical tensions in the eastern European region, supply chain disruptions in global trade and the high interest rate regime currently in place to combat inflation.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

The following table presents the World's Real GDP growth rate for the 3 forecasted years and the probabilities of occurrence assigned to each scenario by management. The macroeconomic forecasts used for the financial year ended 31 December 2023 corresponds to the forecasts for the period 2023 - 2025. The macroeconomic forecasts used for the financial year ended 31 December 2022 corresponds to the forecasts for the period 2022 - 2024.

World Real GDP growth rate (Year-on-Year)

Financial year ended 31 December	Macroeconomic scenario	Year 1	Year 2	Year 3	Probability of occurrence
2023	Baseline scenario	**2.4%**	**2.7%**	**2.7%**	**55%**
	Alternative scenario	**0.3%**	**2.5%**	**2.5%**	**45%**
2022	Baseline scenario	1.3%	2.7%	3.4%	55%
	Alternative scenario	0.7%	1.5%	2.8%	45%

The ECL outcome is naturally sensitive to estimations made in this regard. As a result, management assessed and considered the sensitivity of the ECL outcome against the forward-looking economic conditions as part of the ECL governance process.

As at 31 December 2023 and 2022, the sensitivity of the ECL outcome to the economic forecasts was assessed by recalculating the ECL under the scenarios described above for loans and advances to customers, applying a 100% weighting to each scenario.

In this respect, if the ECL outcome was estimated solely on the basis of the baseline scenario, the credit loss allowances in respect of the loan portfolio would decrease by US$29,049 (2022: US$32,708) compared to the weighted average credit loss allowances estimated at year end amounting to US$ $3,010,600 (2022: US$1,630,543). If the ECL outcome was estimated solely on the basis of the alternative scenario, the credit loss allowances in respect of the loan portfolio would increase by US$35,505 (2022: US$39,976) compared to the weighted average credit loss allowances estimated at year end.

As at 31 December 2023, the sensitivity impact was not considered to be significant in view of the above, particularly when considering that a 100% weighting to the Alternative scenario leads to an increase in ECLs of less than US$40,000 (2022: US$60,000).

The sensitivity analysis excludes the sensitivity of the ECL related to defaulted (stage 3) exposures. It is generally impracticable to separate the effect of macroeconomic factors in individual assessments of exposures in default. The measurement of stage 3 ECL is relatively more sensitive to credit factors specific to the borrower than future economic scenarios, and defaulted exposures are a small portion of the overall lending exposure, even if representing majority of the allowance for ECL. Therefore, ECL in respect to stage 3 exposures is assumed to remain constant across the sensitivity outcomes reported above.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Loans and advances to banks excluding those under the trade finance portfolio, and other financial assets

In the normal course of business, the Bank places funds, carries out transactions and enters into forward foreign exchange contracts or currency swaps with specific high quality locally listed banks and international banks having a very high credit rating, subject to the application of a limit framework.

As part of its treasury management activities the Bank invests in debt securities issued by local and foreign governments, listed debt securities issued by foreign corporates generally with high credit quality and strong financial background as well as in rated sub-investment grade debt securities. These transactions are monitored through the practical use of exposure limits. All such investments are listed on the Malta Stock Exchange, which is currently the only locally-based Recognised Investment Exchange (RIE) in Malta and other major stock exchanges. External ratings such as Standard & Poor's rating or their equivalents are used for monitoring these credit risk exposures.

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

	Balances with Central Bank of Malta US$	Derivative financial instruments US$	Financial assets mandatorily measured at fair value through profit or loss US$	Financial assets measured at fair value through other comprehensive income US$	Financial assets measured at amortised cost US$	Loans and advances to banks US$
31 December 2023						
AAA	-	-	-	-	-	-
AA+	-	-	-	-	-	6,205,534
AA-	-	-	-	196,403	-	-
A	-	-	-	392,187	-	-
A-	16,717,157	-	-	-	31,814,557	-
BBB+	-	-	-	97,351	-	-
BBB	-	-	-	-	-	533,257
BBB-	-	-	-	739,068	-	11,648,131
BB+	-	-	-	-	-	-
BB	-	-	-	-	-	-
BB-	-	-	-	-	-	381,556
B+	-	-	-	-	-	-
B	-	-	-	-	-	-
B-	-	122,742	-	-	-	162,065
CCC	-	-	-	-	-	58,678
Unrated	-	-	414,640	3,865,427	-	-
Total	16,717,157	122,742	414,640	5,290,436	31,814,557	18,989,221

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

	Balances with Central Bank of Malta US$	Derivative financial instruments US$	Financial assets mandatorily measured at fair value through profit or loss US$	Financial assets measured at fair value through other comprehensive income US$	Financial assets measured at amortised cost US$	Loans and advances to banks US$
31 December 2022						
AAA	-	-	-	-	-	-
AA-	-	-	-	-	-	9,514,026
A	-	-	-	-	38,181,476	-
A-	28,327,136	-	-	347,875	-	-
BBB+	-	-	-	263,527	-	-
BBB	-	-	-	105,905	-	2,189,884
BBB-	-	-	-	637,424	-	16,932,103
BB+	-	-	195,124	-	-	-
BB	-	-	-	-	-	-
BB-	-	-	1,041,265	-	-	-
B+	-	-	-	-	-	-
B	-	-	1,527,010	-	-	-
B-	-	181,520	1,306,202	-	-	-
CCC	-	-	-	-	-	-
Unrated	-	-	4,253,166	3,559,446	-	-
Total	28,327,136	181,520	8,322,767	4,914,177	38,181,476	28,636,013

(b) Market risk

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

Foreign exchange risk

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

The Bank funds its growth through the acceptance of deposits predominantly denominated in euro.

The Bank manages its currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. When it is not possible to match the asset and liability currency positions, the Bank hedges its open foreign exchange exposures arising from customer deposits by entering into forward foreign exchange contracts or currency swaps.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Foreign exchange risk - continued

The following tables summarise the Bank's exposure to foreign currency risk as at 31 December 2023 and 2022. Included in the tables are the Bank's financial instruments at carrying amounts, categorised by currency.

	US$	GBP US$	EUR US$	Total US$
As at 31 December 2023				
Financial assets				
Balances with Central Bank of Malta	3,830	-	16,714,179	16,718,009
Financial assets mandatorily measured at fair value through profit and loss	-	-	414,640	414,640
Financial assets measured at fair value through other comprehensive income	-	-	5,290,436	5,290,436
Financial assets measured at amortised cost	-	-	31,830,274	31,830,274
Loans and advances to banks - at amortised cost	33,383,667	948,682	4,747,177	39,079,526
Loans and advances to customers - at amortised cost	25,661,094	1,550,834	7,847,464	35,059,392
Accrued income and other assets - at amortised cost	2,492,811	-	478,299	2,971,110
Total financial assets	61,541,402	2,499,516	67,322,469	131,363,387
Financial liabilities				
Amounts owed to customers - at amortised cost	31,009,326	5,991,194	67,245,059	104,245,579
Amounts owed to banks	5,000,000	-	-	5,000,000
Lease liabilities	-	-	138,017	138,017
Other liabilities	240,746	3,978	594,271	838,996
Total financial liabilities	36,250,072	5,995,172	67,977,348	110,222,592
Net on-balance sheet position	25,291,330	(3,495,656)	(654,879)	21,140,795
Off-balance sheet net notional position		3,497,175	10,702	
Net currency exposure		1,519	(644,177)	

2. Financial risk management - continued

2.2 Financial risk factors - continued

(b) Market risk - continued

Foreign exchange risk - continued

As at 31 December 2022	US$	GBP US$	EUR US$	Total US$
Financial assets				
Balances with Central Bank of Malta	43,555	-	28,285,362	28,328,917
Financial assets mandatorily measured at fair value through profit and loss	6,270,127	294,375	1,758,265	8,322,767
Financial assets measured at fair value through other comprehensive income	-	-	4,914,177	4,914,177
Financial assets measured at amortised cost	-	-	38,197,107	38,197,107
Loans and advances to banks - at amortised cost	39,568,189	3,723,150	11,121,066	54,412,405
Loans and advances to customers - at amortised cost	35,698,884	1,858,888	5,205,221	42,762,993
Accrued income and other assets - at amortised cost	3,648,627	11,389	534,408	4,194,424
Total financial assets	85,229,382	5,887,802	90,015,606	181,132,790
Financial liabilities				
Amounts owed to customers - at amortised cost	60,426,720	7,054,828	86,426,137	153,907,685
Amounts owed to banks	7,000,000	-	-	7,000,000
Lease liabilities	-	-	389,883	389,883
Other liabilities	232,955	12,973	447,316	693,244
Total financial liabilities	67,659,675	7,067,801	87,263,336	161,990,812
Net on-balance sheet position	17,569,707	(1,179,999)	2,752,270	19,141,978
Off-balance sheet net notional position		1,205,600	(2,537,509)	
Net currency exposure		25,601	214,761	

Under the scenario that the US dollar appreciates against the EUR from 0.9050 to 1.0000 (2022: from 0.9376 to 1.0000) and against the GBP from 0.7860 to 1.0000 (2022: from 0.8295 to 1.0000), the impact recognised in profit or loss would amount to a pre-tax gain of US$60,872 (2022: pre-tax loss of US$83,904). If on the other hand, the US dollar depreciates against the EUR to 0.8950 (2022: 0.9276) and the GBP to 0.7760 (2022: 0.8195), the impact recognised in profit or loss would amount to a loss before tax of US$7,178 (2022: gain before tax of US$17,140).

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk

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

	Floating rates US$	Fixed rates US$	Total US$
At 31 December 2023			
Interest-bearing assets			
Financial assets mandatorily measured at fair value through profit and loss:			
Debt securities	-	414,640	414,640
Financial assets measured at fair value through other comprehensive income:			
Debt securities	-	5,290,436	5,290,436
Financial assets measured at amortised cost			
Debt securities	-	31,830,274	31,830,274
Loans and receivables - at amortised cost:			
Balances with Central Bank of Malta	16,718,009	-	16,718,009
Loans and advances to banks	-	39,079,526	39,079,526
Loans and advances to customers	30,737,460	4,321,932	35,059,392
	47,455,469	80,936,808	128,392,277
Interest-bearing liabilities			
Amounts owed to customers	26,587,539	77,658,040	104,245,579
Amounts owed to banks	-	5,000,000	5,000,000
	26,587,539	82,658,040	109,245,579
Net exposure	20,867,930	(1,721,232)	19,149,698
At 31 December 2022			
Interest-bearing assets			
Financial assets mandatorily measured at fair value through profit and loss:			
Debt securities	-	8,322,767	8,322,767
Financial assets measured at fair value through other comprehensive income:			
Debt securities	-	4,914,177	4,914,177
Financial assets measured at amortised cost			
Debt securities	-	38,197,107	38,197,107
Loans and receivables - at amortised cost:			
Balances with Central Bank of Malta	28,328,917	-	28,328,917
Loans and advances to banks	-	54,412,405	54,412,405
Loans and advances to customers	39,458,977	3,304,016	42,762,993
	67,787,894	109,150,472	176,938,366
Interest-bearing liabilities			
Amounts owed to customers	54,783,565	99,124,120	153,907,685
Amounts owed to banks	-	7,000,000	7,000,000
	54,783,565	106,124,120	160,907,685
Net exposure	13,004,329	3,026,352	16,030,681

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

All financial instruments issued at fixed rates expose the Bank to economic fair value interest rate risk. Albeit, loans and advances to customers, loans and advances to banks, one of the portfolios of investment securities and amounts owed to customers are measured at amortised cost and are therefore not subject to fair value interest rate risk for the purposes of financial reporting.

Although such financial instruments are not subject to fair value interest rate risk for financial reporting purposes, the Bank manages the risk of an adverse impact to regulatory capital due to changes in market interest rates by measuring the expected change in the economic value of all instruments on equity ('EVE') as part of its annual Internal Capital Adequacy Assessment Process (ICAAP).

The Bank measures the expected change in EVE using six interest rate shocks mandated by the regulatory technical standards of the European Banking Authority (EBA) on supervisory outlier tests (EBA/RTS/2022/10), which includes a 200-bps parallel increase and 200-bps parallel decrease in interest rates, among others.

In addition, the Bank has established internal risk appetite limits around the expected change in EVE and monitors EVE sensitivities as a percentage of its Tier 1 capital.

As at 31 December 2023 and 2022, the Bank's instruments that are fair valued and which are subject to interest rate risk comprise the debt securities measured both at fair value through other comprehensive income and through profit or loss (Note 5). A significant proportion of the Bank's investments in debt securities are subject to fixed interest rates.

A sensitivity analysis using modified duration was used to measure the potential change in market value arising from a 100 basis-point upward and downward parallel shifts in yields. Investment securities measured at fair value as at 31 December 2023 amount to US$5,705,076 (2022: US$13,236,944). The estimated impact of an immediate 100 basis point increase in yields as at 31 December 2023 on the fair valuation of these investments amounts to a reduction in the fair value of US$312,879 (2022: US$615,419). The estimated impact of an immediate 100 basis point decrease in yields as at 31 December 2023 on the fair valuation of these investments amounts to an increase in the fair value of US$336,047 (2022: US$585,343).

2. Financial risk management – continued

2.1 Financial risk factors – continued

(b) Market risk – continued

Interest rate risk – continued

The Bank is also exposed to cash flow interest rate risk principally in respect of financial assets and liabilities which are subject to floating interest rates or which are fixed rate but maturing within a 12 month horizon.

At the end of the reporting period, if interest rates had increased/decreased by 1% (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, in particular foreign currency rates, the post-tax result for the following one year, excluding changes in fair values would decrease/increase by US$16,579 (2022: US$21,531).

The following table summarises mismatch of the dates on which interest on financial assets and financial liabilities are next reset to market rates on a contractual basis or, if earlier, the dates on which the instruments mature as at 31 December.

	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	Total US$
As at 31 December 2023					
Financial assets					
Balances with Central Bank of Malta	**16,718,009**	**-**	**-**	**-**	**16,718,009**
Financial assets mandatorily measured at fair value through profit or loss	**-**	**-**	**-**	**414,640**	**414,640**
Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**5,290,436**	**5,290,436**
Financial assets measured at amortised cost	**-**	**-**	**1,054,718**	**30,755,556**	**31,830,274**
Loans and advances to banks	**22,289,069**	**8,861,770**	**7,928,687**	**-**	**39,079,526**
Loans and advances to customers	**32,884,276**	**-**	**-**	**2,175,116**	**35,059,392**
	71,891,354	**8,861,770**	**8,983,405**	**38,655,748**	**128,392,277**
Financial liabilities					
Amounts owed to customers	**49,341,120**	**8,083,006**	**20,717,542**	**26,103,911**	**104,245,578**
Amounts owed to banks	**5,000,000**	**-**	**-**	**-**	**5,000,000**
	54,341,120	**8,083,006**	**20,717,542**	**26,103,911**	**109,245,579**
Interest rate gap	**17,550,234**	**778,764**	**(11,734,137)**	**12,551,837**	

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

As at 31 December 2022	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	Total US$
Financial assets					
Balances with Central Bank of Malta	28,328,917	-	-	-	28,328,917
Financial assets mandatorily measured at fair value through profit or loss	-	-	482,953	7,839,814	8,322,767
Financial assets measured at fair value through other comprehensive income	-	-	105,791	4,808,386	4,914,177
Financial assets measured at amortised cost	-	3,187,659	4,076,176	30,933,272	38,197,107
Loans and advances to banks	35,059,897	8,973,416	8,243,323	2,135,769	54,412,405
Loans and advances to customers	39,458,978	-	1,440,634	1,863,381	42,762,993
	102,847,792	12,161,075	14,348,877	47,580,622	176,938,366
Financial liabilities					
Amounts owed to customers	86,328,477	14,506,720	26,174,168	26,898,320	153,907,685
Amounts owed to banks	7,000,000	-	-	-	7,000,000
	93,328,477	14,506,720	26,174,168	26,898,320	160,907,685
Interest rate gap	9,519,315	(2,345,645)	(11,825,291)	20,682,302	

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk

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

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

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- financial assets measured at fair value through other comprehensive income;
- short term placements with other banks; and
- unencumbered high quality liquid assets that are readily acceptable for repurchase agreements with the Central Bank of Malta.

Liquidity is managed by the Bank's treasury function and the Bank's liquidity management process, includes:

- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met including plans for replenishment of funds as they mature;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

Moreover, sources of liquidity are regularly reviewed by the treasury function to maintain a wide diversification by provider, product and term. Monitoring takes the form of cash flow projections for the next day, week and month respectively, as these are key periods for liquidity management.

(i) Liquidity Coverage Ratio

Management monitors the Liquidity Coverage Ratio ('LCR') metric to gauge the short-term resilience of the Bank's liquidity profile. The LCR, a minimum regulatory standard, aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA'), which consist of cash or assets that can be converted into cash at little or no loss of value in the markets, to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. As at 31 December 2023 and 2022 and during the respective financial years, the LCR was within both the regulatory minimum and the risk appetite set by the Bank.

(ii) Net Stable Funding Ratio

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR. The Bank calculates NSFR in line with the provisions of the Capital Requirements Regulation. As at 31 December 2023 and 2022 and during the respective financial years, the NSFR was within both the regulatory minimum and the risk appetite set by the Bank.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

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

As at 31 December 2023	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	No maturity US$	Total US$
Financial assets						
Balances with Central Bank of Malta	16,278,897	-	-	-	439,112	16,718,009
Financial assets mandatorily measured at fair value through profit or loss	-	-	-	414,640	-	414,640
Financial assets measured at fair value through other comprehensive income	-	-	-	5,290,436	-	5,290,436
Financial assets measured at amortised cost	-	-	1,054,718	30,775,556	-	31,830,274
Loans and advances to Banks	22,289,069	8,861,770	7,928,687	-	-	39,079,526
Loans and advances to customers	11,745,374	10,663,283	7,823,620	4,827,115	-	35,059,392
Derivative financial instruments	121,082	1,660	-	-	-	122,742
Accrued income and other assets	248,279	146,144	413,664	2,163,023	-	2,971,110
	50,682,701	19,672,857	17,220,689	43,470,770	439,112	131,486,129
Financial liabilities						
Amounts owed to customers	49,341,120	8,083,006	20,717,542	26,103,911	-	104,245,579
Amounts owed to banks	5,000,000	-	-	-	-	5,000,000
Lease liabilities	35,366	35,247	67,404	-	-	138,017
Derivative financial instruments	-	-	-	-	-	-
Other liabilities	468,737	52,253	156,802	161,204	-	838,996
	54,845,223	8,170,506	20,941,748	26,265,115	-	110,222,592
Maturity gap	(4,162,522)	11,502,351	(3,721,059)	17,205,655		
Cumulative gap	(4,162,522)	7,339,829	3,618,770	20,824,425		

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

As at 31 December 2022	Within one month US$	Within Three months but over one month US$	Within one year but over three months US$	More than one year US$	No maturity US$	Total US$
Financial assets						
Balances with Central Bank of Malta	27,754,702	-	-	-	574,215	28,328,917
Financial assets mandatorily measured at fair value through profit or loss	-	-	482,953	7,839,814	-	8,322,767
Financial assets measured at fair value through other comprehensive income	-	-	105,791	4,808,386	-	4,914,177
Financial assets measured at amortised cost	-	3,187,659	4,076,176	30,933,272	-	38,197,107
Loans and advances to Banks	35,059,897	8,973,416	8,243,323	2,135,769	-	54,412,405
Loans and advances to customers	5,502,291	12,366,017	22,264,602	2,630,083	-	42,762,993
Derivative financial instruments	-	181,520	-	-	-	181,520
Accrued income and other assets	100,584	17,044	718,560	3,358,236	-	4,194,424
	68,417,474	24,725,656	35,891,405	51,705,560	574,215	181,314,310
Financial liabilities						
Amounts owed to customers	86,328,477	14,506,720	26,174,168	26,898,320	-	153,907,685
Amounts owed to banks	7,000,000	-	-	-	-	7,000,000
Lease liabilities	47,513	35,882	177,233	129,255	-	389,883
Derivative financial instruments	-	4,366	-	-	-	4,366
Other liabilities	287,253	97,326	169,589	139,076	-	693,244
	93,663,243	14,644,294	26,520,990	27,166,651	-	161,995,178
Maturity gap	(25,245,769)	10,081,362	9,370,415	24,538,909		
Cumulative gap	(25,245,769)	(15,164,407)	(5,793,992)	18,744,917		

As at 31 December 2023, call accounts payable on demand amounting to US$26,587,539 (2022: US$54,783,565) are disclosed within the 'Within one month' maturity grouping. However, in practice, these deposits are maintained with the Bank for longer periods than one month.

As at 31 December 2023, financial assets measured at fair value through other comprehensive income amounting to US$5,290,436 (2022: US$4,914,177) and as at 31 December 2022, financial assets measured at amortised cost amounting to US$5,283,895, which principally mature after more than one year, were available for immediate sale in case the need arises, including under stress.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

In addition, financial assets measured at amortised cost with a carrying amount of US$31,830,274 (2022: US$32,897,580) had been pledged in favour of the Central Bank of Malta for the purpose accessing the European Central Bank's open market operations. As at 31 December 2023, the Bank had drawn US$5,000,000 (2022: US$7,000,000) against these pledged assets. In this respect, the Bank has an additional US$21,976,704 (2022: US$17,870,724) against which it can access Central Bank liquidity if and when needed.

Although settled on a gross basis, the amounts attributable to derivative contracts have been included above on a net basis. Gross contractual undiscounted cashflows relating to derivative transactions are included below.

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

	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	Total US$	Carrying amount US$
As at 31 December 2023						
Amounts owed to customers	**49,347,200**	**8,117,487**	**21,034,400**	**27,610,777**	**106,109,864**	**104,245,579**
Amounts owed to banks	**5,003,106**	**-**	**-**	**-**	**5,003,106**	**5,000,000**
Lease liabilities	**35,366**	**35,247**	**67,404**	**-**	**138,017**	**138,017**
Other liabilities	**468,737**	**52,253**	**156,802**	**161,204**	**838,996**	**838,996**
	54,854,409	**8,204,987**	**21,258,606**	**27,771,981**	**112,089,983**	**110,222,592**
As at 31 December 2022						
Amounts owed to customers	86,365,166	14,539,210	26,243,824	27,037,397	154,185,597	153,907,685
Amounts owed to banks	7,000,000	-	-	-	7,000,000	7,000,000
Lease liabilities	47,513	35,882	177,233	129,255	389,883	389,883
Other liabilities	287,253	97,326	169,589	139,076	693,244	693,244
	93,699,932	14,672,418	26,590,646	27,305,728	162,268,724	161,990,812

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The Bank's currency derivatives are all settled on a gross basis. The following tables analyse the Bank's derivative financial instruments into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Contracted undiscounted cash flows		
	Within three months US$	**Over three months US$**	**Total US$**
At 31 December 2023			
Inflows	**21,835,685**	**555,926**	**22,391,610**
Outflows	**(21,702,026)**	**(557,586)**	**(22,259,611)**
	133,659	**(1,660)**	**131,999**
At 31 December 2022			
Inflows	2,433,205	961,200	3,394,405
Outflows	(2,274,927)	(952,808)	(3,227,735)
	158,278	8,392	166,670

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Bank's Board of Directors is primarily responsible for the development and implementation of policies and procedures to ensure that operational risks are managed effectively. The Bank mitigates the possibility of impact risk events through the implementation of a business continuity plan, which encompasses risk mitigation achieved through back-up information security infrastructures, back-up disaster recovery sites and insurance covers over particular business risks. Such systems enable the Bank to operate on an ongoing basis and limit losses in the event of severe business disruption.

2. Financial risk management - continued

2.2 Capital risk management

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

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

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

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

To ensure sound capital risk management, the Bank has in place an internal capital adequacy assessment process ('ICAAP'). The ICAAP is an assessment of the Bank's capital position, outlining both regulatory and internal capital resources and requirements resulting from the Bank's business model, strategy, risk profile and management, performance and planning, risks to capital, and the implications of stress testing. The Bank's assessment of capital adequacy is driven by an assessment of risks. These risks include credit, operational, foreign exchange and interest rate risk in the banking book. The Bank's ICAAP supports the determination of the capital risk appetite and target ratios, as well as enables the assessment and determination of capital requirements by regulators. The Bank prepares ICAAPs in line with guidance issued by the ECB, the EBA and the MFSA.

During the financial years ended 31 December 2023 and 2022, the Bank has met all external capital requirements at all times.

2.3 Fair value of financial instruments

Financial instruments measured at fair value

The following table analyses financial instruments that are measured in the statement of financial position at fair value, by level of the following fair value measurement hierarchy. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3). If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Bank does not hold any level 3 instruments.

2. Financial risk management - continued

2.3 Fair value of financial instruments – continued

	Level 1 US$	Level 2 US$	Total US$
As at 31 December 2023			
Assets			
Financial assets mandatorily measured at fair value through profit or loss:			
Debt securities	**414,640**	**-**	**414,640**
Financial assets measured at fair value through other comprehensive income:			
Debt securities	**5,290,436**	**-**	**5,290,436**
Financial assets held-for-trading:			
Derivative financial assets	**-**	**122,742**	**122,742**
Total financial assets at fair value	**5,705,076**	**122,742**	**5,827,818**
As at 31 December 2022			
Assets			
Financial assets mandatorily measured at fair value through profit or loss:			
Debt securities	8,322,767	-	8,322,767
Financial assets measured at fair value through other comprehensive income:			
Debt securities	4,914,177	-	4,914,177
Financial assets held-for-trading:			
Derivative financial assets	-	181,520	181,520
Total financial assets at fair value	13,236,944	181,520	13,418,464
Liabilities			
Financial assets held-for-trading:			
Derivative financial liabilities	-	4,366	4,366

There were no transfers between levels 1 and 2 during the year.

2. Financial risk management - continued

2.3 Fair value of financial instruments – continued

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price.

As at 31 December 2023 and 2022, instruments included in level 1 comprise primarily debt securities issued by the Government of Malta and listed on the Malta Stock Exchange as well as debt securities listed on other recognised investment exchanges.

(b) Financial instruments in Level 2

Fair values for the Bank's derivative contracts are determined utilising valuation techniques, involving primarily the use of discounted cash flow techniques. The fair values referred to are determined by reference to market prices or rates (forward foreign exchange rates) quoted at the end of the reporting period. The valuation techniques used are supported by observable market prices or rates since their variables include only data from observable markets. The Bank's derivative financial instruments are accordingly categorised as level 2 instruments.

Financial instruments not measured at fair value

As at 31 December 2023, financial assets measured at amortised cost include debt securities having a carrying amount of US$31,814,557 (2022: US$38,181,476). The fair value of these financial assets as at 31 December 2023 amounted to US$28,388,503 (2022: US$32,348,585). These estimates are considered level 1 fair value estimates.

Loans and advances to banks and customers and amounts owed to banks and customers are carried at amortised cost in the statement of financial position. The directors consider the carrying amounts of loans and advances to customers and banks to be a reasonable estimate of their fair value principally in view of the relatively short periods to repricing or maturity from the end of the reporting periods. The fair value of fixed interest deposits and amounts owed to banks, is not deemed to be significantly different from their carrying amounts, based on discounted cash flows at current market interest rates, particularly due to the relatively short periods to maturity.

3. Critical estimates and judgments

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

In the opinion of the directors, other than for estimates relating to expected credit losses in respect of the Bank's loans and advances to customers, the accounting estimates and judgments made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

Accordingly, the directors believe there are no areas involving a higher degree of judgement that would have a significant effect on the amounts recognised in the financial statements, and there are no key assumptions and other key sources of estimation uncertainty relating to estimates that require subjective or complex judgments, other than for estimates relating to expected credit losses in respect of the Bank's loans and advances to customers.

The measurement of the expected credit loss allowance for loans and advances to customers is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. In this respect, a number of significant judgements are made by management. Most notably, these include defining SICR and UTP criteria and determining whether a SICR or UTP event has occurred. Judgement is also required in choosing appropriate assumptions for the measurement of ECLs, both in the case of modelled ECLs for Stage 1 and Stage 2 exposures, as well as in the case of defaulted/Stage 3 loans, which depend on estimating borrower's cashflows.

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

The level of expert judgement required is currently exacerbated by the heightened level of estimation uncertainty around predictions in respect of forward-looking scenarios, particularly the impact of geopolitical developments brought about by the conflict in the Middle East and the continuing conflict between Russian and Ukraine, as well as the heightened inflation and interest rate risk environment.

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

4. Cash and balances with Central Bank of Malta

	2023 **US$**	2022 US$
Cash in hand	**2,462**	3,439
Other balances with Central Bank of Malta	**16,718,009**	28,328,917
Allowances for expected credit losses	**(852)**	(1,781)
	16,719,619	28,330,575

The average reserve deposit held with the Central Bank of Malta for the relevant maintenance period in terms of Regulation (EC) No. 1745 2003 of the European Central Bank amounted to $439,112 (2022: $574,215). As at 31 December 2023 and 2022, other balances with the Central Bank of Malta in euro were remunerated at the Eurosystem deposit facility rate which as at 31 December attracted an interest rate of 4% per annum.

5. Investment securities

	2023 US$	2022 US$
Financial assets mandatorily measured at fair value through profit or loss:		
Debt securities	**414,640**	8,322,767
Financial assets measured at fair value through other comprehensive income:		
Debt securities	**5,290,436**	4,914,177
Financial assets measured at amortised cost:		
Debt securities	**31,814,557**	38,181,476
	37,519,633	51,418,420

As at 31 December 2023, the Bank had pledged financial asset measured at amortised cost with a carrying amount of US$31,814,557 (2022: US$32,143,553) in favour of the Central Bank of Malta as security in respect of the Bank's participation in the European Central Bank's open market operations (Note 17).

The cash value of unutilised borrowing facilities (headroom) of the Bank as at 31 December 2023 which are secured by the investment securities referred to above amounted to US$21,976,704 (2022: US$17,870,724)

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

	2023 US$	2022 US$
Financial assets mandatorily measured at fair value through profit or loss:		
Foreign governments	**-**	104,467
Corporates and credit institutions	**414,640**	8,218,300
	414,640	8,322,767

5. **Investment securities** - continued

	2023 US$	2022 US$
Financial assets measured at fair value through other comprehensive income:		
Corporates and credit institutions	**5,290,436**	4,914,177
	5,290,436	4,914,177
Allowances for expected credit losses		
Corporates and credit institutions	**(3,352)**	(2,820)
	(3,352)	(2,820)

	2023 US$	2022 US$
Financial assets measured at amortised cost		
Local government	**31,830,274**	38,197,107
	31,830,274	38,197,107
Allowances for expected credit losses		
Local government	**(15,717)**	(15,631)
	(15,717)	(15,631)

5. Investment securities - continued

The movement in investment securities are summarised below:

	2023			
	Measured at fair value through profit or loss US$	**Measured at fair value through other comprehensive income US$**	**Measured at amortised cost US$**	**Total US$**
At 1 January	8,322,767	4,914,177	38,181,476	51,418,420
Acquisitions	10,000,000	-	15,307,179	25,307,179
Disposals/redemptions	(18,623,954)	(112,620)	(23,140,457)	(41,877,031)
Amortisation	-	(613)	(145,613)	(146,226)
Net fair value movements	715,827	283,876	-	999,703
Movements in ECL	-	-	(86)	(86)
Effect of FX movement	-	205,616	1,612,058	1,817,674
At 31 December	414,640	5,290,436	31,814,557	37,519,633

	2022			
	Measured at fair value through profit or loss US$	**Measured at fair value through other comprehensive income US$**	**Measured at amortised cost US$**	**Total US$**
At 1 January	28,107,163	22,039,339	20,734,324	70,880,826
Acquisitions	532,150	-	17,936,959	18,469,109
Disposals/redemptions	(16,360,706)	(15,579,407)	-	(31,940,113)
Amortisation	-	10,816	108,183	118,999
Net fair value movements	(3,955,840)	(825,844)	-	(4,781,684)
Movements in ECL	-	-	(8,039)	(8,039)
Effect of FX movement	-	(730,727)	(589,951)	(1,320,678)
At 31 December	8,322,767	4,914,177	38,181,476	51,418,420

6. Derivative financial instruments

The fair values of derivative financial instruments held at the end of each reporting period are set out in the following table:

	2023 **US$**	2022 US$
Derivative financial assets		
- currency swaps	**122,742**	181,520
Derivative financial liabilities		
- currency swaps	**-**	4,366

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

The derivative financial instruments held at 31 December 2023 for risk management purposes relate to the forward purchase of £2,750,000 (2022: £1,000,000), forward purchase of €5,770,000 (2022: €4,000,000) and forward sale of €8,164,917 (2022: nil) against US$ maturing within one year from the end of the reporting period at the average contractual rate of 1.2717 (2022: 1.2099), 1.0933 (2022: 1.0501) and 1.0938 (2022: nil) respectively.

In addition, the Bank transacted certain derivatives to create risk management solutions for clients. Derivative financial instruments held in this respect as at 31 December 2023 relate to a forward sale of €1,954,401 (2022: €1,622,498) and forward purchase of €4,359,003 against US$ at the average contractual rate of 1.0928 (2022: 1.0619) and 1.0942, respectively.

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

7. Loans and advances to banks

	2023 **US$**	2022 US$
Repayable on call and at short notice	**18,991,519**	28,639,908
Term loans and advances	**20,088,007**	25,772,497
Allowances for expected credit losses	**(78,384)**	(136,458)
	39,001,142	54,275,947

Loans and advances with a contractual maturity of three months or less included in the table above are included in cash and cash equivalents for the purposes of the statement of cash flows (Note 27). Term loans and advances to banks form part of the Bank's trade finance portfolio in their entirety.

8. Loans and advances to customers

	2023 US$	2022 US$
Gross term loans and advances to customers	**35,059,392**	42,762,993
Allowances for expected credit losses	**(3,010,600)**	(1,630,543)
Net term loans and advances to customers	**32,048,792**	41,132,450

	2023 US$	2022 US$
Credit loss allowances:		
Allowances booked under Stage 1	**435,825**	426,890
Allowances booked under Stage 2	**-**	165,779
Allowances booked under Stage 3	**2,574,775**	1,037,874
	3,010,600	1,630,543

The Bank enters into trade finance arrangements giving rise to lending and related facilities. In this respect, loans and advances to customers amounting to US$4,321,932 (2022: US$3,304,016) are subject to fixed interest rates ranging from 0% to 10% (2022: 0% to 4.5%) while US$30,737,460 (2022: US$39,458,977) are subject to variable interest rates ranging from 7.45% to 10.45% (2022: 5.50% to 11.13%).

The Bank holds various forms of collateral to secure its loans and advances, including guarantees, pledges in the form of a floating charge over inventories, the assignments of receivables, as well as bills of exchange.

9. Right-of-use assets and lease liabilities

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

Leases are recognised as a right-of-use ('ROU') asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. The right-of-use asset is recognised at an amount equal to the lease liability at the date at which the leased asset is made available for use and subsequently depreciated until the earlier of the end of the useful life of the ROU asset or the end of the lease term.

Right-of-use asset	**2023 US$**	2022 US$
At 1 January	**333,667**	627,356
Depreciation	**(239,145)**	(293,689)
At 31 December	**94,522**	333,667

9. Right-of-use assets and lease liabilities - continued

The lease liabilities were initially measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing, which represents the rate at which the Bank would have to pay to borrow funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The movement in lease liabilities is analysed below:

Lease liabilities	**2023 US$**	2022 US$
At 1 January	**389,883**	691,707
Interest expense on lease liability	**8,796**	11,239
Effect of foreign exchange movements	**(657)**	(56,432)
Lease payments	**(260,005)**	(256,631)
At 31 December	**138,017**	389,883

Lease liabilities are split into maturity groupings as follows:

	2023 US$	2022 US$
Current	**138,017**	260,628
Non-current	**-**	129,255
At 31 December	**138,017**	389,883

The income statement reflects the following amounts relating to leases:

	2023 US$	2022 US$
Depreciation charge of right-of-use assets	**239,145**	293,689
Interest expense	**8,796**	11,239

The total cash payments for leases in 2023 was US$260,005 (2022: US$256,631).

10. Property, plant and equipment

	Leasehold improvements US$	Furniture and fittings US$	Computer hardware US$	Office equipment US$	Total US$
At 1 January 2022					
Cost	73,043	217,789	382,138	61,309	734,279
Accumulated depreciation	(72,516)	(214,842)	(313,719)	(60,257)	(661,334)
Net book amount	527	2,947	68,419	1,052	72,945
Year ended 31 December 2022					
Opening net book amount	527	2,947	68,419	1,052	72,945
Additions	-	5,930	16,591	-	22,521
Depreciation charge	(527)	(2,700)	(30,716)	(714)	(34,657)
Closing net book amount	-	6,177	54,294	338	60,809
At 31 December 2022					
Cost	73,043	223,719	398,729	61,309	756,800
Accumulated depreciation	(73,043)	(217,542)	(344,435)	(60,971)	(695,991)
Net book amount	-	6,177	54,294	338	60,809
Year ended 31 December 2023					
Opening net book amount	-	6,177	54,294	338	60,809
Additions	-	2,289	161,501	-	163,790
Depreciation charge	-	(1,871)	(26,202)	(129)	(28,202)
Closing net book amount	**-**	**6,595**	**189,593**	**209**	**196,397**
At 31 December 2023					
Cost	73,043	226,008	560,230	61,309	920,590
Accumulated depreciation	(73,043)	(219,413)	(370,637)	(61,100)	(724,193)
Net book amount	**-**	**6,595**	**189,593**	**209**	**196,397**

11. Intangible assets

	Computer Software US$
At 1 January 2021	
Cost	3,319,511
Accumulated amortisation	(1,340,793)
Net book amount	**1,978,718**
Year ended 31 December 2022	
Opening net book amount	1,978,718
Additions	327,052
Amortisation charge	(274,754)
Closing net book amount	**2,031,016**
At 31 December 2022	
Cost	3,646,563
Accumulated amortisation	(1,615,547)
Net book amount	**2,031,016**
Year ended 31 December 2023	
Opening net book amount	2,031,016
Additions	98,098
Amortisation charge	(384,551)
Closing net book amount	**1,744,563**
At 31 December 2023	
Cost	3,744,661
Accumulated amortisation	(2,000,098)
Net book amount	**1,744,563**

12. Deferred tax assets

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred taxes are calculated on temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35%.

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

	2023 **US$**	2022 US$
At beginning of year	**1,886,723**	1,628,464
Recognised in profit or loss		
- Deferred taxes on temporary differences arising on depreciation of property, plant and equipment	**(673,717)**	48,262
- Deferred taxes on temporary differences arising on expected credit losses	**488,676**	9,911
- Derecognition of deferred tax asset in respect of unutilised tax losses	**-**	(58,173)
Recognised in other comprehensive income		
- Deferred taxes on fair valuation of financial assets measured at fair value through other comprehensive income		
Net changes in fair value	**(104,431)**	289,045
Amounts reclassified to profit or loss on disposal of financial assets measured at fair value through other comprehensive income	**-**	(30,786)
At end of year	**1,597,251**	1,886,723

12. Deferred tax assets - continued

The balance at 31 December represents temporary differences attributable to:

	2023	2022
	US$	US$
At 31 December		
Fair valuation of financial assets measured at fair value through other comprehensive income	**101,065**	205,496
Expected credit losses	**1,116,811**	628,135
Depreciation of property, plant and equipment	**(500,453)**	173,264
Unutilised tax losses	**879,828**	879,828
	1,597,251	1,886,723

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

Total unrecognised deferred tax assets on unutilised tax losses of US$2,979,682 (2022: US$2,979,682) carried forward amounted to US$1,042,889 (2022: US$1,042,889). The deferred tax assets have not been recognised in these financial statements due to the uncertainty of the realisation of the tax benefits. Whereas tax losses have no expiry date, unabsorbed capital allowances are forfeited upon cessation of the trade.

13. Accrued income and other assets

	2023	2022
	US$	US$
Receivable from immediate parent company	**2,163,023**	3,358,236
Allowances for expected credit losses	**(80,902)**	(10,345)
	2,082,121	3,347,891
Accrued interest income	**462,536**	550,797
Allowances for expected credit losses	**(1,082)**	(7,553)
	461,454	543,244
Amounts attributable to the Depositor Compensation Scheme	**345,551**	285,391
Prepayments	**416,120**	560,955
Indirect taxation	**81,894**	50,292
	3,387,140	4,787,773

14. Share capital

	2023 US$	2022 US$
Authorised		
99,999,999 Ordinary 'A' shares of US$1 each	**99,999,999**	99,999,999
1 Ordinary 'B' Share of US$1 each	**1**	1
	100,000,000	100,000,000
Issued and fully paid up		
26,499,999 Ordinary 'A' shares of US$1 each	**26,499,999**	26,499,999
1 Ordinary 'B' Share of US$1 each	**1**	1
	26,500,000	26,500,000

The Ordinary 'B' share, which is held by a director, does not carry any voting rights and is not entitled to receive dividends.

15. Fair value reserve

The fair value reserve reflects the effects of the fair value measurement of financial instruments classified as at fair value through other comprehensive income, net of deferred taxes. Any gains or losses are not recognised in profit or loss until the asset has been sold.

16. Amounts owed to customers

	2023 US$	2022 US$
Term and other deposits	**58,052,938**	63,590,992
Fiduciary deposits	**19,605,102**	35,533,128
Call accounts	**26,587,539**	54,783,565
	104,245,579	153,907,685

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

Balances consisting of cash collateral amounting to US$5,385,783 (2022: US$5,764,487) are included within 'Term and other deposits' in the table above.

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

17. Amounts owed to banks

	2023 US$	2022 US$
Term loans and advances	**5,000,000**	7,000,000

Term loans and advances relate to the Bank's participation in the European Central Bank's US Dollar operations. These liabilities are subject to fixed interest rates and are secured by a pledge over financial assets measured at amortised cost with carrying amounts as at 31 December 2023 and 2022 of US$31,814,557 and US$32,143,553 respectively (Note 5).

18. Other liabilities

	2023 US$	2022 US$
Accrued interest expense	**377,363**	284,758
Other payables and accrued expenses	**461,633**	408,488
	838,996	693,246

19. Contingent liabilities and commitments

Contingencies related to legal proceedings

As at 31 December 2023 the Bank had one (2022: one) legal proceeding, which has been outstanding against it since 2018, arising in its normal course of business for the amount of €133,138, equivalent to US$147,117 (2022: US$142,098). The Bank is vigorously contesting the claim on the basis of legal advice obtained. The directors do not expect the ultimate resolution of the proceedings referred to above to have a significantly adverse effect on the financial results and financial position of the Bank.

Other contingent liabilities

Other contingent liabilities relate to possible future contributions payable to the Depositor Compensation Scheme ('DCS'). The DCS provides compensation, up to certain limits, to eligible customers of credit institutions that are unable, or likely to be unable, to pay claims against them. The DCS may impose a further contribution on the bank to the extent that contributions imposed to date are not sufficient to cover compensation due to customers in any future possible collapse. The ultimate contribution to the industry as a result of a collapse cannot be estimated reliably. It is dependent on various uncertain factors, including the potential recovery of assets by the DCS, changes in the level of protected products (including deposits and investments) and the population of DCS members at the time. As at 31 December 2023, the DCS reserve amounts to $345,551. A contingent liability for an identical amount is disclosed as contingent liability to reflect the possibility that the commitment becomes payable.

Commitments and other contingencies

At the end of the reporting period, the Bank had issued and confirmed letters of credit amounting to US$3,487,427 (2022: US$10,267,805) and commitments not yet withdrawn amounting to US$9,664,988 (2022: US$8,669,831).

20. Interest income

	2023 US$	2022 US$
On loans and advances to customers	**5,316,976**	4,156,588
On investments mandatorily measured at fair value through profit or loss	**222,201**	1,127,756
On investments measured at fair value through other comprehensive income:		
- coupon interest	**154,841**	440,948
- net amortisation of premiums and discounts	**(613)**	(10,816)
On investments measured at amortised cost:		
- coupon interest	**350,621**	130,963
- net amortisation of premiums and discounts	**(145,613)**	(108,183)
On loans and advances to banks	**500,200**	169,196
On balances with Central Bank of Malta	**496,208**	59,238
	6,894,821	5,965,690

21. Interest expense

	2023 US$	2022 US$
On balances with Central Bank of Malta	**-**	3,346
On amounts owed to customers	**1,779,473**	1,389,608
On amounts owed to banks	**527,722**	280,433
On lease liabilities	**8,796**	11,239
	2,315,991	1,684,626

22. Fee and commission income and expense

(a) Fee and commission income

	2023 US$	2022 US$
Trade service-related fees	**895,981**	934,592
Transfer commissions	**436,396**	619,497
Account maintenance fees	**76,809**	38,249
Other fees	**3,950**	5,728
	1,413,136	1,598,066

(b) Fee and commission expense

	2023 US$	2022 US$
Correspondent bank charges	**192,171**	179,770
Portfolio management fees	**35,308**	112,075
Other fees	**48,314**	43,194
	275,793	335,039

23. Net trading income

	2023 US$	2022 US$
Foreign exchange differences	**66,132**	188,482
Net fair value losses on foreign exchange derivative contracts	**(95,848)**	(150,097)
Net gains/(losses) on financial assets mandatorily measured at fair value through profit or loss	**530,506**	(3,955,840)
	500,790	(3,917,455)

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

	2023 US$	2022 US$
Change in expected credit losses in profit or loss on:		
- Loans and advances to customers including accrued interest and other assets	**1,444,143**	(17,668)
- Balances with Central Bank of Malta	**(929)**	1,180
- Loans and advances to banks	**(58,074)**	46,063
Investments measured at fair value through other comprehensive Income	**532**	(9,297)
Investments measured at amortised cost	**86**	8,039
Amounts written off	**519,051**	-
Recoveries	**(64,020)**	-
	1,840,789	28,317

25. Administrative expenses

	2023 US$	2022 US$
Staff costs		
- Directors' remuneration	**487,790**	490,606
- Other staff salaries	**2,012,601**	1,716,967
- Social security costs	**100,107**	86,712
Directors' fees	**97,672**	95,874
Depreciation of right-of use asset and property, plant and equipment (Notes 9 and 10)	**267,347**	328,346
Amortisation of intangible assets (Note 11)	**384,551**	274,754
Legal and professional fees	**348,025**	278,590
Other administrative expenses	**990,357**	1,005,430
	4,688,450	4,277,279

25. Administrative expenses - continued

Other administrative expenses mainly comprise contributions to the Depositor Compensation Scheme, maintenance expenditure, marketing and other expense items which are incurred in the course of the Bank's operations.

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

	2023	2022
- Managerial	**4**	5
- Clerical	**30**	30
	34	35

Auditor's remuneration

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

	2023 US$	2022 US$
Annual statutory audit	**92,500**	90,000

Fees charged by affiliated entities for services rendered in relation to tax compliance and advisory services and other non-audit services amounted to US$5,550 (2022: US$2,100) and US$109,500 (2022: US$80,000), respectively.

26. Tax expense

	2023 US$	2022 US$
Deferred tax expense (Note 12)	**185,041**	-

26. Tax expense - continued

The tax on the Bank's loss differs from the theoretical amount that would arise using the effective tax rate applicable to the Bank as follows:

	2023 US$	2022 US$
Loss before tax	**(228,915)**	(2,766,920)
Tax on loss at 35%	**(80,120)**	(968,422)
Tax effect of:		
Disallowable expenses	**620,804**	5,445
Utilisation of capital allowances in respect of which no deferred tax was previously recognised	**(355,643)**	-
Derecognition of previously recognised deferred tax assets on unutilised tax losses	**-**	58,173
Unrecognised deferred tax assets on unutilised tax losses	**-**	904,804
	185,041	-

27. Cash and cash equivalents

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

	2023 US$	2022 US$
Cash in hand (Note 4)	**2,462**	3,439
Cash with Central Bank of Malta (Note 4)	**16,278,897**	27,754,702
Loans and advances to banks (Note 7)	**18,991,519**	40,915,015
	35,272,878	68,673,156

28. Related party transactions

IIG Malta Ltd is the Bank's immediate parent (refer to Note 29). This immediate parent is wholly owned by IIG Trade Opportunities Fund N.V. (refer to Note 29). All entities which were ultimately controlled by IIG Trade Opportunities Fund N.V. and managed by the Fund's Asset Manager, IIG Trade Finance LLC, were considered related parties.

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

As at 31 December 2023, the Bank had an outstanding receivable from its immediate parent company amounting to US$2,082,121 (2022: US$3,347,891) (refer to Note 13).

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 25.

29. Statutory information

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

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

IIG Bank (Malta) Ltd is ultimately owned by IIG Trade Opportunities Fund N.V., a fund registered in Curacao, the Kingdom of the Netherlands, with its registered office at ANT Management (Curacao) N.V., Kaya W.F.G. (Jombi) Mensing 36, Willemstad Curacao. On 3rd September 2019, IIG Trade Opportunities Fund N.V. was put into administration by the Curacao Courts, and control passed to a Trustee, Ms. Maria Valerie Petronila.

Additional Regulatory Disclosures
31 December 2023

1. Risk management

1.1 Overview of risk disclosures

The Additional Regulatory Disclosures ('ARDs') were prepared by the Bank in accordance with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule 07 ('BR/07'): Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority. These disclosures are based on the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive) and EU Regulation No. 575/2013 (Capital Requirements Regulation) of the European Parliament and of the Council of 26 June 2013. These ARDs are published on an annual basis as part of the Annual Report of the Bank and seek to increase public disclosure relative to a Bank's capital structure and adequacy as well as its risk management policies and practices.

In line with the banking regulatory requirements, these ARDs are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements which are prepared in accordance with the requirements of International Financial Reporting Standards ('IFRS') as adopted by the EU. Through internal verification procedures the Bank ensures that these disclosures are presented fairly.

1.2 Risk management framework

The Bank's business model throughout the years has been that of developing a stable deposit base and investing its funds principally in trade finance assets, with excess liquidity invested in a portfolio of select debt securities. The Bank is committed to creating lasting value for shareholders by focusing on customer-driven business and by employing specialised staff that work with clients to find solutions. In keeping with this mission, the Bank's strategy targets sustainable growth and a low risk profile. In this respect, the Bank's return on assets calculated as its net loss, expressed as a percentage of average total assets, for the reporting period ended 31 December 2023 is (0.17%).

The management team selects the Bank's customers and the projects it finances with prudence and caution. The Bank is especially conscious of the risks involved in trade finance transactions, not only as a result of its exposure to the arising credit risk involved but also to the operational risk intrinsic within the business. Therefore, it strives to minimise its exposure to operational risk by taking on transactions only when it knows how to manage the resulting risk. This culture is fostered across the entire Bank.

The Bank takes on risk with the aim of generating profits and therefore considers risk management a core competency that helps produce higher returns for its various stakeholders. The Bank bases its risk management objectives and policies on international guidelines, such as the Basel III Accord, corresponding Directives and Regulations of the European Union, including technical standards, as well as contemporary international banking practices. In this respect, the Board of Directors deems the risk management framework adopted by the Bank to be adequate and hence gives assurance to the Bank's stakeholders that the risk management systems adopted by the Bank are appropriate in relation to the Bank's risk profile and strategy.

1. Risk management - continued

1.2 Risk management framework - continued

The main categories of risk to which the Bank is exposed to are:

- Credit risk: Credit risk stems from the loss of equity and profit as a result of the possible non-prompt repayment or non-payment of existing and contingent obligations by the Bank's counterparties. Therefore, this represents the risk that the deterioration in the financial condition of a borrower will cause the asset value to decrease or be extinguished. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country in which the asset is originated. Settlement risk refers to the risk of losses through failure of the counterparty to settle outstanding dues on the settlement date owing to bankruptcy or other causes.

- Market risk: Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.

- Liquidity risk: Liquidity risk may be divided into two sub-categories:

  - Market (product) liquidity risk: risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.

  - Funding liquidity risk: risk of losses arising from a timing mismatch between investing, placements and fund raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

- Operational risk: Risk of damage resulting from the lack of skilful management or good governance within the Bank and the inadequacy of proper control, which might involve internal operations, personnel, system or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks.

The Bank aims to manage these risks by applying methods that meet best practice and considers it important to have a clear distribution of responsibilities for risk management across the Bank, from the Board of Directors, and the Audit Committee, which performs the functions of the Risk Committee, to executive management and internal audit.

The Board of Directors is ultimately responsible for the establishment and oversight of the Bank's risk management framework through the development and monitoring of compliance with the Bank's risk management policies. The aim of the risk management framework is to support the Bank in achieving its goals and objectives and ensure that the risks are commensurate with the rewards.

The Board establishes the risk appetite of the Bank which is the maximum risk that the Bank is willing to assume to meet business targets. The risk appetite is set in a process based on a thorough analysis of its current risk profile. The Bank identifies a number of key risk components and for each, determines a target that represents the Bank's perception of the component in question. The Bank's risk appetite is a key tool to ensure coherence between the Bank's strategic considerations regarding risk-taking and day-to-day decisions.

1. Risk management - continued

1.2 Risk management framework - continued

The Audit Committee is appointed to oversee the formulation of the Bank's overall risk management policy, to review risk measurement and monitoring mechanisms within the Bank and to monitor the effectiveness of the Bank's risk management practices, and thus is responsible for performing the roles of a Risk Committee. In the course of managing this framework the Audit Committee focuses on four key infrastructure components of effective risk management programmes with specific control activities:

- Active Executive Management oversight;
- Adequate detailed policies, procedures and discretionary limits;
- Adequate risk-measurement, monitoring and management information systems; and
- Comprehensive automated and manual internal controls.

The Audit Committee convened 4 times during the period under review.

Authority to operate the Bank is delegated to the Executive Team within the limits set by the Board. The Executive Team is made up of the Bank's Chief Officers, namely the Chief Finance Officer, the Chief Operations Officer, and the Chief Risk Officer, and is led by the Chief Executive Officer. It is responsible for the Bank's day-to-day operations and is involved in taking on risks in a targeted manner and managing them professionally. The Bank has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Bank's objectives.

The Executive Team aims to manage all major types of risk by applying methods that meet best practice. One of the main tasks of the Bank's Executive Team, and more specifically, the Head of Risk's task, is to set the framework for this area of entity wide risk management. The core functions of the Bank's risk management processes are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations.

The Bank's independent Internal Audit function reviews the adequacy and proper operation of internal controls in individual areas of operation, and performs ad-hoc reviews of risk management controls and procedures. The function and reports its findings to the Audit Committee.

2. Credit risk

2.1 Introduction to credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit exposures arise principally through the Bank's participation in trade financing transactions. The Bank's business activities during the financial period under review principally consisted of Bank's direct financing of international trade and discounting of receivables.

Credit risk constitutes the Bank's largest risk in view of its lending activities and therefore the Bank is fully aware of the connotations of such risk and places great importance on its effective management. The Bank's portfolio of loans and advances to customers is monitored on an ongoing basis and the relevant management bodies, including the Board of Directors and the Executive Committee, are kept informed on an ongoing basis of developments in the credit portfolio, non-performing loans and other relevant information.

2. Credit risk - continued

2.2 Credit risk management

The granting of a credit facility is based on the Bank's insight into the customer's financial position, which is reviewed regularly to assess whether the basis for the granting of credit has changed. Furthermore, the customer must be able to demonstrate, in all probability, the ability to repay the debt.

In order to measure its principal risk exposures, the Bank compiles due diligence reports and in most circumstances refers to external reviews of the primary borrowers and their respective assignees of export receivables carried out by agencies such as Dun and Bradstreet or their equivalents.

The Bank's Credit function is responsible for undertaking and managing credit risk with respect to the Bank's lending activities, which covers all the stages within the lending cycle, from credit proposal to credit recovery procedures. The Bank manages, limits and controls concentrations of credit risk arising from loans and advances wherever they are identified – in particular, to individual customers, to industry sectors and to geographical locations. Hence, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk in relation to one borrower, or groups of borrowers, to industry segments and to different countries. Such risks are monitored on an ongoing basis and subject to frequent review, as considered necessary. Limits on the level of credit risk by industry sector and country are approved by the Board of Directors. Limits to individual borrowers are approved by the Executive Committee and ratified by the Board. Actual exposures against limits are monitored at end of day on a daily basis and on a real time basis too. As highlighted previously, the Bank's reporting framework with respect to lending credit risk is comprehensive with regular reporting by the Credit function to the Board and the Executive Committee on adherence to limits, activity levels, performance measures and specific credit risk events.

In order to minimise the credit risk undertaken in examining a counterparty's creditworthiness, country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates are considered. The Bank has also set limits of authority and has segregation of duties in place so as to maintain impartiality and independence during the approval process and to control new and existing credit facilities. Credit review procedures are designed to identify at an early stage exposures which require more detailed monitoring and review. The Bank's principal credit risk exposures reflecting the maximum exposure to credit risk before collateral held or other credit enhancements in accordance with the regulatory information submitted to the MFSA are as follows:

	2023 Average value US$	**2023 Year end exposure value US$**
Central governments or central banks	55,438,279	48,636,249
Institutions	44,920,495	45,521,668
Corporates	44,154,762	31,160,762
Exposures in default	3,320,592	6,424,694
Items associated with high risk	4,242,009	10,399,756
Exposures in the form of units or shares in CIUs	5,199,871	-
Other items	4,115,188	3,342,998
	161,391,194	145,486,127

2. Credit risk - continued

2.2 Credit risk management - continued

The exposures set out in the preceding table are based on the sum of on-balance sheet exposures and off-balance sheet exposures adjusted for the credit conversion factors stipulated within Article 111(1) of the CRR.

Credit risk exposures analysed by residual maturity

As at 31 December 2023	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	No maturity US$	Total US$
Central governments or central banks	16,718,009	-	954,496	30,963,744	-	48,636,249
Institutions	23,342,828	8,861,770	7,928,687	5,388,384	-	45,521,668
Corporates	10,194,740	10,878,417	8,204,108	1,883,497	-	31,160,762
Exposures in default	-	-	-	6,424,694	-	6,424,694
Items associated with high risk	-	-	-	10,399,756	-	10,399,756
Other items	-	-	-	-	3,342,998	3,342,998
Total	**50,255,577**	**19,740,187**	**17,087,291**	**55,060,074**	**3,342,998**	**145,486,127**

2.3 Concentration risk

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

The Bank is exposed to a significant concentration of credit risk with respect to its loans and advances to customers since a significant proportion of the total loans and advances amounting to US$31,160,762 are due from a limited number of customers. As at 31 December 2023, loans and advances to customers amounting to US$26,081,589 were deemed to be large exposures for regulatory reporting purposes, prior to any eligible exemptions, in accordance with the requirements the CRR.

2. **Credit risk** - continued

2.3 Concentration risk - continued

Exposures analysed by location/geographical region

The Bank monitors concentrations of credit risk by location. The geographical concentration of the Bank's exposure classes as at the end of the reporting period is analysed in the following table. For the purposes of this table, the Bank has allocated exposures classes to regions based on the country of domicile of the counterparties or customers.

As at 31 December 2023	**Latin America US$**	**Malta US$**	**Other EU countries US$**	**Rest of world US$**	**Total US$**
Central governments or central banks	-	48,636,249	-	-	48,636,249
Institutions	-	4,129,050	292,737	41,099,881	45,521,668
Corporates	-	9,775,270	1,976,583	19,408,909	31,160,762
Exposures in default	1,544,054	-	-	4,880,640	6,424,694
Items Associated with High risk	-	10,399,756			10,399,756
Other items	-	3,342,998	-	-	3,342,998
Total	1,544,054	76,283,323	2,269,320	65,389,429	145,486,127

Exposures analysed by industry

The following is an analysis of the industry concentrations relating to the Bank's exposures:

	Central governments or central bank US$	**Multilateral developments banks & institutions US$**	**Corporates US$**	**Exposures in default US$**	**Covered bonds & Exposures in the form of units or shares in CIUs US$**	**Other items US$**	**Total US$**
Government	48,636,249	-	-	-	-	-	48,636,249
Financial services	-	45,521,668	-	-	-	-	45,521,668
Wholesale trade of commodity products	-	-	26,372,183	4,880,640			31,252,823
Manufacturing	-	-	3,094,688	1,544,054	-	-	4,638,742
Total	**48,636,249**	**45,521,668**	**29,466,871**	**6,424,694**	**-**	**-**	**130,049,483**

2. **Credit risk** - continued

2.3 Concentration risk - continued

Counterparty banks' risk

The Bank runs the risk of loss of funds due to the possible delay in the repayment of existing and future obligations by counterparty banks. Within its daily operations the Bank transacts with banks and other financial institutions which are pre-approved and subject to a limits framework. In the normal course of business, the Bank places deposits and enters into foreign exchange derivative contracts with high credit quality banks and financial institutions. By conducting these transactions the Bank is running the risk of losing funds due to the possible delays in the repayment to the Bank of the existing and future obligations of the counterparty banks. The positions are checked against the limits on a daily basis at end of day and on a real time basis.

Country risk

The Bank runs the risk of loss of funds due to the possible political, economic and other events in a particular country where funds have been placed or invested with several counterparties. Countries are assessed according to their size, economic data and prospects and their credit ratings from international rating agencies. Existing country credit risk exposures are monitored and reviewed periodically.

2.4 Use of External Credit Assessment Institutions

The Bank uses an External Credit Assessment Institution ('ECAI') in calculating its risk-weighted exposure amounts for Central governments or central banks, Public sector entities, Institutions and Corporates for which a credit assessment is available. The credit quality of such exposures is determined by reference to credit ratings applicable to issuers published by Fitch Ratings. The Bank maps Fitch's ratings to the credit quality steps prescribed in the CRR as required by *'Implementing Technical Standard on the credit quality steps for ECAIs credit assessments'.*

The following table represents the exposure values for which an ECAI is used:

At 31 December 2023	**Credit quality step**	**Central governments or central bank US$**	**Institutions & Corporates US$**	**Covered bonds US$**	**Total US$**
AAA to AA-	1	-	6.205.623	-	6,205,623
A+ to A-	2	48,636,249	33,958,472	-	82,594,721
BBB+ to BBB-	3	-	14,635,608	-	14,635,608
BB+ to BB-	4	-	5,831,097	-	5,831,097
B+ to B-	5	-	13,376,033	-	13,376,033
CCC+ and below	6	-	4,280,068	-	4,280,068
Total		48,636,249	78,286,902	-	126,923,151

2. Credit risk - continued

2.5 Credit quality of the Bank's financial assets

Loans and advances to customers

The credit function monitors loans and advances to customers on an individual basis throughout the different stages of the cycle, from approval upon origination until maturity. As highlighted previously, the Bank focuses on the compilation, together with ongoing and event-driven updating of due diligence analyses taking cognisance of actual account developments, repayment history, ability to meet commitments and collateral measurement. Loans and advances to customers are primarily secured via an assignment of export receivables of the borrower and through a cross-collateral in the form of a floating charge over assets.

With respect to loans and advances to customers, the Bank reviews and grades advances into two main categories: 'Performing' and 'Non-performing'. 'Performing' customers represent those customers with exposures which are less than 90 days past due, whilst 'Non-performing' customers are those customers with exposures which are past due by 90 days or more. The 'Performing' category is further sub-divided into three sub-categories, namely 'Regular', 'Watch' and 'Substandard', showing a worsening of the customer's financial status from 'Regular' (less than 30 days past due) to 'Substandard' (more than 60 days past due but less than 90 days past due). The Non-performing category is also referred to as the 'Doubtful' category.

Loans are considered past due when a counterparty has failed to make a payment when contractually due. Past due but not impaired loans comprise loans and advances where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Bank.

Impaired loans and advances to customers represent those advances which are either more than 90 days past due, or for which the Bank has determined that it is probable that it will be unable to collect all principal and interest due as prescribed within the contractual terms of the loans and advances agreement(s).

The credit quality of the Bank's loans and advances to customers (which are classified within the Corporates exposure class) is presented in the table below.

As at 31 December 2023	**US$**
Performing exposures	28,818,693
Impaired exposures	6,299,637
Total loans and advances to customers	**35,118,330**

The Bank's past due and impaired exposures are mainly concentrated in Latin America and Other EU countries, as shown in the geographical distribution presented in section 2.3 above. The following table provides a reconciliation of the Bank's specific credit risk adjustments.

	US$
At 1 January 2023	3,764,262
Increases during the period	1,438,996
Repayments during the year	(2,133,719)
At 31 December 2023	**3,069,539**

2. **Credit risk** - continued

2.5 Credit quality of the Bank's financial assets - continued

Financial investments

As part of its treasury management activities the Bank invests in debt securities issued by local government as well as a portfolio of debt securities issued by high quality foreign corporates and institutions. All such instruments are listed and accordingly the quality of these assets is monitored through the use of external ratings (see note 2.4 above). These transactions are also monitored through the practical use of exposure limits. At the end of the reporting period, the Bank had no past due or impaired financial assets within this category.

Liquidity in excess of operational requirements is also placed in a money market fund that mainly seeks to invest in term deposits with Prime European Banks and Malta Government Treasury bills.

2.6 Credit risk mitigation techniques

The Bank's approach when granting credit facilities is based on the customer's capacity to repay rather than placing primary reliance on credit risk mitigants. Notwithstanding, as part of the Bank's credit risk mitigation techniques, the Bank holds collateral against loans and advances to customers, the nature and level of which generally depends on the amount of the exposure, the type of facility provided, the term of the facility and the level of credit risk involved. Collateral utilised to secure loans and advances include guarantees, pledges in the form of a floating charge over inventories, the assignments of receivables, as well as bills of exchange.

At 31 December 2023	**Total exposure US$**	**Cash or quasi cash US$**	**Exposure value after credit risk mitigants US$**
;orporates	35,118,330	5,385,783	29,732,547

3. Counterparty credit risk

Counterparty credit risk refers to the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Bank is primarily exposed to counterparty credit risk through derivative exposures, which mainly relate to currency swaps.

Counterparty credit risk in respect of currency swaps is subject to approval from the Bank's Executive Committee, in its function as the ALCO. Entry into derivative exposures will be subject to prior implementation of appropriate settlement risk and risk management infrastructure pursuant to a signed ISDA agreement. Exposure to derivative counterparties and the related credit risk is mitigated through the use of netting and collateralisation agreements.

In order to determine the potential future exposure, the notional amounts or underlying values, as applicable, are multiplied by the percentages stipulated in Table 1 of Article 274(2)(c) of the CRR. Given that all of the Bank's derivative exposures relate to foreign exchange contracts with residual maturities of less than one year, the Bank applies a 1% rate on the notional amounts of the derivative exposures. In this respect, the Bank's risk weighted exposure as at 31 December 2023 amounted to US$122,742 requiring minimum regulatory capital of US$9,819.

4. Market risk

Market risk for the Bank consists of the following elements:

- Interest rate risk, which is the risk of losses because of changes in interest rates; and
- Foreign exchange risk, which is the risk of losses on the Bank's positions in foreign currency because of changes in exchange rates.

4.1 Interest rate risk

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

The Bank's exposure to interest rate risk is analysed in the table below:

	Floating rates US$	**Fixed rates US$**	**Total US$**
At 31 December 2023			
Financial assets	30,497,966	94,787,867	125,285,833
Financial liabilities	26,587,539	82,658,040	109,245,579
Net exposure	3,910,427	12,129,827	16,040,254

The Bank's Executive Team is responsible for the management of interest rate risk and for actively monitoring the interest rate risk measures used by the Bank, by reporting on a regular basis to the Board. Responsibility for day-to-day interest rate risk management is allocated to the Treasury function. The Bank's risk oversight function provides oversight with respect to the interest rate risk management process, by ensuring its design is appropriate and functioning properly.

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

The Bank's instruments that are fair valued comprise the Bank's investments in a money market fund which are mandatorily measured at fair value through profit or loss and debt securities measured at fair value through other comprehensive income. A significant proportion of the Bank's investments in debt securities are subject to fixed interest rates. The risk of losses arising from fair value interest rate risk in this respect is principally managed by investing in debt securities issued by the Government of Malta and in securities issued by high quality foreign corporates. The Bank manages this risk by utilising sensitivity analysis based on modified duration, which measures the potential loss in market value arising from a 100 basis-point upward parallel shift in yields. The estimated impact of an immediate 100 basis point increase in yields as at 31 December 2023 on the fair valuation of its investments carried at fair value (debt securities) amounts to US$4,146. These investments are denominated in Euro.

The Bank is exposed to cash flow interest rate risk principally in respect of certain financial instruments which were subject to floating interest rates. Financial assets and liabilities issued at variable rates expose the Bank to cash flow interest rate risk. Cashflow interest rate risk is measured and monitored by reference to a sensitivity analysis in respect of interest rate changes in relation to the Bank's net floating rate assets or liabilities.

4. Market risk - continued

4.1 Interest rate risk - continued

At the end of the reporting period, if interest rates had increased/decreased by 1% (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, in particular foreign currency rates, the post-tax result for the following one year, excluding changes in fair values would decrease/increase by US$84,604.

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

	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	Total US$
As at 31 December 2023					
Financial assets	**65,249,623**	**8,861,769**	**8,983,405**	**42,191,036**	**125,285,833**
Financial liabilities	**53,067,964**	**5,972,984**	**23,900,295**	**26,304,336**	**109,245,579**
Interest rate gap	**12,181,659**	**2,888,785**	**(14,916,890)**	**15,886,700**	
Cumulative gap	**12,181,659**	**15,070,444**	**153,554**	**16,040,254**	

4. Market risk - continued

4.2 Currency risk

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

The Bank funds its growth through the acceptance of deposits predominantly denominated in euro and through the credit operations (Refinancing Operations) of the Central Bank of Malta within the Eurosystem's credit operations framework.

The Bank manages its currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. When it is not possible to match the asset and liability currency positions, the Bank normally hedges its open foreign exchange exposures arising from customer deposits by entering into forward foreign exchange contracts or currency swaps with terms which match those of the hedged items, with a view to reducing exposures within a limit management framework.

The Bank's Treasury function is responsible for the effective management of foreign exchange risks, ensuring exposures to foreign currencies are maintained within the limits set by the Bank's Board. The Board sets these limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are actively monitored and reported on a regular basis. The Bank's risk oversight function provides oversight with respect to the foreign exchange risk management process, by ensuring its design is appropriate and functioning properly.

The following table summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

	US$	GBP US$	EUR US$	Total US$
As at 31 December 2023				
Financial assets	61,541,102	2,499,516	67,322,469	131,363,387
Financial liabilities	36,250,072	5,995,172	67,977,347	110,222,591
Net on balance sheet position	25,291,330	(3,495,656)	(654,878)	20,795,245
Off-balance sheet net notional Position		3,497,175	10,702	
Net currency exposure		1,519	(644,176)	

5. Liquidity risk

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

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

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- short term placements with other banks;
- investments in money market funds; and
- unencumbered Government bonds amounting to US$26,830,274 that are readily acceptable for repurchase agreements with central banks.

Liquidity is managed by the Bank's treasury function and the Bank's liquidity management process, includes:

- day to day funding managed by monitoring future cash flows to ensure that requirements can be met including plans for replenishment of funds as they mature;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring the liquidity ratios against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

Moreover, sources of liquidity are regularly reviewed by the treasury function to maintain a wide diversification by provider, product and term. Monitoring takes the form of cash flow projections for the next day, week and month respectively, as these are key periods for liquidity management.

In this light, reporting of measures of liquidity risk and liquidity ratios compared to prescribed internal limits to the Board and Executive Team is effected on a regular basis. The Bank's risk oversight function provides oversight with respect to the liquidity risk management process, by ensuring its design is appropriate and functioning properly.

5. **Liquidity risk** - continued

Analysis by residual maturity

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

	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	No maturity US$	Total US$
As at 31 December 2022						
Financial assets	65,249,623	8,861,769	8,983,405	42,191,036		125,285,833
Financial liabilities	53,067,964	5,972,984	23,900,295	26,304,336		109,245,579
Maturity gap	12,181,659	2,888,785	(14,916,890)	15,886,700		
Cumulative gap	12,181,659	15,070,444	153,554	16,040,254		

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

	Within one month US$	Within three months but over one month US$	Within one year but over three months US$	More than one year US$	Total US$	Carrying amount US$
As at 31 December 2022						
Financial liabilities	53,067,964	5,972,984	23,900,295	26,304,336	109,245,57	109,245,579

6. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Bank's Board of Directors is primarily responsible for the development and implementation of policies and procedures to ensure that operational risks are managed effectively. The Bank mitigates the possibility of impact risk events through the implementation of a business continuity plan, which encompasses risk mitigation achieved through back-up information security infrastructures, back-up disaster recovery sites and insurance covers over particular business risks. Such systems enable the Bank to operate on an ongoing basis and limit losses in the event of severe business disruption.

The Bank's management of operational risk relies on a framework of policies and procedures implemented across the Bank's operational functions through transaction processing and business execution. The implementation of these policies and procedures is overseen by the Bank's risk oversight function. Regular reporting of operational risk events to the Board of Directors is carried when required.

The Bank currently uses the Basic Indicator Approach to assess the operational risk capital requirements and accordingly allocates 15% of average gross income for a three-year period in accordance with regulatory requirements. The operational risk regulatory capital requirement as at December 2023 amounted to US$666,606.

7. Capital risk management

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

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

Capital adequacy and the use of regulatory capital are monitored on an ongoing basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, European Union Regulations and Directives, as implemented by the MFSA for supervisory purposes. The Bank's capital risk management is based on the regulatory requirements established within the CRR and by local regulations which are modelled on the requisites of the CRD rules.

The Bank's Executive team is primarily responsible for the Bank's capital risk management process. Capital adequacy ratios together with the level and quality of own funds are reported on a regular basis to the Board of Directors by the Finance function.

The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets ("Capital requirements ratio") above the prescribed minimum level of 8%.

7. Capital risk management - continued

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

7.1 Own funds

The level of Own funds represents the Bank's available capital and reserves for the purposes of assessing capital adequacy from a regulatory perspective. The total capital ratio is a measure of the long-term financial strength of a bank, usually expressed as a ratio of its own funds or capital to the measure of the Bank's assets. The Bank has processes to ensure that the minimum regulatory requirements in relation to own funds are met at all times, through the assessment of its capital resources and requirements. During the financial period ended 31 December 2023, the Bank has complied with all the externally imposed capital requirements to which it was subject.

In July 2013, the European Banking Authority ('EBA') issued its final draft Implementing Technical Standards ('ITS') on own funds disclosures. The disclosure requirements of these technical standards have been integrated within the Bank's disclosures set out below.

For regulatory purposes, the Bank's capital base is divided into Common Equity Tier 1 ('CET1') capital and Tier 2 capital. The Bank's CET1 capital includes ordinary share capital, retained earnings, reserve for general banking risks and other regulatory adjustments relating to items that are included in equity but treated differently for capital adequacy purposes, including deductions to amounts pledged in favour of the Depositor Compensation Scheme and any unrealised gains or losses in the fair valuation of available-for-sale financial assets, net of deferred taxation.

The Bank's Tier 2 capital consists of an investment revaluation reserve, which represents unrealised gains in the fair valuation of available-for-sale financial assets, net of deferred taxation.

(a) Share capital

The Bank's share capital as at 31 December is analysed as follows:

	2023	2022
	No. of shares	US$
Authorised		
99,999,999 Ordinary 'A' shares of US$1 each	99,999,999	99,999,999
1 Ordinary 'B' share of US$1 each	1	1
	100,000,000	100,000,000
Issued and fully paid up		
26,499,999 Ordinary 'A' shares of US$1 each	26,499,999	26,499,999
1 Ordinary 'B' share of US$1 each	1	1
	26,500,000	26,500,000

7. Capital risk management - continued

7.1 Own funds - continued

The holders of Ordinary 'A' shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

The Ordinary 'B' share, which is held by a director, does not carry any voting rights and is not entitled to receive dividends.

(b) Retained earnings

The retained earnings represent earnings not paid out as dividends.

Retained earnings form part of Own funds only if those profits have been verified by the Bank's independent external auditor. The Bank has demonstrated to the satisfaction of the competent authority that any foreseeable charge or dividend has been deducted from the amount of those profits.

(c) Fair value reserve

This represents the cumulative net change in fair values of available-for-sale assets held by the Bank, net of related deferred tax effects.

7. **Capital risk management** - continued

7.1 Own funds - continued

As described in the CRR published by the European Commission, banks are required to present a transitional disclosure template during the phasing in of regulatory adjustments from 1 January 2014 to 31 December 2021. The transitional disclosure template is set out below.

	As at 31 December 2022 US$
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	26,500,000
Retained earnings	(3,686,763)
Accumulated other comprehensive income (and other reserves)	(421,166)
CET1 capital before regulatory adjustments	22,392,071
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets and other deductions	(3,873,579)
Total regulatory adjustments to CET1	18,518,492
CET1 capital	18,518,492
Total risk weighted assets	**74,628,470**
Capital ratios	
CET1 capital	24.81%
Tier 1 capital	24.81%
Total capital	24.81%
Institution specific buffer requirement	3.86%
of which: capital conservation buffer	2.50%
of which: countercyclical buffer	0.36%
Common Equity Tier 1 available to meet buffers	**14.59%**

7. Capital risk management - continued

7.2 Capital requirements

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's long-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

As outlined previously, minimum capital requirements are calculated for credit, market and operational risks. The Bank utilises the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method for foreign exchange risk in order to calculate the Pillar 1 minimum capital requirements. As disclosed previously, for credit risk, under the standardised approach risk weights are determined according to credit ratings provided by internationally recognised credit agencies such as Fitch or their equivalents and by using the applicable regulatory risk weights for unrated exposures. Capital charge for foreign exchange risk using the Basic Method is calculated at 8% of the higher of the sum of all the net short positions and the sum of all the net long positions in each foreign currency. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income.

The total capital ratio is calculated using the definition of regulatory capital and risk-weighted assets. As required by the CRR, the minimum level of the Capital Requirements Ratio stands at 8%. The Capital Requirements Ratio expresses own funds as a proportion of risk weighted assets and off-balance sheet items, together with notional risk weighted assets in respect of operational risk and market risk. Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8%) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

The Bank will be fully implementing the CRD IV capital requirements with effect from January 2019. In this respect, Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act, 1994', will require additional buffers, namely the 'capital conservation buffer', the 'countercyclical buffer', 'other systemically important institutions (O-SII) buffer' and the 'systemic risk buffer'. Automatic restrictions on capital distributions apply if the local group's CET1 capital falls below the level of its CRD IV combined buffer.

The Bank will be required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on the risk weighted exposures of the Bank as from 1 January 2020. In May 2021, the MFSA established the Bank's Total SREP Capital Ratio ("TSCR") of 14.5%, and since then the Bank's CAR has remained at a healthy level above that floor, as indicated by the CAR as at 31 December 2023 which stood at 24.81%.

7. Capital risk management - continued

7.2 Capital requirements - continued

CRD IV contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0-2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located.

The O-SII buffer is also institution specific and may be set at a maximum of 2% of a systemically important institution's total risk exposure amount. Given the Bank's position as a non-core domestic bank, in terms of its systematic relevance to the financial system in Malta, it is unlikely that the Bank will be required to maintain an O-SII buffer.

In addition to the measures above, CRD IV sets out a 'systemic risk buffer' for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigating structural macroprudential risk. The 'systemic risk buffer' may range between 0% and 5%. There are currently no indications that the Bank will need to maintain a systemic risk buffer.

The tables below provide the geographical distribution of the Bank's credit exposure relevant to the calculation of the institution-specific countercyclical buffer rate and the amount of institution-specific countercyclical capital buffer.

	General credit exposures	Own funds requirement			
Country	**Exposure value for SA US$**	**of which: general credit exposures US$**	**Total US$**	**Own funds requirement weights %**	**Countercylical capital buffer rate %**
Switzerland	19,602,651	9,682,865	9,682,865	0.15	0
Malta	68,868,841	15,867,576	15,867,576	0.24	0
United Arab Emirates	18,892,366	17,437,476	17,437,476	0.26	0
United Kingdom	4,076,481	1,028,343	1,028,343	0.02	1
Germany	1,094,426	1,102,563	1,102,563	0.02	0.75
Singapore	3,146,057	3,083,347	3,083,347	0.05	0
Luxembourg	327,078	327,078	327,078	0.00	0.5
Brazil	1,549,614	2,091,980	2,091,980	0.03	0
British Virgin Islands	0	0	0	0.00	0
Nigeria	8,108,546	4,034,940	4,034,940	0.06	0
Turkey	6,390,858	5,210,726	5,210,726	0.08	0
Monaco	0	0	0	0.00	0
France	196,420	98,130	98,130	0.00	0
United States	6,760,956	1,696,413	1,696,413	0.03	0
Mauritania	0	0	0	0.00	0
Russia	0	0	0	0.00	0
Hong Kong	0	0	0	0.00	0
Norway	0	0	0	0.00	0
Sweden	0	0	0	0.00	0
Other	6,471,831	4,627,972	4,627,972	0.07	0
Total	**145,486,127**	**66,289,407**	**66,289,407**		

7. Capital risk management - continued

7.2 Capital requirements - continued

	2023
Total risk amount	US$18,657,222
Institution-specific countercyclical buffer rate	0.36%
Institution-specific countercyclical buffer requirement	US$67,166

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

At 31 December 2022	**Exposure value US$**	**Risk weighted assets US$**	**Capital required US$**
Central governments or central banks	48,636,249	-	-
Institutions	-	19,567,691	-
Corporates	45,521,668	27,952,860	1,565,415
Exposures in default	31,160,762	5,774,045	2,236,229
Items associated with high risk	6,424,694	9,654,276	461,924
Other items	10,399,756	3,340,536	772,342
Credit risk	**145,486,127**	**66,289,408**	**5,303,153**
Foreign exchange risk		6,480	518
Operational risk		8,332,582	666,607
Total capital required		**74,628,468**	**5,970,277**
Own funds			
Common Equity Tier 1 capital			18,518,492
Total own funds			18,518,492
Total capital ratio			**24.81%**

7. **Capital risk management** - continued

7.2 Capital requirements - continued

A comparison of the capital requirements and total capital ratio over the last 5 quarters is provided in the table below:

	Dec-23	Sep-23	Jun-23	Mar-23	Dec-22
Available own funds (amounts)					
Common Equity Tier 1 (CET1) capital	18,518,492	18,691,533	18,810,115	18,875,916	18,330,447
Tier 1 capital	18,518,492	18,691,533	18,810,115	18,875,916	18,330,447
Total capital	18,518,492	18,691,533	18,810,115	18,875,916	18,330,447
Risk-weighted exposure amounts					
Total risk-weighted exposure amount	74,628,469	81,801,931	88,650,906	97,563,224	97,070,400
Capital ratios (as a percentage of risk-weighted exposure amount)					
Common Equity Tier 1 ratio (%)	24.81%	22.85%	21.22%	19.35%	18.88%
Tier 1 ratio (%)	24.81%	22.85%	21.22%	19.35%	18.88%
Total capital ratio (%)	24.81%	22.85%	21.22%	19.35%	18.88%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
Additional CET1 SREP requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Additional AT1 SREP requirements (%)	0%	0%	0%	0%	0%
Additional T2 SREP requirements (%)	0%	0%	0%	0%	0%
Total SREP own funds requirements (%)	11.00%	11.00%	11.00%	11.00%	11.00%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0%	0%	0%	0%	0%
Institution specific countercyclical capital buffer (%)	0.09%	0.11%	0.15%	0.09%	0.09%
Systemic risk buffer (%)	0%	0%	0%	0%	0%
Global Systemically Important Institution buffer (%)	0%	0%	0%	0%	0%
Other Systemically Important Institution buffer	0%	0%	0%	0%	0%
Combined buffer requirement (%)	2.59%	2.61%	2.65%	2.59%	2.59%
Overall capital requirements (%)	13.59%	13.61%	13.65%	13.59%	13.59%
CET1 available after meeting the total SREP own funds requirements (%)	11.22%	9.24%	7.57%	5.76%	5.29%

7. Capital risk management - continued

7.2 Capital requirements - continued

	Dec-23	Sep-23	Jun-23	Mar-23	Dec-22
Leverage ratio					
Leverage ratio total exposure measure	143,920,911	158,227,701	191,658,721	183,553,251	219,053,761
Leverage ratio	12.87%	11.81%	9.81%	10.28%	8.37%
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)					
Additional CET1 leverage ratio requirements (%)	0%	0%	0%	0%	0%
Additional AT1 leverage ratio requirements (%)	0%	0%	0%	0%	0%
Additional T2 leverage ratio requirements (%)	0%	0%	0%	0%	0%
Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Applicable leverage buffer	9.87%	8.81%	6.81%	7.28%	5.37%
Overall leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Liquidity Coverage Ratio					
Total high-quality liquid assets (HQLA) (Weighted value - average)	38,703,611	41,164,868	33,338,126	43,061,421	58,609,896
Cash outflows - Total weighted value	12,765,187	13,294,550	18,430,169	15,926,339	23,132,206
Cash inflows - Total weighted value	39,567,177	32,251,122	47,292,037	30,677,136	25,948,142
Total net cash outflows (adjusted value)	3,191,296	3,323,638	4,607,542	3,981,584	5,783,051
Liquidity coverage ratio (%)	1013.48%	1238.55%	723.56%	1081.51%	1013.48%
Net Stable Funding Ratio					
Total available stable funding	90,106,916	90,959,630	102,410,475	121,062,180	136,060,064
Total required stable funding	32,036,548	34,372,919	42,839,148	40,276,657	51,585,286
NSFR ratio (%)	281%	265%	239%	301%	264%

7. **Capital risk management** - continued

7.2 Capital requirements - continued

The following table discloses the reconciliation of regulatory own funds to balance sheet in the audited financial statements:

	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**
	31 December 2023	**31 December 2022**
Assets - *Breakdown by asset clases according to the balance sheet in the published financial statements*		
Cash and balances with Central Bank of Malta	16,719,619	16,719,619
Investment securities	37,516,281	37,516,281
Derivative financial instruments	122,742	122,742
Loans and advances to banks	39,001,142	39,001,142
Loans and advances to customers	32,048,791	32,141,469
Property, plant and equipment	196,397	196,397
Intangible assets	1,744,563	0
Right-of-use assets	94,522	94,522
Deferred tax assets	1,783,465	0
Accrued income and other assets	3,387,139	3,041,582
Total assets	**132,614,661**	**128,833,754**
Liabilities - *Breakdown by liability clases according to the balance sheet in the published financial statements*		
Amounts owed to customers	104,245,579	104,245,579
Amounts owed to banks	5,000,000	5,000,000
Derivative financial instruments	0	0
Lease liabilities	138,017	138,017
Other liabilities	838,994	838,994
Total liabilities	**110,222,590**	**110,222,590**
Shareholders' Equity		
Share capital	26,500,000	26,500,000
Fair value reserve	(192,251)	(192,251)
Other reserve	300,149	300,149
Accumulated losses	(4,215,826)	(4,215,826)
Total shareholders' equity	**22,392,072**	**22,392,072**

7. Capital risk management - continued

7.3 Internal Capital Adequacy Assessment Process (ICAAP)

The Bank considers the Internal Capital Adequacy Assessment Process (ICAAP) embedded in Pillar II as a tool that ensures a proper measurement of material risks and capital and allows better capital management and an improvement in risk management. Therefore, it facilitates a better alignment between material risks and regulatory capital in order to have better capital deployment and improvements in the risk management and mitigation techniques adopted by the Bank. The ICAAP as required by the MFSA Banking Rule 12 is performed on an annual basis.

Therefore, ICAAP is a process that the Bank utilises to ensure that:

- there is adequate identification, measurement, aggregation and monitoring of the Bank's risks;
- adequate internal capital is held by the institution in relation to its risk profile; and
- the Bank uses sound risk management systems and there is the intention to develop them further.

The Board and the Bank's Executive Team take overall responsibility for the conceptual design and technical details of the ICAAP document. Apart from the responsibility for the conceptual design, the Board discusses, approves, endorses and delivers the yearly ICAAP submission. The Bank's independent risk oversight function is involved in the ICAAP with a view to ensuring that the process reflects and takes cognisance of the Bank's risk management activities and processes.

The ICAAP is a revolving management tool which starts with defining risk strategy, identifying, quantifying and aggregating risks, determining risk-bearing ability, allocating capital, establishing limits and leads to ongoing risk monitoring. The individual elements of the tool are performed with varying regularity. All the activities described in the circuit are examined at least once a year to ensure that they are up to date, adequate and also adjusted to current underlying conditions when necessary.

The process involves a quantitative assessment of individual types of risk and an assessment of the existing methods and systems for monitoring and managing risk (qualitative assessment). The risk assessment concept is used as a scoring procedure, thus providing a comprehensive overview of the risk profile of the Bank.

The basis for the quantitative implementation of the ICAAP is the risk bearing capacity calculation which demonstrates that adequate capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future. The Bank's ICAAP is based upon a "Pillar 1 Plus" approach whereby the Pillar 1 capital requirement for credit and operational requirements is supplemented by the capital allocation for other material risks not fully addressed within Pillar 1. The risks considered for ICAAP include concentration, liquidity, reputational and strategic risks, interest rate risk in the banking book, and risks arising from the macroeconomic environment.

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

The Bank covers the Pillar 2 capital requirements through stress testing processes to forecast the Bank's projected capital requirements and resources in a range of stress scenarios. This enables the Bank to guarantee that it can meet its minimum regulatory capital requirements in a stressed environment.

8. Remuneration policy

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

None of the directors, in their capacity as directors of the Bank, are entitled to profit sharing, share options, pension benefits or any other remuneration from the Bank. The Bank has two directors that are employees of the Bank. These two directors are part of the Bank's senior management and receive fixed remuneration in line with their position within the Bank which includes a fixed annual pension contribution and an annual bonus payable based on an assessment of one's overall performance during the previous financial year.

The Board of Directors considers that the packages offered to senior management ensure that the Bank attracts and retains management staff that is capable of fulfilling its duties and obligations. Furthermore, it is the Bank's policy to engage its senior management staff on the basis of indefinite contracts of employment after a period of probation, rather than on fixed term contracts. Accordingly, the applicable notice periods, after probation, are those provided for in the relevant legislation.

Share options and profit sharing do not feature in the Bank's processes and the individual contracts of employment of employees within the Bank do not contain provisions for termination payments and/or other payments linked to early termination other than as determined by Law. Currently no pension benefits are payable by the Bank.

As required in terms of article 451 of the CRR, individuals have been identified as Material Risk Takers ('MRTs') based on qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014 that came into force in June 2014. In addition to the Non-Executive Directors, the Bank's MRTs consist of six senior management staff members including two Executive Directors.

Senior management staff members, consisting of five officials and including executive directors, are eligible for annual salary increases but such increases are not directly related to the financial performance of the Bank. An annual bonus is payable based on an assessment of one's overall performance during the previous financial year. Bonus payments do not exceed 100% of the fixed component of the total remuneration for each individual.

8. **Remuneration policy** - continued

Total emoluments received by senior management, including Executive Directors, during the period under review are as detailed below:

		MB Supervisory function	MB Management function	Other senior management
	Number of identified staff	2	2	3
Fixed remuneration	Cash based	US$ 97,622	US$ 530,425	US$ 362,473
Variable remuneration	Cash based	-	-	-
Variable remuneration	Share-linked instruments or equivalent non-cash instruments	-	US$ 45,524	-
Total Remuneration		**US$ 97,622**	**US$ 575,949**	**US$ 362,473**

Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years
MB Supervisory function			
Share-linked instruments or equivalent non-cash instruments	-	-	-
MB Management function			
Share-linked instruments or equivalent non-cash instruments	US$ 45,524	US$ 45,524	-
Other senior management			
Share-linked instruments or equivalent non-cash instruments	-	-	-

9. Leverage

The leverage ratio is a regulatory and supervisory tool intended to provide a transparent and non-risk-based measurement of an institution to supplement the risk-based capital requirements. This tool has been introduced to deter any possible build-up of excessive leverage, a main factor during the banking crisis in 2008. The leverage ratio measures the relationship between the Bank's capital resources and its total assets.

The leverage ratio is calculated on a three-month average of capital as a proportion of total exposures. Capital is defined as Tier 1 capital in line with Article 25 of the CRR, whilst total exposure relates to the total on and off-balance sheet exposures less the deductions applied to Tier 1 capital. The Bank does not apply transitional provisions when determining its Tier 1 capital in respect of the leverage ratio calculation, as described in Article 499(1) and 499(2) of the CRR.

During 2016, the European Commission published a Proposal to amend Regulation 575/2013 (CRR), which included the introduction of a 3% leverage ratio as a binding Pillar I requirement. Although this Proposal is still in draft and further discussions are expected, the Bank complies with the 3% leverage ratio based on fully-transitioned Basel III standards.

The following is the Bank's estimated leverage ratio, determined in accordance with the requirements stipulated by implementing regulation EU 2016/200.

	2023 **US$**
Tier 1 capital	18,518,492
Total exposure measure for the purposes of the leverage ratio	143,920,911
Leverage ratio	**12.87%**

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

	2023 **US$**
On-balance sheet exposures (excluding derivatives)	
On-balance sheet items (excluding derivatives)	142,783,801
Asset amounts deducted in determining Tier 1 capital	(4,280,305)
On-balance sheet exposures (excluding derivatives and SFTs)	138,503,496
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	13,152,415
Adjustments for conversion to credit equivalent amounts	(7,735,000)
Off-balance sheet exposures	**5,417,415**

9. Leverage - continued

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

	2023 US$
Total assets as per published financial statements	132,614,661
Adjustment for off-balance sheet items	5,417,415
Other adjustments	
Deduction for intangible assets	(3,528,028)
Adjustment for Depositor Compensation Scheme	(345,551)
Leverage ratio exposure	**134,158,497**

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

	2023 US$
Total on-balance sheet exposures (excluding derivatives and intangible assets), of which:	**132,067,312**
Covered bonds	-
Exposures treated as sovereigns	48,622,488
Exposures to Multilateral developments banks	-
Institutions	45,440,177
Corporate	30,812,286
Exposures in default	3,849,363
Other exposures	3,342,998

10. Asset encumbrance

The disclosure on asset encumbrance is a requirement introduced in Banking Rule 07 transposing the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing facility, and as a result is no longer available to the Bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

10. **Asset encumbrance** - continued

In accordance with the EBA 'Guidelines on disclosure of encumbered and unencumbered assets', the amounts disclosed in the table below represent median values, being the rolling quarterly amounts over the previous 12 months.

Encumbered and unencumbered assets

	Carrying amount of encumbered assets 2022 US$	Fair value of Encumbered assets 2022 US$	Carrying amount of unencumbered assets 2022 US$	Fair value of unencumbered assets 2022 US$
Assets of the reporting institution	10,517,517	-	122,229,000	-
Loans on demand	10,517,517	-	14,189,252	-
Investments in money market funds	-	-	-	-
Debt securities	-	-	37,645,243	-
Loans and advances other than loans on demand	-	-	63,520,763	-
Other assets	-	-	9,442,423	-

The encumbered assets consist of:

- pledged cash balances and securities in support of the Bank's OTC derivative transactions with counterparties; and
- units held by the Bank in a money market fund pledged as collateral in favour of another credit institution for the purpose of establishing a credit line.

The unencumbered assets disclosed in the preceding table under 'Other assets' include cash and short term funds, loans and advances to customers, property, plant and equipment, tax assets and other assets.

The Bank continues to recognise these encumbered assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the encumbered assets being derecognised for accounting purposes.

The Bank does not encumber any of the collateral received.

	Matching liabilities, contingent liabilities or securities lent 2022 US$	Assets and collateral received 2023 US$
Carrying amount of selected financial liabilities	-	5,385,783

11. Other directorships

According to the 'Guide to banking supervision' issued by the European Central Bank in November 2014, a credit institution will be considered significant if any one of the following conditions is met:

- the total value of its assets exceeds €30 billion or – unless the total value of its assets is below €5 billion – exceeds 20% of national GDP;
- it is one of the three most significant credit institutions established in a Member State;
- it is a recipient of direct assistance from the European Stability Mechanism; or
- the total value of its assets exceeds €5 billion and the ratio of its cross-border assets/liabilities in more than one other participating Member State to its total assets/liabilities is above 20%.

IIG Bank (Malta) Ltd does not meet any of the above criteria, and therefore is currently not considered significant by banking supervisors. Accordingly, the Bank is exempt from the requirements of article 91 of CRD IV.

The number of other directorships held by the members of the Bank's Board of Directors are listed in the table below:

Director	**Position**	**Number of other directorships held**
Raymond Busuttil	Executive Director	6
James Douglas Nelson	Non-Executive Director	-
Joseph Grioli	Non-Executive Director	14
Karl Vella	Executive Director	-

For the purpose of the above disclosure, the number of other directorships held within the same group are counted as a single directorship.

12. Recruitment and diversity policy

The Bank is aware that a vigorous and professional approach to recruitment and selection of prospective members of the Board of Directors and management or other employees within the Bank helps it to attract and appoint those individuals having the necessary skills and attributes compatible with achieving the Bank's overall objectives. Thus, the Bank ensures that appointments at all levels made within the Bank are based on each individual's knowledge, skills, expertise and merit, as required by Maltese legislation and in line with policy.

The Bank undertakes a rigorous selection process for all prospective members of the Board and management together with other employees, bearing in mind the key activities, tasks and skills required for the vacant position. As part of the selection process, multiple interviews are conducted, during which the individual's knowledge, experience, skills and competency are evaluated against those of other individuals.

12. Recruitment and diversity policy - continued

Bearing its objectives in mind, the Bank endeavours to appoint directors with diverse skills and expertise that allow the Board to create value for shareholders by ensuring that the specific risks pursued by the Bank in trade finance as well as risks that are intrinsic to banking business in general are appropriately managed and mitigated within the Board's approach. The Bank will continue to promote this diversity by recruiting the ideal individual for the vacant position, regardless of the individual's gender, race, family, disability, sexual orientation, identity or preference.

Five Year Summary

Statement of financial position

	2023	2022	2021	2020	2019
	US$	US$	US$	US$	US$
ASSETS					
Cash and balances with Central Bank of Malta	**16,719,619**	28,330,575	13,539,932	12,018,099	14,321,696
Investment securities	**37,519,633**	51,418,420	70,880,826	54,327,792	30,881,337
Derivative financial instruments	**122,742**	181,520	813	988,202	524,750
Loans and advances to banks	**39,001,142**	54,275,947	37,863,330	50,860,329	42,618,607
Loans and advances to customers	**32,048,792**	41,132,450	60,996,460	63,946,717	50,018,094
Property, plant and equipment	**196,397**	60,809	72,945	112,533	166,914
Intangible assets	**1,744,563**	2,031,016	1,978,718	2,157,479	2,384,516
Right-of-use asset	**94,522**	333,667	627,356	1,012,041	1,265,943
Deferred tax assets	**1,597,251**	1,886,723	1,628,464	1,760,867	1,567,777
Accrued income and other assets	**3,387,140**	4,787,773	5,103,391	5,097,767	5,226,882
Total assets	**132,431,801**	184,438,900	192,692,235	192,281,826	148,976,516
EQUITY AND LIABILITIES					
Equity					
Share capital	**26,500,000**	26,500,000	26,500,000	26,500,000	26,500,000
Fair value reserve	**(190,072)**	(369,517)	110,108	285,885	(96,317)
Other reserve	**-**	300,149	300,149	300,149	300,149
(Accumulated losses)/Retained earnings	**(4,100,719)**	(3,986,912)	(1,219,992)	(1,625,307)	(906,788)
Total equity	**22,209,209**	22,443,720	25,690,265	25,460,727	25,797,044
Liabilities					
Amounts owed to customers	**104,245,579**	153,907,685	148,387,154	153,839,193	121,075,192
Amounts owed to banks	**5,000,000**	7,000,000	17,000,000	11,000,000	-
Derivative financial instruments	**-**	4,366	95,599	140,339	33,798
Current tax liabilities	**-**	-	-	-	-
Deferred tax liabilities	**-**	-	-	-	-
Lease liabilities	**138,017**	389,883	1,083,840	1,083,840	1,315,195
Other liabilities	**838,996**	693,246	757,727	757,727	755,287
Total liabilities	**110,222,592**	161,995,180	167,001,970	166,821,099	123,179,472
Total equity and liabilities	**132,431,801**	184,438,900	192,692,235	192,281,826	148,976,516
MEMORANDUM ITEMS					
Commitments	**13,152,415**	18,937,636	13,512,490	13,638,823	8,669,653

Five Year Summary

Statement of comprehensive income

	2023 US$	2022 US$	2021 US$	2020 US$	2019 US$
Interest and similar income	**6,894,821**	5,965,690	6,057,787	5,404,272	7,682,814
Interest and similar expense	**(2,315,991)**	(1,684,626)	(1,930,185)	(1,786,199)	(1,994,608)
Net interest income	**4,578,430**	4,281,064	4,127,602	3,618,073	5,688,206
Fee and commission income	**1,413,136**	1,598,066	1,963,166	1,105,551	1,514,886
Fee and commission expense	**(275,793)**	(335,039)	(743,943)	(726,311)	(307,883)
Net fee and commission income	**1,137,343**	1,263,027	1,219,223	379,240	1,207,003
Net trading income	**500,790**	(3,917,455)	171,788	(442,184)	106,967
Net gains/(losses) on disposal of financial assets measured at fair value through other comprehensive income/available-for-sale financial assets	**-**	(87,960)	7,971	101,398	156,713
Other Income	**83,361**	-	-	-	-
Operating income	**6,300,324**	1,538,676	5,526,584	3,656,527	7,158,889
Net reversal of loan impairment charges	**-**	-	-	-	-
Change in expected credit losses and other credit Impairment charges	**(1,840,789)**	(28,317)	(293,652)	(597,162)	(660,578)
Administrative expenses	**(4,688,450)**	(4,277,279)	(4,594,039)	(4,176,775)	(4,701,209)
(Loss)/profit before tax	**(228,915)**	(2,766,920)	638,893	(1,117,410)	1,797,102
Tax income/(expense)	**(185,041)**	-	(233,578)	398,891	(632,747)
(Loss)/profit for the period	**(413,956)**	(2,766,920)	405,315	(718,519)	1,164,355
Other comprehensive income:					
Items that may be subsequently reclassified to profit or loss					
Fair valuation of available-for-sale financial assets:					
Net changes in fair value arising during the period, before tax	**283,876**	(825,844)	(271,780)	689,400	265,192
Reclassification adjustments – net amounts reclassified to profit or loss upon disposal, before tax		87,960	(7,971)	(101,397)	(156,713)
Income tax relating to components of other comprehensive income	**(104,431)**	258,259	103,974	(205,801)	(37,968)
Other comprehensive income/(loss) for the period, net of tax	**179,445**	(479,625)	(175,777)	382,202	70,511
Total comprehensive (loss)/income for the period	**(234,511)**	(3,246,545)	229,538	(336,317)	1,234,866

Five Year Summary
Statement of cash flows

	2023	2022	2021	2020	2019
	US$	US$	US$	US$	US$
Operating activities					
Interest and commission income received	**8,542,444**	7,525,149	6,190,130	6,617,172	9,194,434
Interest and commission expense paid	**(2,490,383)**	(2,115,649)	(2,595,820)	(2,490,351)	(2,350,719)
Net income from foreign exchange transactions	**(1,782,979)**	1,030,691	1,129,065	2,822,532	1,267,445
Tax paid	**-**	-	-	-	(861,074)
Cash payments to employees and suppliers	**(4,128,242)**	(3,773,300)	(3,803,043)	(3,459,886)	(4,333,774)
Cash flows generated from/(used in) operating activities before changes in operating assets and liabilities	**140,840**	2,666,891	920,332	3,489,467	2,916,312
Changes in operating assets and liabilities:					
Net (increase)/decrease in balances with Central Bank of Malta	**135,103**	204,160	313,223	(246,800)	209,896
Net (Increase)/decrease in financial assets measured at amortised cost			1,335,621	-	-
Net (increase)/decrease in loans and advances to banks	**(6,590,617)**	(3,734,390)	4,105,024	(9,317,573)	2,057,010
Net decrease/(increase) in amounts attributable to DCS	**1,279,973**	314,487	(25,724)	73,051	152,098
Net (increase)/decrease in loans and advances to customers	**7,248,570**	19,883,794	(634,051)	(9,945,088)	34,633,860
Net increase/(decrease) in amounts owed to customers	**(49,662,106)**	5,520,531	4,593,204	23,214,013	(24,653,676)
Net increase/(decrease) in amounts owed to banks	**(2,000,000)**	(10,000,000)	6,000,000	11,000,000	(6,000,079)
Net cash generated from/(used in) operating activities	**(49,448,237)**	14,855,473	16,607,629	18,267,070	9,315,421
Investing activities					
Purchase of financial assets measured at fair value through other comprehensive income / available-for-sale financial assets	**-**	-	(4,720,270)	(22,834,682)	(4,665,219)
Purchase of financial assets mandatorily measured at fair value through profit or loss	**(10,000,000)**	(532,150)	(18,601,087)	(8,479,561)	(11,429,782)
Purchase of financial assets designated as at fair value through profit or loss	**-**	-	-	N/A	N/A
Purchase of financial assets measured at amortised cost	**(15,307,179))**	(17,936,959)	(22,077,537)		
Proceeds from disposal and redemptions of financial assets measured at fair value through other comprehensive income/available-for-sale financial asset	**112,620**	15,579,407	6,743,950	3,014,465	9,390,803
Proceeds from disposal and redemptions of financial assets mandatorily measured at fair value through profit or loss	**18,623,954**	16,360,706	14,079,564	7,030,652	15,912,382
Proceeds from redemption of financial assets measured at amortised cost	**23,140,457**	-	-	-	-
Purchase of property, plant and equipment	**(163,790)**	(22,521)	(16,128)	(9,516)	(17,407)
Purchase of intangible assets	**(98,098)**	(327,052)	(134,393)	(66,578)	(272,685)
Net cash (used in)/generated from investing activities	**16,307,964**	13,121,431	(24,725,901)	(21,345,220)	8,918,092
Financing activities					
Issue of ordinary share capital	**-**	-	-	-	-
Dividends paid to equity holders	**-**	-	-	-	-
Principal element of lease payment	**(260,005)**	(256,631)	(408,634)	(328,456)	(281,176)
Net cash (used in)/generated from financing activities	**(260,005)**	(256,631)	(408,634)	(328,456)	(281,176)
Net movement in cash and cash equivalents	**(33,400,278)**	27,720,273	(8,526,906)	(3,406,606)	17,952,337
Cash and cash equivalents at beginning of year	**68,673,156**	40,952,883	49,479,789	52,886,395	34,934,058
Cash and cash equivalents at end of year	**35,272,878**	68,673,156	40,952,883	49,479,789	52,886,395