FERRATUM BANK PLC

Annual Report and Financial Statements
31 December 2017

Company Registration Number: C56251

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2017.

Principal activities

The Company's principal activity is the operation of a credit institution under the Banking Act, Cap 371 of the Laws of Malta, in accordance with the credit institution licence granted by the Malta Financial Services Authority.

Review of the business

The Bank registered a profit of €10,088,170 (2016: €3,025,490) during the financial year under review.

The Bank's principal activity comprises the provision of unsecured consumer loans and other consumer and business orientated financial products, distributed through a mobile phone platform and through the internet. The Bank is currently providing services in Poland, Estonia, Latvia, the Czech Republic, Germany, Bulgaria, Sweden, Norway, Spain and Croatia. The Bank also offers deposit products, which primarily consist of savings and term deposits, to its customers in Germany, Sweden, Norway, France and Spain.

Principal risks and uncertainties

The financial risk management note in the financial statements (Note 2) describes the process of how the Bank identifies and manages its risks and uncertainties. The main categories of risk described in this Note are credit risk, market risk, liquidity risk and operational risk. The same note includes extensive detail of the processes undertaken by the Bank to manage these risks.

Results and dividends

The statement of comprehensive income is set out on page 14. Net interest income increased by 45% over last year to attain the level of €86.7 million registered during FY2017 compared to €59.8 million reflected in the financial statements for FY2016. This reflects this significant increase in lending business experienced during the current financial year. Net fee and commission expense dropped by 15% compared to the same period last year to €4.6 million. In the financial year ended 31 December 2017, operating expenses increased by 36% reaching €38 million reflected in FY2017. Net impairment losses have increased by 43% with €33.3 million recognised in FY2017 as opposed to €23.3 million reflected in FY2016, in line with the increased lending activity and increased net interest income. Profit after tax for the financial year 2017 amounted to €10.1 million which reflects a significant increase of 233.4% over financial year 2016 with a profit after tax of €3 million.

The key highlights within the statement of financial position as at 31 December 2017 comprise the increase in total assets from €168.8 million as at 31 December 2016 to €261.2 million as at 31 December 2017 funded by an increase in total liabilities from €143.3 million at 31 December 2016 to €219.9 one year later. Loans and advances to customers, the key Bank asset, have increased by 37.5% reaching €122.5 million at 31 December 2017; whilst retail deposits, the main liability, have increased by 74% to €171.2 million at FY2017 year end.

During the year, the directors proposed a final dividend of €2,800,000 (2016: €4,362,770) amounting to a net dividend of 28.0 cent per share (2016: 43.6 cent per share).

In compliance with the Banking Rule 09: 'Measures addressing credit risks arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Banking Act, 1994' issued by the MFSA, an amount of €0.1 million (2016: €0.2 million) from profits has been allocated to the Bank's Reserve for General Banking Risks, in addition to the €0.7 million which was already allocated in the previous years.

Directors' report - continued

Results and dividends - continued

The Board expects the level of business to continue growing in a sustainable manner throughout FY2018 and accordingly expects the Bank to continue registering a healthy level of net earnings enhancing the Bank's capital base.

The Bank has registered strong regulatory ratios throughout the current financial year. The Liquidity Coverage Ratio metric, designed to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA' consisting of cash or assets that can be converted into cash at little or no loss of value in markets) to meet its liquidity needs in a 30-calendar-day liquidity stress scenario, was 940% (2016: 262%) as at 31 December 2017. The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets ("Capital requirements ratio") above a prescribed minimum level of 10% and a CET1 capital ratio of 10%, in line with licence conditions. The Bank's total capital ratio and CET1 capital ratio as at 31 December 2017 was 17.31%.

Environmental, social and employee matters

The Bank has not yet adopted formal policies in relation to issues such as environmental and social matters. Accordingly, the Bank does not track its progress in these areas by referencing to specific non-financial key performance indicators set in the context of formal policies and procedures.

Employee matters
The Bank operates in a technology-led and rapidly evolving sector, and its skilled teams are fundamental as the Bank adapts to change, continues to innovate, and drives the business forward. The Bank intends to continue to invest further in people.

People are considered a vital part of the Bank's ambition to deliver a great customer experience, sustainable profit and revenue growth. The Bank's people strategy supports this ambition by creating an environment where talented people are encouraged to excel on a daily basis. The Bank strives to ensure that management and staff members feel engaged and inspired to be the best they can be. Our ultimate aim is to create a high-performing and thriving organisation where change and innovation are celebrated.

The Bank is very proud of its flexible work environment which encompasses various family-friendly measures, and which enables its workforce to ensure a better work-life balance. Diversifying the mix of the Bank's people continues to be a priority within its people strategy. The Bank wants to create an environment where people can feel open about being themselves at work. The Bank firmly believes in equality and respect for human rights. An inclusive culture is fundamental towards ensuring that the Bank's diverse workforce can develop.

The Bank regularly reviews pay and benefits to make sure that remuneration is competitive and fair.

Social support
The Bank invests to help a number of initiatives that deliver social and environmental benefits. This investment is a mixture of cash, time volunteered and in-kind contributions.

Environmental matters
The Bank continues to retain a careful eye on environmental considerations in all its activities. However, the Bank is cognisant of the fact that its impact on the environment is quite contained taking into account the level of energy and water consumption, services offered, and waste generated. Hence, it is difficult to conceive how Ferratum Bank's business model impacts environmental matters, and therefore to devise specific policies with non-financial key performance indicators to monitor progress in this area.

Directors' report - continued

Directors

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

Charles Borg (Appointed on: 26 April 2017) - Chairman
Jorma Jokela
Lea Liigus
Esa Tapani Teravainen
Anthony Fenech
Erik Ferm (Appointed on: 26 April 2017)
Victor Denaro (Appointed on: 22 March 2018)

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

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Banking Act, 1994 and the Maltese Companies Act, 1995 to prepare financial statements that give a true and fair view of the state of affairs of the Bank as at the end of each reporting period and of the profit or loss for that period.

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

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

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Banking Act, 1994 and the Companies Act, 1995. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Ferratum Bank plc for the year ended 31 December 2017 are included in the Annual Report 2017, which is published in hard-copy printed form and may be made available on the Bank's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Directors' report - continued

Auditors

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

On behalf of the board

Charles Borg
Director

Victor Denaro
Director

Registered Office:
Tagliaferro Business Centre,
Level 6,
14 High Street
Sliema SLM1551
Malta

19 April 2018

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Independent auditor's report

To the Shareholders of Ferratum Bank plc

Report on the audit of the financial statements

Our opinion

In our opinion:

- Ferratum Bank plc's financial statements give a true and fair view of the Bank's financial position as at 31 December 2017, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386) and the Maltese Banking Act (Cap. 371).

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

What we have audited

Ferratum Bank plc's financial statements, set out on pages 13 to 76, comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Independent auditor's report - *continued*

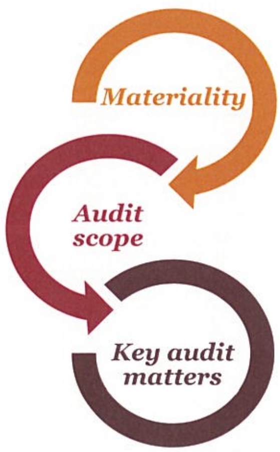
To the Shareholders of Ferratum Bank plc

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

The non-audit services that we have provided to the Bank in the period from 1 January 2017 to 31 December 2017 are disclosed in note 24 to the financial statements.

Our audit approach

Overview



Overall materiality: €537,000, which represents 5% of profit before tax.

Impairment of loans and advances to customers of the Bank

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

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

Materiality

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

Independent auditor's report - *continued*

To the Shareholders of Ferratum Bank plc

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

Overall materiality	€537,000 (2016: €232,000)
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is most commonly measured by users, and is a generally accepted benchmark. In respect of the preceding financial year audit, average profit before tax was utilised as a benchmark as a result of the fluctuating results registered in the initial years of operations. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €27,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Impairment of loans and advances to customers of the Bank	
Impairment allowances in respect of loans and advances to customers represent management's best estimate of the losses incurred within the loan portfolios at the balance sheet date. The Bank's loan portfolios consists of short-term micro-loans, other medium-term credit products and revolving micro-credit facilities.	The policies and methodologies used by the Bank in respect of impairment of loans and advances to customers were discussed with the Audit Committee. Changes to inputs within the collective allowance models are discussed at Audit Committee meetings. The appropriateness of the modelling policy and methodology used was independently assessed by reference to the requirements of accounting standards and market practices.

Independent auditor's report - *continued*

To the Shareholders of Ferratum Bank plc

Key audit matter	How our audit addressed the Key audit matter
Impairment losses are calculated on a collective basis for homogeneous portfolios of loans and credit products that are not considered individually significant. Individual assessment is not deemed practicable taking into account the nature and characteristics of the Bank's loan portfolio. Collective impairment allowances are calculated using statistical models, which approximate the impact of current economic and credit conditions on portfolios of loans. The Bank uses a model based on roll-rate methodology. This methodology employs a statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of the events occurring before the reporting date and which the Bank is not able to identify on an individual loan basis. The inputs to this model are subject to management judgement and model overlays are often required. The methodology used by the Bank to calculate collective impairment allowances is relatively standard which means that modelling risk is low but that changes in individual inputs can have a significant bearing on the impairment charge. The key judgements include management's assessment supplementing the statistical analysis, which is carried out to ascertain whether current economic and credit conditions are such that the actual level of incurred losses are likely to differ from that suggested by historical experience.	We understood and critically assessed the model used for collective allowances. Since modelling assumptions and parameters are based on historic data, we assessed whether historic experience was representative of current circumstances and of the recent losses incurred within the portfolios. The appropriateness of management's judgements was also independently considered in respect of calculation methodologies and judgemental overlays. Model calculations were tested through re-performance. We tested the completeness and accuracy of data extracted from underlying systems that is utilised in the model. Based on the evidence obtained, we found the model assumptions, data used within the model and overlays to be reasonable. In addition, we evaluated the adequacy of the disclosures made in the Annual Report and Financial Statements.

Independent auditor's report - *continued*

To the Shareholders of Ferratum Bank plc

Key audit matter	How our audit addressed the Key audit matter
We focused on impairment due to the subjective nature of the calculations and the judgements involved. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.4; • Credit risk management: Note 2.1 (a); • Critical accounting estimates and judgements: Note 3. • Notes on Loans and advances to customers: and Net Impairment Losses: Note 6;	

Other information

The directors are responsible for the other information. The other information comprises the Directors' report, the Five year summary, Shareholder register information and the Additional Regulatory Disclosures. Other information does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Independent auditor's report - *continued*

To the Shareholders of Ferratum Bank plc

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Independent auditor's report - *continued*

To the Shareholders of Ferratum Bank plc

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

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

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

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

Report on other legal and regulatory requirements

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

In our opinion:

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

Independent auditor's report - *continued*

To the Shareholders of Ferratum Bank plc

Other matters on which we are required to report by exception

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- Returns adequate for our audit have not been received from branches not visited by us; and
- certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

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

Appointment

We were first appointed as auditors of the Bank on 9 May 2012. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 6 years.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

F Axisa

Fabio Axisa
Partner

19 April 2018

Statement of financial position

	Notes	As at 31 December 2017 €	2016 €
ASSETS			
Balances with Central Bank of Malta	4	**76,745,851**	21,288,297
Loans and advances to banks	5	**35,235,371**	38,228,035
Loans and advances to customers	6	**122,538,593**	89,133,676
Loans and advances to group companies	7	**4,469,479**	351,825
Held-to-maturity financial assets	8	**8,950,729**	11,570,732
Property, plant and equipment	9	**501,682**	332,982
Intangible assets	10	**513,209**	575,850
Other assets	11	**12,293,079**	7,357,187
Total assets		**261,247,993**	168,838,584
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**10,000,000**	10,000,000
Capital contribution reserve	13	**20,500,000**	12,000,000
Other reserves	14	**821,022**	709,100
Retained earnings		**10,028,247**	2,851,999
Total equity		**41,349,269**	25,561,099
Liabilities			
Borrowed funds	15	**64,804**	154,306
Amounts owed to customers	16	**171,205,580**	98,484,628
Debt securities in issue	17	**39,549,991**	38,200,537
Other liabilities	18	**8,174,423**	6,195,544
Current tax liabilities		**903,926**	242,470
Total liabilities		**219,898,724**	143,277,485
Total equity and liabilities		**261,247,993**	168,838,584
MEMORANDUM ITEMS			
Commitments	19	**3,902,255**	2,788,749

The notes on pages 17 to 76 are an integral part of these financial statements.

The financial statements on pages 13 to 76 are authorised for issue by the board on 19 April 2018 and were signed on its behalf by:

Charles Borg
Director

Victor Denaro
Director

Statement of comprehensive income

	Notes	Year ended 31 December 2017 €	2016 €
Interest and similar income	20	**90,653,973**	62,821,884
Interest and similar expense	21	**(3,994,168)**	(2,972,596)
Net interest income		**86,659,805**	59,849,288
Fee and commission income	22	**2,716,789**	802,815
Fee and commission expense	22	**(7,283,649)**	(6,143,137)
Net fee and commission expense		**(4,566,860)**	(5,340,322)
Operating income		**82,092,945**	54,508,966
Employee compensation and benefits	25/26	**(8,555,061)**	(7,620,677)
Other operating costs	24	**(29,171,881)**	(20,224,983)
Depreciation and amortisation	24	**(338,992)**	(135,615)
Net impairment losses	6	**(33,277,385)**	(23,261,972)
Profit before tax		**10,749,626**	3,265,719
Tax expense	27	**(661,456)**	(240,229)
Profit for the year - total comprehensive income		**10,088,170**	3,025,490

The notes on pages 17 to 76 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital €	Capital contribution reserve €	Other reserves €	Retained earnings €	Total equity €
Balance at 1 January 2016		10,000,000	-	535,605	4,362,774	14,898,379
Comprehensive income						
Profit for the year		-	-	-	3,025,490	3,025,490
Other comprehensive income						
Transfers and other movements	14	-	-	173,495	(173,495)	-
Total comprehensive income for the year		-	-	173,495	2,851,995	3,025,490
Transactions with owners						
Capital contribution from shareholders	13	-	12,000,000	-	-	12,000,000
Dividends distributed to shareholders	29	-	-	-	(4,362,770)	(4,362,770)
Total transactions with owners		-	12,000,000	-	(4,362,770)	7,637,230
Balance at 31 December 2016		10,000,000	12,000,000	709,100	2,851,999	25,561,099
Comprehensive income						
Profit for the year		-	-	-	10,088,170	10,088,170
Other comprehensive income						
Transfers and other movements	14	-	-	111,922	(111,922)	-
Total comprehensive income for the year		-	-	111,922	9,976,248	10,088,170
Transactions with owners						
Capital contribution from shareholders	13	-	8,500,000	-	-	8,500,000
Dividends distributed to shareholders	29	-	-	-	(2,800,000)	(2,800,000)
Total transactions with owners		-	8,500,000	-	(2,800,000)	5,700,000
Balance at 31 December 2017		**10,000,000**	**20,500,000**	**821,022**	**10,028,247**	**41,349,269**

The notes on pages 17 to 76 are an integral part of these financial statements.

Statement of cash flows

	Notes	2017 €	2016 €
		Year ended 31 December	
Cash flows from operating activities			
Interest and commission receipts		**93,788,163**	63,503,714
Interest and commission payments		**(11,734,058)**	(9,558,468)
Income tax paid		**-**	(3,888,449)
Payments to employees and suppliers		**(39,750,716)**	(31,119,344)
Cash flows from operating profit before changes in operating assets and liabilities		**42,303,389**	18,937,453
Changes in operating assets and liabilities:			
Loans and advances to group companies		**(4,117,654)**	(3,908,418)
Loans and advances to customers		**(66,682,302)**	(69,192,195)
Amounts owed to customers		**72,720,952**	98,481,845
Amounts paid in favour of Depositor Compensation Scheme		**(933,236)**	-
Net cash generated from operating activities		**43,291,149**	44,318,685
Cash flows from investing activities			
Purchase of property, plant and equipment	9	**(298,343)**	(232,126)
Purchase of intangible assets	10	**(146,708)**	(286,906)
Purchase of held-to-maturity financial assets	8	**-**	(11,588,814)
Proceeds from maturity of held-to-maturity financial assets	8	**2,202,599**	-
Net cash generated from/(used in) investing activities		**1,757,548**	(12,107,846)
Cash flows from financing activities			
Issue of debt securities	17	**15,305,695**	25,000,000
Repayment of debt securities	17	**(13,500,000)**	(6,500,000)
Shareholders' contribution	13	**8,500,000**	12,000,000
Dividends paid to equity holders of the Bank	29	**(2,800,000)**	(6,708,094)
Net cash generated from financing activities		**7,505,695**	23,791,906
Net increase in cash and cash equivalents		**52,554,392**	56,002,745
Cash and cash equivalents at beginning of year		**59,362,026**	3,359,281
Cash and cash equivalents at end of year	28	**111,916,418**	59,362,026

The notes on pages 17 to 76 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

The principle accounting policies adopted in the preparation of these financial statements are set out below.

1.1 Basis of preparation

The Bank's financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Banking Act, 1994 and the Maltese Companies Act, 1995. These financial statements are prepared under the historical cost convention, as modified by the fair valuation of financial assets and financial liabilities at fair value.

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

Standards, interpretations and amendments to published standards effective in 2017

In 2017, the Bank adopted new standards, amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2017. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards which are mandatory for accounting periods beginning after 1 January 2018 have been published by the date of authorisation for issue of this financial information. The Bank's directors are of the opinion that, with the exception of the below, there are no requirements that will have a possible significant impact on the Bank's financial statements in the period of initial application.

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018.

Classification and measurement of financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). It eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

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

1.1 Basis of preparation - continued

Classification and measurement of financial assets - continued

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. A financial asset is classified into one of these categories on initial recognition.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

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

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

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

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

1.1 Basis of preparation - continued

Classification and measurement of financial assets - continued

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

Interest income on the Bank's micro-credit facilities is a product of process fees, rescheduling fees, reminder fees and other fees charged on revolving credit products. All these fees are set at the discretion of the Bank at country or territory level in order to reflect the nature of the respective markets, taking cognisance of the credit risk associated with the service provided. The Bank will assess whether these features are consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to repay the loans without significant penalties;
- the market competition ensures that the level of fees charged are consistent between banks; and
- any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- Trading assets and derivative assets held for risk management, classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9;
- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39, will also be measured at amortised cost under IFRS 9;
- Held-to-maturity investment securities measured at amortised cost under IAS 39 will also be measured at amortised cost under IFRS 9; and
- Investment securities that are designated as at FVTPL under IAS 39 will continue to be measured at FVTPL under IFRS 9.

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

1.1 Basis of preparation - continued

Classification and measurement of financial liabilities

IFRS 9 retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment - Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments. There is no transition impact to the Bank since under its current investment strategy the Bank does not hold equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk would be classified as 'stage 2'; and financial assets for which there is objective evidence of impairment, and which considered to be in default or otherwise credit impaired, would be classified as 'stage 3'.

The Bank will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

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

1.1 Basis of preparation - continued

Impairment - Financial assets, loan commitments and financial guarantee contracts - continued

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

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

IFRS 9 defines financial assets that are credit-impaired in a similar way to financial assets that are impaired under IAS 39 (see Note 1.4).

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative information and analysis based on the Bank's historical experience.

The Bank's framework is aligned with the nature of its micro-credit exposures and its underlying credit risk management practices. The Bank's micro-credit facilities are not managed on a credit by credit basis, due to the high volume of relatively low value and homogenous exposures. As a result, it is not feasible to include qualitative information based on an expert credit assessment performed on an individual credit basis.

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure, as follows:

- For loans and advances to customers, which are managed on a portfolio basis for credit risk purposes, the Bank will measure a significant increase in credit risk based on a qualitative assessment driven by the delinquency status of borrowers (days past due). The Bank will presumptively consider that a significant increase in credit risk occurs when an asset is more than 30 days past due.

- For loans and advances to banks and investments in debt securities, the Bank will apply the low credit risk simplification to all its exposures, thus they are not subject to the requirements in respect of significant increase in credit risk assessment.

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

1.1 Basis of preparation - continued

Impairment - Financial assets, loan commitments and financial guarantee contracts - continued

Definition of default

Under IFRS 9, the Bank will consider a financial asset to be in default in the following cases:

- with respect to loans and advances to customers, the Bank deems two separate definitions should be adopted to take into account the specific characteristics of its micro-credit products:
    - with respect to micro-credit facilities with bullet repayment or instalment loan characteristics, exposures are considered defaulted where the borrower is more than 90 days past due on any material credit obligation to the Bank.
    - with respect to revolving micro-credit facilities, exposures are considered defaulted once the customer is overdue on minimum monthly payments by 60 days or more; or
- with regards to loans and advances to banks and investments in debt securities respectively, a payment by the counterparty or issuer is more than 1 day past due.

This definition is largely consistent with the definition that will be used for regulatory purposes (see Note 2.1).

Renegotiated loans

The Bank may consider the rescheduling of selected loans and advances to customers in order to maximise collection opportunities and minimise the risk of default. This process commences when a customer applies to extend the repayment date where repayment difficulties against the original terms have already materialised, or are likely to materialise. The upfront payment of a rescheduling fee is a pre-condition for rescheduling to be granted and for the loan term to be extended.

Moreover, upon rescheduling, the Bank does not revise the key substantive terms and conditions of the respective loan in order to facilitate recoverability after taking into consideration the individual's financial situation, but simply provides the individual customer with a standard extension to the maturity date. The significant terms and conditions of the loan are not altered, for instance, through moratorium on fees or waiver of fees. A significant level of individual customers apply and request the extension of the loan term; and considering that each loan transaction is individually insignificant, the monitoring of each individual customer's financial situation is impracticable. Management considers historical experience and other factors when determining whether rescheduled loans are forborne loans. Such historical experience demonstrates that very high repayment rates are associated with rescheduled loans.

Taking cognisance of the principles highlighted above, rescheduling of loans granted by the Bank is not deemed to constitute a forbearance measure in relation to customers experiencing difficulties in repaying the micro-credit. Consequently, renegotiated loans are not considered credit impaired and are not classified as stage 3 assets.

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

1.1 Basis of preparation - continued

Impairment - Financial assets, loan commitments and financial guarantee contracts - continued

Expected credit losses

The Bank calculates its ECLs on a collective basis, given that its portfolio of micro-credit facilities is composed of homogenous groups of loans that are not considered individually significant, using three main components:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

These parameters will be derived from internally developed statistical models and will be adjusted to reflect forward-looking information as described below.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. With respect to non-revolving credit facilities, the contractual life of the facility is applied. In contrast, with respect to revolving credit facilities, the lifetime of such exposures is defined as the point where 95% of the Bank's historical defaults have materialised; thus, the lifetime of such assets may be longer than 12 months.

The EAD represents the total balance of loans receivable at the reporting date, taking into account the total amount receivable from borrowers inclusive of principal and interest. This is deemed an adequate representation of the expected balance at default in the case of the Bank's micro-credit facilities given that the Bank models its ECLs on a collective basis with EAD not being individually modelled on a loan by loan basis. Additionally, in the case of revolving credit facilities the Bank also factors in expected drawdowns of committed facilities.

In the case of micro lending facilities with bullet repayment characteristics, the Bank utilises roll-rate methodology in order to estimate its PDs. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as unrecoverable. This methodology is applied at territory or country level with adaptations to reflect the different nature of the respective markets in which the Bank operates. Under this methodology, loans are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable (PD).

In the case micro-credit facilities with characteristics similar to instalment loans or revolving facilities, the Bank utilises curve-stitching methodology in order to estimate its PDs. Under this approach, an analysis of historical default data is carried out in order to estimate cumulative monthly loss rates at various snapshot dates. Subsequently, statistical analysis is employed in order to combine curves with different historical performance windows into a single PD curve over the expected lifetime of the micro-credit exposures. This methodology is also applied at territory or country level in order to incorporate adaptations to reflect the nature of the different markets in which the Bank operates. Under this approach, loans are also grouped into ranges according to the number of days past due, with an individual lifetime PD curve being calculated for each range.

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

1.1 Basis of preparation - continued

Impairment - Financial assets, loan commitments and financial guarantee contracts - continued

Expected credit losses - continued

LGD represents the magnitude of the likely loss suffered by the Bank in the event of default. Since the Bank's short term micro-credit facilities are unsecured in nature, it estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. Moreover, the Bank's LGD incorporates elements in relation to the Bank's ability to dispose of overdue loan facilities to third parties in certain territories at a price that is dependant on the credit quality of the portfolio, current investor appetite in the market and the economic trends in the particular country or territory. They will be calculated on a discounted cash flow basis using the contractual interest rate as the discounting factor.

Discounting

ECLs are discounted at the effective interest rate (EIR) at initial recognition or an approximation thereof, consistent with the Bank's income recognition. For loan commitments the EIR is that rate that is expected to apply when the loan is drawn down and a financial asset is recognised.

Forward-looking information

The recognition and measurement of ECL is highly complex and involves the use of significant judgement and estimation, including in the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objective of IFRS 9.

The Bank performs a historical analysis and identifies the key economic variables affecting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD and LGD may vary by financial instrument.

The development of multiple scenarios is necessary to capture the non-linear relationship between different forward looking scenarios and corresponding expected credit loss outcomes.

Three scenarios are considered to capture non-linearity across credit portfolios. The three scenarios include a baseline view driven by a consensus among professional industry forecasts and two additional outer "less likely" scenarios – an "upside" and a "downside". The key scenario assumptions are set using forecasts from external economists and are constructed based on a set of key assumptions such as GDP growth, inflation and policy rates.

The scenarios are probability-weighted based on a mixture of quantitative analysis and management judgement, with reference to an assessment of the economic risk landscape. This helps ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

As a result, the ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on the development of multiple economic scenarios. The probability-weighted amount is a higher number than would result from using only the baseline (most likely) economic scenario. This illustrates that expected losses have a non-linear relationship to the many factors which influence credit losses such that more favourable macroeconomic factors do not reduce defaults as much as less favourable macroeconomic factors increase defaults.

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

1.1 Basis of preparation - continued

Disclosures

IFRS 9 will require extensive new disclosures, in particular concerning credit risk and ECLs, on a regular basis.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will be applied retrospectively. The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

Transitional impact

Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Bank's equity at 1 January 2018 is approximately €3,235,371 representing:

- a reduction of approximately €4,977,494 related to impairment requirements; and
- an increase of approximately €1,742,123 related to deferred tax impacts.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- the new systems and associated controls in place are not yet operational;
- the Bank has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Bank is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application.

Impact on capital planning

The Bank has adopted the regulatory transitional arrangements adopted by the EU on 27 December 2017 which permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years subsequent to the initial adoption of the standard. The proportion that banks may add back starts at 95% in 2018 and decreases to 25% by 2022. Taking into consideration the regulatory transitional adjustments, the Bank's assessment indicates that the impact on capital of the initial adoption of IFRS 9 will be a reduction in CET1 capital amounting to approximately €0.2 million, as well as a temporary decrease related to a deferred tax asset amounting to €1.7 million. As a result, the CET 1 ratio after the regulatory transitional adjustments is expected to decrease by 81 basis points.

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

1.1 Basis of preparation - continued

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting rules, creating a stronger link with risk management strategies and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks, but do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 includes an accounting policy choice for bank to continue applying IAS 39 hedge accounting requirements.

The Bank does not currently deploy any hedging strategies aimed to mitigate or offset risks that arise from its activities, and accordingly, none of its strategies satisfy hedge accounting criteria in terms of IAS 39. Accordingly, the Bank expects that IFRS 9 will have no impact in this regard.

1.2 Foreign currency transactions and balances

Functional and presentation currency

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

Transactions and balances

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

1.3 Financial assets

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Throughout the financial period and as at the end of the reporting period, the Bank held loans and receivables, as well as held-to-maturity financial assets.

Initial recognition and derecognition

The Bank recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Accordingly, the Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership or the Bank has not retained control of the asset.

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

1.3 Financial assets - continued

Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held-for-trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging instruments. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the profit or loss. Gains and losses arising from changes in fair value are included directly in the profit or loss and are reported as 'Net gains/(losses) on financial instruments classified as held-for-trading'. Interest income and dividend income on financial assets held-for-trading are included in 'Net interest income' or 'Dividend income', respectively.

The Bank may designate certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed.

According to IAS 39, the fair value option is only applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial assets consist of debt hosts and embedded derivatives that must be separated.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the Bank intends to sell immediately or in the short term, which are classified as held-for-trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(b) those that the Bank upon initial recognition designates as available-for-sale; or
(c) those for which the holder may not recover substantially all of their initial investment, other than because of credit deterioration.

Loans and receivables arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets except for maturities greater than twelve months after the end of the reporting period. The latter are classified as non-current assets. Loans and receivables mainly consist of loans and advances to banks, customers and group companies and other assets.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. Interest on loans and receivables is included in profit or loss and is reported as 'Interest and similar income'.

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

1.3 Financial assets - continued

Loans and receivables - continued

In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and receivable and recognised in profit or loss as 'Net impairment losses'.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than:

(a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
(b) those that the Bank designates as available-for-sale; and
(c) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in profit or loss and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. They are included in non-current assets unless the asset matures or management intends to dispose of it within twelve months of the end of the reporting period.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses (in case of monetary assets), until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. Interest income on available-for-sale assets is calculated using the effective interest method, and is recognised in profit or loss as are foreign currency gains and losses on monetary assets classified as available-for-sale. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss in 'Dividend income' when the Bank's right to receive payment is established.

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

1.4 Impairment of financial assets

Assets carried at amortised cost

The Bank assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
(d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   (i) adverse changes in the payment status of borrowers in the portfolio; and
   (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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

1.4 Impairment of financial assets - continued

Assets carried at amortised cost - continued

Estimates of changes in future cash flows for groups of assets reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, payment status, or other factors as applicable which are indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Loans and advances to customers

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the statement of comprehensive income. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses which may arise from future events are not recognised.

The Bank's loan portfolio is assessed for impairment on a collective basis, according to the loan type, as the underlying loan portfolio consist of a large pool of homogeneous loans which by nature cannot be considered individually significant. The loan portfolio consists of short-term micro-loans, other medium-term credit products and revolving micro-credit facilities.

Collectively assessed loans and advances

Impairment is assessed on a collective basis for homogeneous groups of loans that are not considered individually significant.

Homogeneous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group. The methods that are used to calculate allowances on a collective basis are as follows:

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

1.4 Impairment of financial assets - continued

Homogeneous groups of loans and advances - continued

When appropriate empirical information is available, the Bank utilises roll-rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of the events occurring before the reporting date which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated. This methodology is applied at territory or country level with adaptations to reflect the different nature of the respective markets in which the Bank operates. Under this methodology, loans are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable. In applying this methodology, adjustments are made to estimate the periods of time between a loss event occurring and its discovery, for example through a missed payment, (known as the emergence period) and the period of time between discovery and write-off (known as the outcome period). Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio. Expected future cash flows take into account expected portfolio sales prices.

The inherent loss within the portfolio is assessed on the basis of statistical models using historical data observations, which are updated periodically to reflect recent payment and economic trends. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within the portfolio. In certain circumstances, historical loss experience provides less relevant information about the inherent loss in the portfolio at the reporting date. When the most recent trends arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the statistical models, they are taken into account by adjusting the impairment allowances derived from the statistical models to reflect these changes as at the balance sheet date.

These additional portfolio risk factors may include recent loan portfolio growth and product mix, unemployment rates, bankruptcy trends, geographic concentrations, loan product features, economic conditions such as national and local trends in interest rates, seasoning, account management policies and practices, current levels of write-offs, changes in laws and regulations and other factors which can affect customer payment patterns on outstanding loans, such as natural disasters. These risk factors, where relevant, are taken into account when calculating the appropriate level of impairment allowances by adjusting the impairment allowances derived solely from historical loss experience.

Roll rates are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Forborne loans

Granting a concession to customers that the Bank would not otherwise consider, as a result of their financial difficulty, is objective evidence of impairment and impairment losses would be measured accordingly.

A forborne loan is categorised as impaired when:

- there has been a change in contractual cash flows as a result of a concession which the Bank would otherwise not consider; and
- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

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

1.4 Impairment of financial assets - continued

Forborne loans - continued

Forbearance activity is generally undertaken where it has been identified that repayment difficulties against the original terms have already materialised, or are very likely to materialise. The Bank might consider the application of rescheduling to selected loans and advances, which process commences when a customer applies to extend the repayment date. The upfront payment of a rescheduling fee is a pre-condition for rescheduling to be granted and for the loan term to be extended. This upfront payment requirement is not deemed consistent with the profile of a customer which cannot meet the current contractual payment obligations.

Moreover, upon rescheduling the Bank does not revise the key substantive terms and conditions of the respective loan in order to facilitate recoverability after taking into consideration the individual's financial situation, but simply provides the individual customer with a standard extension to the maturity date. The significant terms and conditions of the loan are not altered, for instance, through moratorium on fees or waiver of fees. A significant level of individual customers apply for and request the extension of the loan term and considering that each loan transaction is individually insignificant, the monitoring of each individual customer's financial situation is impracticable. Management considers historical experience and other factors when determining whether rescheduled loans are forborne loans. Such historical experience demonstrates that very high repayment rates are associated with rescheduled loans.

Taking cognisance of the principles highlighted above, rescheduling of loans granted by the Bank is not deemed to constitute a forbearance measure in relation to customers experiencing difficulties in repaying the micro-credit.

Assets classified as available-for-sale

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost (or amortised cost, if applicable) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Throughout the financial period and as at the end of the reporting date, the Bank did not hold assets classified as available-for-sale.

1.5 Offsetting financial instruments

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

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

1.6 Intangible asset

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives once the software has been put into use.

1.7 Property, plant and equipment

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

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

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

	%
Furniture and fittings	12.5
Computer hardware	25
Office equipment	25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.8).

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

1.8 Impairment of non-financial assets

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

1.9 Other receivables

Other receivables are amounts due to the Bank for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

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

1.9 Other receivables - continued

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment. A provision for impairment is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in profit or loss.

1.10 Current and deferred tax

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

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

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

1.11 Share capital

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

1.12 Financial liabilities

The Bank recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Bank's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Bank derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1. Summary of significant accounting policies - continued

1.12 Financial liabilities - continued

Financial liabilities measured at amortised cost comprise principally debt securities in issue, borrowed funds and other liabilities (Note 1.13).

1.13 Other liabilities

Other liabilities comprise obligations to pay for goods or services that have been acquired in the ordinary course of business. Other liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.14 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are issued by the Bank to financial institutions and other entities on behalf of customers to secure micro-loans and other credit related products.

Financial guarantees issued are initially recognised in the financial statements at fair value, which is normally evidenced by the amount of fees received, on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of (i) the initial measurement amount less amortisation calculated to recognise in the income statement the fee income earned over the life of the guarantee and (ii) the best estimate of the expenditure required to settle any financial obligation arising out of the commitment at the end of each reporting period. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of the Bank's management. Any increase in the liability relating to financial guarantee contracts is reflected in profit or loss.

1.15 Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

1. Summary of significant accounting policies - continued

1.15 Interest income and expense - continued

Loan origination fees received by the Bank for loans which are probable of being drawn down, are an integral part of generating an involvement with the resulting financial instrument and, together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate on the loan using the effective interest method.

The Bank's income streams consist of process fees, rescheduling fees (charged when a customer applies to extend the repayment date), reminder fees, (charged reminder actions effected with respect to a loan) and other fees charged on revolving credit products. All these fees are considered to be an integral part of the effective interest rate of the loans and advances taking cognisance of the nature of these fees, the purposes for which these fees are assessed and the substance of the services provided. Accordingly these fees are amortised to profit or loss using the effective interest method over the expected term of the instruments and presented within 'Interest and similar income'.

1.16 Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Fee and commission expense, relating mainly to transaction and service fees and sales commissions, are expensed as the services are rendered.

1.17 Leases

The Bank is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

1.18 Cash and cash equivalents

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

1.19 Dividend distribution

Dividend distribution to the group's shareholders is recognised as a liability in the Bank's financial statements in the period in which the obligation to pay a dividend is established.

2. Financial risk management

2.1 Financial risk factors

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

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

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

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

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; accordingly management carefully manages its exposure to this risk. Credit exposures arise principally through the Bank's lending activities in various European countries, together with the placement of liquidity with banks domiciled in Malta and other European countries. The Bank is also exposed to credit risk arising from the issuance of financial guarantee contracts to entities granting micro-loans and other related credit products to individuals located in certain European countries. Credit exposures through advances to group undertakings located in Finland and operating balances with other group undertakings located in European countries also give rise to credit risk.

The Bank's principal credit risk exposures relating to on-balance sheet financial assets analysed by IAS 39 categorisation, reflecting the maximum exposure to credit risk before collateral held or other credit enhancements, are as follows:

	2017	2016
	€	€
Balances with Central Bank of Malta (Note 4)	**76,745,851**	21,288,297
Loans and advances to banks (Note 5)	**35,235,371**	38,228,035
Loans and advances to customers (Note 6)	**122,538,593**	89,133,676
Loans and advances to group companies (Note 7)	**4,469,479**	351,825
Held-to-maturity financial assets (Note 8)	**8,950,729**	11,570,732
Other financial assets (Note 11)	**12,037,370**	7,223,257
	259,977,393	167,795,822

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

The exposures set out in the table presented on the previous page are based on carrying amounts as reported in the statement of financial position for on-balance sheet financial assets. The table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2017 and 2016, without taking account of any collateral held or any other credit enhancements attached.

Off-balance sheet instruments - Credit related commitments

The Bank, through its credit granting operations in certain territories, issues financial guarantee contracts, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a loan instrument. Such financial guarantees are issued by the Bank to financial institutions and other entities on behalf of customers to secure micro-loans and other credit related products. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. At 31 December 2017, financial guarantee contracts issued and still outstanding covered loan assets with an amount of €3,902,255 (2016: €2,788,749).

Credit risk management principles for significant financial assets and risk concentrations

In order to manage its principal risk exposures arising from its activities the Bank compiles and updates due diligence reports in respect of individually significant financial assets, particularly with respect to loans and advances to banks and group companies. The creditworthiness of individually significant counterparties or customers is formally evaluated and appropriate exposure limits are established in this respect. Credit review procedures are designed to identify at an early stage individually significant exposures which require more detailed monitoring and review. Exposure to credit risk is managed through regular analysis of the ability of such counterparties and potential counterparties to meet interest and capital repayment obligations and by changing the exposure limits where deemed appropriate. The Bank manages adherence to limits by reference to reporting mechanisms covering exposures, and controls concentrations of risk wherever they are identified.

The Bank monitors significant exposures on an individual basis throughout the different stages of the cycle from approval upon origination to ongoing monitoring until maturity. The Bank focuses on the compilation, together with ongoing and event-driven updating, of due diligence analyses taking cognisance of actual account developments, repayment history, ability to meet commitments and collateral measurement if applicable.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Credit risk management principles for significant financial assets and risk concentrations - continued

The geographical concentration of the Bank's financial assets as at the end of the reporting period is analysed below. For the purposes of this analysis, the Bank has allocated exposures to regions based on the country of domicile of the respective customers or counterparties. At 31 December 2017, loans and advances to banks were placed with banks domiciled in the following countries:

	2017	2016
	€	€
Malta	**15,165,946**	9,975,660
Czech Republic	**879,133**	636,505
Slovakia	**57,797**	67,713
Latvia	**-**	147,246
Germany	**7,217,377**	5,271,201
Poland	**1,343,525**	501,401
France	**1,134,030**	520,872
Bulgaria	**368,702**	153,142
Estonia	**71,018**	5,770
Finland	**-**	20,698,543
Spain	**35,575**	31,363
Croatia	**676,323**	162,918
Norway	**-**	55,701
Sweden	**6,520,705**	-
United Kingdom	**580,240**	-
Lithuania	**1,017,248**	-
Austria	**167,752**	-
	35,235,371	38,228,035

The Bank's loans and advances to customers as at 31 December 2017 are principally linked to lending and related operations in the following countries:

	2017	2016
	€	€
Slovakia	**-**	52,879
Poland	**43,182,120**	37,226,881
Estonia	**5,459,015**	3,026,460
Latvia	**14,777,438**	9,110,263
Czech Republic	**12,447,480**	10,550,029
Germany	**3,258,756**	1,291,817
Bulgaria	**1,630,604**	1,223,737
Sweden	**20,180,738**	15,162,227
France	**480,383**	576,184
Norway	**2,950,594**	989,980
Spain	**11,744,071**	6,041,369
Croatia	**6,427,394**	3,881,850
	122,538,593	89,133,676

At 31 December 2017 and 2016, loans and advances to group companies consisted of advances with an undertaking registered in Finland.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Loans and advances to customers

The Bank's lending activities comprise the granting of short-term micro-loans, other medium-term credit products and revolving micro-credit facilities (mainly unsecured) to individual customers in specific European jurisdictions. All loans to customers are granted on the basis of the outcome of the scoring model, depending on the loan type, and the rules embedded within the credit policy. Each lending transaction and the related agreement are determined on the strength of an individual credit decision. All credit decisions are handled and processed within the Bank's internal loan handling system through the application of both automated and manual processes. The creditworthiness of potential customers is assessed by reference to the calculation of a credit score for each loan application received. The relevant credit score is computed through the application scorecard for first time customers and through the behaviour scorecard for repeat customers. Based on the credit score registered, customers are grouped into risk classes. The respective risk class determines the maximum credit amount allowable for each customer. The scoring model and linked scorecards are developed and maintained centrally by the management team of the Bank. These are applied in all jurisdictions in which the Bank operates with specific adaptations at country level taking cognisance of the different characteristics of each market; with the adaptations being centrally approved.

The scorecards are reviewed on a monthly basis by the management team of the Bank and updated according to market trends, political circumstances in the particular jurisdiction, legislative and socio-economic changes.

Prior to generation of internal scores, automated credit policy checks or underwriting actions are carried out within the loan handling system referring to factors emanating from the Bank's credit policy rules such as applicant's age, number of outstanding loans, existence of duplicate applications, reference to Bank's internal customer blacklist, previous loan repayment behaviour and linkage to external collection company information. These automated underwriting actions generate an internal credit score for the customer. Subsequently, specifically designed manual underwriting actions are carried out to finalise the loan application review and decision making process. These manual underwriting actions comprise requests for checks in relation to existence of bad debts reported by credit agencies, requests for external credit scoring checks with a view to checking external sources of credit information about the client, and requests for additional checks in respect of certain customer details. The outcome of these manual underwriting actions is automatically reflected in the loan handling system and updates the scorecard in an automated manner. If the scored or approved amount is higher than or equal to the requested amount, the loan is then automatically approved. Otherwise, the loan is automatically approved up to the scored amount. The latter decision can be exceptionally overridden by management in specific circumstances and subject to certain conditions such that the amount granted is higher than the scored amount.

The Bank's loan portfolio is assessed for impairment on a collective basis as the portfolio consists of a large pool of homogeneous loans according to loan type which by nature cannot be considered individually significant. The Bank utilises roll-rate methodology employing statistical analyses of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of the events occurring before the reporting date. Under this methodology, loans are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable. The estimated loss is the difference between the present value of expected future cash flows, taking cognisance of expected portfolio sales prices, and the carrying amount of the portfolio.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Loans and advances to customers - continued

Loan rescheduling is a concession which could be granted by the Bank, in certain circumstances, in response to a customer's request. Under certain specified conditions, the Bank provides loan rescheduling to borrowers by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default. Rescheduling occurs when a customer applies to extend the loan repayment date, subject to the immediate payment of a rescheduling fee. Rescheduling is only granted in situations where the customer has showed a willingness to repay the loan and is expected to be able to meet the obligation following the extension of the credit period. The Bank's credit policy sets out restrictions on the number of rescheduling measures together with the minimum period of the Bank's relationship with the customer before a rescheduling measure can be considered. Rescheduling usually takes place before due date, but the rescheduling option is also available after the due date.

The Bank has a formal rigorous debt collection policy outlining the manner in which the Bank deals with past due loans and advances. This policy has been approved by the Bank for use within the operations in the respective territories with formal documented adaptations for the respective territories. The policy highlights the prescribed actions, channels and mechanisms utilised to follow up on outstanding exposures indicating the precise point in time at which the respective actions are taken and allocating roles and responsibilities within the Bank in this respect. The collection policy focuses on the extent to which collection activities are carried out by the Bank and the stage or phase at which external collection companies are utilised.

The Bank also enters into sale arrangements with third parties for the transfer of outstanding balances in respect of certain credit products granted in specific territories once such balances reach pre-established trigger points. Such transfers take place at pre-established levels of consideration. These arrangements constitute an intrinsic part of the Bank's management of past due and non-performing assets.

Banking Rule BR/09: Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions Authorised under the Maltese Banking Act, 1994 requires banks to allocate funds to the General Banking Risks reserve for cover against potential risks linked to the Bank's non-performing loans and advances. In line with the requirements under Banking Rule BR/09, during 2017 the Bank increased the reserve by an amount of €111,922 (2016: €173,495), taking cognisance of level of the non-performing assets within the loan portfolio at 31 December 2017.

Information on credit quality of loans and advances to customers

The Bank reviews and grades advances to customers using the following internal risk grades:

Performing
- Regular
- Watch
- Substandard

Non-performing
- Doubtful
- Loss

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Information on credit quality of loans and advances to customers - continued

Regular

The Bank's loans and advances to customers which are categorised as 'Regular' are principally debts in respect of which payment is not overdue by 30 days and no recent history of customer default exists. Management does not expect any losses from non-performance by these customers, which are considered as fully performing.

Watch

Loans and advances that attract this category principally comprise those where payment becomes overdue by 30 days and over but not exceeding 60 days.

Substandard

Exposures that are categorised within this category comprise those where payment becomes overdue by 60 days and over but not exceeding 90 days.

Doubtful

Loans and advances which attract a 'Doubtful' grading are principally those assets in respect of which repayment becomes overdue by 90 days and over but not exceeding 180 days.

Loss

Loans and advances in respect of which payment becomes overdue by 180 days.

Gross loans and advances to customers analysed by internal ratings:

	2017	2016
	€	€
Regular	**100,655,477**	74,344,672
Watch (up to 60 days past due)	**9,401,735**	6,828,317
Substandard (between 60 and 90 days past due)	**5,174,417**	2,642,616
Doubtful (between 90 and 180 days past due)	**11,309,239**	6,631,084
Loss (over 180 days past due)	**35,492,353**	31,157,141
	162,033,221	121,603,830

As outlined previously, the Bank's loan portfolio is assessed for impairment on a collective basis as the portfolio consists of a large pool of homogeneous loans which by nature cannot be considered individually significant. The collective assessment is carried out at country or territory level taking cognisance of the different characteristics of the respective markets. No specific provisions for impairment have been recognised during the current and preceding financial periods accordingly.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Information on credit quality of loans and advances to customers - continued

The table below illustrates the balance and movement in the collective provisions analysed by country:

Collective impairment allowances

	2017 At 1 January €	**2017 Net movement €**	**2017 At 31 December €**
Poland	14,802,740	1,270,101	16,072,841
Czech Republic	5,878,612	(1,098,058)	4,780,554
Latvia	2,503,429	(583,106)	1,920,323
Slovakia	2,487,146	(172,353)	2,314,793
Spain	2,230,971	5,275,447	7,506,418
Bulgaria	1,644,824	(325,433)	1,319,391
Sweden	1,087,277	342,460	1,429,737
Germany	654,164	1,084,875	1,739,039
Estonia	611,849	(107,792)	504,057
France	349,103	598,399	947,502
Norway	219,715	730,271	949,986
Croatia	324	9,663	9,987
Total	**32,470,154**	**7,024,474**	**39,494,628**

The collective impairment assessment is carried out on retail exposures arising from the provision of micro-lending and other lending activities carried out in specific jurisdictions.

As at 31 December 2017, loans and advances to customers amounting to €61,377,744 (2016: €47,259,158) were deemed to be past due (and not deemed individually impaired), taking cognisance of the manner in which, the Bank practically manages its collection activities. A financial asset is past due when a customer has failed to effect payment when contractually due, but normally, given the nature of the Bank's loan portfolio, the past due status is not formally assigned until the exposure is more than 60 days past due. An ageing analysis of these past due loans and advances is accordingly presented within the table on previous page.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Information on credit quality of loans and advances to customers - continued

The Bank held renegotiated or rescheduled loans and advances to customers amounting to €3,337,967 (2016: €2,144,197) as at the end of the reporting period. These are analysed below by ageing and geographical location:

	2017 €	Still outstanding at 19 April 2018 €
Up to 60 days past due	**1,136,493**	154,261
Between 60 and 90 days past due	**114,563**	55,069
Between 90 and 180 days past due	**265,018**	186,378
Over 180 days past due	**1,821,893**	1,323,191
	3,337,967	1,718,899

	2016 €	Still outstanding at 28 April 2017 €
Up to 60 days past due	349,265	19,387
Between 60 and 90 days past due	113,599	46,816
Between 90 and 180 days past due	315,124	244,193
Over 180 days past due	1,366,209	1,677,346
	2,144,197	1,987,742

	2017 €	2016 €
Poland	**129,904**	110,010
Czech Republic	**410,782**	519,690
Sweden	**68,428**	63,917
Slovakia	**559,462**	550,070
Latvia	**82,947**	75,759
Estonia	**-**	9,724
Bulgaria	**146,288**	111,156
Croatia	**-**	55,015
Germany	**1,053,969**	130,249
Spain	**886,187**	518,607
	3,337,967	2,144,197

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Information on credit quality of loans and advances to customers - continued

In view of the nature of the Bank's loan portfolio, as at 31 December 2017, no loans and advances to customers were deemed to be large exposures, prior to any eligible exemptions, in accordance with the requirements of Part Four of the Capital Requirements Regulations (CRR), Large Exposures.

Use of collateral

With respect to loans and advances originating from the Bank's lending activities in particular countries, which loans comprise 5.25% (2016: 4.41%) of the Bank's loan portfolio as at 31 December 2017, the Bank is the holder of financial guarantee contracts issued by other parties. These financial guarantee contracts require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Since a financial guarantee contract represents a guarantee on an individual loan entered into with the loan contract and is essentially a pre-condition for granting the respective loan, the guarantee effectively forms part of the terms of the loan. Impairment charges are calculated on such loans in accordance with the Bank's accounting policy, but any impairment charges are reflected net of the financial guarantee reimbursement. This reimbursement gives rise to the recognition of a receivable from the issuer of the financial guarantee contract.

Loans and advances to banks

In the normal course of business, the Bank places funds and carries out transactions through correspondent accounts with high credit quality local listed banks and international banks having a very high credit rating, subject to the operational requirements and the application of a limit framework. Accordingly, such exposures are monitored through the practical use of exposure limits. In certain countries, the Bank had to utilise unrated banks for placement of surplus liquidity, in view of the profile of the banking sector in those territories. The Bank would carry out a comprehensive due diligence on such banks, prior to engaging with such banks and on an event-driven basis throughout the term of the relationship. The tables below present an analysis of the Bank's loans and advances to banks by rating agency designation at 31 December 2017 and 2016, based on Fitch credit ratings or their equivalent:

	Loans and advances to banks
2017	**€**
AA-	**6,520,705**
A-	**767,117**
BBB+	**8,515,033**
BBB	**15,165,946**
BB	**673,992**
Unrated	**3,592,578**
Total	**35,235,371**

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Credit risk - continued

Loans and advances to banks - continued

2016	€
AA-	20,819,800
A	375,072
A-	5,929,373
BBB+	24,057
BB+	41,225
BBB	9,975,660
Unrated	1,062,848
Total	38,228,035

Loans and advances to group companies

The advances to a group undertaking, Ferratum Capital Oy, which were outstanding at 31 December 2017 were primarily secured against the entire micro loan portfolio of all group companies that operate in the micro finance business. During 2016, the Bank has entered into entered into a Foreign Exchange Risk Agreement with this group company, where the latter provides cover to the Bank over realised and unrealised foreign exchange differences. Any realised and unrealised gains or losses attributable foreign exchange rate movements registered by the Bank are allocated to the group company at the end of each month, in line with the terms of this agreement. The terms of this agreement stipulate fees payable by the Bank to the group company (Note 2.1).

Operating balances with other group companies are monitored on an ongoing basis, taking cognisance of the related party relationship, utilising a limit framework and reporting mechanism. The balances are normally repayable within short periods of time. Repayment behaviour and performance are reviewed in this respect.

Credit related commitments

The Bank issues financial guarantee contracts to other parties that grant micro-loans and other short-term credit products. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. The Bank's credit risk management framework applied to issuance of micro-loans and related products, described in detail in the preceding sections, is utilised for management of issuance of guarantee contracts. The entire micro-loan underwriting cycle from approval to monitoring is considered appropriate for financial guarantee contracts as in substance the issuance of such guarantees, covering micro-lending, is essentially considered to be micro-lending.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk

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

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies that are different from the Bank's functional currency (euro), principally in Polish Zloty, Czech Koruna, Swedish Krona, Norwegian Krona, Bulgarian Lev and Croatia Kuna. However, the Bank is not in substance exposed to fluctuations in exchange rates with respect to the Bulgarian Lev as this currency is pegged to the euro.

The Bank manages its currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. In relation to the resultant asset and liability foreign currency position mismatching, the Bank has entered into an agreement with a group company to provide cover to the Bank from realised and unrealised exchange differences.

The Bank's exposures to Polish Zloty, Czech Koruna, Swedish Krona, Norwegian Krona and Croatia Kuna arise from its lending and credit related activities in Poland, Czech Republic, Sweden, Norway and Croatia respectively, as the loans and other credit related instruments are denominated in that currency. The overall objective is to fund the activities in these countries in the same local currency. The Bank has a funding arrangement with a third party corporate with respect to borrowings in a specific currency to fund the lending activities in a particular country.

As previously explained, the Bank is party to a Foreign Exchange Risk Agreement with a group company, where the latter provides cover to the Bank in respect of realised and unrealised foreign exchange differences. Any realised and unrealised gains or losses attributable to foreign exchange fluctuations registered by the Bank are allotted on to the group entity at the end of each month, in line with the terms of this agreement.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Foreign exchange risk - continued

The Bank's financial assets and liabilities at the end of the reporting periods are analysed into the respective currencies in the following tables.

	Total €	EUR €	PLN €	SEK €	CZK €	BGN €	NOK €	GBP €	HRK €	Other €
As at 31 December 2017										
Financial assets										
Balances with Central Bank of Malta	76,745,851	76,745,851	-	-	-	-	-	-	-	-
Loans and advances to banks	35,235,371	24,505,618	5,368,252	2,547,416	1,059,179	368,702	297,444	173,462	676,597	238,701
Loans and advances to customers	122,538,593	35,658,116	43,243,141	20,180,054	12,447,489	1,630,882	2,952,313	-	6,426,037	561
Loans and advances to group companies	4,469,479	632,766	-	3,836,713	-	-	-	-	-	-
Held-to-maturity financial assets	8,950,729	8,950,729	-	-	-	-	-	-	-	-
Other assets	12,293,079	17,930,933	(1,532,435)	896,723	1,789,093	426,485	5,926	-	(7,227,207)	3,561
Total financial assets	**260,233,102**	**164,424,013**	**47,078,958**	**27,460,906**	**15,295,761**	**2,426,069**	**3,255,683**	**173,462**	**(124,573)**	**242,823**
Financial liabilities										
Borrowed funds	64,804	-	-	64,804	-	-	-	-	-	-
Amounts owed to customers	171,205,580	170,890,644	10,340	161,251	663	-	24,248	44,546	-	73,888
Debt securities in issue	39,549,991	39,549,991	-	-	-	-	-	-	-	-
Other liabilities	8,174,423	6,116,850	1,647,369	442,476	(50,085)	30	(60,435)	(11,840)	52,025	38,033
Total financial liabilities	**218,994,798**	**216,557,485**	**1,657,709**	**668,531**	**(49,422)**	**30**	**(36,187)**	**32,706**	**52,025**	**111,921**
Net currency exposure in financial assets/(liabilities)	**41,238,304**	**(52,133,472)**	**45,421,249**	**26,792,375**	**15,345,183**	**2,426,039**	**3,291,870**	**140,756**	**(176,598)**	**130,902**
Commitments	**3,902,255**	-	-	-	-	**3,902,255**	-	-	-	-

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Foreign exchange risk - continued

	Total €	EUR €	PLN €	SEK €	CZK €	BGN €	NOK €	GBP €	HRK €	Other €
As at 31 December 2016										
Financial assets										
Balances with Central Bank of Malta	21,288,297	21,288,297	-	-	-	-	-	-	-	-
Loans and advances to banks	38,228,035	34,797,991	560,363	1,572,570	647,554	153,142	118,008	90,974	162,098	125,335
Loans and advances to customers	89,133,676	20,713,540	37,178,674	15,076,321	10,584,096	710,505	988,690	-	3,881,850	-
Loans and advances to group companies	351,825	351,825	-	-	-	-	-	-	-	-
Held-to-maturity financial assets	11,570,732	11,570,732	-	-	-	-	-	-	-	-
Other assets	7,357,187	6,687,839	(626,525)	1,397,943	1,459,599	765,451	1,008	11,319	(2,046,811)	(292,636)
Total financial assets	167,929,752	95,410,224	37,112,512	18,046,834	12,691,249	1,629,098	1,107,706	102,293	1,997,137	(167,301)
Financial liabilities										
Borrowed funds	154,306	-	-	154,306	-	-	-	-	-	-
Amounts owed to customers	98,484,628	98,422,089	15,995	15,027	627	-	957	24,836	-	5,097
Debt securities in issue	38,200,537	38,200,537	-	-	-	-	-	-	-	-
Other liabilities	6,195,544	3,060,403	1,302,277	(58,031)	84,620	(225,714)	(67,600)	9,521	1,997,773	92,295
Total financial liabilities	143,035,015	139,683,029	1,318,272	111,302	85,247	(225,714)	(66,643)	34,357	1,997,773	97,392
Net currency exposure in financial assets/(liabilities)	24,894,737	(44,272,805)	35,794,240	17,935,532	12,606,002	1,854,812	1,174,349	67,936	(636)	(264,693)
Commitments	2,788,749	-	-	-	-	2,788,749	-	-	-	-

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Foreign exchange risk - continued

Balances denominated in different currencies with the same group company are offset by the Bank within "Other assets" and "Other liabilities" on the face of the statement of financial position. For the purpose of presenting currency exposure amounts within the tables presented in the previous pages, balances with the same group entity have been denominated in different currencies disclosed under the respective currency on a grossed up basis.

Under the scenario that the euro appreciates by 5% (2016: 5%) against all relevant currencies, the effect would be a decrease of €4,666,289 (2016: €3,471,612) in the carrying amount of the net financial assets with the adverse impact recognised in profit or loss. Should the euro depreciate against all relevant currencies by 5% (2016: 5%), the effect would be a gain of €4,666,289 (2016: €3,471,612) in the carrying amount of the net financial assets and the favourable impact would be recognised in profit or loss.

The ALCO function actively monitors the Bank's net exposures to foreign currencies by currency, by analysing the information on financial instruments as reflected in the tables above and by performing sensitivity analysis, given the significance of such risk to the financial performance of the Bank. Under the terms of the Bank's foreign exchange arrangement with the group company, referred to previously, the group company has committed to provide cover to the Bank from any realised and unrealised gains or losses arising on foreign currencies as a result of the Bank's lending activities, in certain territories, denominated in specific foreign currencies. During the year, the Bank registered net foreign exchange gains amounting to €2,241,335 (2016: foreign exchange losses of €819,904), which were allotted to the group company.

Interest rate risk

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

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

The Bank's exposures to interest rate risk as at 31 December are analysed below:

	Floating rates €	Fixed rates €	Non-interest bearing €	Total €
At 31 December 2017				
Loans and receivables:				
Balances with Central Bank of Malta	74,824,257	-	1,921,594	76,745,851
Loans and advances to banks	13,827,655	-	21,407,716	35,235,371
Loans and advances to customers	-	122,538,593	-	122,538,593
Loans and advances to Group companies	-	4,469,479	-	4,469,479
Held-to-maturity financial assets:				
Debt securities	-	8,850,538	100,191	8,950,729
	88,651,912	**135,858,610**	**23,429,501**	**247,940,023**
Borrowed funds	-	(64,804)	-	(64,804)
Amounts owed to customers	(153,531,843)	(14,121,083)	(3,552,654)	(171,205,580)
Debt securities in issue	(39,406,762)	-	(143,229)	(39,549,991)
	(192,938,605)	**(14,185,887)**	**(3,695,883)**	**(210,820,375)**
Net exposure	**(104,286,693)**	**121,672,723**	**19,733,618**	**37,119,648**

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

At 31 December 2016	Floating rates €	Fixed rates €	Non-interest bearing €	Total €
Loans and receivables:				
Balances with Central Bank of Malta	21,288,297	-	-	21,288,297
Loans and advances to banks	850,851	-	37,377,184	38,228,035
Loans and advances to customers	-	89,133,676	-	89,133,676
Loans and advances to Group companies	-	351,825	-	351,825
Held-to-maturity financial assets:				
Debt securities	-	11,449,742	120,990	11,570,732
	22,139,148	100,935,243	37,498,174	160,572,565
Borrowed funds	-	(154,306)	-	(154,306)
Amounts owed to customers	(77,652,175)	(20,331,578)	(500,875)	(98,484,628)
Debt securities in issue	(24,559,435)	(13,262,095)	(379,007)	(38,200,537)
	(102,211,610)	(33,747,979)	(879,882)	(136,839,471)
Net exposure	(80,072,462)	67,187,264	36,618,292	23,733,094

Financial instruments subject to at fixed interest rates potentially expose the Bank to fair value interest rate risk. However, the Bank's loans and advances to customers, loans and advances to/from group companies, amounts owed to customers, debt securities in issue and borrowed funds are measured at amortised cost and are therefore not subject to fair value interest rate risk. Also, the Bank's loan portfolio consists of micro-loans, revolving loans and similar credit products, and accordingly the short-term nature of these assets mitigates the Bank's exposure to interest rate risk in this respect. The Bank's investments in debt securities are subject to fixed interest rates, but have been categorised as held-to-maturity investments and accordingly measured at amortised cost.

As reflected above, the Bank is exposed to cash flow interest rate risk in respect of certain financial assets and liabilities which are subject to floating interest rates. Taking cognisance of the nature of the Bank's financial assets and liabilities as described above, under the requirements of IFRS 7, a sensitivity analysis in respect of interest rate changes is required in relation to the Bank's net floating rate instruments. These instruments are the net resultant of floating rate assets, which mainly constitute the Bank's surplus liquidity placed with banks, and floating rate liabilities, consisting of funding through customer deposits and debt securities in issue.

Management monitors the level of floating rate net instruments as a measure of cash flow interest rate risk taken on and sensitivity analysis utilised in this respect to assess this risk. Exposure to such risk is not deemed to be significant by the directors since the Bank's floating rate assets and liabilities are mainly of a short term nature. Management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at reporting dates.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

At the end of the reporting periods, if interest rates had increased/decreased by 100 basis points (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, the pre-tax result for the year would change by the following amounts determined by applying the shift to the net variable interest exposure of the Bank at the end of the reporting periods:

	2017	2016
	€	€
(+) 100 bp	**(999,321)**	(437,115)
(-) 100 bp	**999,321**	437,115

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

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

	Within Three months €	Within one year but over three months €	More than one year €	Total €
As at 31 December 2017				
Financial assets				
Balances with Central Bank of Malta	54,491,253	-	22,254,598	76,745,851
Loans and advances to banks	35,235,371	-	-	35,235,371
Loans and advances to customers	51,846,019	60,326,881	10,365,693	122,538,593
Loans and advances to group companies	-	4,469,479	-	4,469,479
Held-to-maturity financial assets	-	-	8,950,729	8,950,729
	141,572,643	**64,796,360**	**41,571,020**	**247,940,023**
Financial liabilities				
Borrowed funds	(64,804)	-	-	(64,804)
Amounts owed to customers	(160,257,405)	(10,948,175)	-	(171,205,580)
Debt securities in issue	-	-	(39,549,991)	(39,549,991)
	(160,322,209)	**(10,948,175)**	**(39,549,991)**	**(210,820,375)**
Interest rate gap	**(18,749,566)**	**53,848,185**	**2,021,029**	
Cumulative gap	**(18,749,566)**	**35,098,619**	**37,119,648**	

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Market risk - continued

Interest rate risk - continued

	Within three months €	Within one year but over three months €	More than one year €	Total €
As at 31 December 2016				
Financial assets				
Balances with Central Bank of Malta	21,288,297	-	-	21,288,297
Loans and advances to banks	38,228,035	-	-	38,228,035
Loans and advances to customers	38,160,861	42,289,979	8,682,836	89,133,676
Loans and advances to group companies	-	351,825	-	351,825
Held-to-maturity financial assets	-	2,305,822	9,264,910	11,570,732
	97,677,193	44,947,626	17,947,746	160,572,565
Financial liabilities				
Borrowed funds	(154,306)	-	-	(154,306)
Amounts owed to customers	(88,521,923)	(9,962,705)	-	(98,484,628)
Debt securities in issue	(13,879,007)	-	(24,321,530)	(38,200,537)
	(102,555,236)	(9,962,705)	(24,321,530)	(136,839,471)
Interest rate gap	(4,878,043)	34,984,921	(6,373,784)	
Cumulative gap	(4,878,043)	30,106,878	23,733,094	

(c) Liquidity risk

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

The Bank manages this risk, by maintaining a strong base of shareholders' capital considering the stage of development of its operations. The Bank manages its asset base with liquidity in mind, and monitors future cash flows and changes in available liquidity on a regular basis. As at 31 December 2017 and 2016, the Bank's pool of liquid assets consists mainly of balances with banks. The Bank's financial liabilities comprise predominantly borrowed funds, amounts owed to customers and debt securities in issue. The Bank's objective is to maintain a comfortable level of liquid assets by reference to outflows expected in relation to borrowed funds, amounts owed to customers, debt securities in issue and other liabilities.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

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

- monitoring of day to day funding, managed by monitoring future cash flows to ensure that requirements attributable to financial liabilities can be met;
- monitoring liquidity ratios and benchmarks against internal and regulatory requirements;
- placing its liquid assets as short-term deposits with other credit and financial institutions taking cognisance of the level of commitments and outflows relating to the Bank's financial liabilities; and
- ensuring that the level of the Bank's liquid financial assets exceeds with a comfortable margin the expected cash outflows from the Bank's financial liabilities over a specified time horizon.

Monitoring takes the form of cash flow projections for the next day, week and month respectively, as these are key periods for liquidity management. Management ensures that it maintains a prudent measure of anticipated total net cash outflows in high quality liquid assets for the purposes of securing a healthy liquidity margin, taking cognisance of the nature of its financial liabilities.

(i) Liquidity Coverage Ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission ('EC') Delegated Regulation 2015/61. It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value in markets.

The LCR ratio as at 31 December 2017 was 940% (2016: 262%). As at 31 December 2017 and 2016 and during the respective financial periods, the LCR ratio was within both the regulatory minimum and the risk appetite set by the bank.

(ii) Net stable funding ratio

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The European calibration of NSFR is pending following the European Commission's proposal in November 2016. As a result, the bank calculates NSFR in line with Basel Committee on Banking Supervision publication 295, pending its implementation in Europe.

The NSFR ratio as at 31 December 2017 was 197% (2016: 176%). As at 31 December 2017 and 2016 and during the respective financial periods, the NSFR was within both the regulatory minimum and the risk appetite set by the bank.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

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

As at 31 December 2017	Within three months €	Within one year but over three months €	More than one year €	No maturity date €	Total €
Financial assets					
Balances with Central Bank of Malta	54,491,253	-	-	22,254,598	76,745,851
Loans and advances to banks	35,235,371	-	-	-	35,235,371
Loans and advances to customers	51,846,019	60,326,881	10,365,693	-	122,538,593
Loans and advances to group companies	-	4,469,479	-	-	4,469,479
Held-to-maturity financial assets	-	-	8,950,729	-	8,950,729
Other assets	11,104,134	-	-	933,236	12,037,370
	152,676,777	**64,796,360**	**19,316,422**	**23,187,834**	**259,977,393**
Financial liabilities					
Borrowed funds	(64,804)	-	-	-	(64,804)
Amounts owed to customers	(160,257,405)	(10,948,175)	-	-	(171,205,580)
Debt securities in issue	-	-	(39,549,991)	-	(39,549,991)
Other liabilities	(8,174,423)	-	-	-	(8,174,423)
	(168,496,632)	**(10,948,175)**	**(39,549,991)**	**-**	**(218,994,798)**
Maturity gap	**(15,819,855)**	**53,848,185**	**(20,233,569)**		
Cumulative gap	**(15,819,855)**	**38,028,330**	**17,794,761**		

Amounts owed to customers, reflected in the table above and consisting of customer deposits, are not expected to be withdrawn in accordance with contractual terms, taking cognisance of the nature of these instruments and hence the Bank is in a position to manage liquidity mismatches.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

As at 31 December 2016	Within three months €	Within one year but over three months €	More than one year €	Total €
Financial assets				
Balances with Central Bank of Malta	21,288,297	-	-	21,288,297
Loans and advances to banks	38,228,035	-	-	38,228,035
Loans and advances to customers	38,160,861	42,289,979	8,682,836	89,133,676
Loans and advances to group companies	-	351,825	-	351,825
Held-to-maturity financial assets	-	2,305,822	9,264,910	11,570,732
Other assets	7,223,257	-	-	7,223,257
	104,900,450	44,947,626	17,947,746	167,795,822
Financial liabilities				
Borrowed funds	(154,306)	-	-	(154,306)
Amounts owed to customers	(88,521,923)	(9,962,705)	-	(98,484,628)
Debt securities in issue	(13,879,007)	-	(24,321,530)	(38,200,537)
Other liabilities	(6,195,544)	-	-	(6,195,544)
	(108,750,780)	(9,962,705)	(24,321,530)	(143,035,015)
Maturity gap	(3,850,330)	34,984,921	(6,373,784)	
Cumulative gap	(3,850,330)	31,134,591	24,760,807	

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The table below analyses the Bank's principal financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Within three months	Within one year but over three months	More than one year	Total	Carrying amount
	€	€	€	€	€
As at 31 December 2017					
Borrowed funds	65,970	-	-	65,970	64,804
Amounts owed to customers	160,571,285	11,032,062	-	171,603,347	171,205,580
Debt securities in issue	625,000	1,909,722	43,166,667	45,701,389	39,549,991
Other liabilities	8,174,423	-	-	8,174,423	8,174,423
	169,436,678	**12,941,784**	**43,166,667**	**225,545,129**	**218,994,798**
As at 31 December 2016					
Borrowed funds	157,106	-	-	157,106	154,306
Amounts owed to customers	88,596,228	10,084,838	-	98,681,066	98,484,628
Debt securities in issue	13,890,625	1,171,875	28,515,625	43,578,125	38,200,537
Other liabilities	6,195,544	-	-	6,195,544	6,195,544
	108,839,503	11,256,713	28,515,625	148,611,841	143,035,015

(d) Operational risk

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

The Bank currently uses the Basic Indicator Approach to assess its operational risk capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with the requirements of this approach.

2. **Financial risk management** - continued

2.2 Capital risk management

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

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

Capital adequacy and the use of regulatory capital are monitored on an ongoing basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives, as implemented by the MFSA for supervisory purposes. The level of Own funds represents the Bank's available capital and reserves for the purposes of assessing capital adequacy from a regulatory perspective. The capital adequacy ratio is a measure of the long-term financial strength of a bank, usually expressed as a ratio of its own funds or capital to the measure of the Bank's assets or exposures.

The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets ("Capital requirements ratio") above a prescribed minimum level of 10% and a CET1 capital ratio of 10%, in line with the Bank's licence conditions. The Bank has processes to ensure that the minimum regulatory requirements in relation to own funds are met at all times.

The capital requirements ratio expresses own funds as a proportion of risk weighted assets and off-balance sheet items in relation to credit risk together with notional risk weighted assets in respect of operational risk and market risk. The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses. Accordingly, risk-weighted assets are measured using the "Standardised approach" for credit risk with risk weights being assigned to assets and off-balance sheet instruments according to their asset class and credit risk mitigation. For the determination of credit assessments, reference is made to independent rating agencies where applicable.

As at 31 December 2017, the Bank pledged an amount of €22,254,598 held with the Central Bank of Malta and was committed to pledge a further amount of €3,211,783 (2016: €14,473,868) of its eligible assets in favour of the Depositor Compensation Scheme in line with the Contingency Contributions requirements.

In addition, in accordance with the Depositor Compensation Scheme return that is based on covered deposits as at 31 December 2016, the Bank has elected to affect the Payment Commitment of €933,236 by transferring this amount to an account held by the Depositor Compensation Scheme at the Central Bank of Malta. This amount is accounted for under 'Other assets' within the financial statements and as a deduction in the Total Own Funds calculation.

2. **Financial risk management** - continued

2.2 Capital risk management - continued

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

	2017	2016
	€	€
Share capital	**10,000,000**	10,000,000
Capital contribution reserve	**20,500,000**	12,000,000
Other reserves		
Reserve for General Banking Risks	**821,022**	709,100
Retained earnings	**10,028,247**	2,851,999
Less:		
Intangible assets	**(513,209)**	(575,850)
Depositor Compensation Scheme - Payment commitments	**(933,236)**	-
Total own funds	**39,902,824**	24,985,249

2.3 Fair value of financial instruments

At 31 December 2017 and 2016, the carrying amounts of loans and advances to banks, loans and advances to customers, other assets, borrowed funds, amounts owed to customers, debt securities in issue, loans and advances with group companies and other liabilities reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments and the short period of time between the origination of the instruments and their expected realisation or liquidation.

The fair value of the Bank's held-to-maturity listed debt securities, comprising Malta Government Stocks, as at 31 December amounted to €8,893,377 (2016: €11,476,549), based on quoted bid prices which are accordingly categorised within Level 1 of the fair value hierarchy.

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

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

In the opinion of the directors, the accounting estimates and judgments made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1, other than those related to calculating loan impairment allowances on collectively assessed loans and advances. The directors believe there are no areas involving a higher degree of judgment that have the most significant effect on the amounts recognised in the financial statements; and there are no key assumptions and other key sources of estimation uncertainty relating to estimates that require directors' most difficult, subjective or complex judgments, other than as highlighted in following page.

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

3.1 Impairment of loans and advances

The Bank's accounting policy for losses arising from the impairment of customer loans and advances is described in accounting policy Note 1.4 to the financial statements. Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolio at the reporting date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on collectively assessed loans and advances.

The methods used to calculate collective impairment allowances on homogeneous groups of loans and advances that are not considered individually significant are disclosed in accounting policy Note 1.4 to the financial statements. They are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis in view of the large number of individually insignificant loans in the portfolio.

The estimation methods include the use of statistical analysis of historical information, supplemented with significant management judgement, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within the portfolio.

In certain circumstances, historical loss experience provides less relevant information about the inherent loss in the portfolio at the reporting date, especially where changes in economic, regulatory or behavioural conditions influence the most recent trends in portfolio risk. These factors will not be fully reflected in the statistical models, since the statistical model is based on historical experience. Such risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

Risk factors include loan portfolio growth, unemployment rates, bankruptcy trends, geographical concentrations, loan product features, economic conditions such as national and local trends, the level of interest rates, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns. Different factors are applied in different countries or territories to reflect the effect of local economic conditions, and laws and regulations. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example, roll rates are regularly benchmarked against actual outcomes to ensure they remain appropriate.

However, the exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive, though they are particularly sensitive to general economic and credit conditions. It is possible that the outcomes within the next financial year could differ from the assumptions used, and this could result in a material adjustment to the carrying amount of loans and advances.

4. Balances with Central Bank of Malta

	2017 €	2016 €
Balance with the Central Bank of Malta	**76,745,851**	21,288,297

The balances with Central Bank of Malta include a reserve deposit amounting to €1,921,594 (2016: €1,025,804) held in terms of Regulation (EC) No. 1745/2003 of the European Central Bank. The average reserve deposit balance held for the relevant maintenance period was €1,429,421 (2016: €294,508).

As at 31 December 2017, the Bank pledged an amount of €22,254,598 held with the Central Bank of Malta and was committed to pledge a further amount of €3,211,783 (2016: €14,473,868) of its eligible assets in favour of the Depositor Compensation Scheme in line with the Contingency Contributions requirements.

5. Loans and advances to banks

	2017 €	2016 €
Repayable on call and at short notice	**35,235,371**	38,228,035

Loans and advances with a contractual maturity of three months or less are included in cash and cash equivalents for the purposes of the statement of cash flows (Note 28).

6. Loans and advances to customers

	2017 €	2016 €
Term loans and advances to customers	**122,538,593**	89,133,676

Loans and advances to customers consist of loans granted to individuals and are principally unsecured. The loans and advances are effectively subject to a fixed interest rate as the Bank's principal revenue streams (process fees, rescheduling fees, reminder fees and other fees attributable to revolving credit facilities) are amortised over the expected term of the loan using the effective interest method. Process, reminder and other revolving credit fees due are reflected as part of the carrying amount of the loans receivable up to the extent of amounts amortised and recognised in profit or loss. The amount of rescheduling fees received but not yet amortised and recognised in profit or loss are deducted from the carrying amount of the loans receivable. The carrying amount of loans and advances to customers is further analysed on the following page.

6. Loans and advances to customers - continued

	2017	2016
	€	€
Face value of loans and advances	**140,169,084**	101,359,911
Amortised process and reminder fees	**21,955,621**	20,342,704
Unamortised rescheduling fees	**(91,484)**	(98,785)
Collective impairment allowances	**(39,494,628)**	(32,470,154)
Carrying amount	**122,538,593**	89,133,676

The movements in collective impairment allowances with respect to loans and advances to customers are analysed as follows:

	2017	2016
	€	€
At beginning of the year	**32,470,154**	18,191,760
Increase in allowances - charge to profit or loss	**33,277,385**	23,261,972
Loans and advances written off during the year	**(27,577,660)**	(8,558,852)
Exchange differences	**1,324,749**	(424,726)
At end of the year	**39,494,628**	32,470,154

As part of the Bank's non-performing loans reduction strategy, during the year ended 31 December 2017, the Bank effected disposals of portfolios of loans analysed as follows:

Country	**2017**	2016
	€	€
Bulgaria	**1,876,255**	-
Czech Republic	**6,157,547**	-
Estonia	**260,178**	-
Latvia	**1,285,494**	-
Poland	**19,330,272**	6,200,000
At end of the year	**28,909,746**	6,200,000

The Bank also has active ongoing debt sale agreements in a number of jurisdictions (refer to Note 2.1a).

7. Loans and advances to group companies

	2017	2016
	€	€
Net advances to group company	**4,469,479**	351,825

7. **Loans and advances to group companies** - continued

The movements in the loans and advances are analysed below:

	2017	2016
	€	€
At beginning of the year	**351,825**	(3,556,593)
Net advances to group company	**4,117,654**	3,908,418
At end of the year	**4,469,479**	351,825

During the financial years ended 31 December 2017 and 2016, the Bank carried out financing transactions, comprising advances and repayments thereof, with a group company, Ferratum Capital Oy, in terms of a funding arrangement entered into with this entity. Advances were primarily secured against the entire micro loan portfolio of all group entities that operate in the micro finance business. This security was held by the Bank as a continuing security for the payment of all sums of money which became due and payable by Ferratum Capital Oy.

During 2016, the Bank has entered into a Foreign Exchange Risk Agreement with this group company, where the latter provides cover to the Bank over realised and unrealised foreign exchange differences. Any realised and unrealised gains or losses attributable foreign exchange rate movements registered by the Bank are allocated to the group company at the end of each month, in line with the terms of this agreement. The terms of this agreement stipulate fees payable by the Bank to the group company (Note 21).

All the terms and conditions of this arrangement are disclosed within Note 2.1 (Credit risk - Loans and advances to group companies).

8. **Held-to-maturity financial assets**

	2017	2016
	€	€
Debt securities	**8,950,729**	11,570,732

The movement in held-to-maturity financial assets is analysed as follows:

	2017	2016
	€	€
Year ended 31 December		
As at beginning of the year	**11,570,732**	-
Acquisitions	**-**	11,588,814
Redemptions	**(2,202,599)**	-
Amortisation of premiums/discounts	**(396,604)**	(139,072)
Coupon interest received on debt securities	**(120,991)**	-
Accrued coupon interest on debt securities	**100,191**	120,990
As at end of year	**8,950,729**	11,570,732

The Bank's investments classified as held-to-maturity financial assets consist entirely of Malta Government Stocks, which are listed on the Malta Stock Exchange.

9. Property, plant and equipment

	Furniture and fittings €	Computer hardware €	Office equipment €	Total €
At 1 January 2016				
Cost	84,018	125,011	20,042	229,071
Accumulated depreciation	(16,810)	(40,936)	(6,178)	(63,924)
Net book amount	67,208	84,075	13,864	165,147
Year ended 31 December 2016				
Opening net book amount	67,208	84,075	13,864	165,147
Additions	94,193	118,372	19,561	232,126
Depreciation charge	(13,631)	(43,760)	(6,900)	(64,291)
Closing net book amount	147,770	158,687	26,525	332,982
At 31 December 2016				
Cost	178,211	243,383	39,603	461,197
Accumulated depreciation	(30,441)	(84,696)	(13,078)	(128,215)
Net book amount	147,770	158,687	26,525	332,982
Year ended 31 December 2017				
Opening net book amount	147,770	158,687	26,525	332,982
Additions	96,861	196,194	5,288	298,343
Depreciation charge	(27,629)	(91,469)	(10,545)	(129,643)
Closing net book amount	**217,002**	**263,412**	**21,268**	**501,682**
At 31 December 2017				
Cost	275,072	439,577	44,891	759,540
Accumulated depreciation	(58,070)	(176,165)	(23,623)	(257,858)
Net book amount	**217,002**	**263,412**	**21,268**	**501,682**

10. Intangible assets

Software licenses	**2017**	2016
	€	€
As at beginning of year		
Cost	**647,174**	360,268
Accumulated amortisation	**(71,324)**	-
Net book amount	**575,850**	360,268
Year ended 31 December		
Opening net book amount	**575,850**	360,268
Additions	**146,708**	286,906
Amortisation charge	**(209,349)**	(71,324)
Closing net book amount	**513,209**	575,850
As at end of year		
Cost	**793,882**	647,174
Accumulated amortisation	**(280,673)**	(71,324)
Net book amount	**513,209**	575,850

11. Other assets

	2017	2016
	€	€
Amount due from immediate parent company	**1,393,400**	192,000
Amount due from group companies	**4,003,939**	3,649,206
Amounts attributable to the Depositor Compensation Scheme	**933,236**	-
Other receivables	**5,706,795**	3,382,051
Prepayments	**255,709**	133,930
	12,293,079	7,357,187

Amounts due from immediate parent company and from group companies are repayable on demand, unsecured and bear no interest.

As explained in note 2.2, in accordance with the Depositor Compensation Scheme return that is based on covered deposits as at 31 December 2016, the Bank has elected to affect the Payment Commitment of €933,236 by transferring this amount to an account held by the Depositor Compensation Scheme at the Central Bank of Malta. The Bank estimates that a further transfer of €583,776 (2016: €934,529) ought to be done based on the covered deposits at 31 December 2017.

12. Share capital

	2017	2016
	€	€
Authorised, issued and fully paid		
10,000,000 Ordinary shares of €1 each	**10,000,000**	10,000,000

13. Capital contribution reserve

By virtue of board resolutions dated 1 November 2016, 18 November 2016 and 1 December 2016, the Bank accepted capital contributions from Ferratum (Malta) Holding Limited amounting to €3 million, €3 million and €6 million respectively.

During 2017, by virtue of board resolutions dated 18 October 2017 and 22 December 2017, the Bank accepted further capital contributions from Ferratum (Malta) Holding Limited amounting to €5 million and €3.5 million respectively.

The terms and conditions of the contributions granted, render these instruments equity in nature, in accordance with the requirements of IAS 32: Financial Instruments - Presentation:

- The Bank has no obligation to bear any servicing cost or transfer any economic benefits of any kind to the Contributor or any other person in return; and
- The Bank has no obligation to repay the contributions. The contributions are also eligible as own funds in terms of capital requirements.

14. Other reserves

	2017	2016
	€	€
Reserve for General Banking Risks	**821,022**	709,100

The Reserve for General Banking Risks refers to the amount allocated by the Bank from its retained earnings to a non-distributable reserve against potential risks linked to the Bank's non-performing loans and advances. In line with the requirements under Banking Rule BR/09, during 2017 the Bank increased the reserve by an amount of €111,922 (2016: €173,495), taking cognisance of the level of non-performing assets within the Bank's loan portfolio as at 31 December 2017.

15. Borrowed funds

	2017	2016
	€	€
Amounts owed to corporate entity	**64,804**	154,306

Amounts owed to corporate entity reflect funding for the Bank's lending activities in a specific territory, which funding is repayable within a three month period from origination and is subject to a fixed interest rate of 7.4% per annum (2016: 7.2%). The loan is secured by the lending portfolio attributable to the specific jurisdiction.

16. Amounts owed to customers

	2017 €	2016 €
Term deposits	**14,121,083**	20,331,578
Call accounts	**157,084,497**	78,153,050
	171,205,580	98,484,628

Amounts owed to customers are classified and accounted for as liabilities at amortised cost.

17. Debt securities in issue

	2017 €	2016 €
Original face value of bonds issued	**40,000,000**	38,500,000
Accrued interest expense on securities	**143,229**	379,007
	40,143,229	38,879,007
Gross amount of bond issue costs	**(1,237,432)**	(1,128,020)
Amortisation of gross amount of bond issue costs:		
Accumulated amortisation at beginning of year	**9,550**	145,627
Amortisation charge for the current year	**328,949**	303,923
Accumulated amortisation at end of year	**338,499**	449,550
Unamortised bond issue costs	**(898,933)**	(678,470)
Gross amount of premiums in respect of bonds issued	**375,000**	-
Amortisation of gross amount of premium:		
Accumulated amortisation at beginning of year	**-**	-
Amortisation charge for the current year	**(69,305)**	-
Accumulated amortisation at end of year	**(69,305)**	-
Unamortised amount of premium	**305,695**	-
Amortised cost and closing carrying amount of bonds	**39,549,991**	38,200,537

As part of its €30,000,000 Bond Issuance Programme, on 22 July 2015, by virtue of a base prospectus dated 17 July 2015, the Bank issued the first tranche of its bond offering, amounting to 200 bonds with a nominal value of €100,000 per bond, listed on the European Securities Wholesale Market. The bonds are subject to fixed interest of 4.90% per annum payable on 21 July 2016 and 21 January 2017. All of the 4.90% euro debt securities are redeemable at par on the latter date.

The repayment of the 4.90% euro debt securities was funded through a new €60,000,000 Bond Issuance Programme, by virtue of a base prospectus dated 14 December 2016. The Bank issued the first tranche of its bond offering on 15 December 2016, amounting to 250 bonds with a nominal value of €100,000 per bond, listed on the European Securities Wholesale Market. The bonds are subject to interest of 6.25% per annum above 3-month EURIBOR (incl. floor at 0%), payable quarterly. All bonds are redeemable at par and shall become due for final redemption on 15 March 2020, however, the Bank reserves the right to redeem the bond in particular circumstances specified in the base prospectus dated 14 December 2016.

17. Debt securities in issue - continued

During December 2016, the Bank repurchased €2,800,000 and exchanged €3,700,000 of the 2017 bonds against the new 2020 bonds. The remaining 4.90% Euro debt securities amounting to €13,500,000 were redeemed on 21 January 2017.

As part of the €60,000,000 Bond Issuance programme, a second tranche of €15,000,000 was issued on 28 June 2017 at a premium of 2.5% (€102.50), subject to the same terms and conditions, which includes interest of 6.25% per annum above 3-month EURIBOR (incl. floor at 0%), payable quarterly and maturing on 15 March 2020.

The principal and interest repayments on the bonds are guaranteed by the Bank's ultimate parent company, Ferratum Oyj.

18. Other liabilities

	2017	2016
	€	€
Current:		
Amounts due to group companies	**2,384,859**	1,896,576
Other payables	**814,305**	1,090,911
Other accruals	**4,975,259**	3,208,057
	8,174,423	6,195,544

Amounts due to group companies are repayable on demand, unsecured and bear no interest.

19. Commitments

Credit related commitments

	2017	2016
	€	€
Financial guarantee contracts issued	**3,902,255**	2,788,749

Financial guarantee contracts issued, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. The Bank issues financial guarantee contracts in respect of micro-loans and other credit products originated by other parties. At the end of each reporting period, these commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition (fees received) and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

With respect to revolving credit facilities that are issued to customers, the Bank has undrawn credit lines that are considered revocable. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, commitments to extend credit are in all circumstances contingent upon customers maintaining specific credit standards under the terms of this product.

19. Commitments - continued

Operating lease commitments – where the Bank is the lessee

The future aggregate minimum lease payments payable under non-cancellable operating leases, mainly relating to the lease of office premises by the Bank subject to normal commercial terms and conditions, are as follows:

	2017	2016
	€	€
Less than one year	**1,119,874**	349,827
More than one year and less than five years	**2,268,893**	23,300
	3,388,767	373,127

20. Interest and similar income

	2017	2016
	€	€
On loans and advances to banks	**1,077**	1,154
On loans and advances to customers	**90,347,822**	62,492,161
On loans and advances to group companies	**297,804**	316,854
On debt securities classified as held-to-maturity	**7,270**	11,715
	90,653,973	62,821,884

21. Interest and similar expense

	2017	2016
	€	€
On borrowed funds	**567,271**	86,392
On loans and advances from group companies	**183,438**	1,321,144
On debt securities in issue	**2,057,451**	1,059,356
On customer deposits	**1,186,008**	505,704
	3,994,168	2,972,596

22. Fee and commission income and expense

(a) Fee and commission income

	2017 €	2016 €
Fee and other related income	**2,716,789**	802,815

(b) Fee and commission expense

	2017 €	2016 €
Interbank transaction fees	**7,105,261**	5,714,973
Other fees	**178,388**	428,164
	7,283,649	6,143,137

23. Net trading income

During 2016, the Bank has entered into a Foreign Exchange Risk Agreement with a group company, whereby the latter provides cover to the Bank in respect of realised and unrealised foreign exchange differences. Any realised and unrealised gains or losses attributable to foreign exchange rate movements registered by the Bank are allocated to the group company at the end of each month, in line with the terms of this agreement. The terms of this agreement stipulate fees payable by the Bank to the group company (Note 24).

During the year, the Bank registered net foreign exchange gains amounting to €2,241,335 (2016: foreign exchange losses of €819,904) which were allocated to the group company.

24. Expenses by nature

	2017 €	2016 €
Employee benefit expense (Notes 25 and 26)	**8,555,061**	7,620,677
Depreciation of property, plant and equipment (Note 9)	**129,643**	64,291
Amortisation of intangible assets (Note 10)	**209,349**	71,324
Information technology costs	**1,712,034**	1,382,997
Property rental expenses	**464,658**	462,909
Legal, consultancy and professional expenses	**2,140,562**	1,492,174
Regulatory expenses	**586,499**	354,485
Marketing and representation costs	**11,467,557**	9,462,285
Credit management expenses	**4,780,932**	2,059,016
Brokerage fees	**814,014**	669,693
Foreign exchange risk management fees (Note 23)	**1,524,759**	233,912
Other administrative expenses	**5,680,866**	4,107,512
	38,065,934	27,981,275

24. Expenses by nature - continued

Other administrative expenses comprise services or expense items which are incurred in the course of the Bank's operations.

Cash contributions required under the Depositor Compensation Scheme which have been accrued for by the Bank amounted to €544,792 (2016: €319,872) and are included under Regulatory expenses.

Auditor's remuneration

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

	2017 €	2016 €
Annual statutory audit	**150,000**	139,000
Other assurance services	**75,000**	-
Other non-audit services	**90,000**	265,000
Tax advisory services	**12,800**	-
	362,800	404,000

Other non-audit services comprise services rendered in relation to capital markets transactions and regulatory advisory services that have no linkage to the historical audited financial statements.

25. Employee compensation and benefits

	2017 €	2016 €
Wages and salaries	**7,252,529**	6,294,927
Social security costs	**818,152**	1,001,762
	8,070,681	7,296,689

The average number of persons employed by the Bank during the period:

	2017	2016
- Senior managerial	**11**	10
- Operational/administrative	**235**	276
	246	286

26. Directors' emoluments

	2017	2016
	€	€
Salaries, fees and other emoluments	**484,380**	323,988

27. Tax expense

	2017	2016
	€	€
Current tax expense	**661,456**	240,229

	2017	2016
	€	€
Profit before tax	**10,749,626**	3,265,719
Tax at the applicable rate of 35%	**3,762,370**	1,143,002
Tax effect of:		
Non-deductible expenses and other differences	**145,325**	53,893
Application of flat rate foreign tax credit	**(2,436,361)**	(956,666)
Application of notional interest deduction	**(809,878)**	-
Income tax expense	**661,456**	240,229

28. Cash and cash equivalents

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

	2017	2016
	€	€
Balances with Central Bank of Malta (Note 4)	**76,745,851**	21,288,297
Loans and advances to banks (Note 5)	**35,235,371**	38,228,035
Borrowed funds (Note 15)	**(64,804)**	(154,306)
	111,916,418	59,362,026

Borrowed funds, which are repayable on demand or within three months from origination, are treated as cash equivalents as they form an integral part of the Bank's cash management.

29. Dividends

	2017 €	2016 €
Dividends declared by the Bank	**2,800,000**	4,362,770
euro cent per share - net	**28.0**	43.6

During the year ended 31 December 2017, the Bank declared a final net dividend of 28 euro cent per share (2016: 43.6 euro cent per share), with a gross dividend of 43 euro cent per share (2016: 67 euro cent per share).

30. Related party transactions

Ferratum Oyj is the Bank's ultimate parent company (refer to Note 31). All entities, which are ultimately controlled by Ferratum Oyj are considered by the directors to be related parties. The ultimate controlling party of Ferratum Bank plc is Mr Jorma Jokela, who holds a majority stake in the share capital of Ferratum Oyj.

During the financial years ended 31 December 2017 and 2016, the Bank effected financing transactions, comprising advances and repayments thereof, with a group company, Ferratum Capital Oy, in terms of a funding arrangement entered into with this entity.

The Bank has entered into entered into a Foreign Exchange Risk Agreement with the same group company, where the latter provides cover to the Bank over realised and unrealised foreign exchange differences. Any realised and unrealised gains or losses attributable foreign exchange rate movements registered by the Bank are allocated to the group company at the end of each month, in line with the terms of this agreement. During the year, the Bank incurred net foreign exchange gain amounting to €2,241,335 (2016: net foreign exchange loss €819,904), which were borne by the group company (refer to Note 23). Interest income and expense attributable to loans and advances under this arrangement are presented in the following table.

The following principal transactions were carried out with related parties, comprising mainly group companies:

	2017 €	2016 €
Interest receivable from group company (Note 20)	**297,804**	316,854
Interest payable to group company (Note 21)	**(183,438)**	(1,321,144)
Recharge of expenses from ultimate parent company:		
Information technology costs, marketing fees and other costs	**(5,536,424)**	(2,774,632)
Recharge of marketing and staff training expenses from other group companies	**(5,609,209)**	(2,305,609)
Consultancy services provided by key management personnel	**(92,919)**	(112,445)
Dividend payable to group company (Note 29)	**(2,800,000)**	(4,362,770)

Amounts owed by group companies are disclosed in Notes 7, 11 and 18.

The Bank's directors are deemed to be its key management personnel taking cognisance of the Bank's activities. Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 26.

31. Statutory information

Ferratum Bank plc is a limited liability company and is incorporated in Malta.

The immediate parent company of Ferratum Bank plc is Ferratum (Malta) Holding Limited, a company registered in Malta, with its registered address at Tagliaferro Business Centre, Level 6, 14, High Street, Sliema, Malta. The immediate parent company is the holder of the entire ordinary share capital of the Bank, with the exception of one ordinary share which is held by Ferratum Oyj.

The ultimate parent company of Ferratum Bank plc is Ferratum Oyj, a company registered in Finland, with its registered address at Ratamestarinkatu 11 A, Helsinki 00520, Finland. The financial statements of Ferratum Bank plc are included in the consolidated financial statements prepared by Ferratum Oyj, which consolidated financial statements are available from the ultimate parent company's registered address.

Statement of financial position: Five year summary

	As at 31 December				
	2017	2016	2015	2014	2013
	€	€	€	€	€
ASSETS					
Balances with Central Bank of Malta	**76,745,851**	21,288,297	182	-	-
Loans and advances to banks	**35,235,371**	38,228,035	3,704,583	3,043,304	8,954,585
Loans and advances to customers	**122,538,593**	89,133,676	43,203,453	16,370,257	4,365,633
Loans and advances to group companies	**4,469,479**	351,825	-	1,360,845	-
Held-to-maturity financial assets	**8,950,729**	11,570,732	-	-	-
Property, plant and equipment	**501,682**	332,982	165,147	101,215	68,869
Intangible assets	**513,209**	575,850	360,268	-	-
Other assets	**12,293,079**	7,357,187	2,535,666	327,638	107,886
Total assets	**261,247,993**	168,838,584	49,969,299	21,203,259	13,496,973
EQUITY AND LIABILITIES					
Equity					
Share capital	**10,000,000**	10,000,000	10,000,000	10,000,000	10,000,000
Capital contribution reserve	**20,500,000**	12,000,000	-	-	-
Other reserves	**821,022**	709,100	535,605	96,608	-
Retained earnings	**10,028,247**	2,851,999	4,362,774	2,345,324	9,276
Total equity	**41,349,269**	25,561,099	14,898,379	12,441,932	10,009,276
Liabilities					
Borrowed funds	**64,804**	154,306	345,484	4,218,723	2,500,000
Amounts owed to customers	**171,205,580**	98,484,628	2,783	-	-
Debt securities in issue	**39,549,991**	38,200,537	20,143,271	-	-
Loans and advances to group companies	**-**	-	3.556.593	-	-
Other liabilities	**8,174,423**	6,195,544	7,132,099	3,230,264	985,249
Current tax liabilities	**903,926**	242,470	3,890,690	1,312,340	2,448
Total liabilities	**219,898,724**	143,277,485	35,070,920	8,761,327	3,487,697
Total equity and liabilities	**261,247,993**	168,838,584	49,969,299	21,203,259	13,496,973
MEMORANDUM ITEMS					
Commitments	**3,902,255**	2,788,749	1,157,277	1,294,452	-

Statement of comprehensive income: Five year summary

	Year ended 31 December				
	2017 €	2016 €	2015 €	2014 €	2013 €
Interest and similar income	**90,653,973**	62,821,884	42,788,395	18,348,726	4,066,307
Interest and similar expense	**(3,994,168)**	(2,972,596)	(1,442,398)	(254,502)	(141,520)
Net interest income	**86,659,805**	59,849,288	41,345,997	18,094,224	3,924,787
Fee and commission income	**2,716,789**	802,815	344,210	207,742	18,936
Fee and commission expense	**(7,283,649)**	(6,143,137)	(2,729,103)	(701,861)	(120,982)
Net fee and commission expense	**(4,566,860)**	(5,340,322)	(2,384,893)	(494,119)	(102,046)
Net trading gains	**-**	-	-	-	24,176
Operating profit	**82,092,945**	54,508,966	38,961,104	17,600,105	3,846,917
Employee compensation and benefits	**(8,555,061)**	(7,620,677)	(4,535,017)	(2,422,074)	(955,252)
Other operating costs	**(29,171,881)**	(20,224,983)	(13,169,722)	(6,133,653)	(1,409,457)
Depreciation and amortisation	**(338,992)**	(135,615)	(33,960)	(20,989)	(8,975)
Net impairment losses	**(33,277,385)**	(23,261,972)	(13,835,065)	(5,280,841)	(1,417,181)
Profit before tax	**10,749,626**	3,265,719	7,387,340	3,742,548	56,052
Tax expense	**(661,456)**	(240,229)	(2,585,569)	(1,309,892)	(2,448)
Profit for the year - total comprehensive income	**10,088,170**	3,025,490	4,801,771	2,432,656	53,604

Statement of cash flows: Five year summary

	31 December 2017				
	2017	2016	2015	2014	2013
	€	€	€	€	€
Cash flows from operating activities					
Interest and commission receipts	**93,788,163**	63,503,714	43,132,605	18,556,468	4,191,587
Interest and commission payments	**(11,734,058)**	(9,558,468)	(4,028,230)	(1,006,440)	(212,425)
Income tax paid	-	(3,888,449)	(7,219)	-	-
Payments to employees and suppliers	**(39,750,716)**	(31,119,344)	(17,554,974)	(6,480,387)	(3,025,020)
Cash flows from operating profit before changes in operating assets & liabilities	**42,303,389**	18,937,453	21,542,182	11,069,641	954,142
Changes in operating assets and liabilities:					
Loans and advances to/(from) group companies	**(4,117,654)**	(3,908,418)	4,917,438	(1,360,845)	-
Loans and advances to customers	**(66,682,302)**	(69,192,195)	(40,665,478)	(17,285,465)	(4,365,633)
Amounts owed to customers	**72,720,952**	98,481,845	-	-	-
Amounts paid in favour of Depositor Compensation Scheme	**(933,236)**	-	-	-	-
Borrowed funds	-	-	(3,301,282)	-	2,500,000
Net cash generated from/(used in) Operating activities	**43,291,149**	44,318,685	(17,507,140)	(7,576,669)	(911,491)
Cash flows from investing activities					
Purchase of property, plant and equipment	**(298,343)**	(232,126)	(97,892)	(53,335)	(77,844)
Purchase of intangible asset	**(146,708)**	(286,906)	(360,268)	-	-
Purchase of held-to-maturity financial assets	-	(11,588,814)	-	-	-
Proceeds from maturity of held-to-maturity financial assets	**2,202,599**	-	-	-	-
Net cash used in investing activities	**1,757,548**	(12,107,846)	(458,160)	(53,335)	(77,844)
Cash flows from financing activities					
Issue of debt securities	**15,305,695**	25,000,000	20,000,000	-	-
Repayment of debt securities	**(13,500,000)**	(6,500,000)	-	-	-
Shareholders' contributions	**8,500,000**	12,000,000	-	-	-
Dividends paid to equity holders of the Bank	**(2,800,000)**	(6,708,094)	-	-	-
Net cash generated from financing activities	**7,505,695**	23,791,906	20,000,000	-	-
Net increase in cash and cash equivalents	**52,554,392**	56,002,745	2,034,700	(7,630,004)	(989,335)
Cash and cash equivalents at beginning of year	**59,362,026**	3,359,281	1,324,581	8,954,585	9,943,920
Cash and cash equivalents at end of year	**111,916,418**	59,362,026	3,359,281	1,324,581	8,954,585

Analysis of the share capital of Ferratum Bank plc as at 31 December 2017:

Ferratum Bank plc C56251

	Type & Class of Shares	Issued Shares	% Paid Up	Nominal Value Per Share in EUR
Ferratum (Malta) Holding Limited	Ordinary	9,999,999	100	1.000000
Ferratum Oyj	Ordinary	1	100	1.000000

	Number of shares	Number of holders
Ordinary	10,000,000	2

Range	Number of holders
1 - 500	1
501 - 1000	-
1001 - 5000	-
5001 & over	1

The holders of Ordinary shares are entitled to one vote for each share.

Analysis of the share capital of the parent company of Ferratum Bank plc, Ferratum (Malta) Holding Limited, as at 31 December 2017:

Ferratum (Malta) Holding Limited C56250

	Type & Class of Shares	Issued Shares	% Paid Up	Nominal Value Per Share in EUR
Ferratum Oyj	Ordinary	9,999,999	100	1.000000
Ferratum Finland Oy	Ordinary	1	100	1.000000

Company Secretary

Lea Liigus

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Additional Regulatory Disclosures
31 December 2017

1. Risk management

1.1 Overview of risk disclosures

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

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

1.2 Risk management framework

The Bank generates income and profitability by advancing short-term loans and providing other credit products to private individuals in a multitude of European countries. An understanding of risk taking and transparency in risk taking are key elements in the Bank's business strategy and thus in its ambition to be a strong financial institution. The Bank's internal risk management processes support this objective. The Bank is committed to creating lasting value for shareholders by focusing on customer-driven business and by employing specialised staff who strive to find solutions. The Bank takes on risk with the aim of generating profits and therefore considers risk management a core competency that helps produce higher returns for its various stakeholders.

In this respect, the Bank's return on assets, calculated as its net profit expressed as a percentage of average total assets, for the reporting period ended 31 December 2017 is 4.92%.

The Bank bases its risk management objectives and policies on international guidelines, such as the Basel III Accord, corresponding Directives and Regulations of the European Union, including technical standards, as well as contemporary international banking practices. The Board deems the risk management framework adopted by the Bank to be adequate and hence gives assurance to the Bank's stakeholders that the risk management systems are appropriate in relation to the Bank's risk profile and strategy.

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

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

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

1. **Risk management** - continued

1.2 Risk management framework - continued

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

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

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

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

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

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

The Risk Management Committee performs the risk oversight function within the Bank and the members of the Committee act, on a joint basis, as the risk oversight guardians for the Bank. The Risk Management Committee is appointed to oversee the formulation of the Bank's overall risk management policy, to review risk measurement and monitoring mechanisms within the Bank and to monitor the effectiveness of the Bank's risk management practices. In the course of managing this framework the Risk Management Committee focuses on four key infrastructure components of effective risk management programmes with specific control activities:

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

The Risk Management Committee convened four times during the period ended 31 December 2017.

1. **Risk management** - continued

1.2 Risk management framework - continued

Authority to operate the Bank is delegated to the senior management team within the limits set by the Board. The senior management team, which is made up of the Bank's Chief Executive Officer and the functional heads of the Bank, is therefore responsible for the Bank's day-to-day operations of the Bank and is involved in taking on risks in a targeted manner and managing them professionally. The Bank has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Bank's objectives.

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

The Bank's Audit Committee reviews the adequacy and proper operation of internal controls in individual areas of operation, and performs ad-hoc reviews of risk management controls and procedures.

2. Credit risk

2.1 Introduction to credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit exposures arise principally through the Bank's micro-lending activities in various European countries, together with the placement of liquidity with banks domiciled in Malta and other European countries. The Bank is also exposed to credit risk arising from the issuance of financial guarantee contracts to entities granting micro-loans and other related credit products to individuals located in certain European countries. Credit exposures through advances to group undertakings located in Finland also give rise to credit risk.

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

The Bank's Credit function is responsible for undertaking and managing credit risk with respect to the Bank's lending activities, which covers all the stages within the lending cycle, from credit application to credit recovery procedures. The Bank manages, limits and controls concentrations of credit risk arising from loans and advances wherever they are identified. Such risks are monitored on an ongoing basis and subject to frequent review, as considered necessary. The Bank's reporting framework with respect to lending credit risk is comprehensive with regular reporting by the Credit function to the Board and the Executive Committee on activity levels, performance measures and specific credit risk management actions.

2. Credit risk - continued

2.2 Credit risk management

2.2.1 Loans and advances to customers

The Bank's lending activities comprise the granting of short-term micro-loans, other medium-term credit products and revolving micro-credit facilities (mainly unsecured) to individual customers in specific European jurisdictions. Loans to customers are granted on the basis of the outcome of the scoring model and the rules embedded within the credit policy. Each lending transaction and the related agreement are determined on the strength of an individual credit decision. All credit decisions are handled and processed within the Bank's internal loan handing system through the application of both automated and manual processes. The creditworthiness of potential customers is assessed by reference to the calculation of a credit score for each loan application received. The relevant credit score is computed through the applications scorecard for first time customers and through the behaviour scorecard for repeat customers. Based on the credit score registered, customers are grouped into risk classes. The respective risk class determines the maximum credit amount for each customer. The scoring model and linked scorecards are developed and maintained centrally by the management team of the Bank. These are applied in all jurisdictions in which the Bank operates with specific adaptations at country level taking cognisance of the different characteristics of each market; with the adaptations being centrally approved.

Prior to generation of internal scores, automated credit policy checks or underwriting actions are carried out within the loan handling system focusing on the Bank's credit policy rules in relation to such factors as applicant's age, number of outstanding loans, existence of duplicate applications, reference to the Bank's internal customer blacklist, previous loan repayment behaviour and linkage to external collection company information. These automated underwriting actions generate an internal credit score for the customer. Subsequently, specifically designed manual underwriting actions are carried out to finalise the loan application review and decision making process. These manual underwriting actions comprise requests for checks in relation to existence of bad debts reported by credit agencies, requests for external credit scoring checks with a view to checking external sources of credit information about the client, and requests for additional checks in respect of certain customer details. The outcome of these manual underwriting actions is automatically reflected in the loan handling system and updates the scorecard in an automated manner. If the scored or approved amount is higher than or equal to the requested amount, the loan is then automatically approved. Otherwise, the loan is automatically approved up to the scored amount. The latter decision can be exceptionally overridden by management in specific circumstances and subject to certain conditions such that the amount granted is higher than the scored amount.

In respect of credit risk management, the Bank has set an authority structure and has segregation of duties in place so as to maintain impartiality and independence during the approval process and to control new and existing credit transactions. Credit review procedures are designed to identify at an early stage risk patterns which require more detailed monitoring and review.

Furthermore, the Bank has a formal rigorous debt collection policy outlining the manner in which the Bank deals with past due loans and advances. This policy has been approved by the Bank for use within the operations in the respective territories with formal documented adaptations for the respective territories. The policy highlights the prescribed actions, channels and mechanisms utilised to follow up on outstanding exposures indicating the precise point in time at which the respective actions are taken and allocating roles and responsibilities within the Bank in this respect. The collection policy focuses on the extent to which collection activities are carried out by the Bank and the stage or phase at which external collection companies are utilised.

2. Credit risk - continued

2.2 Credit risk management - continued

2.2.2 Credit related commitments

The Bank issues financial guarantee contracts to other parties that grant micro-loans and other short-term credit products. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. The Bank's credit risk management framework applied to issuance of micro-loans and related products, described in detail in the preceding sections, is utilised for management of issuance of guarantee contracts. The entire credit underwriting cycle from approval to monitoring is considered appropriate for financial guarantee contracts as in substance the issuance of such guarantees, covering micro-lending and other lending activities, is essentially considered to be micro-lending or other credit granting .

2.2.3 Credit exposures analysed by exposure class

The Bank's principal credit risk exposures reflecting the maximum exposure to credit risk in accordance with the regulatory information submitted to the MFSA are as follows:

	2017 Average exposure value €	2017 Year end exposure value €
Central Government or Central Banks	49,709,304	85,696,580
Institutions	34,564,635	32,306,595
Corporates	1,364,887	2,928,776
Retail exposures	110,664,463	126,504,060
Other items	8,430,637	16,267,792
	204,733,926	**263,703,803**

The exposures set out in the preceding table are based on the sum of on-balance sheet exposures and off-balance sheet exposures adjusted for the credit conversion factors stipulated within Article 166(10) of the CRR.

2.2.4 Credit exposures analysed by residual maturity

	2017 Within three months €	2017 Within one year but over three months €	2017 More than one year €	2017 Year end exposure value €
Central Government or Central Banks	54,491,253	-	31,205,327	85,696,580
Institutions	32,306,595	-	-	32,306,595
Corporates	2,928,776	-	-	2,928,776
Retail exposures	55,792,756	60,345,611	10,365,693	126,504,060
Other items	11,798,313	4,469,479	-	16,267,792
	157,317,693	**64,815,090**	**41,571,020**	**263,703,803**

2. **Credit risk** - continued

2.3 Concentration risk

The Bank's concentration risk arises primarily as a result of the concentration of exposures by geographical location in view of the nature of the loans and advances portfolio of the Bank.

In this respect the Bank runs the risk of loss of funds due to possible political and economic events in the particular countries in which it extends credit or where funds have been placed or invested. Countries are assessed according to their size, economic data and prospects and their credit ratings from international rating agencies. Existing country credit risk exposures are monitored and reviewed periodically.

The geographical concentration of the Bank's exposure classes as at the end of the reporting period is analysed in the following table. For the purposes of this table, the Bank has allocated exposure classes to geographical locations based on the country of domicile of the counterparties or customers.

As at 31 December 2017	**Central Government or Central Banks**	**Institutions**	**Corporates**	**Retail exposures**	**Other items**	**Total**
	€	**€**	**€**	**€**	**€**	**€**
Poland	-	1,293,858	49,667	43,243,211	263,164	44,849,900
Czech Republic	-	731,542	147,591	12,447,480	1,460,467	14,787,080
Sweden	-	6,520,705	-	20,180,738	898,162	27,599,605
Slovakia	-	57,797	-	-	2,674,236	2,732,033
Latvia	-	-	-	14,777,438	56,484	14,833,922
Finland	-	-	-	463	4,471,376	4,471,839
Bulgaria	-	368,702	-	5,532,859	332,255	6,233,816
Estonia	-	71,018	-	5,459,015	5,055	5,535,088
Germany	-	7,217,377	-	3,258,756	24,563	10,500,696
France	-	-	1,134,030	480,383	30,406	1,644,819
Norway	-	-	-	2,950,594	1,370	2,951,964
Spain	-	35,575	-	11,744,071	229,805	12,009,451
Croatia	-	676,323	-	6,427,394	4,672,574	11,776,291
Malta	85,696,580	15,165,946	-	1,353	1,147,875	102,011,754
Austria	-	167,752	-	-	-	167,752
Lithuania	-	-	1,017,248	-	-	1,017,248
United Kingdom	-	-	580,240	-	-	580,240
Other	-	-	-	305	-	305
Total	**85,696,580**	**32,306,595**	**2,928,776**	**126,504,060**	**16,267,792**	**263,703,723**

2. Credit risk - continued

2.4 Use of External Credit Assessment Institutions

The Bank runs the risk of loss of funds due to the possible delay in the repayment of existing and future obligations by counterparty banks. Within its daily operations the Bank transacts, carrying out transactions through correspondent accounts, with banks and other financial institutions which are pre-approved and subject to a limits framework. In the normal course of business, the Bank mainly places funds with high credit quality banks and financial institutions. By conducting these transactions, the Bank is running the risk of losing funds due to the possible delays in the repayment to the Bank of the existing and future obligations of the counterparty banks. The positions are checked against the limits on a regular basis, comprising real-time and end of day monitoring. Accordingly, such exposures are monitored through the practical use of exposure limits.

The Bank uses an External Credit Assessment Institution ('ECAI') in calculating its risk-weighted exposure amounts for Institutions for which a credit assessment is available. The credit quality of such exposures is determined by reference to credit ratings applicable to issuers published by Fitch Ratings. The Bank maps Fitch's ratings to the credit quality steps prescribed in the CRR as required by CEBS publication *'Standardised approach: Mapping of ECAIs' credit assessments to credit quality steps'*.

The following table represents the exposure values in respect of Institutions:

At 31 December 2017	Credit quality step	Institutions €
AAA+ to AA-	1	6,520,705
AA+ - A-	2	767,117
BBB+ to BBB-	3	23,680,979
BB+ to BB-	4	673,992
Total		**31,642,793**

Exposures to institutions for which a credit assessment by a nominated ECAI is not available are assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned.

2.5 Credit quality of the Bank's loans and advances to customers

The Bank reviews and grades advances to customers using the following internal risk grades:

Performing
- Regular
- Watch
- Substandard

Non-performing
- Doubtful
- Loss

2. **Credit risk** - continued

2.5 Credit quality of the Bank's loans and advances to customers - continued

Regular

The Bank's loans and advances to customers which are categorised as 'Regular' are principally debts in respect of which payment is not overdue by 30 days and no recent history of customer default exists. Management does not expect any losses from non-performance by these customers, which are considered as fully performing.

Watch

Loans and advances that attract this category principally comprise those where payment becomes overdue by 30 days and over but not exceeding 60 days.

Substandard

Exposures that are categorised within this category comprise those where payment becomes overdue by 60 days and over but not exceeding 90 days.

Doubtful

Loans and advances which attract a 'Doubtful' grading are principally those assets in respect of which repayment becomes overdue by 90 days and over but not exceeding 180 days.

Loss

Loans and advances in respect of which payment becomes overdue by 180 days.

The following table provides a detailed analysis of the Bank's gross loans and advances to customers analysed by internal ratings, which represents the credit quality of the Bank's lending portfolio.

	2017
	€
Gross loans and advances to customers	
Regular	100,655,477
Watch (up to 60 days past due)	9,401,735
Substandard (between 60 and 90 days past due)	5,174,417
Doubtful (between 90 and 180 days past due)	11,309,239
Loss (over 180 days past due)	35,492,353
	162,033,221

As at 31 December 2017, loans and advances to customers amounting to €61,377,744 were deemed to be past due (and not deemed individually impaired), taking cognisance of the manner in which the Bank practically manages its collection activities. A financial asset is past due when a customer has failed to effect payment when contractually due, but normally, the past due status is not formally assigned until the exposure is more than 60 days past due. An ageing analysis of these past due loans and advances is accordingly presented within the table above.

2. Credit risk - continued

2.5 Credit quality of the Bank's loans and advances to customers - continued

The amount of past due exposures broken down by geographical location is presented in the table below.

At 31 December 2017	Past due exposures
	€
Poland	21,840,102
Czech Republic	7,536,382
Spain	13,176,027
Latvia	1,699,075
Slovakia	2,323,184
Bulgaria	2,809,900
Sweden	2,396,315
Germany	2,622,170
France	1,430,168
Estonia	383,738
Croatia	3,207,703
Norway	1,952,980
	61,377,744

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses on its loans and advances portfolio.

Since the Bank's loan portfolio consists of a pool of homogeneous loans which by nature cannot be considered individually significant, loan losses are assessed on a collective basis at portfolio level by geographical location. The Bank utilises roll-rate methodology employing statistical analyses of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of the events occurring before the reporting date. Under this methodology, loans are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable. The estimated loss is the difference between the present value of expected future cash flows, taking cognisance of expected portfolio sales prices, and the carrying amount of the portfolio.

The collective assessment is carried out at country level taking cognisance of the different characteristics of the respective markets. Since no specific provisions for impairment are recognised, the Bank does not specifically earmark impaired exposures.

2. Credit risk - continued

2.5 Credit quality of the Bank's loans and advances to customers - continued

Allowances for impairment - continued

Collective impairment allowances

	2017 At 1 January €	2017 Net movement €	2017 At 31 December €
Poland	14,802,740	1,270,101	16,072,841
Czech Republic	5,878,612	(1,098,058)	4,780,554
Latvia	2,503,429	(583,106)	1,920,323
Slovakia	2,487,146	(172,353)	2,314,793
Spain	2,230,971	5,275,447	7,506,418
Bulgaria	1,644,824	(325,433)	1,319,391
Sweden	1,087,277	342,460	1,429,737
Germany	654,164	1,084,875	1,739,039
Estonia	611,849	(107,792)	504,057
France	349,103	598,399	947,502
Norway	219,715	730,271	949,986
Croatia	324	9,663	9,987
Total	**32,470,154**	**7,024,474**	**39,494,628**

The collective impairment assessment is carried out on retail exposures arising from the provision of micro-lending activities carried out in specific jurisdictions.

Use of collateral

With respect to loans and advances originating from the Bank's lending activities in a particular country, which loans comprise approximately 5.25% of the Bank's loan portfolio as at 31 December 2017, the Bank is the holder of financial guarantee contracts issued by other parties. These financial guarantee contracts require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Since a financial guarantee contract represents a guarantee on an individual loan entered into with the loan contract and is essentially a pre-condition for granting the respective loan, the guarantee effectively forms part of the terms of the loan. Impairment charges are calculated on such loans in accordance with the Bank's accounting policy, but any impairment charges are reflected net of the financial guarantee reimbursement. This reimbursement gives rise to the recognition of a receivable from the issuer of the financial guarantee contract.

Write-off policy

The Bank writes off loan or advance balances (and any related allowances for impairment losses) when it determines that these are definitely uncollectible, and no recovery is possible notwithstanding any actions to be taken by the Bank.

3. Market risk

Market risk for the Bank consists of the following elements:

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

3.1 Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies that are different from the Bank's functional currency (euro), principally in Polish Zloty, Czech Koruna, Swedish Krona, Norwegian Krona, Bulgarian Lev and Croatia Kuna. However, the Bank is not in substance exposed to fluctuations in exchange rates with respect to the Bulgarian Lev as this currency is pegged to the euro.

The Bank manages its currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. In relation to the resultant asset and liability foreign currency position mismatching, the Bank has entered into an agreement with a group company to provide cover to the Bank from realised and unrealised exchange differences.

The Bank's exposures to Polish Zloty, Czech Koruna, Swedish Krona, Norwegian Krona and Croatia Kuna arise from its lending and credit related activities in Poland, Czech Republic, Sweden, Norway and Croatia respectively, as the loans and other credit related instruments are denominated in that currency. The Bank's overall objective is to fund the activities in these countries in the same local currency. The Bank has a funding arrangement with a third party corporate with respect to borrowings in a specific currency to fund the lending activities in a particular country.

As previously explained, the Bank is party to a Foreign Exchange Risk Agreement with a group company, where the latter provides cover to the Bank in respect of realised and unrealised foreign exchange differences. Any realised and unrealised gains or losses attributable to foreign exchange fluctuations registered by the Bank are allotted on to the group entity at the end of each month, in line with the terms of this agreement.

3. Market risk - continued

3.1 Currency risk - continued

The Bank's financial assets and liabilities at the end of the reporting period are analysed into the respective currencies in the following table:

	Total €	EUR €	PLN €	SEK €	CZK €	BGN €	NOK €	GBP €	HRK €	Other €
As at 31 December 2017										
Financial assets										
Balances with Central Bank of Malta	76,745,851	76,745,851	-	-	-	-	-	-	-	-
Loans and advances to banks	35,235,371	24,505,618	5,368,252	2,547,416	1,059,179	368,702	297,444	173,462	676,597	238,701
Loans and advances to customers	122,538,593	35,658,116	43,243,141	20,180,054	12,447,489	1,630,882	2,952,313	-	6,426,037	561
Loans and advances to group companies	4,469,479	632,766	-	3,836,713	-	-	-	-	-	-
Held-to-maturity financial assets	8,950,729	8,950,729	-	-	-	-	-	-	-	-
Other assets	12,293,079	17,930,933	(1,532,435)	896,723	1,789,093	426,485	5,926	-	(7,227,207)	3,561
Total financial assets	**260,233,102**	**164,424,013**	**47,078,958**	**27,460,906**	**15,295,761**	**2,426,069**	**3,255,683**	**173,462**	**(124,573)**	**242,823**
Financial liabilities										
Borrowed funds	64,804	-	-	64,804	-	-	-	-	-	-
Amounts owed to customers	171,205,580	170,890,644	10,340	161,251	663	-	24,248	44,546	-	73,888
Debt securities in issue	39,549,991	39,549,991	-	-	-	-	-	-	-	-
Other liabilities	8,174,423	6,116,850	1,647,369	442,476	(50,085)	30	(60,435)	(11,840)	52,025	38,033
Total financial liabilities	**218,994,798**	**216,557,485**	**1,657,709**	**668,531**	**(49,422)**	**30**	**(36,187)**	**32,706**	**52,025**	**111,921**
Net currency exposure in financial assets/(liabilities)	**41,238,304**	**(52,133,472)**	**45,421,249**	**26,792,375**	**15,345,183**	**2,426,039**	**3,291,870**	**140,756**	**(176,598)**	**130,902**
Commitments	**3,902,255**	-	-	-	-	**3,902,255**	-	-	-	-

3. **Market risk** - continued

3.1 Currency risk - continued

Under the scenario that the euro appreciates by 5% against all relevant currencies, the effect would be a decrease of €4,666,289 in the carrying amount of the net financial assets with the adverse impact recognised in profit or loss. Should the euro depreciate against all relevant currencies by 5%, the effect would be a gain of €4,666,289 in the carrying amount of the net financial assets and the favourable impact would be recognised in profit or loss.

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

The ALCO function actively monitors the Bank's net exposures to foreign currencies by currency, by analysing the information on financial instruments on the basis of that reflected in the tables above and by performing sensitivity analysis, given the potential significance of such risk to the financial performance of the Bank. Under the terms of the Bank's arrangement with the group company, referred to above, the group company has committed to provide cover to the Bank from any realised and unrealised gains or losses arising on foreign currency fluctuations as a result of the Bank's lending activities, in certain territories, denominated in specific foreign currencies taking cognisance of the funding obtained by the Bank in those currencies. During the year, the Bank incurred net foreign exchange losses amounting to €2,241,335, which were borne by the group company.

3. **Market risk** - continued

3.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank's exposures to interest rate risk as at 31 December are analysed below:

	Floating rates €	Fixed rates €	Non-interest bearing €	Total €
At 31 December 2017				
Balances with Central Bank of Malta	74,824,257	-	1,921,594	76,745,851
Loans and advances to banks	13,827,655	-	21,407,716	35,235,371
Loans and advances to customers	-	122,538,593	-	122,538,593
Loans and advances to Group companies	-	4,469,479	-	4,469,479
Held-to-maturity financial assets	-	8,850,538	100,191	8,950,729
	88,651,912	**135,858,610**	**23,429,501**	**247,940,023**
Borrowed funds	-	(64,804)	-	(64,804)
Amounts owed to customers	(153,531,843)	(14,121,083)	(3,552,654)	(171,205,580)
Debt securities in issue	(39,406,762)	-	(143,229)	(39,549,991)
	(192,938,605)	**(14,185,887)**	**(3,695,883)**	**(210,820,375)**
Net exposure	**(104,286,693)**	**121,672,723**	**19,733,618**	**37,119,648**

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

3. **Market risk** - continued

3.2 Interest rate risk - continued

Financial instruments issued at fixed rates potentially expose the Bank to fair value interest rate risk. However, the Bank's loans and advances to customers and other financial instruments which are subject to fixed interest rates are measured at amortised cost and are therefore not subject to fair value interest rate risk. Also the Bank's loan portfolio consists of micro-loans and other short-term credit products. Accordingly the short-term nature of these assets reduces by a significant extent the Bank's exposure to fair value interest rate risk, which is not distinctly measured by the Bank.

As reflected above, the Bank is exposed to cash flow interest rate risk at 31 December 2017 in respect of certain financial assets and liabilities which are subject to floating interest rates. Cash flow interest rate risk is measured and monitored by reference to a sensitivity analysis in respect of interest rate changes in relation to the Bank's net floating rate assets or liabilities. Management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date. However, in substance exposure to cash flow interest rate risk is not deemed to be significant by management since the main floating rate assets and liabilities are considered to be of a short-term nature.

At the end of the reporting period, if interest rates had increased/decreased by 100 basis points (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, the pre-tax result for the year would change by the following amounts determined by applying the shift to the net variable interest exposure of the Bank at the end of the reporting period:

	2017
	€
(+) 100 bp	(991,321)
(-) 100 bp	991,321

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

3. Market risk - continued

3.2 Interest rate risk - continued

	Within three months €	Within one year but over three months €	More than one year €	Total €
As at 31 December 2017				
Financial assets				
Balances with Central Bank of Malta	54,491,253	-	22,254,598	76,745,851
Loans and advances to banks	35,235,371	-	-	35,235,371
Loans and advances to customers	51,846,019	60,326,881	10,365,693	122,538,593
Loans and advances to group companies	-	4,469,479	-	4,469,479
Held-to-maturity financial assets	-	-	8,950,729	8,950,729
	141,572,643	**64,796,360**	**41,571,020**	**247,940,023**
Financial liabilities				
Borrowed funds	(64,804)	-	-	(64,804)
Amounts owed to customers	(160,257,405)	(10,948,175)	-	(171,205,580)
Debt securities in issue	-	-	(39,549,991)	(39,549,991)
	(160,322,209)	**(10,948,175)**	**(39,549,991)**	**(210,820,375)**
Interest rate gap	**(18,749,566)**	**53,848,185**	**2,021,029**	
Cumulative gap	**(18,749,566)**	**35,098,619**	**37,119,648**	

4. Liquidity risk

Liquidity risk is defined as the risk of losses due to:

- the Bank's funding costs increasing disproportionately;
- lack of funding preventing the Bank from establishing new business; and
- lack of funding that will ultimately prevent the Bank from meeting its obligations.

Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and funding withdrawals can be met when due.

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

The Bank's liquidity management process, which is the responsibility of the Treasury function within the Bank's Finance function, includes:

- management of day to day funding through monitoring future cash flows attributable to financial liabilities to ensure that requirements can be met. This includes plans for replenishment of funding upon maturity. The Bank also intends to maintain a presence in money markets to enable this to happen;
- monitoring liquidity ratios against internal and regulatory requirements;
- placing its liquid assets as short-term deposits with other banks and financial institutions taking cognisance of the level outflows emanating from the Bank's financial liabilities; and
- ensuring that the level of the Bank's liquid financial assets exceeds with a comfortable margin the expected cash outflows from the Bank's financial liabilities over a specified time horizon.

Management ensures that it maintains a prudent measure of anticipated total net cash outflows in high quality liquid assets for the purposes of securing a healthy liquidity margin taking cognisance of the nature of its financial liabilities. Moreover, sources of liquidity are regularly reviewed by the Treasury function to maintain diversification. Monitoring takes the form of cash flow projections for the next day, week and month respectively, as these are key periods for liquidity management.

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

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

4. **Liquidity risk** - continued

As at 31 December 2017	Within three months €	Within one year but over three months €	More than one year €	No maturity date €	Total €
Financial assets					
Balances with Central Bank of Malta	54,491,253	-	-	22,254,598	76,745,851
Loans and advances to banks	35,235,371	-	-	-	35,235,371
Loans and advances to customers	51,846,019	60,326,881	10,365,693	-	122,538,593
Loans and advances to group companies	-	4,469,479	-	-	4,469,479
Held-to-maturity financial assets	-	-	8,950,729	-	8,950,729
Other assets	11,104,134	-	-	933,236	12,037,370
	152,676,777	**64,796,360**	**19,316,422**	**23,187,834**	**259,977,393**
Financial liabilities					
Borrowed funds	(64,804)	-	-	-	(64,804)
Amounts owed to customers	(160,257,405)	(10,948,175)	-	-	(171,205,580)
Debt securities in issue	-	-	(39,549,991)	-	(39,549,991)
Other liabilities	(8,174,423)	-	-	-	(8,174,423)
	(168,496,632)	**(10,948,175)**	**(39,549,991)**	**-**	**(218,994,798)**
Maturity gap	**(15,819,855)**	**53,848,185**	**(20,233,569)**		
Cumulative gap	**(15,819,855)**	**38,028,330**	**17,794,761**		

As at 31 December 2017, the Bank's pool of liquid assets consists of balances with banks. The Bank's financial liabilities comprise predominantly amounts owed to customers, borrowed funds, debt securities in issue and other funding arrangements. The Bank's objective is to maintain a comfortable level of liquid assets by reference to outflows expected in relation to deposits, borrowed funds, debt securities in issue and other liabilities.

Analysis by residual maturity

The table below analyses the Bank's principal financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows which the Bank will monitor through its liquidity management process.

4. Liquidity risk - continued

Analysis by residual maturity - continued

	Within three months €	Within one year but over three months €	More than one year €	Total €	Carrying amount €
As at 31 December 2017					
Borrowed funds	65,970	-	-	65,970	64,804
Amounts owed to customers	160,571,285	11,032,062	-	171,603,347	171,205,580
Debt securities in issue	625,000	1,909,722	43,166,667	45,701,389	39,549,991
Other liabilities	8,174,424	-	-	8,174,424	8,174,424
	169,436,679	**12,941,784**	**43,166,667**	**225,545,130**	**218,994,799**

5. Operational risk

Operational risk is the risk of direct or indirect losses arising from a variety of causes associated with the Bank's processes such as:

- deficient or erroneous internal procedures;
- human or system errors;
- external events, including legal events;
- internal and external fraud;
- employment practices and workplace safety;
- clients, products and business practices;
- damage to physical assets;
- business disruption and system failures; and
- execution, delivery and process management.

Operational risks are non-financial risks and are often associated with specific and one-off events, such as failure to observe business or working procedures, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage or litigation. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk-taking within a tolerable limit.

The Bank's Board of Directors is primarily responsible for the development and implementation of policies and procedures to ensure that operational risks are managed effectively. The Bank's management of operational risk relies on a framework of policies and procedures implemented across the Bank's operational functions through transaction processing and business execution. The implementation of these policies and procedures is overseen by the Bank's risk oversight function. The primary responsibility for the development and implementation of control activities to address operational risk is assigned to senior management. Regular reporting of operational risk events to the Board of Directors is carried out when required. Operational risks are measured by both quantitative and qualitative methods consisting of both ex-post and ex-ante consideration of events and risks, coupled with an early warning system.

5. Operational risk - continued

The Bank currently uses the Basic Indicator Approach to assess the operational risk capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with regulatory requirements. The operational risk regulatory capital requirement as at 31 December 2017 amounted to €109,726,885.

6. Asset encumbrance

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

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

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

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

At 31 December 2017	Carrying amount of encumbered assets €	Fair value of encumbered assets €	Carrying amount of unencumbered assets €	Fair value of unencumbered assets €
Assets of the reporting institution	8,584,232	-	210,230,355	-
Loans on demand	8,584,232	-	70,680,649	-
Debt securities	-	-	11,304,083	10,656,574
Loans and advances	-	-	114,037,741	-
Other assets	-	-	13,182,909	-

The Bank does not encumber any of the collateral received, if applicable. Moreover, as at 31 December 2017, the Bank did not have any outstanding liabilities associated with encumbered assets and collateral received.

The Bank only undertakes encumbrance by pledging an amount of its Balances with the Central Bank of Malta in favour of the Depositor Compensation Scheme in line with the Contingency Contributions requirements.

7. Capital management

As a licensed credit institution the Bank must comply with the capital adequacy requirements under the relevant banking laws and regulations. Local regulatory requirements with respect to capital adequacy are based on the EU capital requirements rules. Accordingly, the Bank's capital management process is based on the regulatory requirements established within the CRR and by local regulatory requirements, which are modelled on the requisites of the CRD.

The prudent and effective management of capital levels remains one of the Bank's key objectives and priorities, particularly by reference to risk appetite as well as business development. The Bank must ensure at all times that it has sufficient capital to comply with the applicable regulatory capital requirements. Capital management is primarily carried out through the Bank's capital planning process which determines the optimal amount and mix of capital that should be maintained by the Bank, subject to regulatory limits.

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

Own funds

The level of Own funds represents the Bank's available capital and reserves for the purposes of assessing capital adequacy from a regulatory perspective. The total capital ratio is a measure of the long-term financial strength of a bank, usually expressed as a ratio of its own funds or capital to the measure of the Bank's risk-weighted assets. The Bank has processes to ensure that the minimum regulatory requirements in relation to own funds are met at all times, through the assessment of its capital resources and requirements. During the financial period ended 31 December 2017, the Bank has complied with all the externally imposed capital requirements to which it was subject.

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

For regulatory purposes, the Bank's capital base comprises solely Common Equity Tier 1 ('CET1') capital, made up of ordinary share capital, retained earnings and reserve for general banking risks.

7. Capital management - continued

Own funds - continued

(a) Share capital

The Bank's share capital as at 31 December 2017 is as follows:

	2017 Number of shares	2017 €
Authorised and Issued share capital		
Ordinary shares of €1 each	10,000,000	10,000,000

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

(b) Retained earnings

The retained earnings represent earnings not paid out as dividends.

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

(c) Reserve for General Banking Risks

The Bank is required to allocate funds to this reserve in accordance with the revised Banking Rule 09: Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Maltese Banking Act, 1994.

The Reserve for General Banking Risks refers to the amount allocated by the Bank from its retained earnings to a non-distributable reserve against potential risks linked to the Bank's non-performing loans and advances. This allocation occurred over a three-year period, with a 40% allocation during the financial year ended 31 December 2013, and a 30% allocation for both financial years ended 31 December 2014 and that ended 31 December 2015. In line with the requirements, during 2017 the Bank increased the reserve by an amount of €111,922 (2016: €173,495), taking cognisance of the level of non-performing assets within the Bank's loan portfolio as at 31 December 2017.

As described in the CRR published by the European Commission, banks are required to present a transitional disclosure template during the phasing in of regulatory adjustments from 1 January 2014 to 31 December 2017. The transitional disclosure template is set out in the following table.

7. **Capital management** - continued

Own funds - continued

	As at 31 December 2017 €
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	10,000,000
Capital contribution reserve	20,500,000
Reserve for General Banking Risks	821,022
Retained earnings	10,028,247
CET1 capital before regulatory adjustments	41,349,269
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets	(513,209)
Payment Commitment	(933,236)
Total regulatory adjustments to CET1	(1,446,445)
CET1 capital	**39,902,824**
Total capital	**39,902,824**
Total risk weighted assets	**230,465,014**
Capital ratios	
CET1 capital ratio	17.31%
Tier 1 capital ratio	17.31%
Total capital ratio	17.31%
Institution specific buffer requirement	**6.15%**
of which: capital conservation buffer	1.25%
of which: countercyclical buffer	0.40%
Common equity tier 1 available to meet buffers	**9.31%**

7. **Capital management** - continued

Capital requirements

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

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

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

The minimum capital requirements are calculated for credit, market and operational risks. The Bank utilises the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk in order to calculate the Pillar 1 minimum capital requirements. For credit risk, under the standardised approach, risk weights are determined according to credit ratings provided by internationally recognised credit agencies such as Fitch or their equivalents and by using the applicable regulatory risk weights for unrated exposures. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income for a three year period.

As required by the CRR, the minimum level of the Capital Requirements Ratio stands at 8%.

The Bank will be fully implementing the CRD IV capital requirements with effect from January 2019. In fact, the CRR will require two additional buffers, known as the 'capital conservation buffer' and the 'countercyclical buffer'. With respect to the former, the Bank will be required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on the risk weighted exposures of the Bank as from 1 January 2019. This buffer will be phased in over the period from 1 January 2016 to 31 December 2018.

Additionally, since the Bank advances loans to borrowers in different geographical regions, it may be required to maintain a 'countercyclical buffer'. This is expected to be set in the range of 0 - 2.5%, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located.

7. Capital management - continued

Capital requirements - continued

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

	General credit exposures	Own funds requirement			
Country	**Exposure value for SA**	**of which: general credit exposures**	**Total**	**Own funds requirement weights**	**Countercylical capital buffer rate**
	€	**€**	**€**	**%**	**%**
Poland	44,849,900	2,640,321	2,640,321	0.28	0.00
Czech Republic	14,787,080	887,198	887,198	0.09	0.50
Sweden	27,599,605	1,387,028	1,387,028	0.15	2.00
Slovakia	2,732,033	214,864	214,864	0.02	0.50
Latvia	14,833,922	891,165	891,165	0.10	0.00
Finland	4,471,839	357,738	357,738	0.04	0.00
Bulgaria	6,233,816	364,451	364,451	0.04	0.00
Estonia	5,535,088	329,081	329,081	0.03	0.00
Germany	10,500,696	312,968	312,968	0.03	0.00
France	1,644,819	121,977	121,977	0.01	0.00
Norway	2,951,964	177,146	177,146	0.02	2.00
Spain	12,009,451	723,597	723,597	0.07	0.00
Croatia	11,776,291	786,447	786,447	0.08	0.00
Malta	102,011,754	334,566	334,566	0.03	0.00
Austria	167,752	2,684	2,684	0.00	0.00
Lithuania	1,017,248	81,380	81,380	0.01	0.00
United Kingdom	580,240	46,419	46,419	0.00	0.00
Other	305	18	18	0.00	0.00
Total	**263,703,803**	**9,659,048**	**9,659,048**		

Amount of institution-specific countercyclical capital buffer

	2017
Total risk amount	€230,465,014
Institution-specific countercyclical buffer rate	0.40%
Institution-specific countercyclical buffer requirement	€910,337

7. Capital management - continued

Capital requirements - continued

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

At 31 December 2017	Exposure value €	Risk weighted assets €	Capital required €
Central government or central banks	85,696,580	-	-
Institutions	32,306,595	6,663,515	533,081
Corporates	2,928,776	2,928,776	234,301
Retail	126,504,060	94,878,046	7,590,244
Other items	16,267,792	16,267,792	1,301,422
Credit risk	263,703,803	120,738,129	9,659,048
Operational risk		109,726,885	8,778,151
Total capital required		**230,465,014**	**18,437,199**
Own funds			
Common Equity Tier 1 capital			39,902,824
Total own funds			**39,902,824**
Total capital ratio			**17.31%**

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

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

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

7. Capital management - continued

Internal Capital Adequacy Assessment Process (ICAAP) - continued

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

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

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

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

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

8. Remuneration policy

Decision making process used for determining the remuneration policy

The Board of Directors performs the functions of the Remuneration Committee. The Board of the Bank determines the remuneration policy which is applicable to the Bank's employees, as well as that applicable to 'Identified Staff' i.e. staff whose professional activities have a material impact on the Bank's risk profile and which are identified in accordance with Commission Delegated Regulation 604/2014. On the basis of these criteria the Bank has determined that its Identified Staff comprise the Bank's senior management as well as the members of the Board. Having taken into consideration the size of the Bank and the non-complex elements of its operations and internal structure as well as the current composition of the Board of Directors, the Board has considered that it is not necessary to establish a Remuneration Committee. This decision will be reviewed in the event of material changes to the underlying reasons for this decision, as well as on an annual basis. The Board has access to external consultants on remuneration matters and also calls on in-house expertise in compliance, finance and risk.

8. Remuneration policy - continued

Design characteristics of the remuneration system

The key features of the remuneration policy are:

- The Bank's Chairman and non-executive Directors are not eligible to receive a performance incentive;
- Equal compensation opportunity;
- The variable component for Identified Staff will not exceed 40% of fixed compensation;
- It is the Bank's policy not to award Severance pays unless this is required by law;
- Methods used to transfer the downside risks of variable remuneration to another party through hedging or certain types of insurance are disallowed;
- The Bank is allowed to claw back bonuses in certain situations; and
- Ex-post risk adjustments cannot lead to the payment of a higher variable remuneration than previously agreed upon.

Linking Pay to Performance

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

Fixed remuneration is established according to the employee's role, including job complexity, and local market conditions. It is influenced by the level of education, the degree of seniority and organisational responsibility, the level of expertise and skills required, the constraints and job experience and the relevant business sector and region. It may be increased following performance reviews.

The variable component which is awarded in cash, and which does not exceed 40% of fixed remuneration, is structured in a manner that incentivises staff to pursue the goals and interests of the Bank and enable them to share in its success while promoting sound risk management and not inducing excessive risk-taking in line with the Bank's risk profile. It takes into account a multi-year framework and is awarded to employees on the basis of both financial and non-financial performance. Financial performance is assessed by reference to key risk adjusted financial metrics, while non-financial performance is assessed by reference to factors including leadership, team management, team work, creativity, motivation and cooperation.

Profit sharing does not feature in the Bank's remuneration policy and individual contracts of employment of senior management do not contain provisions for termination payments and/or other payments linked to early termination other than as determined by law. Currently no pension benefits are payable by the Bank. During the current year, a restricted number of Bank officials and employees have been awarded a limited number of options to acquire shares in the Bank's ultimate parent. This remuneration element is deemed to be insignificant in view of the infancy of the plan and the extent of its application to the Bank's management.

Total remuneration payable to Identified Staff is as detailed below:

Fixed Remuneration	Variable Remuneration
€ 1,555,031	€ 78,541

No severance payments were effected during the financial year under review.

9. Leverage

The leverage ratio is a regulatory and supervisory tool intended to provide a transparent and non-risk based measurement of an institution to supplement the risk-based capital requirements.

The leverage ratio is calculated on a three-month average of capital as a proportion of total exposures. Capital is defined as Tier 1 capital in line with article 25 of the CRR, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

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

The Bank manages the risk of excessive leverage through its approved risk appetite framework which sets the limits and trigger levels used to monitor this metric. The Bank's risk appetite statement is used to formulate the degree and forms of risk that the Board deems acceptable in order to achieve its strategic business objectives. The risk appetite framework is monitored through a regulatory dashboard which is presented to the Bank's risk function. This dashboard discloses the Bank's actual performance, as well as, the limits and trigger levels assigned to each metric as set in the Bank's risk appetite framework. This process ensures that any excessive risk is highlighted and assessed in a timely manner and is mitigated appropriately. Additionally, the Bank's leverage position is monitored throughout the year and actively managed in the Bank's Asset Liability Management Committee.

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

	2017 **€000**
Tier 1 capital	39,902,824
Total exposure measure for the purposes of the leverage ratio	263,703,803
Leverage ratio	**15.13%**

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

	2017 **€000**
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives and SFTs)	261,247,993
Asset amounts deducted in determining Tier 1 capital	(1,446,445)
On-balance sheet exposures (excluding derivatives and SFTs)	**259,801,548**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	3,902,255
Adjustments for conversion to credit equivalent amounts	-
Off-balance sheet exposures	**3,902,255**

9. Leverage - continued

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

	2017 €000
Total assets as per published financial statements	261,247,993
Adjustment for off-balance sheet items	3,902,255
Other adjustments:	
Deduction for intangible assets	(513,209)
Depositor Compensation Scheme	(933,236)
Leverage ratio exposure	**263,703,803**

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

	2017 €000
Total on-balance sheet exposures, of which:	**259,801,548**
Exposures treated as sovereigns	85,696,580
Institutions	32,306,595
Corporate	2,928,776
Retail exposures	122,601,805
Other exposures	16,267,792

10. Other directorships

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

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

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

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

Director	Position	Number of other directorships held
Jorma Jokela	Non-executive director	6
Lea Liigus	Non-executive director	2
Esa Tapani Teravainen	Independent non-executive director	4
Anthony Fenech	Independent non-executive director	8
Charles Borg	Independent non-executive director	12
Erik Ferm	Independent non-executive director	4
Victor Denaro	Independent non-executive director	2

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

11. Recruitment and diversity policy

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

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

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