

Annual Report &
Financial Statements
2015



izola Bank



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Annual Report
& Financial Statements
2015

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Chairperson's Statement

For the Year Ended 31 December 2015

I am pleased to present the Bank results for the year ended 31 December 2015.

Review of performance

During the year ended 31 December 2015, the Bank generated a profit before tax of €3,583,042 up 2% on 2014. Profit after tax was €2,386,020, an increase of 4% over the previous year.

Net interest income increased by 19% whilst net fee and commission income registered a 2% increase compared to the previous year.

Personnel expenses and other administrative expenses increased by 26% in the year under review. The Bank's Cost-to-Income ratio stood at a healthy 32.8% (2014: 30.3%).

Review of financial position

Total assets increased by 15.5% to €171,399,711 whereas total liabilities rose from €123,430,226 to €143,719,747 – an increase of 16.4%. Shareholders' equity amounted to €27,679,964 compared with €24,940,443 of a year earlier.

As at 31 December 2015, the Capital Adequacy Ratio of 40% and Liquidity Ratio of 117% were both well above the European and US banking sector norms.

Additional impairment allowances taken in 2015 stood at €481,736 when compared to €61,860 taken a year ago. This is a result of a more stringent provisioning approach whereby non performing exposures are fully provided for. The current credit approval and monitoring structures have helped to ensure very good credit quality of factoring debtors and minimised losses. In fact, out of a total amount of €136,671,914 of net invoices factored in 2015, the Bank has only incurred bad debts of €108,945 during the year.

Looking ahead

The Bank is committed to seek further growth in its factoring operations in 2016.

Conclusion

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



Mrs. Magdalena De Roeck
Chairperson
Izola Bank p.l.c.

23 March 2016

The directors present their report together with the financial statements of Izola Bank p.l.c. ("the Bank") for the year ended 31 December 2015.

Board of directors

Mrs. Magdalena De Roeck (Chairperson)
Ms. Caroline Van Marcke
Mr. Joseph C. Caruana (i)
Mr. Francis Gouder (i) (Appointed 4 May 2015)
Mr. Charles Hertogs (i)
Mr. Guido Mizzi (i)
Mr. Patrick H. Van Leynseele (i)

(i) independent directors

Company secretary

Mr. Calvin Bartolo

Results for the year

The Bank reported a profit after tax of €2,386,020 for the year under review. Further information on the results is provided in the Chairperson's Statement which immediately precedes this Directors' Report.

Principal activities

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

Review of financial performance and future developments

A review of the Bank's financial performance for the year ended 31 December 2015 and a summary of likely future developments are given in the Chairperson's Statement which immediately precedes this Directors' Report.

Events occurring after reporting date

No events to report.

Directors' Report

For the Year Ended 31 December 2015

Dividends and reserves

The directors have proposed a final dividend of €2,000,000 in respect of 2015, representing a dividend per share of €5.00.

Going concern

As required by Listing Rule 5.62, upon due consideration of the Bank's profitability, financial position, capital adequacy and solvency, the directors confirm the Bank's ability to continue operating as a going concern.

Auditors

KPMG have expressed their willingness to continue in office. A resolution proposing the re-appointment of KPMG as auditors of the Bank will be submitted at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 23 March 2016 and signed on its behalf by:



Mrs. Magdalena De Roeck
Director



Mr. Guido Mizzi
Director

Registered Address

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

Statement by the Directors

on the Financial Statements included in the Annual Report

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

Signed on behalf of the Board of Directors on 23 March 2016 by:



Mrs. Magdalena De Roeck
Director



Mr. Guido Mizzi
Director

Directors' Statement of Compliance

with the Code of Principles of Good Corporate Governance

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

Introduction

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

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

PART ONE - Compliance with the Code

Principle 1: The Board

The Bank is headed by an effective Board and all directors exercise prudent controls which enable risk to be assessed and managed. All directors are responsible for determining the Bank's strategic aims and its organisational structure. The directors regularly review management performance and ensure that the Bank has the appropriate mix of financial and human resources to meet its objectives. Every director is conversant with the statutory and regulatory requirements connected to the business of the Bank and regularly attends meetings of the Board.

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

Principle 2: Chairperson and Chief Executive

The Bank's current organisational structure ensures a clear division of responsibilities between the Chairperson who is responsible for leading the Board, and the Chief Executive Officer who is responsible for leading the senior management in executing agreed strategy and managing the business.

Principle 3: Composition of the Board

The Board considers that it is of sufficient size for the requirements of the business and its members possess the required diversity of knowledge and experience to properly execute their duties as directors.

The Board is composed exclusively of non-executive directors. The Chief Executive Officer attends all board meetings in order to provide the Board with all necessary management and operational information. At the same time, through his attendance he is able to gain a better understanding of the Board's strategic thinking and direction. He does not have a right to vote at meetings.

During the period under review, the Board consisted of five independent directors and two non-independent directors (including the Chairperson). In determining the independence of its directors, the Board has referred to the principles relating to independence contained in the Code. Each independent non-executive director has made a declaration in writing to that effect.

Principle 4: Responsibilities of the Board

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

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy and performance objectives, and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice. The Board delegates specific responsibilities to the following Committees:

Board Committees

Board Committee

The Board Committee is composed of two directors and the CEO and meets on an ad hoc basis. The Board Committee acts in an advisory capacity to the Board.

Members	Meetings held: 1
	Attended
Mrs. Magdalena De Roeck (Chairperson)	1
Ms. Caroline Van Marcke	1
Mr. Andrew Mifsud	1

Audit Committee

The Audit Committee's primary purpose is to protect the interests of the Bank's shareholders and assist the directors in conducting their role effectively so that the Bank's decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times. The Audit Committee's terms of reference reflect the provisions of the relative Listing Rules, except that the vetting and approving of Related Party Transactions is a matter dealt with by the Board. The three non-executive directors who sit on this Committee are considered independent in accordance with the principles relating to independence contained in the Code. In terms of Listing Rule 5.118, Mr Guido Mizzi is the director whom the Board considers is independent and competent in accounting, given his extensive experience as a former managing partner of a local accountancy firm.

Members	Meetings held: 4
	Attended
Mr. Guido Mizzi (Chairman)	4
Mr. Charles Hertogs	3
Mr. Patrick H. Van Leynseele	3

Other Board members have a right to attend the meetings. The Financial Controller is responsible for the maintenance of internal controls and attends all meetings. The ICT Manager, who is responsible for the maintenance of internal controls in relation to ICT, attends meetings when ICT-related topics are discussed.

The CEO acts as Secretary to the Committee. The Secretary circulates information and makes available the minutes of meetings of the Committee to all members of the Board.

Directors' Statement of Compliance

with the Code of Principles of Good Corporate Governance (continued)

Principle 4: Responsibilities of the Board (Continued)

Credit Committee

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

Members	Meetings held: 4
	Attended
Mr. Joseph Caruana (Chairman)	4
Mr. Francis Gouder (appointed 04/05/2015)	3
Mr. Andrew Mifsud	4

The Financial Controller attends meetings of the Credit Committee and the Credit Officer acts as Secretary to the Committee.

Management Committee

Asset and Liability Management Committee (ALCO)

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

The ALCO is composed of one independent non-executive director, the CEO, the Financial Controller and Finance Officer.

Members	Meetings held: 4
	Attended
Mr. Andrew Mifsud (Chairman)	4
Mr. Francis Gouder (appointed 04/05/2015)	2
Mr. Calvin Bartolo	4
Mr. Karl Cachia	4

Principle 5: Board Meetings

During the financial year 2015 the Board met four times. Notice of the dates of forthcoming meetings together with all board papers were circulated well in advance to the directors so that they had ample opportunity to consider the information and prepare for the next scheduled board meeting. After each board meeting and before the next meeting, minutes that faithfully record attendance and decisions were prepared and circulated to all directors.

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

Members	Attended
Mrs. Magdalena De Roeck (Chairperson)	4
Ms. Caroline Van Marcke	4
Mr. Joseph C. Caruana	3
Mr. Charles Hertogs	4
Mr. Francis Gouder (appointed 04/05/2015)	3
Mr. Guido Mizzi	4
Mr. Patrick H. Van Leynseele	4

Principle 6: Information and Professional Development

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

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

Throughout the year, directors have the opportunity to attend relevant conferences and seminars in order to keep abreast with the latest developments in banking.

The Bank is committed to provide for the development and training of management and employees. The Board is updated at least annually with the latest staff development programme.

Principle 8

As is permitted in terms of provision 8.A.2 of the Code, the Board carries out the tasks normally delegated to a Remuneration Committee since the remuneration of directors is not performance-related.

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

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

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

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

Principle 11: Conflicts of Interest

The Board recognises that the directors' primary responsibility is always to act in the interest of the Bank and its shareholders as a whole, irrespective of who appointed them to the Board.

Each director has declared to the Bank, where applicable, his or her indirect beneficial interest in the share capital of the Bank.

Principle 12: Corporate Social Responsibility

The Board seeks to adhere to accepted principles of corporate social responsibility in implementing day-to-day management practices of the Bank. The Bank seeks to act as a good corporate citizen in the local community and work closely with customers, employees, suppliers and public authorities.

Directors' Statement of Compliance

with the Code of Principles of Good Corporate Governance (continued)

PART TWO – Non-Compliance with the Code

Principle 2 – Code Provision 2.3

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

Principle 3 – Composition of the Board

The Board is composed entirely of non-executive directors. The Chief Executive Officer attends all board meetings in order to provide the Board with all necessary management and operational information.

Principle 4 – Code Provision 4.2.7

The Code Provision recommends that the Board should develop a succession policy for the future composition of the Board and particularly the executive component thereof, for which the Chairman should hold key responsibility. The Board does not have a succession policy in place for the future composition of the Board of Directors.

Principle 4 – Code Provision 4.3

The Board does not organise formal information sessions for its directors but information on the day-to-day running of the Bank is provided by the CEO who attends Board meetings. Through his attendance, the CEO keeps the Board informed of their statutory and fiduciary duties and the Bank's operations and prospects.

Principle 6 – Information and Professional Development

Code Provision 6.4.4 recommends the CEO to establish a succession plan for senior management. The Board does not have a succession policy in place for senior management.

Principle 7 – Evaluation of the Board's Performance

The Board does not consider it necessary to appoint a Committee to carry out an annual evaluation of its own performance and that of its Committees.

Principle 8.B.1 - Nomination Committee

The Board has not established a Nomination Committee for the appointment of new directors to the Board. All potential new directors are informally assessed by the Board based on an evaluation of the skills, knowledge and experience already present and those needed.

Approved by the Board of Directors on 23 March 2016 and signed on its behalf by:



Mrs. Magdalena De Roeck
Director



Mr. Guido Mizzi
Director

Directors' Responsibilities

for the Financial Statements

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

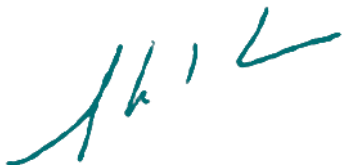
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act and the Banking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

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

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

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

Signed on behalf of the Board of Directors on 23 March 2015 by:



Mrs. Magdalena De Roeck
Director



Mr. Guido Mizzi
Director

For the Year Ended 31 December 2015

As is permitted in terms of provision 8.A.2 of the Code, the Board carries out the tasks normally delegated to a Remuneration Committee since the remuneration of directors is not performance-related.

Remuneration Policy

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

Remuneration Statement

Executive Management

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

The terms and conditions of employment of senior management are set out in the respective indefinite contracts of employment. Senior management are not entitled to share options or profit sharing. There are no supplementary pension or early retirement schemes in place. Senior management are eligible for an annual salary increase and performance bonus.

Non-cash benefits to which senior management are entitled are the use of a company car and personal accident and health insurance.

During the year, a loan amounting to €250,000 was advanced to key management personnel as disclosed in note 29.4 to the financial statements.

There have been no significant changes in the Bank's remuneration policy for senior management during the year under review.

Total emoluments of senior management for the year ended 31 December 2015 are as follows:

Fixed Remuneration	Variable Remuneration	Share Options	Others
€214,914	€61,000	None	Non-cash benefits referred to immediately above.

Remuneration Report

For the Year Ended 31 December 2015

Directors

As at 31 December 2015, the Board was composed of 7 non-executive directors.

The maximum annual aggregate emoluments that may be paid to the directors is approved by the shareholders in a General Meeting. This amount was fixed at an aggregate sum of €50,000 at the Annual General Meeting held on 3 March 2015.

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

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

Total emoluments of directors for the year ended 31 December 2015 are as follows:

Fixed Remuneration	Variable Remuneration	Share Options	Others
€36,000	None	None	None

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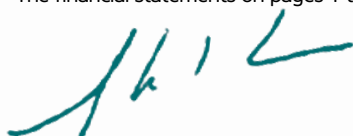
Statement of Financial Position

As at 31 December 2015

		2015	2014
ASSETS	Note	€	€
Cash and items in transit	27	1,656,731	29,825
Balances with Central Bank of Malta	27	989,261	976,517
Investments	13	52,537,656	71,079,589
Loans and advances to banks	14	32,471,446	16,976,777
Factored receivables	15	19,639,543	21,292,678
Other loans and advances to customers	16	58,439,875	33,016,654
Property and equipment	17	3,150,034	2,495,321
Intangible assets	18	1,100,934	864,951
Other assets	19	1,414,231	1,638,357
Total assets		171,399,711	148,370,669
LIABILITIES			
Balance owed to Central Bank of Malta		21,700,000	20,000,000
Amounts owed to customers	20	107,261,236	90,853,295
Debt securities issued	21	11,837,631	8,969,458
Deferred tax liabilities	22	1,515,335	1,321,717
Current tax payable		286,575	766,297
Accruals and deferred income	23	1,118,970	1,519,459
Total liabilities		143,719,747	123,430,226
EQUITY			
Called up share capital	24	10,000,000	10,000,000
Property revaluation reserve	24	1,048,190	955,479
Fair value reserve	24	3,020,434	2,150,803
Depositor compensation scheme reserve	24	238,387	160,508
Reserve for general banking risk	24	217	8,544
Capital contribution	24	10,482,904	8,853,898
Retained earnings	24	2,889,832	2,811,211
Total equity attributable to equity holders of the Bank		27,679,964	24,940,443
Total liabilities and equity		171,399,711	148,370,669
Memorandum items			
Commitments	25	33,128,620	34,989,271

The notes on pages 7 to 60 are an integral part of these financial statements.

The financial statements on pages 1 to 60 were approved by the Board of Directors on 23 March 2016 and signed on its behalf by:



Mrs. Magdalena De Roeck
Director



Mr. Guido Mizzi
Director

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2015

	Note	2015 €	2014 €
Interest receivable and similar income			
- on loans and advances	5	2,205,354	1,509,535
- on debt securities		2,459,712	2,658,652
Interest expense and similar charges	6	(2,273,514)	(2,162,773)
Net interest income		2,391,552	2,005,414
Fee and commission income	7	2,814,670	2,777,306
Fee and commission expense	7	(38,791)	(42,616)
Net fee and commission income		2,775,879	2,734,690
Net trading gains		36,056	17,660
Other operating income	8	844,589	394,385
Operating income		6,048,076	5,152,149
Depreciation and amortisation	17 & 18	(243,880)	(187,526)
Impairment allowances	9	(481,736)	(61,860)
Personnel expenses	10.2	(723,322)	(541,021)
Other expenses		(1,016,096)	(834,341)
Profit before income tax	10	3,583,042	3,527,401
Income tax expense	11	(1,197,022)	(1,229,201)
Profit for the year		2,386,020	2,298,200
Other comprehensive income, net of income tax			
Items that will not be reclassified to profit or loss			
Transfer of depreciation on revaluation surplus net of deferred tax			
- retained earnings		12,153	18,535
- revaluation reserve		(13,503)	(20,205)
Deferred tax adjustment on revaluation surplus		106,214	
		104,864	(1,670)
Items that are or may be reclassified subsequently to profit or loss			
Realised gains on disposals of available-for-sale debt securities, net of deferred tax		(410,270)	(246,897)
Change in fair value of available-for-sale financial assets, net of deferred tax		1,279,901	1,964,601
		869,631	1,717,704
Other comprehensive income for the year, net of income tax		974,495	1,716,034
Total comprehensive income for the year		3,360,515	4,014,234
Earnings per share	12	5.97	5.75

The notes on pages 7 to 60 are an integral part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31 December 2015

	Share Capital €	Property revaluation reserve €	Fair value reserve €	Depositor compensation scheme reserve €	Capital contribution €	Reserve for general banking risk €	Retained earnings €	Total €
Balance at 1 January 2015	10,000,000	955,479	2,150,803	160,508	8,853,898	8,544	2,811,211	24,940,443
Profit for year	-	-	-	-	-	-	2,386,020	2,386,020
Other comprehensive income, net of tax								
Transfer from retained earnings	-	-	-	77,879	-	(8,327)	(69,552)	-
Deferred tax adjustment on revaluation surplus	-	104,864	-	-	-	-	-	104,864
Transfer of depreciation on revaluation surplus	-	(12,153)	-	-	-	-	12,153	-
Realised gains on disposals of available-for-sale debt securities	-	-	(631,184)	-	-	-	-	(631,184)
Change in fair value of available-for-sale financial assets	-	-	1,974,335	-	-	-	-	1,974,335
Deferred tax thereon	-	-	(473,520)	-	-	-	-	(473,520)
Total other comprehensive income, net of tax	-	92,711	869,631	77,879	-	(8,327)	57,399	974,495
Total comprehensive income for the year	-	92,711	869,631	77,879	-	(8,327)	2,328,620	3,360,515
Transactions with equity holders, recognised directly in equity								
Contributions by and distributions to equity Holders								
Dividends to equity holders (note 24.7)	-	-	-	-	-	-	(2,250,000)	(2,250,000)
Contributions paid by equity holders	-	-	-	-	1,629,006	-	-	1,629,006
Total contributions by and distribution to equity holders	-	-	-	-	1,629,006	-	(2,250,000)	(620,994)
Balance at 31 December 2015	10,000,000	1,048,190	3,020,434	238,387	10,482,904	217	2,889,832	27,679,964

Statement of Changes in Equity

For the Year Ended 31 December 2015

	Share Capital €	Property revaluation reserve €	Fair value reserve €	Depositor compensation scheme reserve €	Capital contribution €	Reserve for general banking risk €	Retained earnings €	Total €
Balance at 1 January 2014	10,000,000	975,684	433,099	148,109	7,406,946	-	2,515,419	21,479,257
Profit for year	-	-	-	-	-	-	2,298,200	2,298,200
Other comprehensive income, net of tax								
Transfer from retained earnings	-	-	-	12,399	-	8,544	(20,943)	-
Transfer of depreciation on revaluation surplus	-	(18,535)	-	-	-	-	18,535	-
Realised gains on disposals of available-for-sale debt securities	-	-	(379,842)	-	-	-	-	(379,842)
Change in fair value of available-for-sale financial assets	-	-	3,019,877	-	-	-	-	3,019,877
Deferred tax thereon	-	(1,670)	(922,331)	-	-	-	-	(924,001)
Total other comprehensive income, net of tax	-	(20,205)	1,717,704	12,399	-	8,544	(2,408)	1,716,034
Total comprehensive income for the year	-	(20,205)	1,717,704	12,399	-	8,544	2,295,792	4,014,234
Transactions with equity holders, recognised directly in equity								
Contributions by and distributions to equity holders								
Dividends to equity holders (note 24.7)	-	-	-	-	-	-	(2,000,000)	(2,000,000)
Contributions paid by equity holders	-	-	-	-	1,446,952	-	-	1,446,952
Total contributions by and distribution to equity holders	-	-	-	-	1,446,952	-	(2,000,000)	(553,048)
Balance at 31 December 2014	10,000,000	955,479	2,150,803	160,508	8,853,898	8,544	2,811,211	24,940,443

The notes on pages 7 to 60 are an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended 31 December 2015

	Note	2015 €	2014 €
Cash flows from operating activities			
Interest and commission receipts		4,555,427	4,195,067
Interest and commission payments		(2,126,415)	(1,349,628)
Payments to employees and suppliers		(1,758,545)	(1,452,248)
Operating profit before changes in operating assets/liabilities		670,467	1,393,191
Decrease/(increase) in operating assets:			
- loans and advances to customers		1,153,738	(13,324,827)
- factored receivables		1,252,010	8,951
- other receivables		(205,578)	-
Increase in operating liabilities:			
- amounts owed to customers		16,407,941	19,989,099
- amounts owed to Central Bank of Malta		1,700,000	4,500,000
Net cash generated from/(absorbed by) operating activities before income tax	26	20,978,578	12,566,414
Income tax paid		(1,851,782)	(1,610,016)
Net cash from operating activities		19,126,796	10,956,398
Cash flows from investing activities			
Payments to acquire property, equipment and intangible assets		(1,134,576)	(437,520)
Proceeds from disposals of investments		10,464,323	8,240,386
Payments to acquire investments		(16,403,055)	(23,039,901)
Interest received from investments		3,159,361	2,364,716
Dividend received		194,820	-
Net cash used in investing activities		(3,719,127)	(12,872,319)
Cash flow from financing activities			
Dividends paid to shareholders		(2,250,000)	(2,000,000)
Capital contributed by shareholders		1,629,006	1,446,952
Issue of debt securities, net of transaction costs		3,498,144	-
Redemption of debt securities		(669,000)	-
Interest paid on debt securities		(481,500)	(481,500)
Net cash from / (used in) financing activities		1,726,650	(1,034,548)
Net increase / (decrease) in cash and cash equivalents		17,134,319	(2,950,469)
Cash and cash equivalents at beginning of year		17,983,119	20,933,588
Cash and cash equivalents at end of year	27	35,117,438	17,983,119

Non-cash transactions are disclosed in notes 13 and 21 to these financial statements. The notes on pages 7 to 60 are an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2015

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izola Bank

Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Reporting entity

Izola Bank p.l.c. (the “Bank”) is a public limited liability company domiciled and incorporated in Malta.

2 Basis of preparation

2.1 Statement of compliance

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

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

2.2 Basis of measurement

Assets and liabilities are measured at historical cost except for available-for-sale financial assets that are measured at fair value and premises and improvements that are measured at revalued amount.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 31.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3 Significant accounting policies

3.1 Financial assets and financial liabilities

3.1.1 Non-derivative financial assets and financial liabilities

Non-derivative financial assets and financial liabilities comprise investments in equity and debt securities, cash and cash equivalents, loans and receivables, deposits and debt securities issued. These are recognised initially on the date on which they originated.

Non-derivative financial assets and financial liabilities are recognised initially at fair value plus, for an item not at fair value through profit or loss, any transaction costs directly attributable to its acquisition or issue. Subsequent to initial recognition, non-derivative financial assets and financial liabilities are measured as described below.

Financial assets

The Bank classifies its financial assets into one of the following categories

3.1.1.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see note 3.1.6). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

Notes to the Financial Statements

For the Year Ended 31 December 2015

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.1 Non-derivative financial assets and financial liabilities (continued)

3.1.1.2 Available-for-sale financial assets

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss (see note 3.1.6).

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity until the investment is sold, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

3.1.1.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. These include loans and advances to banks and to customers that are recognised on the day the cash is advanced to these borrowers, and factoring receivables. These loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment losses (see note 3.1.6).

Financial liabilities

The Bank classifies financial liabilities as measured at amortised cost (see note 3.6).

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.2 Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income, is recognised in profit or loss.

Assets, designated by the Bank as available-for-sale, that are sold, are derecognised and corresponding receivables from the buyer for the payment are recognised as at the date the Bank commits to sell the assets.

Held-to-maturity instruments and loans and receivables are derecognised on the day these are transferred by the Bank.

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

3.1.3 Offsetting

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

3.1.4 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Notes to the Financial Statements

For the Year Ended 31 December 2015

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.5 Fair value measurement

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

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

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

The best evidence of the fair value of a financial instrument at the initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

3 Significant accounting policies *(continued)*

3.1 Financial assets and financial liabilities *(continued)*

3.1.6 Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity instruments) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and receivables, held-to-maturity investment securities and available-for-sale debt securities at both a specific asset and collective level. All individually significant loans and receivables, held-to-maturity investment securities and available-for-sale debt securities are assessed for specific impairment. All individually significant loans and receivables, held-to-maturity investment securities and available-for-sale debt securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables, held-to-maturity investment securities and available-for-sale debt securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables, held-to-maturity investment securities and available-for-sale debt securities with similar risk characteristics.

In assessing collective impairment, the Bank uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly reviewed by the Bank's Credit Committee to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Notes to the Financial Statements

For the Year Ended 31 December 2015

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.6 Identification and measurement of impairment (continued)

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cashflows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in the fair value reserve in equity to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Bank writes off certain loans and receivables and investment securities when they are determined to be uncollectible.

3.2 Cash and cash equivalents

Cash and cash equivalents comprise notes and coins in hand, unrestricted balances held with Central Bank of Malta and deposits with contractual maturity of less than three months from the acquisition date that are subject to an insignificant risk of changes in their fair value. Subsequent to initial recognition, cash and cash equivalents are carried at amortised cost in the statement of financial position.

3 Significant accounting policies (continued)

3.3 Property and equipment

3.3.1 Recognition and measurement

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

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

3.3.2 Revaluation surplus or deficit

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

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

3.3.3 Subsequent costs

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

3.3.4 Depreciation

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

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

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2015

3 Significant accounting policies (continued)

3.4 Intangible assets - software

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

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

Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software for the current and comparative periods is three to fifteen years.

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

3.5 Impairment of non-financial assets

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

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

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

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

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

3.6 Deposits and debt securities issued

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

3 Significant accounting policies (continued)

3.7 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

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

Interest income and expense presented in the statement of profit or loss and other comprehensive income include interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis and interest on available-for-sale investment securities calculated on an effective interest basis.

3.8 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

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

3.9 Foreign currency transactions

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates ruling at the dates the fair values were determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income.

3.10 Operating lease payments

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

Notes to the Financial Statements

For the Year Ended 31 December 2015

3 Significant accounting policies (continued)

3.11 Employee benefits

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

3.12 Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity.

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

3.13 Earnings per share

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3.14 Segment reporting

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

3 Significant accounting policies *(continued)*

3.15 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for annual periods beginning after 1 January 2015 and earlier application is permitted; however the Bank has not early applied the following new or amended standard in preparing these financial statements.

IFRS 9 Financial Instruments: IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 15 Revenue from Contracts with customers: IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 9 and IFRS 15 are effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Both standards are still subject to EU endorsement. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9 and IFRS 15.

4 Financial risk management

4.1 Organisation

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.2 Risk exposure

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

The main categories of risk are:

- Credit risk: Risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It arises from the lending, treasury, factoring of receivables and investment activities undertaken by the Bank.
- 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 is divided into two categories:
 - Market (product) liquidity risk: risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.
 - Funding liquidity risk: risk of losses arising from a timing mismatch between investing, placements and funds arising from activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.
- 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. Operational risks arise from all of the Bank's operations.

4.3 Capital base

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

4.3.1 Capital management

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

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

- Tier 1 capital, which includes ordinary share capital, capital contribution and retained earnings and excludes intangible assets.
- Tier 2 capital, which includes property revaluation reserve, collective impairment allowances and fair value reserve.

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

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

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

4 Financial risk management (continued)

4.3 Capital base (continued)

4.3.2 Calculation of minimum capital requirement and risk-weighted assets

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

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

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

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

	2015	2014
	€	€
Tier 1 capital		
Ordinary share capital	10,000,000	10,000,000
Capital contribution	10,482,904	8,853,898
Retained earnings	2,889,832	2,811,211
Intangible assets	(1,100,934)	(864,951)
	22,271,802	20,800,158
Tier 2 capital		
Property revaluation reserve	1,048,190	955,479
Collective impairment allowance	222,317	264,659
Fair value movement reserve	3,020,434	2,150,803
Transitional provisions (unrealised gains)	(1,627,450)	-
	2,663,491	3,370,941
Total regulatory capital	24,935,293	24,171,099

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

	Statement of financial position value	Risk weighted exposure	Capital requirement	Statement of financial position value	Risk weighted exposure	Capital Requirement
	2015	2015	2015	2014	2014	2014
	€	€	€	€	€	€
On balance sheet assets						
Cash and items in transit	1,656,731	331,193	26,495	29,825	-	-
Balances with Central Bank of Malta	989,261	-	-	976,517	-	-
Investments	52,537,656	13,188,266	1,055,061	71,079,589	5,360,658	428,853
Loans and advances to banks	32,471,446	6,494,289	519,543	16,976,777	3,395,355	271,628
Factored receivables	19,639,543	19,639,543	1,571,163	21,292,678	21,292,678	1,703,414
Other loans and advances to customers	58,439,875	8,891,406	711,312	33,016,654	7,204,999	576,400
Property and equipment	3,150,034	3,150,034	252,003	2,495,321	2,495,321	199,626
Intangible assets	1,100,934	1,100,934	88,075	864,951	864,951	69,196
Prepayments and accrued income	1,414,231	707,116	56,569	1,638,357	819,179	65,534
	171,399,711	53,502,781	4,280,221	148,370,669	41,433,141	3,314,651
Off balance sheet items						
Commitments	33,128,620			34,989,271		
Credit risk capital requirement		53,502,781	4,280,221		41,433,141	3,314,651
Foreign exchange risk capital requirement		64,252	5,140		87,500	7,000
Operational risk capital requirement		9,712,425	776,994		7,677,288	614,183
Total capital requirement		63,279,458			49,197,929	
Own funds						
Original own funds	22,271,802			20,800,158		
Additional own funds	2,663,491			3,370,941		
Total own funds	24,935,293			24,171,099		
Capital adequacy ratio			40%			49%

4 Financial risk management (continued)

4.4 Credit risk

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

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

At the reporting date, 84% (2014: 76%) of other loans and advances to customers and Nil% (2014: 37%) of investments were cash secured, 2% (2014: 3%) of other loans and advances to customers were secured against property, whilst 2% (2014: 1%) of other loans and advances to customers were secured against shares in a local company.

4.4.1 Maximum exposure to credit risk

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

- Financial assets recognised in the statement of financial position comprise balances with Central Bank of Malta, financial investments, factored receivables, loans and advances and acceptances and endorsements. The maximum exposure to credit risk of these financial assets equals their carrying amount.
- Commitments for factored receivables, overdrafts and credit cards - the maximum exposure to credit risk is the full amount of the committed facilities (note 25).

4.4.2 Industry concentration

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

	2015		2014	
	€	%	€	%
Manufacturing	7,907,588	14	2,580,000	8
Wholesale and retail trade	11,347,000	19	7,826,000	24
Real estate, renting and business activities	39,185,287	67	22,610,654	68
	58,439,875	100	33,016,654	100

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.4 Credit risk (continued)

4.4.3 Analysis of collateral

The Bank holds collateral against loans and advances to customers and investment securities in the form of pledges over deposits held with the Bank. Factored receivables are unsecured and collateral generally is not held over loans and advances to banks.

The collateral held as security is as follows:

Type of collateral	Carrying amounts of neither past due nor impaired			
	Loans and advances to customers		Investment in debt securities	
	2015	2014	2015	2014
	€	€	€	€
Deposits held with the Bank	49,102,000	25,174,000	-	26,455,000
Commercial real estate	1,200,000	1,000,000	-	-
Unlisted shares	1,000,000	-	-	-
Shares held by directors	-	137,656	-	-

4.4.4 Impaired factored receivables

These comprise factored receivables for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the factored receivables agreements.

	2015	2014
	€	€
Factored receivables - gross	20,593,085	21,848,102
Collectively determined	20,593,085	21,848,102
Collective allowance for impairment	205,720	215,078
Specific allowance for impairment	747,822	340,346

4 Financial risk management (continued)

4.4.5 Neither past due nor impaired loans and securities

	2015	2014
	€	€
Loans and advances to customers	57,765,431	32,540,053
Loans and advances to banks	32,471,446	16,976,777
Investment securities	52,537,656	71,079,589
	142,774,533	120,596,419

4.4 Credit risk (continued)

4.4.6 Past due but not impaired

These are receivables where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

As at 31 December 2015, 35% (2014: 28%) of the Bank's factored receivables were past due but not impaired. 23% of the factored receivables became past due on 31 December 2015. A substantial amount of these receivables has been paid by the date of issue of these financial statements.

4.4.7 Loans with renegotiated terms and forbearance

The Bank has adopted the additional accounting policies, in note 3.1.6, as requested by the European Securities and Markets Authority (ESMA) Public Statement on the Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions.

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

During 2015 and 2014, there were no instances where the terms and conditions of a loan had to be renegotiated in response to perceived financial difficulties of a customer. Consequently, the Bank did not apply forbearance measures during the current and comparative year.

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.4 Credit risk (continued)

4.4.7 Loans with renegotiated terms and forbearance (continued)

As at 31 December 2015, the Bank had renegotiated four (2014: two) loans amounting to €67,839 (2014: €225,028) due to delays in the projects being financed. The Bank recognised interest amounting to €1,033 on these loans in 2015 (2014: €2,283). The movements in renegotiated loans may be summarised as follows:

	Total
	€
At 1 January 2014	363,782
Recognised impairment	-
Loans repaid	(363,782)
Renegotiated loans	225,028
At 31 December 2014	225,028
At 1 January 2015	225,028
Recognised impairment	-
Loans repaid	(225,028)
Renegotiated loans	67,839
At 31 December 2015	67,839

4 Financial risk management (continued)

4.4 Credit risk (continued)

4.4.8 Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its factored receivables portfolio. The main components of this allowance are a specific loss component that relates to individually impaired receivables, and a collective loss allowance established for groups of factored receivables in respect of losses that have been incurred but have not been identified and subject to individual assessment for impairment.

	2015	2014
	€	€
Factored receivables		
Collective allowance for impairment	205,720	215,078
Specific allowance for impairment	747,822	340,346

4.4.9 Write-off policy

The Bank writes off a loan, security and/or factored receivable balance (and any related allowance for impairment losses) when management determines that the loan, security and/or factored receivable is uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the current year, amounts receivable of €108,945 (2014: €39,814) was written off by the Bank.

4.4.10 Concentration risk

In addition to the industry concentration mentioned in note 4.4.2, the Bank monitors concentration of credit risk by sector and by geographic location. An analysis of concentrations of credit risk is shown on the next page.

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

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.4 Credit risk (continued)

4.4.10 Concentration risk (continued)

	Loans and advances to customers		Factored receivables		Loans and advances to banks		Investment securities	
	2015	2014	2015	2014	2015	2014	2015	2014
	€	€	€	€	€	€	€	€
Carrying amount	58,439,875	33,016,654	19,639,543	21,292,678	32,471,446	16,976,777	52,537,656	71,079,589
Concentration by sector								
Corporate	57,601,466	32,778,485	19,639,543	21,292,678	-	-	8,067,715	33,247,225
Private individuals	838,409	238,169	-	-	-	-	-	-
Banks	-	-	-	-	32,471,446	16,976,777	835,700	843,070
Sovereign	-	-	-	-	-	-	36,871,581	36,969,141
Equity	-	-	-	-	-	-	6,762,660	20,153
	58,439,875	33,016,654	19,639,543	21,292,678	32,471,446	16,976,777	52,537,656	71,079,589
Concentration by location								
Europe	58,439,875	33,016,654	19,639,543	21,292,678	32,471,446	16,976,777	52,537,656	71,079,589

4 Financial risk management (continued)

4.5 Market risk

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

Market risk for the Bank consists of three elements:

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

4.5.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or at different amounts. The Bank accepts deposits from customers at both fixed and floating rates and for varying maturity periods. This risk is managed through the matching of the interest resetting dates on assets and liabilities. However, the Bank seeks to maximise the spread over the cost of capital by investing funds in a portfolio of securities and loans and receivables with a longer tenure than the liabilities (therefore carrying a negative maturity gap position) through the efficient management of shorter term liabilities over the medium to longer term. The table on the next page summarises re-pricing mismatches at reporting date together with the effective interest rates where applicable.

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

2015

	Carrying amount	Effective interest rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
	€	%	€	€	€	€	€
Assets							
Cash	1,656,731	-	-	-	-	-	1,656,731
Balances receivable from Central Bank of Malta	989,261	0%	989,261	-	-	-	-
Investments:							
- Held-to-maturity debt securities	-	-	-	-	-	-	-
- Available-for-sale debt securities	45,774,996	4.1%	1,542,900	513,100	19,883,450	23,835,546	-
- Available-for-sale equities	6,762,660	-	-	-	-	-	6,762,660
Loans and advances to banks	32,471,446	0.02%	32,471,446	-	-	-	-
Loans and advances to customers	58,439,875	4.1%	12,326,510	10,544,275	5,563,566	30,005,524	-
Factored receivables	19,639,543	-	-	-	-	-	19,639,543
Other assets	5,665,199	-	-	-	-	-	5,665,199
Total assets	171,399,711		47,330,117	11,057,375	25,447,016	53,841,070	33,724,133
Liabilities							
Balance owed to Central Bank of Malta	21,700,000	0.05%	4,000,000	-	17,700,000	-	-
Amounts owed to customers	107,261,236	1.5%	66,949,385	9,409,543	28,196,418	2,705,890	-
Debt securities issued	11,837,631	4.6%	-	-	-	11,837,631	-
Current tax payable	286,575	-	-	-	-	-	286,575
Other liabilities	2,634,305	-	-	-	-	-	2,634,305
	143,719,747		70,949,385	9,409,543	45,896,418	14,543,521	2,920,880
Equity							
Issued capital	10,000,000	-	-	-	-	-	10,000,000
Property revaluation reserve	1,048,190	-	-	-	-	-	1,048,190
Depositors' compensation scheme	-	-	-	-	-	-	-
Reserve	238,387	-	-	-	-	-	238,387
Fair value reserve	3,020,434	-	-	-	-	-	3,020,434
Retained earnings	2,889,832	-	-	-	-	-	2,889,832
Reserve for General Banking Risk	217	-	-	-	-	-	217
Capital contribution	10,482,904	-	-	-	-	-	10,482,904
	27,679,964		-	-	-	-	27,679,964
Total liabilities and equity	171,399,711		70,949,385	9,409,543	45,896,418	14,543,521	30,600,844
Gap			(23,619,268)	1,647,832	(20,449,402)	39,297,549	3,123,289
Cumulative gap			(23,619,268)	(21,971,436)	(42,420,838)	(3,123,289)	-

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

2014

	Carrying Amount	Effective Interest rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
	€	%	€	€	€	€	€
Assets							
Cash	29,825	-	-	-	-	-	29,825
Balances receivable from Central Bank of Malta	976,517	0.1%	976,517	-	-	-	-
Investments:							
- Held-to-maturity debt securities	26,455,000	4.5%	-	15,075,000	11,380,000	-	-
- Available-for-sale debt securities	44,604,436	3.9%	1,500,000	859,877	21,855,386	20,389,173	-
- Available-for-sale equities	20,153	-	-	-	-	-	20,153
Loans and advances to banks	16,976,777	0.4%	16,976,777	-	-	-	-
Loans and advances to customers	33,016,654	2.9%	20,652,698	11,263,443	1,040,127	60,386	-
Factored receivables	21,292,678	-	-	-	-	-	21,292,678
Other assets	4,998,629	-	-	-	-	-	4,998,629
Total assets	148,370,669		40,105,992	27,198,320	34,275,513	20,449,559	26,341,285
Liabilities							
Balance owed to Central Bank of Malta	20,000,000	0.2%	16,300,000	-	3,700,000	-	-
Amounts owed to customers	90,853,295	1.6%	59,044,058	25,007,824	6,752,111	49,302	-
Debt securities issued	8,969,458	5.4%	-	8,969,458	-	-	-
Current tax payable	766,297	-	-	-	-	-	766,297
Other liabilities	2,841,176	-	-	-	-	-	2,841,176
	123,430,226		75,344,058	33,977,282	10,452,111	49,302	3,607,473
Equity							
Issued capital	10,000,000	-	-	-	-	-	10,000,000
Property revaluation reserve	955,479	-	-	-	-	-	955,479
Depositors' compensation scheme Reserve	160,508	-	-	-	-	-	160,508
Fair value reserve	2,150,803	-	-	-	-	-	2,150,803
Retained earnings	2,811,211	-	-	-	-	-	2,811,211
Reserve for General Banking Risk	8,544	-	-	-	-	-	8,544
Capital contribution	8,853,898	-	-	-	-	-	8,853,898
	24,940,443		-	-	-	-	24,940,443
Total liabilities and equity	148,370,669		75,344,058	33,977,282	10,452,111	49,302	28,547,916
Gap			(35,238,066)	(6,778,962)	23,823,402	20,400,257	(2,206,631)
Cumulative gap			(35,238,066)	(42,017,028)	(18,193,626)	2,206,631	-

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

4.5.1.1 Interest rate profile

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

	2015	2014
	€	€
Fixed rate instruments		
Investments – Debt securities available-for-sale	43,718,996	41,709,163
Loans and advances to banks	2,670,919	2,645,010
Loans and advances to customers	53,401,466	33,016,654
Balance owed to Central Bank of Malta	(17,700,000)	(10,500,000)
Debt securities in issue	(11,837,631)	(8,969,458)
Amounts owed to customers	(47,557,740)	(41,577,469)
	22,696,010	16,323,900
Variable rate instruments		
Investments – Debt securities available-for-sale	2,056,000	2,895,273
Investments – Debt securities held-to-maturity	-	26,455,000
Loans and advances to customers	5,038,409	-
Balance receivable from Central Bank of Malta	989,261	976,517
Balance owed to Central Bank of Malta	(4,000,000)	(9,500,000)
Loans and advances to banks	29,800,527	14,331,767
Amounts owed to customers	(59,703,496)	(49,275,826)
	(25,819,299)	(14,117,269)

4.5.1.2 Fair value sensitivity analysis for fixed rate instruments

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

An increase of 50 basis points in interest rates for available-for-sale investments would lead to a decrease in other comprehensive income and in equity amounting to €1,596,574. A decrease of 50 basis points in interest rates would have an equal but opposite effect on other comprehensive income and equity.

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.1.3 Cash flow sensitivity analysis for variable rate instruments

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

	Profit or Loss	Impact on
	€	Equity
		€
2015		
+ 50 basis points	(154,289)	(154,289)
- 50 basis points	154,289	154,289
2014		
+ 50 basis points	(70,586)	(70,586)
- 50 basis points	70,586	70,586

4.5.2 Currency risk

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

Exposure to foreign currencies is maintained at minimum levels and within the prescribed limits set by the Bank's Board of Directors. Under the scenario that all foreign currencies fluctuate up or down by 20% against the Euro, the carrying amounts of financial assets and liabilities would fluctuate, up or down by €2,311 (2014: €14,712) respectively.

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.2 Currency risk (continued)

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

	Euro €	2015 Other currencies €	Total €	Euro €	2014 Other currencies €	Total €
Financial assets						
Cash	1,656,731	-	1,656,731	29,825	-	29,825
Investments:						
- Debt securities held-to-Maturity	-	-	-	26,455,000	-	26,455,000
- Debt securities available-for-sale	45,774,996	-	45,774,996	44,604,436	-	44,604,436
- Equities available-for-Sale	6,762,660	-	6,762,660	20,153	-	20,153
Loans and advances to banks and balances receivable from Central Bank of Malta	30,925,232	2,535,475	33,460,707	15,443,496	2,509,798	17,953,294
Loans and advances to customers and credit cards	58,439,875	-	58,439,875	33,016,654	-	33,016,654
Factored receivables - gross	20,593,085	-	20,593,085	21,848,102	-	21,848,102
	164,152,579	2,535,475	166,688,054	141,417,666	2,509,798	143,927,464
Financial liabilities						
Balance owed to Central Bank of Malta	21,700,000	-	21,700,000	20,000,000	-	20,000,000
Debt securities issued	11,837,631	-	11,837,631	8,969,458	-	8,969,458
Amounts owed to customers	104,739,528	2,521,708	107,261,236	88,432,199	2,421,096	90,853,295
	138,277,159	2,521,708	140,798,867	117,401,657	2,421,096	119,822,753

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

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.3 Investment price risk

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

4.5.4 Fair values of financial instruments

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

(a) Valuation models

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable.

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

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

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

(b) Valuation framework

The Bank's only assets which are measured at fair value are the investments in Malta Government Stocks, corporate bonds which are listed on the Malta Stock Exchange and an investment collective scheme. These are classified as available-for-sale securities. The Financial Controller has overall responsibility for independently verifying the results of all fair value measurements.

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.4 Fair values of financial instruments (continued)

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

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

	Level 1 €	Level 2 €	Level 3 €	Total €
31-Dec-15				
Investments:				
- Debt securities available-for- sale	45,774,996	-	-	45,774,996
- Equity instruments available-for-sale	6,742,507	-	-	6,742,507
31-Dec-14				
Investments:				
securities available-for-sale	44,604,436	-	-	44,604,436

(d) Financial instruments not measured at fair value

Except for debt securities issued, the carrying amount of all financial instruments not measured at fair value approximates their fair value. The fair value of the debt securities issued as at 31 December 2015 amounted to €12,666,000 (2014: €9,054,000) whilst its carrying amount was €11,837,631 (2014: €8,969,458). The fair value of financial instruments not measured at fair value was determined as follows:

Loans and advances to banks and factored receivables

This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. Loans and advances to banks are repriceable within 3 months whilst factored receivables are all short-term in nature. The carrying amounts of these financial assets therefore approximate their fair values.

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.4 Fair values of financial instruments (continued)

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

Loans and advances to customers

22% (2014: 63%) of loans and advances to customers mature within 3 months and hence, the carrying amounts of these financial assets approximate their fair values. 28% (2014: 37%) mature after more than three months and within five years. The other 50% (2014: Nil%) mature after more than five years. These instruments are cash secured by amounts owed to customers held by the Bank. There were no significant changes in the market interest rates during the term of these advances. The fair values of these securities therefore approximate their respective carrying amount.

Investments – Debt securities available-for-sale

This category of assets is carried at fair value. The instrument included in this category is quoted and its fair value has been determined by reference to the market price as at 31 December 2015.

Investments – Debt securities held-to-maturity

This category of assets was carried at amortised cost. The instruments were unquoted and quoted market price for similar instruments were not available. These instruments were repriced every year and were cash secured by amounts owed to customers held by the Bank. The fair values of these securities thus approximated their respective carrying amount.

Investments – Equity instruments available-for-sale

The Bank has an interest in an unquoted equity investment as disclosed in note 13.4. No fair value disclosure is provided for this equity investment security that is measured at cost because its fair value cannot be reliably measured. This investment is neither redeemable nor transferable and there is no market for it. The Bank does not intend to dispose of this investment.

The Bank has also an interest in an open-ended investment fund as disclosed in note 13.4. This asset is carried at fair value and its fair value has been determined by reference to the net asset value of this security as at 31 December 2015.

Balance owed to Central Bank of Malta

The loans contracted by the Bank during the current and comparative year with Central Bank of Malta under the Program 'Eurosystem Monetary Policy Operations - Central Bank of Malta Directive No.8' are carried at amortised cost. Malta Government Stocks held by the Bank were pledged in favour of Central Bank of Malta as disclosed in note 13.3. The fair values of these loans approximate their respective carrying amount.

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.4 Fair values of financial instruments (continued)

(d) Financial instruments not measured at fair value

Amounts owed to customers

This category of liabilities is carried at amortised cost and amounts to €107,261,236 (2014: €90,853,295). 60% (2014: 59%) of the Bank's amounts owed to customers have a contractual repricing term of three months or less. The carrying value of these amounts approximates their fair values. In respect of other longer-term fixed-maturity deposits, which are repriced upon their contractual maturity date, given the insignificant changes in market interest rates, the fair values of these liabilities approximate their respective carrying amount.

Debt securities issued

This category of liabilities is carried at amortised cost. The instrument included in this category is quoted and its fair value has been determined by reference to the market price as at 31 December 2015.

4.6 Liquidity risk

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

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

The Bank's liquidity risk management focuses on structuring both the asset and liability portfolio so as to maintain diversity of funding sources and a spread of asset and liability maturities. A significant proportion of deposits are pledged, which contributes to the reduction of liquidity risk.

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

4 Financial risk management (continued)

4.6 Liquidity risk (continued)

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

At 31 December 2015	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	€	€	€	€	€	€
Financial assets						
Cash	1,656,731	-	-	-	-	1,656,731
Investments:						
Debt securities held-to-maturity	-	-	-	-	-	-
Equity shares	-	-	-	6,742,507	20,153	6,762,660
Debt securities available-for-sale	45,774,996	-	-	-	-	45,774,996
Loans and advances to banks and balances receivable from Central Bank of Malta	33,460,707	-	-	-	-	33,460,707
Loans and advances to customers	12,249,816	76,694	6,544,275	7,663,566	31,905,524	58,439,875
Factored receivables – gross	12,726,225	7,591,095	275,765	-	-	20,593,085
	105,868,475	7,667,789	6,820,040	14,406,073	31,925,677	166,688,054
Financial liabilities						
Balance owed to Central Bank of Malta	-	4,000,000	-	17,700,000	-	21,700,000
Amounts owed to customers	60,381,786	6,567,599	9,409,543	28,196,418	2,705,890	107,261,236
Debt securities issued	-	-	-	-	11,837,631	11,837,631
	60,381,786	10,567,599	9,409,543	45,896,418	14,543,521	140,798,867

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.6 Liquidity risk (continued)

At 31 December 2014	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	€	€	€	€	€	€
Financial assets						
Cash	29,825	-	-	-	-	29,825
Investments:						
Debt securities held-to-maturity	-	-	15,075,000	11,380,000	-	26,455,000
Equity shares	-	-	-	-	20,153	20,153
Debt securities available-for-sale	44,604,436	-	-	-	-	44,604,436
Loans and advances to banks and balances receivable from Central Bank of Malta	17,953,294	-	-	-	-	17,953,294
Loans and advances to customers	9,492,117	11,022,925	11,401,099	1,040,127	60,386	33,016,654
Factored receivables – gross	13,112,777	8,281,848	453,477	-	-	21,848,102
	<u>85,192,449</u>	<u>19,304,773</u>	<u>26,929,576</u>	<u>12,420,127</u>	<u>80,539</u>	<u>143,927,464</u>
Financial liabilities						
Balance owed to Central Bank of Malta	10,800,000	5,500,000	-	3,700,000	-	20,000,000
Amounts owed to customers	57,186,441	1,857,617	25,007,824	6,752,111	49,302	90,853,295
Debt securities issued	-	8,969,458	-	-	-	8,969,458
	<u>67,986,441</u>	<u>16,327,075</u>	<u>25,007,824</u>	<u>10,452,111</u>	<u>49,302</u>	<u>119,822,753</u>

4 Financial risk management (continued)

4.6 Liquidity risk (continued)

4.6.1 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to customer deposits. For this purpose, net liquid assets are considered as comprising cash and cash equivalents less any deposits from banks and other borrowings and commitments maturing within the next month. This calculation is used to measure the Bank's compliance with the liquidity limit established by the Malta Financial Services Authority. Details of the Bank's ratio of net liquid assets to deposits at the reporting date and during the reported period are as follows:

	2015	2014
As at 31 December	117%	148%
Average for the year	135%	128%
Maximum for the year	158%	162%
Minimum for the year	115%	99%

4.6.2 Residual contractual maturities of financial liabilities

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

	Carrying amount	Gross nominal outflow	Repayable on demand	Between one and three months	Between three months and one year	Between one and five years	After more than five years
				€	€	€	€
At 31 December 2015							
Debt securities issued	11,837,631	(17,400,000)	-	-	(540,000)	(2,160,000)	(14,700,000)
Balance owed to Central Bank of Malta	21,700,000	(21,744,260)	-	(4,000,511)	-	(17,743,749)	-
Amounts owed to customers	107,261,236	(110,901,970)	(60,509,507)	(6,619,504)	(10,432,514)	(30,064,805)	(3,275,640)
	140,798,867	(150,046,230)	(60,509,507)	(10,620,015)	(10,972,514)	(49,968,554)	(17,975,640)
At 31 December 2014							
Debt securities issued	8,969,458	(9,481,500)	-	-	(9,481,500)	-	-
Balance owed to Central Bank of Malta	20,000,000	(20,168,528)	(10,866,227)	(5,580,101)	-	(3,722,200)	-
Amounts owed to customers	90,853,295	(91,585,558)	(57,390,005)	(1,918,017)	(25,312,129)	(6,965,407)	-
	119,822,753	(121,235,586)	(68,256,232)	(7,498,118)	(34,793,629)	(10,687,607)	-

Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Financial risk management (continued)

4.7 Operational risks

Management of operational risk

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

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

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

A financial measurement of this risk is arrived at by the Bank for the purpose of allocating risk capital using the Basic Indicator Approach under the Capital Requirements Directive rules. The capital requirement for operational risk under this method was calculated at €776,994 as at 31 December 2015 (2014: €614,183).

5 Interest receivable on loans and advances

	2015	2014
	€	€
On loans and advances to banks	17,505	54,855
On loans and advances to customers	2,187,849	1,454,680
	2,205,354	1,509,535

6 Interest expense and similar charges

	Note	2015	2014
		€	€
Interest expense:			
On amounts owed to banks		15,002	30,453
On amounts owed to customers		1,708,493	1,591,419
On debts securities issued		510,990	481,500
		2,234,485	2,103,372
Amortisation of debt issuance costs	21	39,029	59,401
		2,273,514	2,162,773

Notes to the Financial Statements

For the Year Ended 31 December 2015

7 Net fee and commission income

	2015	2014
	€	€
Straight-through-processing fees	533,694	532,349
Commissions from factoring services	2,280,976	2,244,957
Fee and commission income	2,814,670	2,777,306
SWIFT and bank charges	(38,791)	(42,616)
Fee and commission expense	(38,791)	(42,616)
Net fee and commission income	2,775,879	2,734,690

8 Other operating income

	2015	2014
	€	€
Dividend income	194,820	-
Net gain on disposal of available-for-sale investments	631,184	379,842
Rental income	18,585	14,543
	844,589	394,385

9 Impairment allowances

	2015	2014
	€	€
Net write-downs		
Factored receivables		
- collective allowances	9,358	24,518
- specific allowances	(407,476)	(66,608)
Credit cards, overdrafts and other advances		
- collective allowances	32,984	(40,992)
- specific allowances	(116,602)	21,222
	(481,736)	(61,860)

Notes to the Financial Statements

For the Year Ended 31 December 2015

10 Profit before income tax

10.1 Profit before income tax is stated after charging fees payable, exclusive of VAT, to the Bank's auditors during 2015 for:

	€
Auditors' remuneration	28,620
Other assurance services	3,700
Other non-audit services	2,775
	<u>35,095</u>

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

	2015	2014
	€	€
Directors' fees	36,000	42,500
Staff costs:		
- wages, salaries and allowances	649,140	471,214
- defined contribution social security costs	38,182	27,307
	<u>723,322</u>	<u>541,021</u>

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

	2015	2014
	No.	No.
Managerial	4	3
Supervisory and clerical	15	10
	<u>19</u>	<u>13</u>

10.4 Other expenses incurred by the Bank during the year are analyzed as follows

	2015	2014
	€	€
Computer maintenance costs	261,509	235,535
Marketing expenses	175,040	157,276
Amortisation of premium on investments	189,504	113,997
Other	390,043	327,533
	<u>1,016,096</u>	<u>834,341</u>

11 Income tax expense

11.1 Total income tax expense

	Note	2015 €	2014 €
Current tax expense			
Current year		(1,372,060)	(1,229,189)
Deferred tax			
Origination and reversal of temporary differences	22	175,038	(12)
Total tax expense		(1,197,022)	(1,229,201)

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

	2015 €	2014 €
Profit before income tax	3,583,042	3,527,401
Income tax at the applicable tax rate of 35%	(1,254,065)	(1,234,590)
Income tax effect of:		
Depreciation charges not deductible by way of capital allowances	(19,798)	(5,941)
Non-taxable income	601	11,330
Change in unrecognised deductible temporary differences	76,240	
Tax expense	(1,197,022)	(1,229,201)

12 Earnings per share

Earnings per share is calculated on the profit attributable to ordinary shareholders of the Bank for the year ended 31 December 2015 amounting to €2,386,020 (2014: €2,298,200) divided by 400,000 (2014: 400,000), being the equivalent number of ordinary shares in issue and ranking equally for dividend during the year.

Notes to the Financial Statements

For the Year Ended 31 December 2015

13 Investments

13.1 Investments comprise:

	2015	2014
	€	€
Held-to-maturity debt securities	-	26,455,000
Available-for-sale debt securities	45,774,996	44,604,436
Available-for-sale equity instruments	6,762,660	20,153
	52,537,656	71,079,589

At 31 December 2015, €6,762,660 (2014: €11,400,153) of investment securities are expected to be recovered after more than 12 months from the reporting date.

13.2 At 31 December 2014, held-to-maturity debt securities comprised unquoted non-convertible nominative bonds amounting to €26,455,000 issued by related parties and acquired on issuance by the Bank. The unquoted non-convertible nominative bonds were cash secured by amounts owed to customers held by the Bank. Such debt securities were redeemed during the year and replaced with new loans advanced to customers, which are classified as 'Other loans and advances to customers' - refer to note 16. These transactions are not considered as cash transactions for the year. The Bank did not hold any held-to-maturity debt securities as at year end.

13.3 Available-for-sale debt securities comprise Malta Government Stocks amounting to €36,871,581 (2014: €35,469,141) and local corporate bonds amounting to €8,903,415 (2014: €7,635,295). As at 31 December 2015, part of the Malta Government Stocks held by the Bank were pledged in favour of the Central Bank of Malta to cover the Bank's participation in the Euro-system financing operations, which amounted to €21,700,000 (2014: €20,000,000) at that date.

13.4 Equity instruments available-for-sale comprise:

	2015	2014
	€	€
Unquoted equity holding		
- Society for Worldwide Interbank Financial Telecommunications SCRL		
	20,153	20,153
Investment in collective investment scheme		
- BNP Paribas Flexi III Global Senior Corporate Loans Fund	6,742,507	-
	6,762,660	20,153

13 Investments (continued)

13.5 The movement in investments may be summarised as follows:

	Held-to- maturity	Available-for- sale	Total
	€	€	€
At 1 January 2014	26,455,000	26,805,197	53,260,197
Acquisitions	-	23,039,901	23,039,901
Disposals	-	(8,240,386)	(8,240,386)
Net fair value movement	-	3,019,877	3,019,877
At 31 December 2014	26,455,000	44,624,589	71,079,589
At 1 January 2015	26,455,000	44,624,589	71,079,589
Acquisitions	-	16,403,055	16,403,055
Disposals	(26,455,000)	(10,464,323)	(36,919,323)
Net fair value movement	-	1,974,335	1,974,335
At 31 December 2015	-	52,537,656	52,537,656

14 Loans and advances to banks

	2015	2014
	€	€
Repayable on call and at short notice	29,800,527	14,331,767
Term loans and advances	2,670,919	2,645,010
	32,471,446	16,976,777

Notes to the Financial Statements

For the Year Ended 31 December 2015

15 Factored receivables

	2015	2014
	€	€
Receivables factored without recourse	20,593,085	21,848,102
Allowance for uncollectibility:		
- Specific	(747,822)	(340,346)
- Collective	(205,720)	(215,078)
	(953,542)	(555,424)
	19,639,543	21,292,678

Of the carrying amount of factoring receivables as at 31 December 2014, the Bank pledged an amount of €11,665,319 in favour of the trustee which held the security granted by the Bank on trust for the benefit of all holders of debt securities issued by the Bank. The debt securities matured in June 2015 and the pledge was released accordingly.

Allowances

	2015	2014
	€	€
At 1 January	555,424	513,334
Net increase	398,118	42,090
	953,542	555,424

An allowance for uncollectibility is provided against receivables factored without recourse, other than exposures to European governmental agencies.

16 Other loans and advances to customers

16.1 Term loans and advances

	Note	2015 €	2014 €
Term loans and advances		3,683,431	1,878,397
Term loans and advances to related parties	29.3	54,082,000	30,661,656
Credit cards and overdrafts		674,444	476,601
		58,439,875	33,016,654

16.2 At 31 December 2015, €39,569,090 (2014: €1,100,513) of loans and advances to customers are expected to be recovered in excess of 12 months after the reporting date.

16.3 Loans and advances to customers amounting to €49,102,000 (2014: €25,174,000) are cash secured by amounts owed to customers held by the Bank and no specific allowance for uncollectibility is necessary.

16.4 Credit card, overdraft balances and other advances are stated net of €16,597 (2014: €49,581) collective impairment provision and €144,792 (2014: €28,190) specific impairment provision.

Notes to the Financial Statements

For the Year Ended 31 December 2015

17 Property and equipment

17.1

	Cost / Revalued amount		Cost		
	Total €	Premises and improvements €	Computer hardware €	Other equipment €	Motor vehicles €
Cost/revalued amount					
At 1 January 2014	3,156,556	2,202,388	384,381	522,135	47,652
Acquisitions	228,728	205,551	5,456	17,721	-
At 31 December 2014	3,385,284	2,407,939	389,837	539,856	47,652
At 1 January 2015	3,385,284	2,407,939	389,837	539,856	47,652
Acquisitions	754,730	606,916	129,934	17,880	-
Disposal	(3,045)	-	-	-	(3,045)
At 31st December 2015	4,136,969	3,014,855	519,771	557,736	44,607
Depreciation					
At 1 January 2014	807,201	61,231	329,416	393,527	23,027
Charge for year	82,762	23,974	27,278	23,144	8,366
At 31 December 2014	889,963	85,205	356,694	416,671	31,393
At 1 January 2015	889,963	85,205	356,694	416,671	31,393
Charge for year	100,017	47,165	34,643	7,088	11,121
Released on disposal	(3,045)	-	-	-	(3,045)
At 31st December 2015	986,935	132,370	391,337	423,759	39,469
Carrying amount					
At 1 January 2014	2,349,355	2,141,157	54,965	128,608	24,625
At 31 December 2014	2,495,321	2,322,734	33,143	123,185	16,259
At 1 January 2015	2,495,321	2,322,734	33,143	123,185	16,259
At 31 December 2015	3,150,034	2,882,485	128,434	133,978	5,138

17 Property and equipment (continued)

17.2 The carrying amount of premises and improvements that would have been included in the financial statements had these assets not been revalued (see note 31.2.2) and had been carried at cost less depreciation is €1,648,397 (2014: €1,088,224).

17.3 As at 31 December 2015, capital expenditure authorised but not contracted for amounted to €180,000 (2014: €50,000) and capital expenditure authorised and contracted for amounted to €Nil (2014: €584,500).

18 Intangible assets

	Computer software
	€
Cost / revalued amount	
At 1 January 2014	1,598,830
Acquisitions	208,803
At 31 December 2014	1,807,633
At 1 January 2015	1,807,633
Acquisitions	379,846
At 31 December 2015	2,187,479
Depreciation	
At 1 January 2014	837,918
Charge for year	104,764
At 31 December 2014	942,682
At 1 January 2015	942,682
Charge for the year	143,863
At 31 December 2015	1,086,545
Carrying amount	
At 1 January 2014	760,912
At 31 December 2014	864,951
At 1 January 2015	864,951
At 31 December 2015	1,100,934

Notes to the Financial Statements

For the Year Ended 31 December 2015

18 Intangible assets (continued)

As at 31 December 2015, capital expenditure authorised but not contracted for amounted to €25,000 (2014: €177,000) and capital expenditure authorised and contracted for amounted to €331,403 (2014: €355,558).

19 Other assets

	2015	2014
	€	€
Accrued income	1,287,575	1,467,986
Accounts receivable and prepayments	126,656	170,371
	<hr/> 1,414,231 <hr/>	<hr/> 1,638,357 <hr/>

Accrued income includes amounts due by related parties amounting to €738,940 (2014: €951,248).

20 Amounts owed to customers

	2015	2014
	€	€
Repayable on demand	59,703,496	49,275,826
Term deposits	47,557,740	41,577,469
	<hr/> 107,261,236 <hr/>	<hr/> 90,853,295 <hr/>

Amounts owed to customers include an amount of €53,860,403 (2014: €56,713,239) owed by the Bank to related parties.

21 Debt securities issued

	2015	2014
	€	€
Debt securities issued at amortised cost	11,837,631	8,969,458
At 1 January	8,969,458	8,910,057
Maturities during the year	(9,000,000)	-
Funds raised by issue during the year	12,000,000	-
Debt issuance costs during the year	(170,856)	-
	11,798,602	8,910,057
Amortisation of debt issuance costs during the year	39,029	8,910,057
At 31 December	11,837,631	8,969,458

In 2010, the Bank issued debt securities amounting to €9,000,000 at 5.35% which matured in June 2015. These notes were secured by a pledge on factored receivables amounting to €11,665,319 (refer to note 15). The debt securities issued as at 31 December 2010 constituted the general, direct, unconditional and secured obligations of the Bank and, at all times, ranked pari passu without any priority or preference among themselves.

In 2015, the Bank issued unsecured debt securities amounting €12,000,000 at 4.5% maturing in 2025. The debt securities issued as at 30 June 2015 constitute the general, direct, unconditional and unsecured obligations of the Bank and shall at all times rank pari passu, without any priority or preference among themselves and with other unsecured debt. Out of the debt securities which matured in June 2015, €8,331,000 were rolled over by the debt holders into the new debt securities issued during the year and therefore are not considered as cash transactions for the year.

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

22 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	Net	Assets	Liabilities	Net
	2015	2015	2015	2014	2014	2014
	€	€	€	€	€	€
Excess of capital allowances over depreciation	-	(110,785)	(110,785)	-	(119,635)	(119,635)
Collective impairment allowance	77,811	-	77,811	92,300	-	92,300
Specific impairment allowance	309,665	-	309,665	128,988	-	128,988
Revaluation of property	-	(162,967)	(162,967)	-	(267,831)	(267,831)
Fair value movements	-	(1,629,059)	(1,629,059)	-	(1,155,539)	(1,155,539)
	387,476	(1,902,811)	(1,515,335)	221,288	(1,543,005)	(1,321,717)

Notes to the Financial Statements

For the Year Ended 31 December 2015

22 Deferred tax assets and liabilities (continued)

Movement in temporary differences relates to:

	At 1 January 2015	Recognised in profit or loss	Recognised in equity	At 31 December 2015
	€	€	€	€
Excess of capital allowances over depreciation	(119,635)	8,850	-	(110,785)
Collective impairment allowance	92,300	(14,489)	-	77,811
Specific impairment allowance	128,988	180,677	-	309,665
Revaluation of property	(267,831)	-	104,864	(162,967)
Fair value movements	(1,155,539)	-	(473,520)	(1,629,059)
	(1,321,717)	175,038	(368,656)	(1,515,335)

	At 1 January 2014	Recognised in profit or loss	Recognised in equity	At 31 December 2014
	€	€	€	€
Excess of capital allowances over depreciation	(97,972)	(21,663)	-	(119,635)
Collective impairment allowance	86,716	5,584	-	92,300
Specific impairment allowance	112,921	16,067	-	128,988
Revaluation of property	(266,161)	-	(1,670)	(267,831)
Fair value movements	(233,208)	-	(922,331)	(1,155,539)
	(397,704)	(12)	(924,001)	(1,321,717)

23 Accruals and deferred income

	2015	2014
	€	€
Accrued interest payable	828,155	1,123,725
Deferred factoring commissions	188,549	191,556
Other accrued expenses	102,306	204,178
	1,118,970	1,519,459

Accruals and deferred income include amounts due to related parties (see note 29.3) amounting to €182,544 (2014: €187,723).

24 Share capital and reserves

24.1 Share capital

	Ordinary shares	
	2015	2014
	No.	No.
On issue at 1 January:		
Issued for cash	54,762	54,762
Issued in lieu of dividend payment	345,238	345,238
On issue at 31 December – fully paid	400,000	400,000

At 31 December 2015, the authorised share capital comprised 400,000 ordinary shares (2014: 400,000) of €25 each. The Bank's issued ordinary shares are equally held by IBL I Limited and IBL T Limited (see note 29.1), which are 100% indirect subsidiaries of VMKG PLLC (the ultimate parent).

All shares in issue are fully paid up.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Bank.

24.2 Capital contribution

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

24.3 Property revaluation reserve

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

24.4 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets net of deferred tax effect until the investments are derecognised or impaired.

24.5 Depositor compensation scheme reserve

The depositor compensation scheme reserve represents amounts set aside by the Bank from its retained earnings. As at 31 December 2015, a total amount of €238,387, (2014: €160,508) was placed with Central Bank of Malta by the Bank and pledged in favour of the Depositor Compensation Scheme.

Notes to the Financial Statements

For the Year Ended 31 December 2015

24 Share capital and reserves (continued)

24.6 Availability of reserves for distribution

	2015	2014
	€	€
Distributable	13,372,736	11,665,109
Non-distributable	4,307,228	3,275,334
	17,679,964	14,940,443

24.7 Dividends

During the current year the Bank declared and paid a dividend amounting to €5.63 (2014: €5.00) per ordinary share that amounted to €2,250,000 (2014: €2,000,000).

After 31 December 2015, the directors proposed a dividend of €5.00 per ordinary share in respect of 2015 amounting to €2,000,000. The proposed dividends have not been provided for and there are no income tax consequences.

24.8 Reserve for general banking risk

In December 2013, the Malta Financial Services Authority's revised Banking Rule 09 (BR09), which came into effect with the ultimate aim of increasing the level of bank reserves. BR09 requires the Bank to hold a Reserve for General Banking Risk, calculated as a percentage of non-performing loans. This reserve is required to be funded from planned dividends. In this respect, the Bank has taken an additional reserve at the end of this year amounting to €217 (2014: €8,544).

25 Commitments

	2015	2014
	€	€
Unutilised factoring, overdraft facilities and credit card commitments	33,128,620	34,989,271

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

Factoring commitments are granted to customers at prevailing market rates at transfer date.

Notes to the Financial Statements

For the Year Ended 31 December 2015

26 Net cash generated from operating activities

	2015	2014
	€	€
Profit for the year	2,386,020	2,298,200
Adjustments for:		
Depreciation and amortisation	243,880	187,526
Income tax expense	1,197,022	1,229,201
Impairment allowances	481,736	61,860
Interest receivable on debt securities	(2,459,712)	(2,658,652)
Interest expense on debt securities	510,990	481,500
Realised gains on disposal of investments	(631,184)	(379,842)
Amortisation of premiums and discounts on available-for-sale securities	189,504	113,997
Amortisation of transaction costs on debts securities issued	39,029	59,401
Dividend income	(194,820)	-
	1,762,465	1,393,191
Changes in loans and advances to customers and other receivables	948,160	(13,529,444)
Changes in factored receivables	1,252,010	8,951
Changes in amounts owed to customers and to Central Bank of Malta	18,107,941	24,489,099
Changes in accruals and deferred income	(1,091,998)	204,617
	20,978,578	12,566,414

27 Cash and cash equivalents

	2015	2014
	€	€
Cash and items in transit	1,656,731	29,825
Balances with Central Bank of Malta	989,261	976,517
Loans and advances to banks with contractual maturity of three months or less	32,471,446	16,976,777
	35,117,438	17,983,119

28 Operating leases

The Bank had no operating lease agreements in force during the year ended 31 December 2015 (2014: nil).

Notes to the Financial Statements

For the Year Ended 31 December 2015

29 Related parties

29.1 Identity of related parties and ultimate controlling party

Related parties are related by virtue of having common directors. The Bank's ultimate parent is VMKG PLLC, company number 0447.152.677.

The financial results and assets and liabilities of the Bank are included in the consolidated financial statements of VMKG PLLC, the registered office of which is Paepsemiaan, 28-30, 1070 Brussels, Belgium.

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

On 22 December 2015, IBL I Limited, which owned 50% of the Bank, transferred 199,999 shares in the Bank to IBL T Limited. Consequently, IBL T Limited became the new immediate parent of the Bank.

29.2 Related party transactions

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

	2015	2014
	€	€
Interest receivable and similar income	2,799,824	2,749,436
Fees and commissions receivable	2,813,196	2,755,233
Other operating income	14,193	14,193
	<hr/>	<hr/>
Interest expense	641,078	806,375
	<hr/>	<hr/>

29.3 Related party balances

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

	2015	2014
	€	€
Assets		
Loans and advances to customers	54,082,000	30,661,656
Investments	-	26,455,000
Prepayments and accrued income	738,940	951,248
	<hr/>	<hr/>
Liabilities		
Amounts owed to customers	56,760,403	56,713,239
Debt securities issued to directors	290,000	150,000
Accruals and deferred income	182,544	187,723
	<hr/>	<hr/>

29 Related parties (Continued)

29.4 Transactions with key management personnel

	2015	2014
	€	€
Compensation to key management personnel	275,914	216,195
Loans advanced to key management personnel	250,000	-
Loans advanced to directors	137,656	50,593
Debt securities issued to directors	140,000	-

The loan advanced to key management personnel is secured against property in Malta, bears interest at 1.75% per annum and is repayable after more than five years from the reporting date.

30 Operating segments

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

30.2 Geographical information

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

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

	2015	2014
	€	€
Revenue		
Malta	1,681,762	1,342,774
Belgium	5,797,974	5,602,719
	7,479,736	6,945,493
Non-current assets		
Malta – property, equipment and intangible assets	4,250,969	3,360,272

Information about revenues, costs and balances as a result of transactions with this Group is set out in note 29.

Notes to the Financial Statements

For the Year Ended 31 December 2015

31 Accounting estimates and judgements

31.1 The directors considered the development, selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates. Estimates and judgements are continually evaluated and are based on historical and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

31.2 Critical accounting judgements in applying the Bank's accounting policies

Certain critical accounting judgements in applying the Bank's accounting policies are described below.

31.2.1 Impairment losses on loans and advances and factored receivables

The Bank reviews its loan portfolio to assess impairment on an ongoing basis as relevant generic data is observed concerning risks associated with loans and factored receivables with similar risk characteristics. As a result, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and factored receivables, before the decrease is actually identified with an individual loan or factored receivable in that portfolio. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

31.2.2 Revaluation of premises

The Bank's premises are measured at revalued amount less accumulated depreciation. The revaluation amount is determined on the basis of open market values provided periodically, at least every five years, by independent valuers. The Bank occupies almost the full complement of two adjacent and prestigious houses – Nos. 53 and 58 in East Street, Valletta, close to the 'Lower Barrakka' Gardens and with views of the Grand Harbour and the three cities. The buildings date to the eighteenth century and are structurally sound and complete of finishes of a very high standard. The valuation of the property is in line with the value of properties in the same area. The market valuation, as determined by the directors following consultation with an independent valuer on 25 May 2012, of the property disclosed in note 17 was €1,750,000.



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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the financial statements of Izola Bank p.l.c. (the "Bank"), as set out on pages 1 to 60, which comprise the statement of financial position as at 31 December 2015 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information..

Directors' Responsibility for the Financial Statements

As explained more fully in the Directors' Responsibilities Statement set out on page xiv, the directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Banking Act, 1994 (Chapter 371, Laws of Malta). They are also responsible 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 179 of the Act, and Article 31 of the Banking Act, 1994 (Chapter 371, Laws of Malta), and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report 2015 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

KPMG, a Maltese civil partnership, is a member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

The firm is registered as a partnership of Certified Public Accountants in terms of the Accountancy Profession Act.

A list of partners and directors of the firm is available at Portico Building, Marina Street, Pietà, PTA 9044, Malta.



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Independent Auditors' Report (*continued*)

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

Opinion on Financial Statements

In our opinion, the financial statements:

- give a true and fair view of the Bank's financial position as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta) and the Banking Act, 1994 (Chapter 371, Laws of Malta).

Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Banking Act, 1994 (Chapter 371, Laws of Malta)

In our opinion:

- we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- proper books of account have been kept by the Bank so far as appears from our examination thereof;
- the Bank's financial statements are in agreement with the books of account; and
- to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

Matters on which we are required to report by exception by the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), other than those reported upon above

We have nothing to report in respect of the following matters where the Act requires us to report to you if, in our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- certain disclosures of directors' remuneration specified by the Act are not made.

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Independent Auditors' Report (continued)

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

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta on the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance (the "Principles") outlined in Appendix 5.1 to Chapter 5 (Continuing Obligations) of the Listing Rules (the "Appendix")

Listing Rule 5.97 requires an Issuer whose securities are admitted to trading on a Regulated Market operating in Malta to prepare a corporate governance statement. In addition, as an Issuer registered in Malta, Listing Rule 5.94 requires that the Bank endeavours to adopt the Principles and to prepare a report explaining how it has complied with the provisions of the Appendix.

Our responsibility as independent auditors of the Bank, is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages viii to xiii.

We review the Directors' Statement of Compliance, and report as to whether this Statement provides the disclosures required by Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process, or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risks and control procedures, nor on the ability of the Bank to continue in operational existence.

In our opinion, the Directors' Statement of Compliance set out on pages viii to xiii provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

Kevin Mifsud (Director) for and on behalf of

KPMG
Registered Auditors

23 March 2016

KPMG, a Maltese civil partnership, is a member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

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izola Bank

INTRODUCTION

Background to Pillar 3 disclosures

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

Nature of Disclosures

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

The Annual Report of Izola Bank p.l.c. has been filed with the MFSA Registry of Companies and the MFSA Banking Unit. These Pillar 3 disclosures refer to the financial year ended 31st December 2015 and have been included in the Annual Report for 2015.

The Bank has in place a formal policy to comply with the disclosure requirements laid down in Banking Rule BR/07/2015. The Directors, after due consideration of the size and complexity of the Bank, do not feel it necessary to produce Pillar 3 disclosures more frequently than annually.

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

1 RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Business risk

Business risk is the risk that the Bank may not be able to carry out its business plan or its desired strategy and could therefore suffer losses if its income falls.

This is a risk that every business faces. Business risk mainly results from the Bank's dependence on the Group for its ongoing business and future business expansion. There are no specific mitigating factors though it is to be noted that the Group is itself diversified and has a large number of clients and suppliers which in turn helps to diversify the underlying risk.

Concentration risk

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

The Bank recognizes that credit concentration risk is present in the Bank's factoring business in view of the fact that factored debtors are active in the property, building and construction sector. Credit concentration risk is mitigated by the Group's vast experience in this sector and local and in depth knowledge of the customer base. The Bank is fully able to take advantage of this experience and local knowledge.

1 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Operational risk

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

Interest rate risk in the non-trading book

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

2 BOARD AND COMMITTEES STRUCTURE

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

Board Committee

Composition: The Board Committee comprises two non-executive directors and the Chief Executive Officer.

Main Functions: The Board Committee acts in an advisory capacity to the Board.

Frequency: This Committee meets on an ad-hoc basis throughout the year.

Credit Committee

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

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

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

Audit Committee

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

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

The Committee provides independent review, monitoring and assessment of:

- the integrity of the annual financial statements
- the effectiveness of management's system of internal control
- the effectiveness of operational risk controls
- the Bank's compliance with applicable laws and regulations
- the Bank's ethical and business standards.

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

2 BOARD AND COMMITTEES STRUCTURE (Continued)

Asset and Liability Management Committee (ALCO)

Composition: This Committee is made up of a non-executive independent director, the Chief Executive Officer, the Financial Controller and a Finance Executive.

Main Functions: The ALCO:

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

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

3 OWN FUNDS

During the year ended 31 December 2015, the Bank complied with all of the externally imposed capital requirements to which it was subject. The following table summarises the composition of the Bank's regulatory capital as reported to the MFSA as at 31 December 2015.

Appendix I - Pillar 3 Disclosures

as at 31 December 2015

3 OWN FUNDS (Continued)

	2015
	€
Common Equity Tier 1 (CET1) Capital: instruments and reserves	
Paid up capital instruments	20,482,904
Retained Earnings	2,889,832
CET1 Capital before regulatory adjustments	23,372,736
Common Equity Tier 2 (CET2) Capital: instruments and reserves	
Collective provisioning	222,317
Accumulated other comprehensive income (and other reserves)	4,068,624
	4,290,941
Regulatory deductions and adjustments	
Deductions related to intangible assets	(1,100,934)
Regulatory adjustments relating to unrealised gains	(1,627,450)
Total Own Funds	24,935,293

3 OWN FUNDS (Continued)

Composition of Own Funds

- i. Ordinary Shares: At 31 December 2015, the authorised share capital comprised 400,000 ordinary shares of €25 each. All shares in issue are fully paid up. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Bank.
- ii. Retained Profits: this includes the balance available for distribution to the shareholders.
- iii. Capital Contribution: this represents a contribution by the shareholders to the distributable reserves of the Bank.
- iv. Collective Provisioning: this represents a general provision against the Bank's unsecured lending.
- v. Available-for-sale Financial Assets (AFS): this represents fair value movements on AFS assets, net of tax.
- vi. Revaluation Reserve: this represents reserves arising from the revaluation of tangible fixed assets, net of tax.

4 CAPITAL ADEQUACY

4.1 Internal Capital Adequacy Assessment Process (ICAAP)

ICAAP Methodology

The Bank's latest ICAAP report is based on 31st December 2014 figures.

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

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

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

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

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

4 CAPITAL ADEQUACY (Continued)**4.2 Credit Risk Capital Requirements by Standardised Approach Exposure Class**

Table 4.1 Capital Requirement by exposure class as at 31 December 2015

	Capital Requirement
	€ 000s
Central Government or Central Banks	-
Corporates	3,274
Institutions	579
Other	427
Total	4,280

4.3 Market Risk Capital Requirement

The market risk capital requirement of the Bank is not significant, comprising a foreign exchange risk charge of €5,140.

4.4 Operational Risk Capital Requirement

The gross income registered by the Bank in 2015, 2014 and 2013 amounted to €6,048,076, €5,152,149 and €4,339,653 respectively. The operational risk capital requirement for 2015 amounted to €776,994.

5 CREDIT RISK**5.1 Credit risk**

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

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

5 CREDIT RISK (Continued)

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

Impaired factored receivables

These comprise factored receivables for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the factored receivables agreements.

Table 5.1 Allowance for impairment on factored receivables

	2015	2014
	€	€
Factored receivables – gross	20,593,085	21,848,102
Collectively determined	20,593,085	21,848,102
Collective allowance for impairment	205,720	215,078
Specific allowance for impairment	747,822	340,346

Past due but not impaired

Receivables where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

As at 31 December 2015, 35% of the Bank's factored receivables were past due but not impaired. 23% of the factored receivables became past due on 31 December 2015. A substantial amount of these receivables has been paid by the date of issue of these financial statements.

Table 5.2 Neither past due nor impaired loans and securities

	2015	2014
	€	€
Loans and advances to customers	57,765,431	32,540,053
Loans and advances to banks	32,471,446	16,976,777
Investment securities	52,537,656	71,079,589
	142,774,533	120,596,419

5 CREDIT RISK (Continued)

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

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its factored receivables portfolio. The main components of this allowance are a specific loss component that relates to individually impaired receivables, and a collective loss allowance established for groups of factored receivables in respect of losses that have been incurred but have not been identified and subjected to individual assessment for impairment.

	2015	2014
	€	€
Allowance for impairment on factored receivables	953,542	555,424

Table 5.3 Total period end and average exposures after individual impairment and prior to credit risk mitigation by exposure class.

	Exposure as at 31/12/2015	Average Exposure for period to 31/12/2015
	€ 000s	€ 000s
Central Government or Central Banks	37,861	37,904
Corporates	92,322	89,948
Institutions	34,962	26,393
Other	6,254	5,641
Total	171,399	159,886

Table 5.4 Geographic distribution of exposure classes

	Malta	Europe	Rest of the World	Total
	€ 000s	€ 000s	€ 000s	€ 000s
Central Government or Central Banks	37,861	-	-	37,861
Corporates	7,668	84,654	-	92,322
Institutions	4,011	30,653	298	34,962
Other	4,251	2,003	-	6,254
Total	53,791	117,310	298	171,399

5 CREDIT RISK (Continued)

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

Table 5.5 Distribution of the exposures by industry/counterparty type

	Central Government or Central Banks	Corporates	Institutions	Other	Total
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
Monetary Financial Institutions	989	6,743	34,962	-	42,694
Sovereigns	36,872	-	-	-	36,872
Manufacturing	-	4,957	-	-	4,957
Wholesale and retail trade	-	12,505	-	-	12,505
Real estate, renting and business activities	-	35,932	-	-	35,932
Construction	-	22,156	-	-	22,156
Education	-	7	-	-	7
Other	-	10,022	-	6,254	16,276
Total	37,861	92,322	34,962	6,254	171,399

Table 5.6 Residual Maturity Breakdown of the exposures

	< 1 year	1 – 5 years	> 5 years	Total
	€ 000s	€ 000s	€ 000s	€ 000s
Central Government or Central Banks	989	20,018	16,854	37,861
Corporates	38,173	9,164	44,985	92,322
Institutions	34,126	836	-	34,962
Other	6,254	-	-	6,254
Total	79,542	30,018	61,839	171,399

5 CREDIT RISK (Continued)

5.4 Past Due Exposures and Impaired Assets

Table 5.7 Impaired, past due exposures and provisions by industry sector

Standardised exposure classes	Individual & collective provision	Charged to income statement in the year ended 31 December 2015
	€ 000s	€ 000s
Central Government or Central Banks	-	-
Corporates	1,115	482
Institutions	-	-
Other	-	-
Total	1,115	482

Table 5.8 Impaired, past due exposures and provisions by geographic area

Standardised exposure classes	Individual & collective provision	Charged to income statement in the year ended 31 December 2015
	€ 000s	€ 000s
Malta	-	-
Europe	1,115	482
Rest of the World	-	-
Total	1,115	482

Table 5.9 Movement in allowances for impaired and past due exposures and provisions

	Individual & collective provisions
	€ 000s
Opening balance	633
Amounts written off	(109)
Impairment increase	591
Closing balance	1,115

6 STANDARDISED APPROACH TO CREDIT RISK

6.1 Exposure to Institutions

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

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

Table 6.1 Institutions

Credit Quality Step	Risk Weight	Ratings	Exposure	Exposure After CRM
			€ 000s	€ 000s
1	20%	Fitch AAA to A	34,126	34,126
3	50%	Fitch BBB+	836	836

6.2 Exposure to Central Government and Central Bank

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

Table 6.2 Central Government and Central Bank

Credit Quality Step	Risk Weight	Banking Regulation	Exposure	Exposure After CRM
			€ 000s	€ 000s
1	0%	Art. 114(4)	989	989
2	0%	Art. 114(4)	36,872	36,872

6.3 Exposure to Corporates

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

Table 6.3 Corporates

Credit Quality Step	Risk Weight	Banking Regulation	Exposure	Exposure After CRM
			€ 000s	€ 000s
1	0%	Art. 400(1)g	49,102	-
3	50%	Art. 124(2) / Art. 126(1)	5,127	2,563
5	100%	Art. 122(2)	38,093	38,093

Appendix I - Pillar 3 Disclosures

as at 31 December 2015

7 REMUNERATION POLICY

The Board carries out the tasks normally delegated to a Remuneration Committee since the remuneration of directors is not performance related. The Board has established a Remuneration Policy the aim of which is to increase transparency when offering remuneration and benefits to the Bank's senior management team.

8 CREDIT RISK MITIGATION

8.1 Collateral

	€ 000s
Central Government or Central Banks	-
Corporates	49,102
Institutions	-
Other	-
Total	49,102

Analysis of collateral is disclosed in Note 4.4.3 of the Annual Report 2015.

9. CONCLUSION

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

Statement of Profit or Loss and Other Comprehensive Income

	2015	2014	2013	2012	2011
	€	€	€	€	€
Interest receivable and similar income	4,665,066	4,168,187	3,588,514	3,752,304	3,459,209
Interest payable and similar charge	(2,273,514)	(2,162,773)	(1,859,492)	(1,886,585)	(1,699,157)
Net interest income	2,391,552	2,005,414	1,729,022	1,865,719	1,760,052
Fee and commission income	2,775,879	2,734,690	2,233,827	1,714,995	1,887,828
Other operating income	880,645	412,045	376,804	145,665	41,416
Other operating charges	(1,983,298)	(1,562,888)	(1,334,182)	(1,146,678)	(1,355,156)
Net impairment losses	(481,736)	(61,860)	(163,643)	(171,334)	(35,761)
Profit before tax	3,583,042	3,527,401	2,841,828	2,408,367	2,298,379
Income tax expense	(1,197,022)	(1,229,201)	(987,878)	(839,306)	(761,436)
Profit for the year	2,386,020	2,298,200	1,853,950	1,569,061	1,536,943
Other comprehensive income for the year, net of income tax	974,495	1,716,034	47,425	633,908	125,817
Total comprehensive income for the year	3,360,515	4,014,234	1,901,475	2,202,969	1,662,760
Earnings per share	5.97	5.75	4.63	3.92	3.84

Statement of Financial Position

	2015	2014	2013	2012	2011
	€	€	€	€	€
ASSETS					
Cash and items in transit	1,656,731	29,825	51,353	750	1,104
Balances with Central Bank of Malta	989,261	976,517	3,610,741	1,304,719	5,288,371
Investments	52,537,656	71,079,589	53,260,197	44,459,562	38,757,542
Loans and advances to banks	32,471,446	16,976,777	17,271,494	10,836,922	6,337,124
Factored receivables	19,639,543	21,292,678	21,343,003	16,081,859	15,787,107
Other loans and advances to customers	58,439,875	33,016,654	19,705,987	18,688,135	19,281,374
Property and equipment	3,150,034	2,495,321	2,349,355	2,377,433	2,102,956
Intangible assets	1,100,934	864,951	760,912	535,038	186,787
Other assets	1,414,231	1,638,357	1,138,499	1,129,654	1,948,574
Total assets	171,399,711	148,370,669	119,491,541	95,414,072	89,690,939
LIABILITIES					
Balance owed to Central Bank of Malta	21,700,000	20,000,000	15,500,000	9,500,000	7,000,000
Amounts owed to customers	107,261,236	90,853,295	70,864,196	54,612,460	54,634,490
Debt securities in issue	11,837,631	8,969,458	8,910,057	8,852,235	8,792,718
Deferred tax liabilities	1,515,335	1,321,717	397,704	357,003	345,201
Current tax payable	286,575	766,297	1,147,112	930,239	804,831
Accruals and deferred income	1,118,970	1,519,459	1,193,215	1,159,417	939,662
Total liabilities	143,719,747	123,430,226	98,012,284	75,411,354	72,516,902
EQUITY					
Called up share capital	10,000,000	10,000,000	10,000,000	10,000,000	7,000,000
Property revaluation reserve	1,048,190	955,479	975,684	995,900	626,059
Fair value reserve	3,020,434	2,150,803	433,099	383,893	128,024
Depositor compensation scheme reserve	238,387	160,508	148,109	80,933	37,425
Reserve for general banking risk	217	8,544	-	-	-
Capital contribution	10,482,904	8,853,898	7,406,946	6,331,882	7,206,170
Retained earnings	2,889,832	2,811,211	2,515,419	2,210,110	2,176,359
Total equity attributable to equity holders of the Bank	27,679,964	24,940,443	21,479,257	20,002,718	17,174,037
Total liabilities and equity	171,399,711	148,370,669	119,491,541	95,414,072	89,690,939
Memorandum items					
Commitments	33,128,620	34,989,271	34,411,709	24,826,747	21,984,511

Statement of Cash Flows

	2015	2014	2013	2012	2011
	€	€	€	€	€
Net cash from/(used in) operating activities	19,126,796	10,956,398	16,324,581	3,919,284	5,774,534
Cash flows from investing activities					
Payments to acquire property, equipment and intangible assets	(1,134,576)	(437,520)	(374,605)	(540,324)	(217,100)
Payments to acquire investments	(16,403,055)	(23,039,901)	(29,030,000)	(19,257,102)	(14,400,683)
Proceeds from disposals of investments	10,464,323	8,240,386	20,683,965	14,062,951	6,638,366
Interest received from investments	3,159,361	2,364,716	2,095,012	2,186,772	1,625,169
Dividend received	194,820	-	-	-	-
Net cash used in investing activities	(3,719,127)	(12,872,319)	(6,625,628)	(3,547,703)	(6,354,248)
Cash flows from financing activities					
Dividends paid to shareholders	(2,250,000)	(2,000,000)	(1,500,000)	(1,500,000)	(2,000,000)
Net capital contribution received	1,629,006	1,446,952	1,075,064	2,125,712	2,756,988
Issue of debt securities net of transaction costs	3,498,144	-	-	-	-
Redemption of debt securities	(669,000)	-	-	-	-
Interest paid on debt securities	(481,500)	(481,500)	(482,820)	(481,501)	(489,830)
Net cash from / (used in) financing activities	1,726,650	(1,034,548)	(907,756)	144,211	267,158
Increase / (decrease) in cash and cash equivalents	17,134,319	(2,950,469)	8,791,197	515,792	(312,556)

Accounting Ratios

	2015	2014	2013	2012	2011
	%	%	%	%	%
Net interest income and other operating income to total asset	3.53	3.47	3.63	3.91	4.11
Operating expenses to total assets	1.44	1.10	1.25	1.38	1.55
Profit before tax to total assets	2.09	2.38	2.38	2.52	2.56
Pre-tax return on capital employed	15.33	16.29	14.22	12.99	14.03
Profit after tax to equity	8.62	9.21	8.63	7.84	8.95

Appendix III – Supplementary Financial Information

Directors' interest in the share capital of the Bank or in any related company as at 31 December 2015

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

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

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

	Type & class of shares	Issued shares	Percentage paid up	Nominal value per share
IBL I Limited C 16321				
VMT S.A	Ordinary	24,999	100	€24.79
IVM S.A	Ordinary	1	100	€24.79
IBL T Limited C 16322				
VMT S.A	Ordinary	24,999	100	€24.79
IVM S.A	Ordinary	1	100	€24.79
Shareholders holding 5% or more of the Share Capital as at 31st December 2015				
IBL I Limited	Ordinary "A"	1	100	€25.00
IBL T Limited	Ordinary "B"	399,999	100	€25.00

Number of Shareholders

Class	Number of Shares	Number of Holders
Class A	1	1
Class B	399,999	1
Range	Class "A"	Class "B"
1 – 5,000	1	-
5,001 & over	-	1

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



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