

**CREDORAX BANK LIMITED**

**Annual Report and Financial Statements  
31 December 2019**

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

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	<b>Pages</b>
Directors' report	1 - 5
Independent auditor's report	6 - 15
Statement of financial position	16
Statement of comprehensive income	17
Statement of changes in equity	18
Statement of cash flows	19
Notes to the financial statements	20 - 65
Additional regulatory disclosures	66 - 89

## Directors' report

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

### Principal activity

The Bank's principal activity is the provision of integrated acquiring and payment processing services to merchants within the EU and two other EEC States, and is also a principal level member with Visa (Europe), MasterCard and Union Pay. During the financial year under review, the Bank continued operating as a credit institution under the Banking Act, Cap 371 of the Law of Malta, in accordance with the credit institution license granted by the Malta Financial Services Authority.

### Review of the business

The Bank exceeded processing volumes of €4,211 million (2018: €4,130 million) and generated revenues of €89 million (2018: €89 million). The Bank reported a profit after tax of €13.2 million for the year under review (2018: €10.6 million). Total net assets stood at €34 million (2018: €34 million). The Bank's financial position is satisfactory and the directors expect that the current position will continue to improve in the future.

During 2019, the Bank has agreed to form part of a Fiscal Unit for Maltese income tax purposes in terms of the Consolidated Group (Income Tax) Rules (LN 110 of 2019),. Since the tax consolidation regime allows for a full integration of the tax position of its member entities, the Bank has applied an equivalent effective tax rate of 5% that applies to the parent company, deemed the principal taxpayer of the fiscal unit, for the computation of current and deferred tax. As a result of this, the Bank is showing a significantly lower tax expense in 2019 of €0.3 million (2018: €4.8 million).

During the last month of 2019, the Bank also kicked off its deposit-taking activities from depositors other than its acquiring merchant base, through a deposit-raising marketplace in Germany, through which it managed to secure €4.7 million in additional customer deposits by year-end.

### Key performance indicators

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

	<b>2019</b>	2018	YOY
	<b>€'000</b>	€'000	
Processing Values	<b>4,211,599</b>	4,130,266	2%
Revenues	<b>89,400</b>	89,168	0%
Operating profits	<b>37,949</b>	30,285	25%
EBITDA ( before extraordinary gains)	<b>14,553</b>	16,174	-10%
Shareholders' Equity	<b>34,080</b>	34,237	0%
Total Assets	<b>106,729</b>	110,614	-4%
CET 1 Capital Ratio	<b>33.5%</b>	32.4%	3%

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

### Principle risks

Credorax Bank Limited faces a range of business, financial, operational and reputational risks. The directors believe that the Bank's most important risks are: (i) credit risk to the extent that the card schemes of which it is a member may chargeback credit card purchases; (ii) settlement risk whereby the Bank fails to settle with merchants due to lack of availability of funds as a result of settlement failure by the correspondent bank where merchant funds are held; and (iii) reputational risk.

**Directors' report** (continued)

Accordingly, the Bank adopts a robust risk management approach to understand what its risks are, how much risk is acceptable and to manage its risks. Such approach aims to create value for shareholders while meeting regulatory requirements and ensuring that stakeholders are protected without compromising integrity, ethical behaviour and transparency.

The Bank's risk management approach depends on the interaction of a number of key components, which operate together as an integrated whole including: (1) a robust risk identification and risk assessment process; (2) monitoring of the Bank's Risk Appetite Statement; (3) embedding the Bank's risk management objectives within policy documents and procedures; and (4) quantifying the residual risk to which the Bank is exposed.

Successfully embedding this risk management framework into the Bank's governance and working practices is deemed vital by the Directors to the overall effectiveness of this framework. It requires the Bank's Board, Board Committees and Senior Management to consider actively the ways in which they act and behave ensuring that risk management is a core element of the Bank's culture.

In this context, the Bank has adopted a sound corporate governance framework, which consists of three key functions: the Board, the entity-wide risk management function, and the independent assessment of risk governance that enables the Bank to create and sustain stakeholder value.

In relation to the Bank's use of financial instruments and the assessment of its assets, liabilities, financial position and financial performance, Note 2 within this set of financial statements provides for the Bank's financial risk management objectives and policies, and its exposure to credit risk, market risk, and liquidity risk.

**Dividends and reserves**

During 2019, the Bank paid a dividend of seven million Euro (€7,000,000) and another interim dividend of six million Euro (€6,000,000) from the Bank's profits available for distribution, to the Bank's shareholder, Credorax Inc, as approved at an extraordinary general meeting held on 27 February 2019 and 28 June 2019 respectively.

The directors propose a final dividend of five million Euro (€5,000,000), subject to MFSA approval, and the balance of retained earnings amounting to €10,932,928 (2018: €10,699,810) be carried forward to the next financial year.

**COVID-19 trading update**

Since 31 December 2019, the outbreak of COVID-19 has severely impacted many local economies around the world, with measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closure of non-essential businesses for indefinite periods of time, triggering significant disruptions to businesses worldwide and leading to a global economic slowdown.

The likely future impact on the Bank of the COVID-19 outbreak has been assessed as part of its adoption of the going concern basis, and as of the date that these financial statements were authorised for issue, the Bank has not observed any material impact on its business due to COVID-19, both operationally and also financially.

Operationally, the Bank managed the impact of COVID-19 with minimal disruption on every level, which success is directly attributable to its robust technological infrastructure based on cloud technology. The Bank has smoothly switched to teleworking mobilizing over 100 employees for their safety, and is staying in close contact with its merchant customers and service providers in order to mitigate any adverse financial or operational impact, and continues to monitor the situation as it unfolds.

**Directors' report** (continued)

From a trading point of view, the Bank has reported exceptional processing performance in first quarter 2020 trading, with overall traffic being 9% higher when compared to the last quarter of 2019, and March 2020 processing volumes growing by 26% when compared to the prior month. This positive impact is attributable to the fact that the Bank's business model is predominantly focused on e-commerce transactions, which are set to be less affected by the effects of the COVID-19 breakout, and also because the Bank's revenues are generated from a well-diversified portfolio of merchants operating in various industries and geographies. In fact, despite the impact of the COVID-19 outbreak on some of the Bank's merchants, particularly those operating in the travel vertical which is clearly presenting some uncertainties on the Bank in meeting its projected processing volumes, the Bank is seeing good levels of processing volumes in other verticals in its portfolio which, up until now, are more than compensating for the decline in processing suffered by the travel industry. The Bank has also noted that this trend of increased processing volume is continuing to persist even during the month of April 2020 up to the date that these financial statements were authorised for issue.

During the first quarter of 2020, the Bank has experienced a decrease of €0.6M in the fair value of its preference shares in Visa Inc, as these shares have declined in value as a result of the COVID-19 outbreak that is causing a significant slowdown especially in the company's cross-border business. Despite this fair value loss, the Bank recorded Profits after taxes of €1.5 Million in the first quarter of 2020, of which €1.1 Million was recorded in March 2020.

The Bank has determined that the events experienced subsequent to the financial reporting date are non-adjusting subsequent events. Accordingly, the financial position and performance as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact.

The extent of the impact of COVID-19 on the Bank's operational and financial performance as well as its results for future periods will depend on certain developments, including the duration and spread of the outbreak, the impact on the Bank's merchant customers, employees and vendors, all of which are uncertain and cannot be reliably estimated. Therefore, as at 29 April 2020, the date that these financial statements were authorised for issue, it is difficult to accurately predict the overall outcome and impact of the COVID-19 pandemic on the Bank's operational and financial performance for full year 2020 as well as its results for future periods.

Nonetheless, the Bank has stress tested its financial projections and capital adequacy, and simulated multiple forward looking adverse scenarios that the Bank might potentially experience due to COVID-19 pandemic crisis, including a decrease in processing volumes, the default of merchants operating in severely hit industries, a decrease in market value of debt securities and other investments, and a deterioration in credit quality of the projected loan portfolio. Although it is currently considered unlikely that these adverse scenarios will occur simultaneously, the combined effect of these stress tests shows that the Bank will continue satisfying its minimum total capital adequacy and liquidity ratios in 2020 and beyond.

Therefore, even though the current environment is unprecedented and it is too early to form a clear view on the expected outcome for the years ahead, given the Bank's strong liquidity position, robust business continuity plans, a well-diversified portfolio of merchants providing sufficient cushioning and compensating for severely hit sectors, and the immaterial financial impact to date, the Bank is confident in its foreseeable future and its ability to weather the current crisis and to continue to provide best service to its merchants, whilst also benefiting from future opportunities that this pandemic will leave in the future. Accordingly, the directors have not identified a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern. As such, the Bank continues to adopt the going concern basis in preparing its Financial Statements.

## Directors' report (continued)

### Directors

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

Binyamin Nachman  
 Frederick Ellul  
 Nathan Shaked  
 Igal Rotem  
 David Blumberg  
 Tonio Fenech  
 Anthony Depasquale  
 Aviram Shemer  
 Joshua Floum – resigned on 23 April 2020

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

Ultimate shareholders holding five per cent or more of the share capital of the Bank are as follows:

	31 December 2018	31 December 2019	29 April 2020
Blumberg Capital II, L.P.	15.63%	15.35%	15.33%
Israeli VC Partners, LP	10.69%	10.50%	10.48%
Blumberg Capital Opportunity Fund (CR), L.P.	10.26%	10.08%	10.06%
Binyamin Nachman	5.52%	5.92%	5.91%

### 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 Maltese 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.


## Directors' report (continued)

The financial statements of Credorax Bank Limited for the year ended 31 December 2019 are included in the Annual Report 2019, which is published in hard-copy printed form and will 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.

## 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.

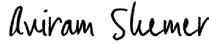
On behalf of the board

DocuSigned by:  
  
045F78854F6E466...

Igal Rotem  
Director

80, Palazzo Homedes  
Strait Street  
Valletta  
VLT 1436

29 April 2020

DocuSigned by:  
  
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Aviram Shemer  
Director



## *Independent auditor's report*

To the Shareholders of Credorax Bank Limited

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion:

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

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

#### **What we have audited**

Credorax Bank Limited's financial statements, set out on pages 16 to 65, comprise:

- the statement of financial position as at 31 December 2019;
- 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.

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#### *Basis for opinion*

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

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



## *Independent auditor's report - continued*

To the Shareholders of Credorax Bank Limited

### **Independence**

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

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

The non-audit services that we have provided to the Bank, in the period from 1 January 2019 to 31 December 2019, are disclosed in note 29 to the financial statements.

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## *Our audit approach*

### **Overview**

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Overall materiality: €896k, which represents 1% of total acquiring revenues.

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Fee and commission income and settlement processing obligations.  
Accounting for the adoption of Maltese tax consolidation rules;

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## *Independent auditor's report - continued*

To the Shareholders of Credorax Bank Limited

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

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

### **Materiality**

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

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

<b><i>Overall materiality</i></b>	€896k
<b><i>How we determined it</i></b>	1% of total acquiring revenues
<b><i>Rationale for the materiality benchmark applied</i></b>	We chose total acquiring revenues as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Bank and is not as volatile as other profit and loss measures. We chose 1% based on our professional judgement, noting that it is also within the range of revenue related thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €45K as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



## *Independent auditor's report - continued*

To the Shareholders of Credorax Bank Limited

### **Key audit matters**

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

Key audit matter	How our audit addressed the Key audit matter
<p><i>Fee and commission income and settlement processing obligations</i></p> <p>Fee and commission income is recognised based on the nature, number and value of transactions processed and the rates agreed with merchants, while settlement processing obligations are recognised on the basis of payment volumes processed, the income attributable to the Bank as well as the settlement cycle (time taken to receive cash from card schemes, and remit it to merchants) and collateral reserves agreed by the Bank with merchants.</p> <p>Payment transaction details, upon which fee and commission income and settlement processing obligations are determined, are processed through the Bank's proprietary acquiring platforms. This calculation is complex given the extent of automation and the high volume of business.</p> <p>There is a risk that the systems may not be configured correctly from the outset such that revenues and settlement amounts are calculated incorrectly, that data does not correctly flow through the operational IT systems, and that unauthorised changes may be made to any of these systems, which may result in the misstatement of revenue and settlement balances.</p>	<p>We assessed and tested the design and operating effectiveness of the controls over the calculation of fee and commission income and settlement processing obligations. This included testing general IT controls relating to access to programs and data, program changes, program development, and computer operations in order to address the risk of unauthorised changes being made to the operation of IT application controls.</p> <p>We also tested the operating effectiveness of the automated calculation of fees and commissions charged to merchants as well as the effectiveness of the controls over the reconciliation of gateway submissions, card scheme incoming and outgoing files and merchant balances posted on the Bank's acquiring platform. We have also tested the controls that are in place to verify that merchant payments made through different payment channels are accurate.</p> <p>In addition, we performed detailed testing in relation to fee and commission income on a sample basis by vouching items recorded within the Bank's systems back to source data. This included agreeing merchant related standing data (such as rates and settlement cycle details) to merchant contracts (and contracts addendums) to ensure that the appropriate inputs are assigned to each merchant in the system based on signed contractual terms.</p>



## *Independent auditor's report - continued*

To the Shareholders of Credorax Bank Limited

Key audit matter	How our audit addressed the Key audit matter
<p>There is also the risk that transaction fee and settlement details are not recorded accurately, i.e. as stipulated within the merchant agreements.</p> <p>We focused on fee and commission income and settlement processing obligations due to the complexities involved in the respective calculations.</p> <p>Relevant references in the Annual Report and Financial Statements:            Note on fee and commission income: Note 24; and            Note on settlement processing obligations: Note 19.</p>	<p>We tested the reconciliation between the balances held with other banks attributable to merchants and balances that are expected to be recovered from card schemes to the settlement processing obligations including those that are not recognised in the Statement of Financial Position.</p> <p>We agreed funds that are expected to be recovered from card schemes to receipts after year-end, loans and advances to banks attributable to merchants to third-party confirmations and third-party reports. We also tested, on a sample basis, merchants' settlement processing obligation balances to supporting documentation.</p> <p>We have also reviewed merchant complaints relating to merchant balances and payments.</p>
<p><i>Accounting for the adoption of Maltese tax consolidation rules</i></p> <p>In 2019 the Bank has agreed to form part of a Fiscal Unit for Maltese income tax purposes in terms of the Consolidated Group (Income Tax) Rules (LN 110 of 2019) with Credorax Inc., the parent company and another wholly owned Malta resident subsidiary of Credorax Inc.</p> <p>As a result of the adoption of these rules, the Bank, together with the other members in the Fiscal Unit will be treated for tax purposes as a single entity. Therefore, tax is chargeable on the consolidated chargeable income of the</p>	<p>The combination of the tests over the Bank's controls and the detailed testing that we carried out gave us sufficient evidence to enable us to conclude that the Bank's fee and commission income and settlement processing obligations balance are reasonable and appropriate.</p> <p>Our audit work included the following audit procedures:</p> <ol style="list-style-type: none"> <li>1. We involved tax and accounting specialists to understand and test the implications of the Consolidated Group (Income Tax) Rules and to review the tax sharing agreement;</li> <li>2. We assessed the Bank's accounting treatment against the requirements in IFRS in respect of recognition of taxes. In particular we ensured that:             <ol style="list-style-type: none"> <li>a. <b>the recognition of current and deferred tax assets and liabilities at the level of the Bank are</b></li> </ol> </li> </ol>



## *Independent auditor's report - continued*

To the Shareholders of Credorax Bank Limited

Key audit matter	How our audit addressed the Key audit matter
<p>Fiscal Unit and not on the chargeable income of each member entity within the Fiscal Unit.</p> <p>The Bank also entered into a tax sharing agreement with the other Fiscal Unit entities provides which establishes that</p> <p>(i) taxes determined for the Fiscal Unit are allocated to members of the Fiscal Unit by reference to each members' chargeable income/losses; and (ii) while the Bank commits to compensate the parent for its share of tax payable, the parent assumes an obligation to remit taxes to the Maltese Inland Revenue independently of the Bank's and the other member entity's actual settlement of their share of the Fiscal Unit's tax burden with the parent.</p>	<p>appropriate and reflect the substance of the tax sharing agreement; and</p> <p>b. current and deferred tax receivable and payable are disclosed as being receivable from and/or payable to the appropriate counterparty;</p> <p>3. We assessed whether the Bank's effective tax rate was appropriate and whether the tax charge in the statement of comprehensive income reasonably represents the Bank's share of taxes determined for the Fiscal Unit; and</p> <p>4. We considered the relevant disclosures in the financial statements.</p>
<p>On this basis of the above, with effect from 2019, the Bank applied an effective tax rate of 5% for the computation of current and deferred tax instead of the standard corporate income tax rate of 35%.</p>	<p>Based on the evidence obtained, we found the Bank's accounting treatment in respect of income taxes to be appropriate.</p>
<p>The adoption by the Bank of the Tax Consolidation Rules has a significant impact on the accounting treatment of current and deferred tax assets and liabilities as well as on the recognition of the tax charge in the Bank's statement of comprehensive income. Therefore, we determined this to be a key audit matter.</p>	
<p>Relevant references in the Annual Report and Financial Statements:</p> <ul style="list-style-type: none"> <li>Accounting policy: Note 1.13;</li> </ul> <p>Deferred taxation: Note 20</p>	



## *Independent auditor's report - continued*

To the Shareholders of Credorax Bank Limited

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### *Other information*

The directors are responsible for the other information. The other information comprises the Directors' Report, the Additional Regulatory Disclosures and the 5 Year summary (but does not include the financial statements and our auditor's report thereon).

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

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

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

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

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

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

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

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

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

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



## *Independent auditor's report - continued*

To the Shareholders of Credorax Bank Limited

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### *Auditor's responsibilities for the audit of the financial statements*

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Bank's trade, customers and suppliers, and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



## *Independent auditor's report - continued*

To the Shareholders of Credorax Bank Limited

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*

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### *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.

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### *Other matters on which we are required to report by exception*

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

- returns adequate for our audit have not been received from branches not visited by us.

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



*Independent auditor's report - continued*

To the Shareholders of Credorax Bank Limited

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*Appointment*

We were first appointed as auditors of the Bank for the year ended 31 December 2009 on 12 February 2010. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 11 years. The Bank became licensed as credit institution in terms of the Maltese Banking Act (Cap. 371) on 9 June 2015.

**PricewaterhouseCoopers**

78, Mill Street  
Qormi  
Malta

A handwritten signature in blue ink, appearing to read 'Lucienne Pace Ross', is written over a faint circular stamp.

Lucienne Pace Ross  
Partner

29 April 2020

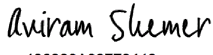
CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

## Statement of financial position

	Notes	As at 31 December	
		2019	2018
		€	€
<b>ASSETS</b>			
Cash and balances with Central Bank of Malta	4	52,801,444	43,294,531
Funds receivable from merchants	5	5,333,687	2,832,251
Loans and advances to banks and financial institutions	6	19,383,728	43,272,815
Loans and advances to customers	7	2,039,267	1,086,798
Financial investments	8	5,389,689	2,672,053
Funds advanced under collateral arrangements	9	13,847,694	6,452,100
Property and equipment	10	198,968	234,973
Right-of-use assets	11	514,483	-
Intangible assets	12	4,294,763	2,841,604
Other assets	13	2,925,054	7,927,137
<b>Total assets</b>		<b>106,728,777</b>	<b>110,614,262</b>
<b>EQUITY</b>			
Share capital	14	23,000,000	23,000,000
Share based compensation reserve	15	146,983	537,515
Retained earnings		10,932,928	10,699,810
<b>Total equity</b>		<b>34,079,911</b>	<b>34,237,325</b>
<b>LIABILITIES</b>			
Amounts owed to customers	18	10,639,696	5,193,145
Settlement processing obligations	19	58,696,443	64,771,701
Current taxation		-	2,785,029
Deferred taxation	20	241,112	464,238
Lease liabilities	21	452,276	-
Other liabilities	22	2,619,339	3,162,824
<b>Total liabilities</b>		<b>72,648,866</b>	<b>76,376,937</b>
<b>Total equity and liabilities</b>		<b>106,728,777</b>	<b>110,614,262</b>
<b>MEMORANDUM ITEMS</b>			
Commitments		-	2,182,644

The notes on pages 20 to 65 are an integral part of these financial statements. The financial statements on pages 16 to 65 were authorised for issue by the board on 29 April 2020 and were signed on its behalf by:

DocuSigned by:  
  
 045F78854F6E466...  
 Igal Rotem  
 Director

DocuSigned by:  
  
 496380A03779449...  
 Aviram Shemer  
 Director

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

## Statement of comprehensive income

	Notes	Year ended 31 December	
		2019	2018
		€	€
<b>Net interest income</b>	23	<b>746,342</b>	359,288
Fee and commission income	24	<b>88,653,599</b>	88,808,591
Fee and commission expense	25	<b>(64,410,496)</b>	(67,899,851)
<b>Net fee and commission income</b>		<b>24,243,103</b>	20,908,740
Net trading income	26	<b>10,188,048</b>	8,452,897
Net income from financial instruments measured at FVPL	27	<b>2,771,647</b>	563,812
<b>Operating income</b>		<b>37,949,140</b>	30,284,737
Employee compensation and benefits	28	<b>(6,231,390)</b>	(6,187,757)
General and administration expenses	29	<b>(17,676,547)</b>	(7,584,836)
Reversal of provision for future chargebacks		<b>500,000</b>	920,352
Changes in expected credit losses and other impairment allowances	30	<b>11,638</b>	(1,258,171)
Depreciation and amortisation expense	10,11,12	<b>(1,052,959)</b>	(738,884)
<b>Profit before income tax</b>		<b>13,499,882</b>	15,435,441
Tax expense	31	<b>(266,764)</b>	(4,813,865)
<b>Profit for the year</b>		<b>13,233,118</b>	10,621,576
<b>Total comprehensive income for the year</b>		<b>13,233,118</b>	10,621,576

The notes on pages 20 to 65 are an integral part of these financial statements.

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

## Statement of changes in equity

Notes	Share capital €	Share based compensation reserve €	Fair value reserve €	Retained earnings €	Total €
<b>Balance at 1 January 2018</b>	<b>23,000,000</b>	<b>511,645</b>	<b>562,049</b>	<b>3,612,866</b>	<b>27,686,560</b>
Changes on initial application of IFRS 9	-	-	(562,049)	465,368	(96,681)
<b>Restated balance at 1 January 2018</b>	<b>23,000,000</b>	<b>511,645</b>	<b>-</b>	<b>4,078,234</b>	<b>27,589,879</b>
<b>Comprehensive income</b>					
Profit for the year	-	-	-	10,621,576	10,621,576
Total comprehensive income	-	-	-	10,621,576	10,621,576
<b>Transactions with owners</b>					
Share based compensation value attributable to:	16				
- employees' services	28,38	89,021	-	-	89,021
- disbursed services	28,38	24,151	-	-	24,151
Recharge of value of employee services determined by reference to vested share options granted by the parent entity	15	(87,302)	-	-	(87,302)
Dividends	37	-	-	(4,000,000)	(4,000,000)
Total transactions with owners	-	25,870	-	(4,000,000)	(3,974,130)
<b>Balance at 31 December 2018</b>	<b>23,000,000</b>	<b>537,515</b>	<b>-</b>	<b>10,699,810</b>	<b>34,237,325</b>
<b>Balance at 1 January 2019</b>	<b>23,000,000</b>	<b>537,515</b>	<b>-</b>	<b>10,699,810</b>	<b>34,237,325</b>
<b>Comprehensive income</b>					
Profit for the year	-	-	-	13,233,118	13,233,118
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,233,118</b>	<b>13,233,118</b>
<b>Transactions with owners</b>					
Share based compensation value attributable to:	16				
- employees' services	28,38	115,863	-	-	115,863
- disbursed services	28,38	-	-	-	-
Recharge of value of employee services determined by reference to vested share options granted by the parent entity	15	(506,395)	-	-	(506,395)
Dividends	37	-	-	(13,000,000)	(13,000,000)
Total transactions with owners	-	(390,532)	-	(13,000,000)	(13,390,532)
<b>Balance at 31 December 2019</b>	<b>23,000,000</b>	<b>146,983</b>	<b>-</b>	<b>10,932,928</b>	<b>34,079,911</b>

The notes on pages 20 to 65 are an integral part of these financial statements.

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

## Statement of cash flows

	Notes	Year ended 31 December	
		2019	2018
		€	€
<b>Cash flows from operating activities</b>			
Interest received		607,934	194,028
Interest paid		(57,402)	-
Fees and commission received		99,262,149	98,181,049
Fees and commission paid		(64,888,397)	(68,096,370)
Payments to employees and suppliers		(9,261,928)	(9,526,168)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>25,662,356</b>	20,752,539
(Increase)/decrease in operating assets:			
Loans and advances to customers		(930,741)	694,884
Funds advanced under collateral arrangements		(7,198,776)	6,031,379
Funds receivable from card schemes		-	22,539,833
Funds receivable from merchants		(2,501,436)	(2,686,708)
Other assets:			
Advances to group undertakings		(30,254,508)	(21,600,434)
Repayments from group undertakings		2,290,017	10,738,647
Other advances		937,706	1,159,084
Increase/(decrease) in operating liabilities:			
Amounts owed to customers		5,412,533	(97,605)
Settlement processing obligations		(5,799,419)	(2,245,115)
Other liabilities		(638,834)	441,392
<b>Cash (used in) / generated from operations</b>		<b>(13,021,102)</b>	35,727,896
Tax paid		(2,778,734)	(788)
<b>Net cash (used in) / generated from operating activities</b>		<b>(15,799,836)</b>	35,727,108
<b>Cash flows from investing activities</b>			
Dividends received		52,970	32,020
Purchase of debt instruments		-	(126,771)
Proceeds from maturity of debt instruments		-	86,670
Investment in fixed term placement		-	(7,450,259)
Proceeds from maturity of fixed term placement		7,721,657	-
Purchase of equipment	10	(53,624)	(78,036)
Proceeds from disposal of equipment	10	3,960	-
Purchase of intangible assets	12	(86,232)	(962,163)
Cash consideration received from Visa Inc.		1,435,624	-
<b>Net cash used in investing activities</b>		<b>9,074,355</b>	(8,498,539)
<b>Cash flows from financing activities</b>			
Repayments of lease liability		(245,757)	-
<b>Net cash from financing activities</b>		<b>(245,757)</b>	-
<b>Net movement in cash and cash equivalents</b>		<b>(6,971,238)</b>	<b>27,228,569</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>79,156,410</b>	51,927,841
<b>Cash and cash equivalents at end of the year</b>	32	<b>72,185,172</b>	<b>79,156,410</b>

The notes on pages 20 to 65 are an integral part of these financial statements.

## Notes to the financial statements

### 1. Summary of significant accounting policies

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

#### 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 investments at fair value through profit or loss.

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).

##### 1.1.1 Standards, interpretations and amendments to published standards effective in 2019

In 2019, the Bank adopted amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2019. In particular, the Bank has initially adopted IFRS 16 'Leases' as issued by the IASB in January 2016, on 1 January 2019, which is the date of initial application of the standard, applying the simplified transition approach and has not restated comparative figures for the year prior to first adoption.

With the adoption of IFRS 16, the Bank recognised lease liabilities for the use of immovable properties which were previously classified as "operating leases" under the principles of IAS 17 Leases. The lease liabilities were recognised on the face of the Statement of financial position and measured at the present value of the remaining lease payments as at 1 January 2019, discounted at the Bank's incremental borrowing rate at 1 January 2019. The associated right-of-use ('ROU') assets were also recognised on the face of the Statement of financial position as at that date and were measured at an amount equivalent to this lease liability adjusted by the amount of prepaid lease expenses.

As at 1 January 2019, some of the arrangements had a lease term which expired during 2019. None of these arrangements were subject to extension options. Under the practical expedients allowed by the standard, the Bank did not recognise a right-of-use asset and lease liability for such agreements as of that date. Rental costs on these arrangements were recognised as an expense on a straight-line basis over the remaining lease term.

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

There are no standards that are not yet effective and that would be expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

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**1. Summary of significant accounting policies** (continued)**1.2 Foreign currency translation***(a) Functional and presentation currency*

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

*(b) Transactions and balances*

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

**1.3 Financial assets****1.3.1 Initial recognition**

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

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to its acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss immediately. Immediately after initial recognition, an Expected Credit Loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in accounting loss being recognised in profit or loss when an asset is newly originated.

**1.3.2 Classification and measurement**

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

*Debt instruments*

Classification and subsequent measurement of debt instruments depends on:

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

Based on these factors, the Bank classifies its debt instruments into the 'Amortised cost' category.

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**1. Summary of significant accounting policies** (continued)**1.3 Financial assets** (continued)

## 1.3.2 Classification and measurement (continued)

*Debt instruments (continued)*

Financial assets are measured at amortised cost if they meet both the following conditions and are not designated as at FVPL:

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

The carrying amount of these financial assets is adjusted by an expected credit loss allowance recognised and measured as described in 1.3.3. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

*Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI).* Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest.

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

Debt instruments are not reclassified subsequent to their initial recognition. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

*Equity instruments*

The Bank classifies its equity instruments into the 'FVPL' category. Consequently, the Bank subsequently measures all equity investments at fair value through profit or loss. The Bank does not elect, at initial recognition, to irrevocably designate equity investments at fair value through other comprehensive income.

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## 1. Summary of significant accounting policies (continued)

### 1.3 Financial assets (continued)

#### 1.3.3 Impairment of amortised cost financial assets

The Bank recognises loss allowances for ECL on financial assets measured at amortised cost and certain loan commitments.

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

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

Purchased or originated credit impaired financial assets ('POCI') are treated differently, as set out below. 'POCI' financial assets cannot be transferred between categories.

#### *Significant increase in credit risk*

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

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

In respect of receivables from merchants, and receivables from group undertakings (within 'Other assets'), the Bank applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

**1. Summary of significant accounting policies** (continued)**1.3 Financial assets** (continued)

## 1.3.3 Impairment of amortised cost financial assets (continued)

*Definition of default and credit impaired assets*

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

*Purchased or originated credit impaired ('POCI') assets*

Integral to the Bank's business is the risk of incurring financial losses due to the inability to recover gross transaction amounts due from merchants that arise from chargebacks raised by cardholders, that exceed funds withheld by the Bank from merchants to serve as collateral ('merchant reserves').

The Bank monitors the Net Expected Exposure, an internal metric to assess chargeback performance and hence potential future risk of losses vis-à-vis collateral held. Receivables from merchants arising as a result of chargeback transactions exceeding merchant reserves are considered originated credit impaired. Lifetime ECL is recognised in profit or loss until such exposures are derecognised.

*Write-off*

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. In addition, the Bank has a write-off policy for the designation and writing off irrecoverable amounts with respect to merchant balances. The objective is to ensure timely and accurate write-off of negative merchant balances in the period in which the balances are reasonably determined as uncollectable and after all avenues to collect the amounts due have failed.

*Measurement of ECL*

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

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

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

**1. Summary of significant accounting policies** (continued)**1.3 Financial assets** (continued)

## 1.3.3 Impairment of amortised cost financial assets (continued)

*Measurement of ECL (continued)*

Receivables from merchants and from group undertakings are calibrated on the same basis. Receivables from merchants typically have a contractual life which is lower than 12 months, usually a few days. In respect of receivables for group undertakings, the Bank's credit risk management actions are taken no less frequently than on an annual basis and therefore the life in respect of receivables from group undertakings is also considered to be no longer than 12 months. A 100% probability of default is assigned to exposures classified as 'Stage 3'. In the case of chargebacks raised by cardholders, that exceed funds withheld by the Bank from merchants to serve as collateral, expected credit losses of the same amount are held. Such exposures are classified as 'POCI'.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months ('12M EAD') or over the remaining lifetime ('Lifetime EAD'). For the majority of the Bank's financial assets, since they are of a short-term nature, the 12M EAD and Lifetime EAD are equivalent.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. In estimating LGD, the Bank refers to the historical recovery rates published by Moody's. Calibration is performed in the same manner as described for PD estimates above. In the case of receivables from merchants arising as a result of chargeback transactions a 100% LGD is assumed.

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

In this respect, the recognition of ECL should incorporate forward-looking information. However, since the average duration of the instruments in scope are short-term, principally within one year and the majority of which within a few days of the reporting period, no forward-looking elements are included within the Bank's expected credit loss model.

There were no changes to the model during the year.

*Presentation of ECL in statement of financial position*

For financial assets that are measured at amortised cost, the ECL allowance is presented against the carrying amount of the assets on the balance sheet, thereby reducing the carrying amount.

## 1.3.4 Derecognition

The Bank derecognises a financial asset when the contractual 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.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in profit or loss.

**1. Summary of significant accounting policies** (continued)**1.3 Financial assets** (continued)

## 1.3.4 Derecognition (continued)

The Bank is involved in transactions whereby it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- (i) has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) is prohibited from selling or pledging the assets; and
- (iii) has an obligation to remit any cash it collects from the assets without material delay.

**1.4 Derivative financial instruments**

Derivative financial instruments, including currency forwards, are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at their fair value. Fair values for currency forwards are determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss under 'Net trading income'.

**1.5 Intangible assets**

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

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

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

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed five years.

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## 1. Summary of significant accounting policies (continued)

### 1.5 Intangible assets (continued)

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

### 1.6 Property and equipment

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

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

	%
Leasehold improvements	20
Fixtures and fittings and office furniture	10 – 20
Computer and electronic equipment	17 – 20

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.

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

### 1.7 Leases

*The Bank is the lessee*

#### 1.7.1 Policy applicable from 1 January 2019

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

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

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

**1. Summary of significant accounting policies** (continued)**1.7 Leases** (continued)

*The Bank is the lessee*

**1.7.1 Policy applicable from 1 January 2019** (continued)

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

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

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

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

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

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

**1.7.2 Policy applicable before 1 January 2019**

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

**1.8 Impairment of non-financial assets**

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

**1. Summary of significant accounting policies** (continued)**1.9 Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

Cash and cash equivalents include cash in hand and all liquid investments with an initial maturity of three months or less when purchased. These amounts also include cash that the Bank holds related to reserve funds collected from merchants that serve as collateral to minimise contingent liabilities associated with any losses that may occur under the merchant agreement. The Bank records a corresponding liability in settlement processing obligations in the statement of financial position.

Cash and cash equivalents also include settlement related cash balances. Settlement related cash balances represent surplus funds that the Bank holds when the incoming amount from the card networks precedes the funding obligation to the merchant.

**1.10 Share capital**

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

**1.11 Financial liabilities**

The Bank recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument.

Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost using the effective interest method. The Bank derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

Financial liabilities measured at amortised cost comprise principally amounts owed to customers and settlement processing obligations. Settlement processing obligations represent transactions that have been processed but not yet funded together with funds withheld from merchants that serve as collateral to minimise contingent liabilities associated with any losses that may occur under the merchant agreement ("merchant reserve").

**1.12 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off 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)**1.13 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.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Bank forms part of a Fiscal Unit for Maltese income tax purposes in terms of the Maltese Consolidated Group (Income Tax) Rules. Under the terms of these rules and a tax sharing and funding agreement entered into by the Bank with its parent company and another wholly owned Malta resident subsidiary of its parent, the Bank's current tax assets and liabilities are recognised as receivables from or payables to the parent company.

Deferred tax assets arising from unused tax losses and tax credits are also recognised as receivables from the parent company to the extent that it is probable that future taxable profit will be available to the Fiscal Unit against which the temporary differences can be utilised.

Conversely, deferred tax in respect of other temporary differences do not represent receivables from or payables to the parent.

**1.14 Share based compensation**

The Bank's parent, Credorax Inc., established a share based compensation plan ("the Plan") for the Group's employees, whereby share options are granted to directors and selected employees in exchange for their services. The fair value of the employee services received in exchange for the grant of share options is recognised as an expense in profit or loss and as a corresponding increase in shareholders' equity ('Share based compensation reserve'). Upon vesting, Credorax Inc. recharges to the Bank the grant-date fair value of the share options. The recharge is derecognised from shareholders' equity and recognised by the Bank as a liability to the parent.

The total amount to be expensed from grant date over the vesting period is determined by reference to the fair value of the options granted at the grant date. Total compensation expense is recognised from grant-date over the vesting period (the period during which an employee is required to provide service in exchange for the benefit or the requisite service period) rateably through graded vesting. Accordingly, the Bank amortises the compensation cost arising on the grant of share options over the nominal vesting period for employees based on the graded vesting of the plan.

**1. Summary of significant accounting policies** (continued)**1.14 Share based compensation** (continued)

At the end of each reporting period, the entity revises its estimates of the number of options that are expected to be vested. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

**1.15 Provisions for legal proceeding and future chargebacks**

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation which has arisen as a result of past events, and for which a reliable estimate can be made.

**1.16 Revenue recognition**

The Bank's revenues principally represent the consideration received or receivable from the merchants for services provided. This includes acquiring revenues, other fees charged on a per transaction basis, income from foreign exchange services and interest.

Acquiring revenues relate to services provided to process transactions between the card-issuing banks and the Bank's merchants. Revenue is recognised when the transactions are successfully processed via the Bank's acquiring platform and is recognised per transaction. Acquiring revenue also includes the amount of interchange fees and scheme fees. The Bank is considered a principal for the acquiring services it provides to the merchants, accordingly, such revenues are reported using the gross presentation.

Income from foreign exchange services is generated on settling foreign currency transactions on behalf of merchants. Revenue is recognised when the Bank's obligation in relation to the transaction is fulfilled.

Given the nature of its transaction-based business, the Bank's revenues are recognised when the services are provided at the point in time when the transaction takes place, since there are no further performance obligations following the processing of transactions. The Bank does not provide any services which are rendered over a period of time.

Costs of sales which primarily consist of fees charged by card schemes as well as interchange fees, are matched to the revenue generated and are recognised when incurred.

Net fee and commission income is revenue after deducting scheme fees, interchange fees and sales commissions. This is monitored by the Bank's Management and used as a performance indicator of the financial effects of the activities in which the Bank engages.

The Bank does not have any contracts for the provision of services that result in the initial recognition of contract assets or contract liabilities.

**1.17 Dividend distribution**

Interim dividends to the Bank's shareholder are approved by the directors and recognised when paid. Final dividends are recognised as liability in the Bank's financial statements upon approval by the Bank's shareholders at the Annual General Meeting.

## 2. Financial risk management

### 2.1 Introduction

The Bank's activities potentially expose it to a variety of financial risks including credit risk, market risk, specifically foreign exchange risk, and liquidity risk. Accordingly, the directors provide principles for overall risk management as well as policies covering specific areas, such as foreign exchange risk, credit risk and investment of excess liquidity.

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

### 2.2 Credit risk

#### 2.2.1 Introduction

Credit risk is the risk that the Bank will incur losses as a result of a counterparty failing to fulfil its contractual obligations to the Bank. Credit risk arises from the Bank's financial assets which are inherently and predominantly subject to credit risk.

#### 2.2.2 Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instrument, before taking account of any collateral held or other credit enhancements. For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their carrying amount. For loan commitments, it is generally the full amount of the committed facilities.

Financial Assets	2019 €	2018 €
Balances with Central Bank of Malta	52,800,483	43,293,475
Funds receivable from merchants	5,679,060	4,296,170
Loans and advances to banks and financial institutions	19,384,167	43,282,867
Loans and advances to customers	2,079,461	1,108,219
Financial investments at amortised cost	133,796	129,514
Funds advanced under collateral arrangements	13,853,581	6,454,903
Other assets	2,668,613	7,434,526
<b>Gross carrying amount</b>	<b>96,599,161</b>	<b>105,999,674</b>
Allowances for expected credit losses	(452,614)	(1,617,553)
<b>Carrying amount on-balance sheet</b>	<b>96,146,547</b>	<b>104,382,121</b>
Loan commitments	-	2,182,644
<b>Carrying amount off-balance sheet</b>	<b>-</b>	<b>2,182,644</b>

## 2. Financial risk management (continued)

### 2.2 Credit risk

#### 2.2.2 Maximum exposure to credit risk (continued)

Funds receivable from merchants include an amount of €345,373 (2018 €1,463,919), for which allowances for expected credit losses of the same amount is held.

Credit risk mitigation practices are in place in respect of loans and advances to customers in the form of reserves, merchant funds, funds pursuant to a funding delay or other retained funds which serve as a security against such exposures. As at 31 December 2019, the Bank retained €1,814,097 (2018: €879,131) in merchant funds in its possession.

#### 2.2.3 Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The Bank uses a number of controls and measures to minimise undue concentration of exposures. These include counterparty limits, approvals and review controls.

Within its daily operations the Bank transacts with banks and other financial institutions. The Bank primarily places short-term funds with pre-approved banks and financial institutions subject to limits in place and subject to the respective institution's credit rating being within controlled parameters. Actual exposures are monitored against these limits on a daily basis and in real time. The credit status of the pre-authorised banks is also monitored on an ongoing basis.

Credit risk also arises from amounts owed by group undertakings (within "other assets"), which are unsecured, interest free and have no fixed date or repayment. The Bank takes cognisance of the related party relationship and the credit arrangements with group undertakings and management does not expect any losses from non-performance or default which has not been provided for.

Funds receivable from merchants represent receivables in respect of prefunded amounts to merchants. These represent instances, where through special arrangements the Bank agrees to transfer the money before receiving it from the card schemes. In the event that the amounts are not received from the card schemes, the Bank has the right to claim the money back from the merchants. Accordingly, the credit risk emanating from the Bank's exposure to merchants is deemed by the directors to be contained.

The Bank also bears the risk of incurring financial losses due to the inability to recover gross transaction amounts due from merchants that arise from chargebacks raised by a cardholder (i.e. a claim from a cardholder where the payment has been made but the merchant has failed to deliver the goods or services). In this regard, the Bank's risk is generally mitigated by funds withheld from merchants that serve as collateral ('merchant reserves'). Thus, in the ordinary course of business (before any chargebacks occur or when chargebacks are fully secured by collateral), the Bank recognises a net liability position to merchants. However, credit risk arises when the value of chargeback transactions exceed the value of collateral held. As at 31 December 2019, receivables amounting €345,373 (2018: €1,463,919) from 226 merchants (2018: 130 merchants) related to chargeback transactions in excess of collateral held.

## 2. Financial risk management (continued)

### 2.2 Credit risk (continued)

#### 2.2.4 Allowances for expected credit losses

The following disclosure presents the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL.

Financial Assets	Stage Classification	31 Dec 2019		At 31 Dec 2018	
		Gross carrying/nominal amount €	Allowance for ECL €	Gross carrying/nominal amount €	Allowance for ECL €
Balances with Central Bank of Malta	Stage 1	52,800,483	-	43,293,475	-
Funds receivable from merchants	Stage 1	5,333,687	-	2,832,251	-
Funds receivable from merchants	POCI	345,373	(345,373)	1,463,919	(1,463,919)
Loans and advances to banks and financial institutions	Stage 1	19,384,167	(439)	43,282,867	(10,052)
Loans and advances to customers	Stage 1	2,079,461	(40,194)	1,108,219	(21,421)
Financial investments at amortised cost	Stage 1	133,796	-	129,514	-
Funds advanced under collateral	Stage 1	13,853,581	(5,887)	6,454,903	(2,803)
Other assets	Stage 1	2,668,613	(60,721)	7,434,526	(119,358)
<b>Total carrying amount on-balance sheet</b>		<b>96,599,161</b>	<b>(452,614)</b>	<b>105,999,674</b>	<b>(1,617,553)</b>
Loan commitments	Stage 1	-	-	2,182,644	-
<b>Total nominal amount off-balance sheet</b>		<b>-</b>	<b>-</b>	<b>2,182,644</b>	<b>-</b>

The financial assets recorded in each stage have the following characteristics:

- Stage 1: unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised;
- POCI: purchased or originated as credit impaired on which a lifetime ECL is recognised.

As at 31 December 2019 and 31 December 2018, all the Bank's financial assets, except for receivables from merchants where chargebacks exceeded collateral are classified in 'Stage 1'. The Bank recognises 12-month allowances for expected credit losses in respect of these financial assets.

As at 31 December 2019, gross carrying amounts of financial assets in Stage 1 amounted to €96,253,788 (2018: €104,535,755), with allowances for ECL totalling €107,241 (2018: €153,634).

## 2. Financial risk management (continued)

### 2.2 Credit risk (continued)

#### 2.2.4 Allowances for expected credit losses (continued)

At the end of the reporting period, the Bank has no past due or impaired financial assets within these asset categories, except for merchants whose chargeback transactions exceed the value of collateral held by the Bank, all of which can be classified immediately as credit-impaired as the amount will automatically fall within the 'past due' criteria. As at 31 December 2019, receivables amounting to €345,373 (2018: €1,463,919) from 226 merchants (2018: 130 merchants) related to chargeback transactions in excess of collateral held.

Further to the above Expected Credit Loss allowance, the Bank provides for any potential future losses from chargebacks beyond receivables recognised on-balance sheet that falls under the scope of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

The Bank did not recognise any expected credit losses in respect of commitments, representing undrawn credit facilities, since these had no material financial impact.

The following table explains the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Non-credit impaired Stage 1		Credit impaired POCI		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	€	€	€	€	€	€
At 31 December 2018	104,535,755	(153,634)	1,463,919	(1,463,919)	105,999,674	(1,617,553)
Net movements	(8,281,967)	46,393	95,081	(95,081)	(8,186,886)	(48,688)
Assets written off	-	-	(1,213,627)	1,213,627	(1,213,627)	1,213,627
	(8,281,967)	46,393	(1,118,546)	1,118,546	(9,400,513)	1,164,939
<b>At 31 December 2019</b>	<b>96,253,788</b>	<b>(107,241)</b>	<b>345,373</b>	<b>(345,373)</b>	<b>96,599,161</b>	<b>(452,614)</b>
ECL charge						(1,164,939)
Recoveries						(60,326)
Assets written off						1,213,627
<b>Total change in ECL for the period</b>						<b>(11,638)</b>

## 2. Financial risk management (continued)

### 2.2 Credit risk (continued)

#### 2.2.4 Allowances for expected credit losses (continued)

	Non-credit impaired Stage 1		Credit impaired POCI		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	€	€	€	€	€	€
At 1 January 2018	129,050,522	(148,740)	315,153	(315,153)	129,365,675	(463,893)
Net movements	(24,660,310)	(4,894)	1,318,313	(1,318,313)	(23,341,997)	(1,323,207)
Assets written off	-	-	(169,547)	169,547	(169,547)	169,547
	(24,660,310)	(4,894)	1,148,766	(1,148,766)	(23,511,544)	(1,153,660)
<b>At 31 December 2018</b>	104,390,212	(153,634)	1,463,919	(1,463,919)	105,854,131	(1,617,553)
ECL charge						1,153,660
Recoveries						(65,036)
Assets written off						169,547
<b>Total change in ECL for the period</b>						<b>1,258,171</b>

'Net movements' in ECL in the above table comprise predominantly of movements resulting from changes in volume movements (i.e. exposure at default) in those financial assets subject to IFRS 9 ECL requirements. Movements in ECL resulting from changes in risk parameters, such as changes in PDs and LGDs, are not significant and are accordingly also included within 'Net movements' in the table above.

During the current and preceding financial years, the Bank did not experience any transfer of financial assets between stages. As a result, there is no re-measurement of ECL arising from transfer of stages.

### 2.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. In the normal course of business, the Bank's market risk arises principally from its exposure to different currencies, primarily resulting from its acquiring business. Following the receipt of preference shares in Visa Inc. in exchange for the Bank's membership interest in Visa Europe, the Bank is also moderately exposed to equity price risk.

## 2.3 Market risk (continued)

### (a) Interest rate risk

The Bank's placements with the Central Bank of Malta amounting to €52,800,483 (2018: €42,994,656), balances with other banks and financial institutions repayable on call and at short notice amounting to €11,127,600 (2018: €8,956,457), loans and advances to customers of €2,039,267 (2018: €1,086,798), funds advanced under collateral arrangements amounting to €13,847,694 (2018: €6,452,100), and debt instruments amounting to €133,796 (2018: €129,514), are the Bank's interest-bearing financial assets. The Bank's exposure to interest rate risk is not deemed to be significant given that these assets are either re-priced to current market rates frequently or are short-term in nature or are otherwise immaterial. The Bank's amounts owed to customers are contracted on the basis of fixed interest rates, and thus are not subject to cashflow interest rate risk. Accordingly, a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in interest rates that were reasonably possible at the end of the reporting period is not deemed necessary.

### (b) Currency risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2019. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

As at 31 December 2019	Total €	EUR €	USD €	GBP €	Other €
<b>Financial assets</b>					
Cash and balances with Central Bank of Malta	52,801,444	28,878,677	20,913,397	-	3,009,370
Funds receivable from merchants	5,333,687	824,837	365,257	2,865,168	1,278,425
Loans and advances to banks and financial institutions	19,383,728	5,994,449	361,711	5,613,180	7,414,388
Loans and advances to customers	2,039,267	-	2,039,267	-	-
Financial investments	5,389,689	5,255,893	133,796	-	-
Funds advanced under collateral arrangements	13,847,694	119,838	13,727,856	-	-
Other assets	2,607,892	-	2,607,892	-	-
<b>Total financial assets</b>	<b>101,403,401</b>	<b>41,073,694</b>	<b>40,149,176</b>	<b>8,478,348</b>	<b>11,702,183</b>
<b>Financial liabilities</b>					
Amounts owed to customers	10,639,696	8,334,259	1,845,677	459,760	-
Settlement processing obligations	58,696,443	26,569,637	16,193,945	6,674,303	9,258,558
Lease liabilities	452,276	452,276	-	-	-
Other liabilities	2,619,339	2,614,901	4,438	-	-
<b>Total financial liabilities</b>	<b>72,407,754</b>	<b>37,971,073</b>	<b>18,044,060</b>	<b>7,134,063</b>	<b>9,258,558</b>
<b>Net on balance sheet financial position</b>		<b>3,102,621</b>	<b>22,105,116</b>	<b>1,344,285</b>	<b>2,443,625</b>
<b>Notional amounts of derivative instruments</b>			<b>(24,130,843)</b>	<b>-</b>	<b>-</b>
<b>Net open position</b>			<b>(2,025,727)</b>	<b>1,344,285</b>	<b>2,443,625</b>

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

## 2. Financial risk management (continued)

### 2.3 Market risk (continued)

#### (b) Currency risk (continued)

As at 31 December 2018	Total €	EUR €	USD €	GBP €	Other €
<b>Financial assets</b>					
Cash and balances with Central Bank of Malta	43,294,531	19,460,063	23,834,468	-	-
Funds receivable from merchants	2,686,708	255,472	155,444	1,493,095	782,697
Loans and advances to banks and financial institutions	43,272,815	11,491,340	11,681,949	8,746,200	11,353,326
Loans and advances to customers	1,086,798	-	1,086,798	-	-
Financial investments	2,672,053	2,542,539	129,514	-	-
Funds advanced under collateral arrangements	6,452,100	119,838	6,332,262	-	-
Other assets	7,315,168	1,350,369	5,964,799	-	-
<b>Total financial assets</b>	<b>106,780,173</b>	<b>35,219,621</b>	<b>49,185,234</b>	<b>10,239,295</b>	<b>12,136,023</b>
<b>Financial liabilities</b>					
Amounts owed to customers	5,193,145	3,031,276	1,718,508	443,361	-
Settlement processing obligations	64,626,158	26,003,541	21,225,373	8,051,767	9,345,477
Other liabilities	3,162,824	3,159,017	-	3,807	-
<b>Total financial liabilities</b>	<b>72,982,127</b>	<b>32,193,834</b>	<b>22,943,881</b>	<b>8,498,935</b>	<b>9,345,477</b>
<b>Net on balance sheet financial position</b>		<b>3,025,787</b>	<b>26,241,353</b>	<b>1,740,360</b>	<b>2,790,546</b>
<b>Notional amounts of derivative instruments</b>			<b>(27,937,838)</b>	<b>-</b>	<b>-</b>
<b>Net open position</b>			<b>(1,696,485)</b>	<b>1,740,360</b>	<b>2,790,546</b>

Under the scenario that the euro appreciates against the USD from 1.1234 to 1.3234 (2018: from 1.1450 to 1.3450) and against the GBP from 0.8521 to 1.000 (2018: from 0.8945 to 1.000) the impact recognised in profit or loss would amount to a pre-tax gain of €107,293 (2018: €68,710). If on the other hand, the euro depreciates against the USD to 1.0000 (2018: 1.0000) and against the GBP to 0.7521 (2018: 0.7945) the impact recognised in profit or loss would amount to a loss before tax of €71,232 (2018: €26,948).

#### (c) Equity price risk

The Bank is exposed to market price risk arising from the uncertainty about the future market prices of the investment held by the Bank in the preference shares of Visa Inc. that are classified in the statement of financial position as financial assets at fair value through profit or loss. The preference shares are convertible into ordinary shares of Visa Inc., they have no maturity and represent a residual interest in the issuer's net assets.

In view of the absence of quoted market prices for such instruments, the fair value of the preference shares has been determined on the basis of an internal valuation model, which is dependent on a number of assumptions including the value of Visa Inc.'s ordinary shares, which have a quoted price.

## 2. Financial risk management (continued)

### 2.4 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

The Bank is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally amounts owed to customers, settlement processing obligations and other liabilities (refer to Notes 18, 19 and 22). The Bank's settlement processing obligations are generally repayable within one month from the end of the reporting period, other than for funds withheld from merchants that serve as collateral to minimise losses ("merchant reserve"), which are repayable within 180 days from the end of the reporting period.

The Bank manages this risk by monitoring future cash flows together with changes in available liquidity on a regular basis. Except for prefunded merchants, Credorax only settles settlement processing obligations after the cash is collected from the card schemes. The Bank manages in a very active manner the relationship between the aggregate of funds receivable from card schemes and funds attributable to merchants, and its settlement processing obligations. These positions are considered not to impose liquidity risk as they are interrelated from a liquidity perspective. Senior management is updated on a regular basis on the cash flow position of the Bank.

Through the increase in deposit taking activities, the Bank can be exposed to an increase in liquidity risk due to a possible significant deposit flight. However, the Bank considers this risk to be partially mitigated in a natural manner given that the majority of the amounts owed to customers pertain to term deposits with tenors of two to three years.

As part of its liquidity risk management framework, management monitors the Bank's "cash flow ladder" or "maturity gap analysis", that allows forecasting of liquidity needs on a monthly basis.

Due to the nature of the business and the composition of the balance sheet, the bank assesses its liquidity risk currently to be very limited. As part of the liquidity management, the Bank will only forward funds to merchants, once funds are subsequently received from card schemes, except for instances where merchants have prefunded agreements. Therefore, other than prefunded transactions, the Bank is not exposed to liquidity risk.

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

## 2. Financial risk management (continued)

### 2.4 Liquidity risk (continued)

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

As at 31 December 2019	Total €	Within 3 months €	Between 3 months and one year €	Between one year and 3 years €	No maturity date €
<b>Financial assets</b>					
Cash and balances with Central Bank of Malta	52,801,444	52,502,270	-	-	299,174
Funds receivable from merchants	5,333,687	5,333,687	-	-	-
Loans and advances to banks and financial institutions	19,383,728	19,383,728	-	-	-
Loans and advances to customers	2,039,267	366,186	724,100	948,981	-
Financial investments	5,389,689	133,796	-	-	5,255,893
Funds advanced under collateral arrangements	13,847,694	-	-	-	13,847,694
Other assets	2,607,892	-	2,607,892	-	-
<b>Total financial assets</b>	<b>101,403,401</b>	<b>77,719,667</b>	<b>3,331,992</b>	<b>948,981</b>	<b>19,402,761</b>
<b>Financial liabilities</b>					
Amounts owed to customers	10,639,696	7,574,310	100,000	2,965,386	-
Settlement processing obligations	58,696,443	48,695,542	4,424,750	-	5,576,151
Lease liabilities	452,276	452,276	-	-	-
Other liabilities	2,619,339	2,619,339	-	-	-
<b>Total financial liabilities</b>	<b>72,407,754</b>	<b>59,341,467</b>	<b>4,524,750</b>	<b>2,965,386</b>	<b>5,576,151</b>
<b>Maturity gap</b>		<b>18,378,200</b>	<b>(1,192,758)</b>	<b>(2,016,405)</b>	
<b>Cumulative gap</b>		<b>18,378,200</b>	<b>17,185,442</b>	<b>15,169,037</b>	

Assets which are not immediately accessible and readily available consist of €299,184 the Bank held with the Central Bank of Malta pledged in favour of the Depositor Compensation Scheme.

The contractual undiscounted cash outflows attributable to the Bank's financial liabilities approximate to the carrying amounts of the Bank's liabilities. Accordingly, a table analysing the Bank's undiscounted cash outflows by maturity grouping was deemed by the directors to be unnecessary.

Similarly, financial investments amounting to €5,255,893 are also not readily available for sale, since they are illiquid. Additionally, Funds advanced under collateral arrangements amounting to €13,847,694 are considered to be encumbered.

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

## 2. Financial risk management (continued)

### 2.4 Liquidity risk (continued)

As at 31 December 2018	Total €	Within 3 months €	Between 3 months and one year €	Between one year and 3 years €	No maturity date €
<b>Financial assets</b>					
Cash and balances with Central Bank of Malta	43,294,531	42,995,712	-	-	298,819
Funds receivable from card schemes	2,686,708	2,686,708	-	-	-
Loans and advances to banks and financial institutions	43,272,815	35,861,879	7,410,936	-	-
Loans and advances to customers	1,086,798	182,846	560,041	343,911	-
Financial investments	2,672,053	-	-	129,514	2,542,539
Funds advanced under collateral arrangements	6,452,100	-	-	-	6,452,100
Other assets	7,315,168	5,964,403	1,350,765	-	-
<b>Total financial assets</b>	<b>106,780,173</b>	<b>87,691,548</b>	<b>9,321,742</b>	<b>473,425</b>	<b>9,293,458</b>
<b>Financial liabilities</b>					
Amounts owed to customers	5,193,145	5,193,145	-	-	-
Settlement processing obligations	64,626,158	52,700,171	6,947,599	-	4,978,388
Other liabilities	3,162,824	3,162,824	-	-	-
<b>Total financial liabilities</b>	<b>72,982,127</b>	<b>61,056,140</b>	<b>6,947,599</b>	<b>-</b>	<b>4,978,388</b>
<b>Maturity gap</b>		<b>26,635,408</b>	<b>2,374,143</b>	<b>473,425</b>	
<b>Cumulative gap</b>		<b>26,635,408</b>	<b>29,009,551</b>	<b>29,482,976</b>	

Assets which are not immediately accessible and readily available consist of term placements with other banks representing amounts pledged against a letter of credit issued in favour of card schemes that serve as collateral against the credit risk of the Bank. In addition, the Bank holds €298,819 with the Central Bank of Malta pledged in favour of the Depositor Compensation Scheme.

The contractual undiscounted cash outflows attributable to the Bank's financial liabilities approximate to the carrying amounts of the Bank's liabilities. Accordingly, a table analysing the Bank's undiscounted cash outflows by maturity grouping was deemed by the directors to be unnecessary.

Similarly, financial investments amounting to €2,542,539 are also not readily available for sale, since they are illiquid. Additionally, Funds advanced under collateral arrangements amounting to €6,452,100 are considered to be encumbered.

## 2. Financial risk management (continued)

### 2.5 Capital risk management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on 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 a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives and Regulations, as implemented by the MFSA for supervisory purposes.

The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets ('Capital requirements ratio') above a prescribed minimum level of 12% 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 minimum capital requirements are calculated for credit, market and operational risks. During the year, the Bank utilised the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method for foreign exchange risk in order to calculate the Pillar 1 minimum capital requirements. For credit risk, under the standardised approach, risk weights are determined according to credit ratings provided by internationally recognised credit agencies such as Fitch or their equivalents and by using the applicable regulatory risk weights for unrated exposures. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income, while the Basic Method requires the Bank to allocate 8% of its overall net foreign exchange position to calculate the capital requirement for foreign exchange risk.

## 2. Financial risk management (continued)

### 2.5 Capital risk management (continued)

The following table shows the components of the Bank's capital base in accordance with the applicable requirements.

	2019 €	2018 €
<b>Common Equity Tier 1 (CET1) Capital</b>		
Share capital	23,000,000	23,000,000
Retained earnings		
Previous year's retained earnings	10,699,810	3,612,866
Profit for the year	13,233,118	11,086,944
Dividends	(13,000,000)	(4,000,000)
	<hr/>	<hr/>
CET1 capital before regulatory adjustments	33,932,928	33,699,810
Deductions:		
Intangible assets	(4,294,763)	(2,841,604)
Forseeable final dividend charge	(5,000,000)	(7,000,000)
	<hr/>	<hr/>
<b>Total own funds</b>	24,638,165	23,858,206
	<hr/>	<hr/>
<b>Total own funds</b>	<b>24,638,165</b>	<b>23,858,206</b>

### 2.6 Fair values of financial assets and liabilities

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

Fair values are consequently determined according to the following hierarchy:

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

## 2. Financial risk management (continued)

### 2.6 Fair values of financial assets and liabilities (continued)

#### *Financial instruments measured at fair value*

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and quoted price.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell.

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

- the likelihood and expected timing of future cash flows on the instrument. Judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Judgement is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate;
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

The Bank's only financial instruments measured at fair value comprise the Bank's investment in Visa Inc. preference shares, which amounted to €5,255,893 (2018: €2,542,539) as at 31 December 2019, and any open derivative positions. The Bank's investment in Visa Inc. preference shares are classified as Level 3 instruments, while the derivatives are categorised as level 2.

No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial years ended 31 December 2019 and 2018.

Fair values for the Bank's derivative contracts are determined utilising valuation techniques, involving primarily the use of discounted cash flow techniques. The fair values referred to are determined by reference to market prices or rates (forward foreign exchange rates) quoted at the end of the reporting period. The valuation techniques used are supported by observable market prices or rates since these variables include only data from observable markets. Since the Bank entered into the open derivative on 31 December 2019, the fair value of such a derivative is nil.

As part of a transaction explained in Note 8, during 2016 the Bank received preference shares convertible into ordinary shares of Visa Inc. in exchange for its membership interest in Visa Europe Limited. Accordingly, as at 31 December 2019 and 2018, financial assets measured at FVPL comprise the Bank's investment in such preference shares.

## 2. Financial risk management (continued)

### 2.6 Fair values of financial assets and liabilities (continued)

#### *Financial instruments measured at fair value (continued)*

These preference shares are classified as Level 3 as the valuation is dependent upon a number of assumptions including the value of Visa Inc.'s ordinary shares, which are quoted, a discount rate, a further discount for lack of marketability, and a conversion ratio, which as explained in Note 8, can be adjusted for potential losses from Visa Europe's interchange litigations. As at the reporting date, there were no identical transactions with regularly available market prices in respect of such preference shares.

The table below provides a reconciliation of the fair value measurements in such level 3 instruments.

	2019 €	2018 €
At beginning of year	2,542,539	2,021,541
Gains in fair value recognised in profit or loss	2,713,354	520,998
At end of year	<b>5,255,893</b>	2,542,539

In order to determine the fair value of the Visa Inc. preference shares as at 31 December 2019 and 2018, the Bank considered a range of potential outcomes, including the likely value of the potential level of losses from Visa Europe interchange litigation under different scenarios, based on probability weightings.

It is reasonably possible that if Visa Europe interchange litigation progresses within the next financial year and more information becomes available about the likely value of the potential losses, changes in assumptions determining the fair value could require a material adjustment to the carrying amount of the Visa Inc. preference shares.

Changes to unobservable assumptions will change the overall fair value of the preference shares. In this respect, if the discount for the lack of marketability was assumed to shift by 500 basis points, it would result in the following effects on the fair value of the instruments:

	As at 31 December 2019 Increase/ (decrease) €	As at 31 December 2018 Increase/ (decrease) €
Discount for the lack of marketability increases by 5%	(372,605)	(170,754)
Discount for the lack of marketability decreases by 5%	372,605	172,635

With respect to the outcome of litigation proceedings, as further notifications, claims and settlements evolve, the Bank will re-evaluate the likely litigation cost as part of the fair valuation process.

## 2. Financial risk management (continued)

### 2.6 Fair values of financial assets and liabilities (continued)

#### *Financial instruments measured at fair value (continued)*

Certain financial assets and liabilities are carried at amortised cost. The following table sets out the carrying amounts of these financial assets and liabilities:

	2019 €	2018 €
<b>Assets</b>		
Cash and balances with Central Bank of Malta	<b>52,801,444</b>	43,294,531
Funds receivable from merchants	<b>5,333,687</b>	2,832,251
Loans and advances to banks and financial institutions	<b>19,383,728</b>	43,272,815
Loans and advances to customers	<b>2,039,267</b>	1,086,798
Debt and other fixed income instruments	<b>133,796</b>	129,514
Funds advanced under collateral arrangements	<b>13,847,694</b>	6,452,100
Other assets	<b>2,607,892</b>	7,315,168
	<b>96,147,508</b>	104,383,177
<b>Liabilities</b>		
Amounts owed to customers	<b>10,639,696</b>	5,193,145
Settlement processing obligations	<b>58,696,443</b>	64,771,701
Other liabilities	<b>2,619,339</b>	3,162,824
	<b>71,955,478</b>	73,127,670

The fair values of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or are short-term in nature, or are otherwise immaterial.

## 3. Critical accounting estimates and judgements

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

In the opinion of the directors, other than for the fair valuation of the Bank's interest in Visa Inc., measured at FVPL, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1. Information about assumptions and estimation uncertainties relating to fair valuation of the financial instruments referred to is disclosed in Note 2.

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

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

**4. Cash and balances with Central Bank of Malta**

	2019	2018
	€	€
Cash in hand	961	1,056
Balances with Central Bank of Malta	<b>52,800,483</b>	43,293,475
	<b>52,801,444</b>	43,294,531

As at 31 December 2019 and 31 December 2018, no mandatory reserve deposit was required in terms of Article 32 of the Central Bank of Malta Act, Cap. 204 of the Laws of Malta. Included in this balance is an amount of €299,184 (2018: €298,819) pledged in favour of the Depositors Compensation Scheme.

The balances with the Central Bank of Malta are held to fulfil any Liquidity Coverage Ratio (LCR) requirement. A negative deposit facility interest rate of 0.50% (2018: 0.40%) applies to the Bank's average reserve holdings in excess of the minimum reserve requirements.

**5. Funds receivable from merchants**

	2019	2018
	€	€
Funds receivable from merchants	<b>5,679,060</b>	4,296,170
Allowances for expected credit losses	<b>(345,373)</b>	(1,463,919)
	<b>5,333,687</b>	2,832,251

The funds receivable from merchants as at 31 December 2019 and 2018 represent balances where the Bank agrees to transfer the amounts due to the merchants before receipt by the card schemes. In the event that the amounts are not received from the card schemes, the Bank has the right to claim the funds back from the merchants.

**6. Loans and advances to banks and financial institutions**

	2019	2018
	€	€
Repayable on call and at short notice	<b>19,384,167</b>	35,861,879
Term placements with other banks	-	7,420,988
	<b>19,384,167</b>	43,282,867
Allowances for expected credit losses	<b>(439)</b>	(10,052)
	<b>19,383,728</b>	43,272,815

Loans and advances to banks 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. In 2018, term placements with other banks represent amounts pledged against a letter of credit issued in favour of card schemes that serve as collateral against the credit risk of the Bank.

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

**7. Loans and advances to customers**

	2019	2018
	€	€
Term loan	2,079,461	1,108,219
Allowances for expected credit losses	(40,194)	(21,421)
	2,039,267	1,086,798

Loans and advances to customers consist of a credit facility with a fixed maturity date. The advance is subject to a fixed interest rate at 4.15%.

Any reserves, as well as any rolling reserve, fixed reserve, merchant funds, funds pursuant to a funding delay or other retained funds, serve as a security against the loans and advances to customers. As at 31 December 2019, the Bank retained €1,814,097 (2018: €879,131) in merchant funds in its possession.

During the financial year ended 31 December 2019, there were no instances of non-performing exposures.

**8. Financial investments**

	2019	2018
	€	€
<b>Financial assets measured at FVPL</b>		
Investment in Series C Visa Inc. preferred stock	5,255,893	2,542,539
<b>Financial assets at amortised cost</b>		
Debt and other fixed income instruments	133,796	129,514
	5,389,689	2,672,053

Financial assets measured at FVPL as at 31 December 2019 comprise preference shares of Visa Inc., with a face value of €5.3 million, which were received by the Bank in exchange for its membership interest in Visa Europe Limited, as part of a transaction in which Visa Europe Limited was acquired by Visa Inc.

The preference shares are convertible into ordinary shares of Visa Inc., they have no maturity and represent a residual interest in the issuer's net assets.

The purpose of the preference shares is to provide Visa Inc. with protection against all litigation risk associated with interchange fees linked to the activity of Visa Europe Limited. In this respect, ordinary shares of Visa Inc. will be issued to the holders of preference shares on a periodic assessment of the ongoing risk of liability to Visa. Following the determination of any liability, Visa makes a "conversion adjustment" to the Class A Common Equivalent Number for the preference shares. Accordingly, the conversion adjustment feature transfers specific litigation risk of Visa Inc. to the holders of the preference shares. As a result, the holders of the preference shares, including the Bank, are exposed to litigation risk. The conversion rate adjustment is dependent upon the uncertain outcome of litigation, which is still deemed to be in an embryonic stage. Hence, the value of these shares depends on the level and success of any future litigation.

## 8. Financial investments (continued)

Due to the pace at which developments in respect of litigation claims relating to interchange fees and point of sales rules against both VISA and Mastercard have occurred, it is not possible to assess future litigation cost, with a degree of certainty. The estimation of these litigation costs has been factored into an internal valuation model for the preference shares, based on the professional judgement of the Bank's Senior Management. Thus, the estimation arrived at for the purposes of these financial statements remains the best available forecast. Accordingly, the reported amounts are sensitive to the assumptions, estimates and model used for the purposes of valuing the preference shares. In this respect, a sensitivity analysis has been performed as disclosed within Note 2.6 'Fair value of financial assets and liabilities'.

As further notifications, claims and settlements evolve, the Bank will re-evaluate the likely litigation cost as part of the fair valuation process.

Financial investments at amortised cost as at 31 December 2019 and 2018 comprise of an investment in debt security with fixed income and maturity.

## 9. Funds advanced under collateral arrangements

	2019 €	2018 €
Funds advanced under collateral arrangements	13,853,581	6,454,903
Allowances for expected credit losses	(5,887)	(2,803)
	<b>13,847,694</b>	<b>6,452,100</b>

Funds advanced under collateral arrangements represent amounts pledged in favour of card schemes that serve as collateral against the credit risk of the Bank.

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

**10. Property and equipment**

	Leasehold improvements €	Computer and electronic equipment €	Fixtures, fittings and office furniture €	Total €
<b>Cost</b>				
As at 1 January 2018	52,636	716,585	351,363	1,120,584
Additions	-	67,382	10,654	78,036
As at 31 December 2018	52,636	783,967	362,017	1,198,620
Additions	-	40,388	13,236	53,624
Disposals	-	(29,476)	-	(29,476)
As at 31 December 2019	52,636	794,879	375,253	1,222,768
<b>Accumulated depreciation</b>				
As at 1 January 2018	52,636	577,547	231,757	861,940
Charge for the year	-	70,772	30,935	101,707
As at 31 December 2018	52,636	648,319	262,692	963,647
Charge for the year	-	58,485	29,268	87,753
Depreciation released on disposals	-	(27,600)	-	(27,600)
As at 31 December 2019	52,636	679,204	291,960	1,023,800
<b>Net Book Value</b>				
<b>As at 31 December 2018</b>	<b>-</b>	<b>135,648</b>	<b>99,325</b>	<b>234,973</b>
<b>As at 31 December 2019</b>	<b>-</b>	<b>115,675</b>	<b>83,293</b>	<b>198,968</b>

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

## 11. Right-of-use assets

As at 31 December 2019 and 2018, the Bank was party to non-cancellable lease agreements of properties in respect of which the future minimum lease payments extend over a number of years, including options to renew the lease after the expiry of the original term. Until the 2018 financial year, leases of property were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

The Bank has also some other leases with contract terms shorter than one year and leases of low-value items, for which the Bank has elected not to recognise right-of-use assets.

**2019**  
€

### At 1 January 2019

Impact of application of IFRS 16	781,345
Depreciation	(199,322)
Re-measurement attributable to changes in variable lease liability	(67,540)

### At 31 December 2019

**514,483**

## 12. Intangible assets

Computer  
software and  
licenses  
€

### Cost

As at 1 January 2018	2,919,550
Additions	997,947
As at 31 December 2018	3,917,497
Additions	2,219,043
As at 31 December 2019	6,136,540

### Accumulated amortisation

As at 1 January 2018	438,716
Charge for the year	637,177
As at 31 December 2018	1,075,893
Charge for the year	765,884
As at 31 December 2019	1,841,777

### Net Book Value

As at 31 December 2018	2,841,604
As at 31 December 2019	4,294,763

During 2019, the Bank has acquired software from a related entity amounting to €2,132,811.

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

**13. Other assets**

	2019	2018
	€	€
Amounts owed by group undertakings (Note 38)	2,668,613	6,083,761
Deferred cash consideration receivable from Visa Inc.	-	1,350,765
	2,668,613	7,434,526
Allowances for expected credit losses	(60,721)	(119,358)
	2,607,892	7,315,168
Prepayments	317,162	611,969
	2,925,054	7,927,137

Amounts owed by group undertakings are unsecured, interest free and have no fixed date for repayment.

Credorax Inc. and all of its subsidiaries are subject to a common assignment agreement in respect of the settlement of debts arising from services between entities in the normal course of business. The agreement allows for the assignment of debt amongst parties and entitles the assignees to set-off any assigned debt against receivables from the debtor counterparty in the normal course of business. It is intended to allow group undertakings to settle debts on a net basis and is deemed legally enforceable. Accordingly, amounts owed by/to group undertakings are reported in the statement of financial position on a net basis.

**14. Share capital**

	2019	2018
	€	€
<b>Authorised Ordinary shares of €1 each</b>		
200,000,000 Ordinary shares of €1 each	200,000,000	200,000,000
	200,000,000	200,000,000
<b>Issued and fully paid</b>		
23,000,000 Ordinary shares of €1 each	23,000,000	23,000,000
	23,000,000	23,000,000

**15. Share based compensation reserve**

The share based compensation reserve comprises the fair value of services provided by directors and selected employees of Credorax Bank Limited in exchange for the grant of share options (see Note 16) which is recognised as an expense in the Bank's profit or loss, over the vesting period and as a corresponding increase in shareholder's equity in accordance with the Bank's accounting policy.

Upon vesting of the share options granted, Credorax Inc. recharges to the Bank the grant-date fair value of the share options. Accordingly, the recharge is recognised by the Bank as a liability to the parent. During 2019, vested share options recognised as a liability to the parent amounted to €506,395 (2018: €87,302).

## 15. Share based compensation reserve (continued)

Unsettled balances are recognised in the statement of financial position as payables within amounts owed to group undertakings and are subject to the group's assignment agreement explained further in Note 13.

## 16. Share based employee compensation

During 2012, Credorax Inc., the Bank's parent, introduced a share based employee compensation plan ("the Plan") under which options to purchase ordinary shares of Credorax Inc. are granted to directors and selected employees of Group companies, including those of Credorax Bank Limited.

No consideration is payable on the grant of an option. Options may generally be exercised to the extent that they have vested. The options vest according to the relevant schedule generally within four years after the grant date and expire within ten years after the date of grant. The exercise price is determined by the Board of Directors of Credorax Inc. Outstanding options comprise options existing as at the end of the reporting period not cancelled or exercised by their respective beneficiaries (employees and directors). Options are cancelled when the entity that is granting the options cancels the grant of the equity instrument through a decision taken by the Board of Directors. Options are forfeited when the beneficiary leaves the Bank. Options that vested as of the termination date may be exercised but only within such period of time ending on the earlier of ninety (90) days following the termination date or the expiration date.

The weighted average grant-date fair value of the share options granted to the Bank's officers and employees during the year amounted to USD7.56 (2018: USD7.56). The entity applied a binomial option pricing model to determine the grant date fair value of share options granted up to 31 December 2014 and a Black-Scholes pricing model for the grant date fair value of share options granted from 2015 onwards. Model inputs include the share price of Credorax Inc. at grant date, exercise price, expected volatility of 65.73% (2018: 50.12%) which is based on historical volatility of the share price, dividend yield of nil% (2018: nil%), contractual life of ten years, and a risk free interest rate between 1.59% and 2.49% (2018: between 2.54% and 2.94%). A summary of the share option activity for the year ended 31 December is as follows:

	2019	Weighted average exercise price USD	2018	Weighted average exercise price USD
	Number of share options		Number of share options	
Outstanding as at 1 January	758,233	6.88	941,983	9.59
Granted	31,500	7.56	145,500	7.56
Forfeited	(85,750)	5.78	(329,250)	8.70
<b>Balance at 31 December</b>	<b>703,983</b>	<b>7.21</b>	<b>758,233</b>	<b>6.88</b>

During the financial year under review, 107,300 (2018: 85,325) options at a weighted exercise price of USD6.44 (2018: USD9.07) had vested. As at 31 December 2019, 558,858 (2018: 520,983) share options were exercisable at a weighted average price of USD7.05 (2018: USD6.88).

No options were exercised during the financial year ended 31 December 2019 and 31 December 2018.

## 16. Share based employee compensation (continued)

The weighted average remaining contractual life of options outstanding as at 31 December 2019 and 2018, analysed by exercise price were as follows:

Option price	2019		2018	
	Options granted	Weighted average remaining contractual life	Options granted	Weighted Average remaining contractual Life
USD2.60	95,866	2.01	95,866	3.01
USD3.80	79,250	2.97	84,750	4.02
USD5.00	21,467	1.25	21,467	2.25
USD6.40	50,900	3.35	65,900	4.35
USD7.56	219,000	8.36	227,750	9.15
USD9.00	89,500	4.23	89,500	5.23
USD11.01	148,000	5.95	173,000	7.01

The total expense recognised in the Bank's financial statements throughout the period in relation to share based employee compensation amounted to €115,863 (2018: €113,172) and is included within employee benefit expense and directors' emoluments (refer to Notes 28 and 38).

## 17. Derivative financial instruments

The Bank enters into derivatives primarily to manage its foreign exchange risk. The derivative financial instrument at 31 December 2019 related to the forward purchase of USD 27 million (2018: USD 32 million) against the euro at contractual rate of 1.1209 (2018: 1.1481). The foreign exchange forward contract matures within one month from the end of the reporting period. Since the Bank entered into the derivative on 31 December 2019, the fair value of such a derivative approximates to nil (2018: nil).

## 18. Amounts owed to customers

	2019	2018
	€	€
Term deposits	<b>4,726,960</b>	-
Redeemable at notice	<b>5,240,636</b>	5,190,608
Repayable on demand	<b>672,101</b>	2,537
	<b>10,639,696</b>	5,193,145

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

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

**19. Settlement processing obligations**

	2019	2018
	€	€
Amounts owed to merchants	57,753,234	63,386,146
Provisions for future chargebacks	-	500,000
Other settlement processing obligations	943,209	885,555
	<b>58,696,443</b>	<b>64,771,701</b>

Amounts owed to merchants relate to funds already received from card schemes in the process of settlement to merchants.

**20. Deferred taxation**

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 5% (2018: 35%). The change was effective in 2019 upon the Bank's election to form part of a fiscal unit under the Consolidated Group (Income Tax) Rules as described in Note 1.12.

The gross movement on the deferred income tax account is as follows:

	2019	2018
	€	€
At beginning of year	464,238	(1,511,751)
IFRS 9 transitional adjustment	-	(52,059)
Recognised in profit or loss (Note 31)		
Change in effective tax rate to 5%	(397,918)	-
Other movement	174,792	2,028,048
At end of year	<b>241,112</b>	<b>464,238</b>

	2019	2018
	€	€

The balance at 31 December represents temporary differences attributable to:

Unrealised movements on financial assets measured at FVPL	189,820	379,066
Accelerated tax depreciation on fixed assets	56,654	138,944
Allowances for expected credit losses	(5,362)	(53,772)
	<b>241,112</b>	<b>464,238</b>

Whereas tax losses and notional deductions have no expiry date and may be carried forward indefinitely, capital allowances expire upon disposal of the related asset.

The impact of all movements in the table above are recognised in profit or loss.

**20. Deferred taxation** (continued)

During 2019, the Bank has agreed to form part of a Fiscal Unit for Maltese income tax purposes in terms of the Consolidated Group (Income Tax) Rules ('Consolidated Group tax rules'), with Credorax Inc., the parent company and another wholly owned Malta resident subsidiary of Credorax Inc. These Rules allow a group of companies to elect to be treated as one single taxpayer and to compute their chargeable income or losses on a consolidated basis.

In terms of the agreement, Credorax Inc., the parent company, will be considered as the 'principal taxpayer' of the fiscal unit and assumes the rights, duties and obligations under the Maltese Income Tax Act relative to entities forming part of the fiscal unit.

On adoption of the Consolidated Group tax rules, the Maltese tax liabilities otherwise due on the taxable profits of the Bank can be set off against the 6/7ths tax refund otherwise due thereon to Credorax Inc, resulting in the principal taxpayer to immediately account for the tax due at the 5% effective tax rate. This would save the Bank the time lapse previously required between the payment of the standard corporate income tax rate of 35% at the level of the Bank, and the subsequent receipt of a shareholder refund at the level of Credorax Inc., following a distribution of dividends upon which such tax would have been charged and paid. The Consolidated Group tax rules provide that tax computations at the level of separate individual group entities must still be undertaken and the totality of the resulting tax compared with the tax liability resulting at the principle taxpayer level – and if it is found that the latter is less than 95% of the former, than an anti abuse provision will be applicable. In view however of the fact that the principle taxpayer is non Maltese tax resident and that it is not owned directly or indirectly by persons who are resident and domiciled in Malta, such anti abuse provision should not in the circumstances result in any additional tax considerations for the bank, the principal taxpayer or the Fiscal Unit.

As part of this process, the Bank entered into a tax sharing and funding agreement with Credorax Inc. and the other entity that forms part of the Fiscal Unit, that provides for the allocation of income taxes to the fiscal unit members.

The allocation of tax within the Fiscal Unit is calculated as if each member entity was an individual entity for tax purposes, with taxes allocated by reference to the chargeable income/losses of each member entity and recognised fully in each member entity's owned financial statements. Furthermore, while each entity within the Fiscal Unit is jointly and severally liable for the payment of the Fiscal Unit's tax liabilities, the principal taxpayer, has the legal obligation to remit these amounts.

In addition, under the terms of this agreement, the parent, as principal taxpayer, will assume the obligation to remit taxes to the Maltese Inland Revenue, and the member entities will compensate Credorax Inc. for their share of tax payable assumed by the parent or conversely be compensated for their share of any tax receivable.

Importantly, the parent's obligation towards the Maltese Inland Revenue is independent of the member entities' actual settlement with the parent of their share of the Fiscal Unit's tax burden. Accordingly, Credorax Inc., as principal taxpayer, assumes the credit risk of the other member entities defaulting on settlement.

As a result, the Bank recognises current tax liabilities, deferred tax assets arising from unused tax losses and tax credits arising from this allocation process as a liability towards or asset receivable from the parent.

Upon adoption of this agreement, the Bank has thus derecognised its current tax liabilities amounting to €496,185 and recognised a liability of the same amount towards Credorax Inc. This amount was subsequently offset against the receivables due by Credorax Inc. in accordance with the terms of the common assignment agreement entered into between Credorax Inc. and all of its subsidiaries as described in Note 13.

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## 20. Deferred taxation (continued)

Since the tax consolidation regime allows for a full integration of the tax position of its members, during 2019, each entity within the Fiscal Unit including the Bank, has applied an equivalent effective tax rate of 5% for the computation of current and deferred tax. As a result, during 2019, the Bank has released deferred tax liabilities amounting to €397,918 to profit or loss, to reflect the reduction in the effective tax rate from 35% to 5%.

## 21. Lease liabilities

Following the adoption of IFRS 16, the Bank has presented lease liabilities separately from other liabilities in the statement of financial position. The lease liabilities were initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019.

Lease liabilities are analysed by maturity as follows:

	<b>Future mimimum lease payments 2019 €</b>	<b>Interest 2019 €</b>	<b>Present value of minimum lease payments 2019 €</b>
Less than one year	136,319	28,668	107,651
Between one and five years	368,637	24,013	344,624
	<b>504,957</b>	<b>52,681</b>	<b>452,276</b>

## 22. Other liabilities

	<b>2019 €</b>	<b>2018 €</b>
Indirect taxation	<b>9,108</b>	49,126
Accruals and payables	<b>2,610,231</b>	3,113,698
	<b>2,619,339</b>	3,162,824

## 23. Net interest income

	<b>2019 €</b>	<b>2018 €</b>
On loans and advances to banks	<b>702,047</b>	313,172
On loans and advances to customers	<b>100,680</b>	60,303
On other financial instruments	<b>1,856</b>	2,086
On amounts owed to customers	<b>(16,611)</b>	(16,273)
On lease liability	<b>(41,630)</b>	-
	<b>746,342</b>	359,288

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

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**24. Fee and commission income**

	2019 €	2018 €
Acquiring revenue	<b>86,252,633</b>	87,123,037
Other fees	<b>2,400,966</b>	1,685,554
	<b>88,653,599</b>	88,808,591

**25. Fee and commission expense**

	2019 €	2018 €
Transaction and other processing fees	<b>34,688,199</b>	38,441,554
Fees paid to card schemes	<b>24,242,023</b>	21,500,894
Sales commissions	<b>5,205,969</b>	7,493,467
Other fee and commission expenses	<b>274,305</b>	463,936
	<b>64,410,496</b>	67,899,851

**26. Net trading income**

	2019 €	2018 €
Net fair value (losses) / gains on derivative financial instruments	<b>(1,474,150)</b>	(974,883)
Net income from foreign exchange activities	<b>10,679,195</b>	8,709,472
Other foreign exchange differences	<b>983,003</b>	718,308
	<b>10,188,048</b>	8,452,897

**27. Net income from financial instruments measured at FVPL**

	2019 €	2018 €
Changes in fair value	<b>2,713,354</b>	520,996
Dividend income	<b>58,293</b>	42,816
	<b>2,771,647</b>	563,812

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

**28. Employee compensation and benefits**

	2019	2018
	€	€
Wages and salaries	<b>5,920,318</b>	5,186,421
Social security costs	<b>195,209</b>	144,067
Employees' share based compensation	<b>115,863</b>	89,021
Disbursed salaries	-	744,097
Share based compensation attributable to disbursed salaries	-	24,151
	<b>6,231,390</b>	<b>6,187,757</b>

Average number of persons employed by the Bank during the year:

	2019	2018
Managerial	<b>32</b>	21
Supervisory and clerical	<b>66</b>	71
Others	<b>4</b>	2
	<b>102</b>	<b>94</b>

**29. General and administration expenses**

	2019	2018
	€	€
Services from group undertakings:		
Technical support	<b>11,943,792</b>	3,332,112
Sales and marketing	<b>2,092,006</b>	594,848
Travelling and accomodation	<b>468,273</b>	410,548
Legal and professional fees	<b>675,772</b>	865,576
Auditor's remuneration	<b>150,000</b>	125,000
Property operating lease	-	263,685
Short term and low value lease expenses	<b>16,129</b>	-
Consultancy fees	<b>448,500</b>	510,454
Other expenses	<b>1,882,075</b>	1,482,613
	<b>17,676,547</b>	<b>7,584,836</b>

The total cash payments for leases, including short-term and low-value leases, in 2019 was €231,288. The depreciation expense on Right of Use assets and the interest expense attributable to lease liabilities are disclosed within Notes 11 and 23 respectively.

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

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**29. General and administration expenses (continued)**

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

	2019 €	2018 €
Annual statutory audit	145,000	125,000
Tax advisory services	3,750	22,350
Other non-assurance services	105,000	90,000
	<b>253,750</b>	<b>237,350</b>

**30. Changes in expected credit losses and other impairment allowances**

	2019 €	2018 €
Recovery of amounts written off in prior years	(60,326)	(65,036)
Amounts written off during the year	1,213,627	169,547
Changes in expected credit losses:		
Receivables from merchants		
Reversal attributable to amounts written off	(1,213,627)	(169,547)
Other receivables from merchants	95,081	1,318,313
Loans and advances to banks	(9,613)	(1,005)
Loans and advances to customers	18,773	(12,233)
Funds advanced under collateral arrangements	3,084	(8,235)
Other	(58,637)	26,367
	<b>(11,638)</b>	<b>1,258,171</b>

**31. Tax expense**

	2019 €	2018 €
Current tax	(489,890)	(2,785,817)
Deferred tax (Note 20)	223,126	(2,028,048)
	<b>(266,764)</b>	<b>(4,813,865)</b>

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

### 31. Tax expense (continued)

The tax recognised in profit or loss differs from the theoretical amount that would arise using the basic tax rate as follows:

	2019 €	2018 €
Profit before tax	<b>13,499,882</b>	15,435,441
Tax at the applicable rate of 5% (2018: 35%)	<b>(674,994)</b>	(5,402,404)
Tax effect of:		
Non-taxable income	<b>4,242</b>	65,474
Income subject to tax at 15%	<b>(115)</b>	1,051
Expenses not deductible for tax purposes	<b>3,669</b>	(2,291)
Change in effective tax rate to 5% (Note 20)	<b>397,919</b>	-
Utilisation of tax losses brought forward	<b>-</b>	721,022
Other	<b>2,515</b>	(196,717)
	<b>(266,764)</b>	(4,813,865)

### 32. 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 part of an integral part of the Bank's cash management.

	2019 €	2018 €
Cash and balances with Central Bank of Malta (Note 4)	<b>52,801,444</b>	43,294,531
Loans and advances to banks (Note 6)	<b>19,383,728</b>	35,861,879
	<b>72,185,172</b>	79,156,410

### 33. Significant non-cash transactions

During 2019, the Bank paid a dividend of seven million euro (€7,000,000) from prior year profits and an interim dividend of six million Euro (€6,000,000) from the Bank's current year profits available for distribution. Similarly, during 2018, the Bank paid an interim dividend of four million euro (€4,000,000).

Furthermore, during 2019, the Bank acquired software from a related entity amounting to €2,132,811.

Simultaneously, during 2019, the Bank advanced a total of €30,254,506 (2018: €21,600,434) to finance the operations of various group entities, of which €2,290,017 (2018: €10,738,647) were repaid.

The obligations referred to above were offset against the receivables due by the ultimate parent, Credorax Inc. in accordance with the terms of the common assignment agreement entered into between Credorax Inc. and all of its subsidiaries (refer to Note 13).

CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

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**33. Significant non-cash transactions** (continued)

Further to the above, during 2019, as part of the Bank's change in tax status described in Note 20, a balance of tax payable by the Bank amounting to €485,401 has been assumed by the parent company, Credorax Inc. under the tax funding agreement. This balance was also offset against the receivables due by the ultimate parent, Credorax Inc. in accordance with the terms of the common assignment agreement referred to above.

As disclosed in Note 16, during 2019, the parent contributed to the entity's equity amounts of €115,863 (2018: €113,172) in respect of share options granted to employees of the Bank.

**34. Commitments**

	<b>2019</b>	2018
	€	€
Undrawn credit facilities	-	2,182,644

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**35. Capital commitments**

Commitments relating to the acquisition of new software licenses and operating expenditure are as follows:

	<b>2019</b>	2018
	€	€
Not later than 1 year	<b>405,711</b>	281,084
Later than 1 year and not later than 5 years	<b>569,078</b>	829,870
	<b>974,789</b>	1,110,954

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**36. Contingencies**

As at 31 December 2019, the Bank had no (2018: one) legal proceeding outstanding against it arising in its normal course of business.

**37. Dividend distribution**

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

The following dividends were recognised as distributions during the year ended 31 December.

	<b>2019</b>	2018
	€	€
Net dividend	<b>13,000,000</b>	4,000,000
Dividends per share	<b>0.57</b>	0.17

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CREDORAX BANK LIMITED  
Annual Report and Financial Statements – 31 December 2019

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**37. Dividend distribution** (continued)

The directors propose the following dividends.

	2019 €	2018 €
Net dividend	<b>5,000,000</b>	7,000,000
Dividends per share	<b>0.22</b>	0.30

**38. Related party transactions**

Related parties of the Bank include the ultimate parent, all entities controlled by the ultimate parent ('group undertakings'), key management personnel, close family members of key management personnel and entities which are controlled or jointly controlled by key management personnel or their close family members.

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

The following main transactions were carried out with related parties:

	2019 €	2018 €
Purchases of services from group undertakings	<b>13,999,359</b>	3,831,450
<i>Disbursements by group undertakings</i>		
Staff salaries	-	768,248
<i>Directors' emoluments (including non-executive directors)</i>		
Salaries and other emoluments	<b>79,000</b>	79,000
	<b>79,000</b>	79,000

Further to the above, during 2019, the Bank acquired software from a related entity amounting to €2,132,811.

During 2019 the Bank also advanced a total of €30,254,506 (2018: €21,600,434) to finance the operations of the group entities, of which €2,290,017 (2018: €10,738,647) were repaid.

Balances with related parties as at the end of the reporting period are disclosed in Note 13 to the financial statements.

**39. Events subsequent to the financial reporting date**

Since 31 December 2019, the outbreak of COVID-19 has severely impacted many local economies around the world, with measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closure of non-essential businesses for indefinite periods of time, triggering significant disruptions to businesses worldwide and leading to a global economic slowdown.

The likely future impact on the Bank of the COVID-19 outbreak has been assessed as part of its adoption of the going concern basis, and as of the date that these financial statements were authorised for issue, the Bank has not observed any material impact on its business due to COVID-19, both operationally and also financially.

Operationally, the Bank managed the impact of COVID-19 with minimal disruption on every level, which success is directly attributable to its robust technological infrastructure based on cloud technology. The Bank has smoothly switched to teleworking mobilizing over 100 employees for their safety, and is staying in close contact with its merchant customers and service providers in order to mitigate any adverse financial or operational impact, and continues to monitor the situation as it unfolds.

From a trading point of view, the Bank has reported exceptional processing performance in first quarter 2020 trading, with overall traffic being 9% higher when compared to the last quarter of 2019, and March 2020 processing volumes growing by 26% when compared to the prior month. This positive impact is attributable to the fact that the Bank's business model is predominantly focused on e-commerce transactions, which are set to be less affected by the effects of the COVID-19 breakout, and also because the Bank's revenues are generated from a well-diversified portfolio of merchants operating in various industries and geographies. In fact, despite the impact of the COVID-19 outbreak on some of the Bank's merchants, particularly those operating in the travel vertical which is clearly presenting some uncertainties on the Bank in meeting its projected processing volumes, the Bank is seeing good levels of processing volumes in other verticals in its portfolio which, up until now, are more than compensating for the decline in processing suffered by the travel industry. The Bank has also noted that this trend of increased processing volume is continuing to persist even during the month of April 2020 up to the date that these financial statements were authorised for issue.

During the first quarter of 2020, the Bank has experienced a decrease of €0.6M in the fair value of its preference shares in Visa Inc, as these shares have declined in value as a result of the COVID-19 outbreak that is causing a significant slowdown especially in the company's cross-border business. Despite this fair value loss, the Bank recorded Profits after taxes of €1.5 Million in the first quarter of 2020, of which €1.1 Million was recorded in March 2020.

The Bank has determined that the events experienced subsequent to the financial reporting date are non-adjusting subsequent events. Accordingly, the financial position and performance as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact.

The extent of the impact of COVID-19 on the Bank's operational and financial performance as well as its results for future periods will depend on certain developments, including the duration and spread of the outbreak, the impact on the Bank's merchant customers, employees and vendors, all of which are uncertain and cannot be reliably estimated. Therefore, as at 29 April 2020, the date that these financial statements were authorised for issue, it is difficult to accurately predict the overall outcome and impact of the COVID-19 pandemic on the Bank's operational and financial performance for full year 2020 as well as its results for future periods.

**39. Events subsequent to the financial reporting date (continued)**

Nonetheless, the Bank has stress tested its financial projections and capital adequacy, and simulated multiple forward looking adverse scenarios that the Bank might potentially experience due to COVID-19 pandemic crisis, including a decrease in processing volumes, the default of merchants operating in severely hit industries, a decrease in market value of debt securities and other investments, and a deterioration in credit quality of the projected loan portfolio. Although it is currently considered unlikely that these adverse scenarios will occur simultaneously, the combined effect of these stress tests shows that the Bank will continue satisfying its minimum total capital adequacy and liquidity ratios in 2020 and beyond.

Therefore, even though the current environment is unprecedented and it is too early to form a clear view on the expected outcome for the years ahead, given the Bank's strong liquidity position, robust business continuity plans, a well-diversified portfolio of merchants providing sufficient cushioning and compensating for severely hit sectors, and the immaterial financial impact to date, the Bank is confident in its foreseeable future and its ability to weather the current crisis and to continue to provide best service to its merchants, whilst also benefiting from future opportunities that this pandemic will leave in the future. Accordingly, the directors have not identified a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern. As such, the Bank continues to adopt the going concern basis in preparing its Financial Statements.

**40. Statutory information**

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

The immediate and ultimate parent company of Credorax Bank Limited is Credorax Inc., a company registered in the British Virgin Islands, with its registered address at Commerce House, Wickhams Cay 1, Po Box 3140, Road Town, Tortola.

Additional Regulatory Disclosures  
31 December 2019

## **1. Risk management**

### **1.1 Overview of risk disclosures**

The Additional Regulatory Disclosures ('ARDs') were prepared by Credorax Bank Limited ('the Bank') in accordance with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule 07 ('BR/07'): Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority ('MFSA'). 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 and are presented on a solo basis at the level of the Bank. These ARDs are published on an annual basis as part of the Annual Report of the Bank and seek to increase public disclosure relative to the Bank's capital structure and adequacy as well as its risk management policies and practices.

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

### **1.2 Risk management framework**

The Bank's business model throughout the years has been that of providing integrated acquiring and payment processing services to merchants within the EU and two other EEC States. Moreover, Credorax Bank Limited operates as a credit institution under the Banking Act, Cap 371 of the Laws of Malta, whereby it is licensed to accept deposits and also provide lending facilities.

The Bank is committed to creating lasting value for shareholders by focusing on expanding its growing customer base, and by employing specialised staff that work with merchants to find solutions for electronic payment transactions. In keeping with this mission, the Bank's strategy targets sustainable growth and a medium risk profile. In this respect, the Bank's return on assets calculated as its net profit after tax expressed as a percentage of average total assets, for the reporting period ended 31 December 2019 is 12.19% (2018: 8.62%). The directors believe that the Bank's financial position is expected to improve and will continue to improve in the future.

The management team selects the Bank's merchants with prudence and caution through customer due diligence measures. The Bank is especially conscious of the risks involved in the acquiring and banking business, not only as a result of its exposure to the arising credit risk involved but also to the operational risk intrinsic within the business. Therefore, it strives to minimise its exposure to operational risk by taking on merchants only when it knows how to manage the resulting risk. This culture is fostered across the entire Bank.

The Bank takes on risk with the aim of generating profits and therefore considers risk management a core competency that helps produce higher returns for its various stakeholders. The Bank has tailored its risk management objectives and policies to manage the specific risks arising from payment acquiring while considering international guidelines, such as the Basel III Accord, corresponding Directives and Regulations of the European Union, including technical standards, as well as contemporary international banking practices. In addition, the Bank is also in compliance with the requirements of the PMLFTR, PSD2, PCI Data Security Standards and the PCI Payment Application Data Security Standards. In this respect, the Board of Directors ('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 adopted by the Bank are appropriate in relation to the Bank's risk profile and strategy.

**1. Risk management** (continued)**1.2 Risk management framework** (continued)

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

- Credit risk: Credit risk stems from the loss of equity and profit as a result of the possible non-prompt repayment or non-payment of existing and contingent obligations by the Bank's counterparties. This relates to legitimate merchant transactions that generate chargebacks, which the merchant is unable to fund in the normal course of business. In these circumstances, Credorax Bank Limited is obliged to honour the chargebacks by accepting the chargebacks, which may result in significant losses.
- Market risk: Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or other price risk. The Bank's market risk arises mainly from its foreign exchange exposure.
- Liquidity risk: 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.
- Operational risk: Risk of damage resulting from the lack of skilful management or good governance within the Bank and the inadequacy of proper control, which might involve internal operations, personnel, system or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks.

The Bank aims to manage these risks by applying methods that meet best practice and considers it important to have a clear distribution of responsibilities for risk management across the Bank. In this respect, the Bank adopts the three lines of defence model in risk management.

The first line of defence is constituted by the functions that own and manage risks, namely the Bank's management, represented mainly through the Executive Committee members and the functions reporting to them. The Executive Committee chaired by the Bank's Managing Director (who does not form part of the Board of Directors) is composed of the VP Human Resources; the Portfolio Manager; the Chief Operations Officer; the Chief Underwriting Officer; the VP Finance and Regulatory Reporting and the VP Finance Operations. The Executive Committee is mainly responsible for the overall day-to-day management of the Bank, in accordance with such policies and directions as the Board may determine from time to time.

The Underwriting Committee deals with the risks involved when on-boarding prospective merchants and is primarily responsible for monitoring the Bank's portfolio quality, and for ensuring that the Bank is adhering to its several merchant acquiring policies, with particular attention to the Credit Risk policy at all times. The Credit risk policy addresses the underwriting process where the Bank assesses the merchants' ability to meet current and future obligations, validate the legitimacy of their business whilst considering the potential risk of fraud, high chargeback rates and business failure. The underwriting process, governed also by the Customer Acceptance policy and the Acceptable Industry policy, provides an opportunity to reject a merchant that is determined to have an unacceptable history of chargeback volumes, has a weak financial position, is not operating a valid business model or falls under the prohibited list of merchants. Furthermore, where a merchant poses certain risks, the said merchant is escalated to the Underwriting Committee where it is subjected to a thorough analysis from a legal, operational, fraud and risk perspective. The Underwriting Committee is composed of the Chief Underwriting Officer, the Head of Risk Operations, the Head of Policy and Scheme Compliance, the Head of Compliance & MLRO and the Managing Director. The Chief Underwriting Officer ensures that underwriting procedures and checks are in line with regulatory requirements and the Bank's risk appetite, while at the same time is responsible for the financial and credit risk exposure of the Bank's acquiring portfolio as guided by the Bank's policies.

**1. Risk management** (continued)**1.2 Risk management framework** (continued)

The second line is represented by the Enterprise Risk Manager and the Head of Compliance and MLRO, who reports to the Risk Oversight Committee. The Risk Oversight Committee is responsible to oversee the Bank's overall risk management framework. This means that the Committee is responsible for ensuring the proper implementation and review of the Bank's risk policies so that they conform to the Bank's risk appetite, and for ensuring that all risk controls are operating effectively. The Committee reports to the Board on the Bank's risk profile. The Risk Oversight Committee convened four times during the period under review.

The Bank's Enterprise Risk Manager ensures a comprehensive approach towards the identification and assessment of the Bank's risks. His role is separate from the fraud and risk function referred to above, which is specific to the Bank's acquiring business. Further to the identification and assessment, the Enterprise Risk Manager is tasked with monitoring the Bank's risk profile relative to established risk appetite triggers, and to assess how these can be mitigated and escalated where appropriate.

The Internal Auditor form the third line of defence who reports to the Audit Committee. However, the Board of Directors is ultimately responsible for the establishment and oversight of the Bank's risk management framework through the development and monitoring of compliance with the Bank's risk management policies. The aim of the risk management framework is to support the Bank in achieving its goals and objectives and ensure that the risks are commensurate with the rewards.

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

The Audit Committee is appointed to oversee the quality and integrity of the Bank's financial statements, it's compliance with legal and regulatory requirements, the qualifications, performance and independence of the external auditor, the performance of the Internal Auditor, the quality of the Bank's internal controls, and any related party transactions. In executing its responsibilities, the Audit Committee receives and reviews regularly reports made by the internal and the external auditors, and monitors any identified control issues through to a satisfactory conclusion.

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

**2. Capital risk management****2.1 Own funds**

The level of own funds represents the Bank's available capital and reserves for the purposes of assessing capital adequacy from a regulatory perspective. The total capital ratio is a measure of the long-term financial strength of a bank, usually expressed as a ratio of its own funds or capital to the measure of the Bank's risk exposure.

## 2. Capital risk management (continued)

### 2.1 Own funds (continued)

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 2019, 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 capital base is equivalent to Common Equity Tier 1 ('CET1') capital which includes ordinary share capital, retained earnings and other regulatory adjustments relating to items that are included in equity but treated differently for capital adequacy purposes. The Bank does not maintain a Reserve for General Banking Risks since it does not have loans and advances which are classified as "Non-performing".

Regulatory transitional arrangements (including paragraph 4 of the CRR article 473a) with regards to IFRS 9: Financial instruments were introduced by the European Parliament and the Council on 27 December 2017. These permit banks to add back to their own funds a proportion of the impact of IFRS 9 during the first five years of implementation. The proportion that banks may add back starts at 95% in 2018 and reduces to 25% by 2022. Given the immaterial impact of the IFRS9 provision for the year ended 31 December 2019, the Bank has opted not to apply these regulatory transitional arrangements.

#### (a) Share capital

The Bank's share capital as at 31 December 2019 is analysed as follows:

	2019	2018
	€	€
<b>Authorised</b>		
200,000,000 Ordinary shares of €1 each	<b>200,000,000</b>	<b>200,000,000</b>
<b>Issued and fully paid up</b>		
23,000,000 Ordinary shares of €1 each	<b>23,000,000</b>	<b>23,000,000</b>

#### (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. During 2019, the Bank paid a dividend of seven million Euro (€7,000,000) and another interim dividend of six million Euro (€6,000,000) from the Bank's profits available for distribution, to the Bank's shareholder, Credorax Inc, as approved at an extraordinary general meeting held on 27 February 2019 and 28 June 2019 respectively. During 2018, by virtue of a resolution dated 1 August 2018 the Bank's shareholders approved to distribute interim dividends amounting to €4,000,000.

The Directors proposed a final dividend amounting to €5,000,000 to be paid to shareholders. This dividend is subject to approval by shareholders and has not been included as a liability in these financial statements.

**2. Capital risk management** (continued)

**2.1 Own funds** (continued)

	<b>As at 31 December 2019</b>
	<b>€</b>
<b>Common Equity Tier 1 (CET1) capital</b>	
<i>Common Equity Tier 1 (CET1) capital: instruments and reserves</i>	
Share capital	23,000,000
Retained Earnings	
Previous year's retained earnings	10,699,810
Profit for the year	13,233,117
Dividends	(13,000,000)
	33,932,928
<i>Common Equity Tier 1 (CET1) capital: regulatory adjustments</i>	
Intangible assets	(4,294,763)
Forseeable final dividend charge	(5,000,000)
	(9,294,763)
<b>CET1 capital</b>	<b>24,638,165</b>
<b>Total capital</b>	<b>24,638,165</b>
<b>Total risk weighted assets</b>	<b>88,570,757</b>
 <b>Capital ratios</b>	
CET1 capital	27.8%
Tier 1 capital	27.8%
Total capital	27.8%
Institution specific buffer requirement	7.2%
of which: capital conservation buffer	2.5%
of which: countercyclical buffer	0.2%
Common Equity Tier 1 available to meet buffers	15.8%

## **2. Capital risk management (continued)**

### **2.2 Credit risk**

#### **2.2.1 Introduction to credit risk**

Credit risk is the risk that the Bank will incur losses as a result of a counterparty failing to fulfil its contractual obligations to the Bank. Credit exposures arise principally through the Bank's participation in processing and settlement of payment transactions.

Credit risk constitutes the Bank's largest risk in view of its acquiring activities and therefore the Bank is fully aware of the connotations of such risk and places great importance on its effective management. The portfolio of merchants and their performance is monitored on an ongoing basis and the relevant management bodies, including the Board of Directors and the Risk Oversight Committee, are kept informed on an ongoing basis of developments of irregular merchant trends, high chargebacks and other relevant information.

#### **2.2.2 Credit risk management**

All new merchants are reviewed by the risk function to ensure that the credit risk they represent is within the Risk Appetite agreed by the Board of Directors. The on-boarding of merchants is based on the Bank's internal assessment which serves as an effective mitigant to credit risk arising from chargebacks. In examining a merchant's creditworthiness, the Net Expected Exposure ("NEE"), business age, partner reliability, as well as the industry sector in which the merchant operates are considered.

As part of the risk assessment, Credit Risk Analysts, approve, reject or amend the processing terms, namely fixed and rolling reserve, funding delay, frequency of settlement, and any other merchant processing terms suggested by the sales team on behalf of the partner or merchant. Any matters not considered to fall within the parameters of normal business practices are escalated to the Head of Risk Operations who will in turn decide whether further escalation is required to the Chief Underwriting Officer or the Underwriting Committee.

Subsequent to on-boarding, in order to manage its credit risk exposures arising from its payment processing operations, the Bank compiles and updates due diligence reports in respect of its merchants and IPSPs, and establishes appropriate transaction volumes and value limits. The Bank monitors its merchants' adherence to limits in relation to chargebacks on a daily basis to prevent any collection losses that are inherent in the Bank's payment processes. The Bank has also set limits of authority and has segregation of duties in place so as to maintain impartiality and independence during the underwriting and on-boarding process and to control ongoing merchant compliance.

If in any given month the chargeback ratio or NEE is in excess of these thresholds, a report explaining the cause of the breach and the action plan to lower the exposure to an acceptable level is provided by the Chief Underwriting Officer to the Risk Oversight Committee.

## 2. Capital risk management (continued)

### 2.2 Credit risk (continued)

#### 2.2.2 Credit risk management (continued)

The Bank's principal credit risk exposures reflecting regulatory information submitted to the MFSA is as follows:

	2019 Average value €	2019 Year end exposure value €
Central banks	39,091,319	52,800,482
Multilateral development banks	133,417	133,796
Institutions	37,559,298	33,231,422
Corporates	10,054,677	10,222,154
Equity	3,790,395	5,255,893
Other items	2,163,635	1,031,575
	<b>92,792,741</b>	<b>102,675,322</b>

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. Due to the specificities of the risks inherent within the payment acquiring business, the above analysis does not represent the Bank's maximum exposure to credit risk, which however is considered as part of the Bank's Pillar II risks.

Credit risk mitigation practices in respect to loans and advances to customers include reserves, merchant funds, funds pursuant to a funding delay or other retained funds which serve as a security against such exposures. As at 31 December 2019, the Bank retained €1,814,097 (2018: €879,131) in merchant funds in its possession.

#### *Credit risk exposures analysed by residual maturity*

	Total €	Within three months €	Within one year but over three months €	More than one year €	No maturity €
<b>As at 31 December 2019</b>					
Central banks	52,800,482	52,501,308	-	-	299,174
Multilateral development banks	133,796	133,796	-	-	-
Institutions	33,231,422	19,383,728	-	-	13,847,694
Corporates	10,222,154	5,941,181	3,331,992	948,981	-
Equity	5,255,893	-	-	-	5,255,893
Other items	1,031,575	-	-	-	1,031,575
<b>Total</b>	<b>102,675,322</b>	<b>77,960,013</b>	<b>3,331,992</b>	<b>948,981</b>	<b>20,434,336</b>

## 2. Capital risk management (continued)

### 2.2 Credit risk (continued)

#### 2.2.2 Credit risk management (continued)

##### *Credit risk exposures analysed by geographical region*

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

As at 31 December 2019	Total	Malta	Other EU countries	Rest of world
	€	€	€	€
Central banks	52,800,482	52,800,482	-	-
Multilateral development banks	133,796	-	133,796	-
Institutions	33,231,422	336,900	19,166,665	13,727,857
Corporates	10,222,154	-	7,372,954	2,849,200
Equity	5,255,893	-	-	5,255,893
Other items	1,031,575	932,020	-	98,595
<b>Total</b>	<b>102,675,322</b>	<b>54,069,402</b>	<b>26,673,415</b>	<b>21,931,545</b>

The Bank's exposures are primarily concentrated within the financial services industry.

#### 2.2.3 Credit quality of the Bank's merchants

As noted earlier the material part of the Bank's credit risk arises from the potential future losses that may arise as a result of chargebacks for which merchants would not be in a position to honour.

The Bank's Risk function performs formal risk assessment procedures for each merchant in order to determine the exposure that each merchant represents to Credorax Bank Limited, together with a formal assessment on its business introducers, also referred to as partners. As highlighted previously, the Bank focuses on the compilation, together with ongoing and event-driven updating of due diligence analysis taking cognisance of collateral measurement and of effective transaction monitoring to ensure that the merchant is not being used as a vehicle for money laundering or terrorist financing.

The Bank's credit concentration risk can arise through the imperfect diversification of its merchant portfolio, at an individual merchant level or potentially on an industry or country basis. In this regard, the directors are cognisant that significant reliance on specific merchants, particular industries or sectors can be detrimental to the Bank, and therefore have in place appropriate concentration limits within the Bank's Risk Appetite Statement.

## 2. Capital risk management (continued)

### 2.2 Credit risk (continued)

#### 2.2.3 Credit quality of the Bank's merchants (continued)

The following table shows 2019 processing volumes analysed by industry:

	<b>FY 2019</b>
	<b>€'000</b>
Retail	1,198,753
OTAs & Travel	1,048,627
Financial services	828,066
Gambling	648,014
Services	226,514
Online Entertainment	209,903
Other	51,725
	<u>4,211,602</u>

The following table shows the geographical analysis of 2019 processing volumes:

	<b>FY 2019</b>
	<b>€'000</b>
United Kingdom	2,255,203
Czech Republic	505,702
Malta	347,057
France	200,534
Cyprus	187,977
Netherlands	184,996
Gibraltar	167,584
Spain	69,577
Ireland	32,730
Luxembourg	26,973
Italy	25,181
Other	208,088
	<u>4,211,602</u>

Credorax provides a smart acquiring solution to merchants across hundreds of industries; however, some of these industries require the fulfilment of certain conditions for successful onboarding. Furthermore, some industries fall outside Credorax's risk appetite. This assessment is mostly based on the legality of the product, risk from a card scheme perspective, and legal complexities.

The Bank estimates merchants' credit risk based on processing volumes, chargeback and refund rates and delivery timeframe for future services committed to by merchants. When the amount of chargebacks exceed the amount of the collateral, i.e. the reserves and funding delay, management considers this to be an impairment trigger. At this point, the Bank evaluates whether the exposure should be impaired. Impaired merchant exposures are therefore those exposures arising from chargebacks in excess of collateral and for which the Bank has determined that it is probable that it will be unable to recover. As at 31 December 2019, receivables amounting to €345,373 (2018: €1,463,919) from 226 merchants (2018: 130 merchants) related to chargebacks transactions in excess of collateral held.

## 2. Capital risk management (continued)

### 2.2 Credit risk (continued)

#### 2.2.3 Credit quality of the Bank's merchants (continued)

Credorax Bank Limited places strong emphasis on the value and quality of the collateral, depending on the amount of the exposure, the risk profile of the merchant, and the level of credit risk involved. The collateral utilised to secure against merchants' credit risk comprises of fixed or rolling reserves.

At the end of the reporting period, fixed reserves amount to €6,162,017 (2018: €5,104,727), while the rolling reserves amount to €13,568,279 (2018: €14,383,764).

### 2.3 Interest rate risk

The Bank's placements with the Central Bank of Malta amounting to €52,800,483 (2018: €42,994,656), balances with other banks and financial institutions repayable on call and at short notice amounting to €11,127,600 (2018: €8,956,457), loans and advances to customers of €2,039,267 (2018: €1,086,798), funds advanced under collateral arrangements amounting to €13,847,694 (2018: €6,452,100), and debt instruments amounting to €133,796 (2018: €129,514) are the Bank's interest bearing financial instruments. The Bank's exposure to interest rate risk is not deemed to be significant given that these assets are either re-priced to current market rates frequently or are short-term in nature or are otherwise immaterial. The Bank's amounts owed to customers are contracted on the basis of fixed interest rates, and thus are not subject to cashflow interest rate risk. Accordingly, a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in interest rates that were reasonably possible at the end of the reporting period is not deemed necessary.

### 2.4 Currency risk

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

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

As at 31 December 2019	Long Position €	Short Position €	Net exposure €
GBP	8,478,348	(7,134,063)	1,344,285
USD	40,149,176	(42,174,903)	(2,025,727)
Other	11,702,183	(9,258,558)	2,443,625
	<b>60,329,707</b>	<b>(58,567,524)</b>	<b>1,762,183</b>

Based on the above positions, the regulatory risk capital charge in respect of currency risk is €303,033 (2018: €362,473).

## 2. Capital risk management (continued)

### 2.5 Operational risk

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

The Bank's management of operational risk relies on a framework of policies and procedures implemented across the Bank's operational functions through transaction processing and business execution. The implementation of these policies and procedures is overseen by the Bank's risk oversight function. Regular reporting of operational risk events to the Board of Directors is carried when required. The Bank currently uses the Basic Indicator Approach to assess the operational risk capital requirements and accordingly allocates 15% of average gross income for a three-year period in accordance with regulatory requirements. The operational risk regulatory capital requirement as at December 2019 amounted to €4,215,123 (2018: €2,885,830).

### 2.6 Capital requirements

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

CREDORAX BANK LIMITED  
Additional Regulatory Disclosures – 31 December 2019

2. **Capital risk management** (continued)

2.6 **Capital requirements** (continued)

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

	Exposure value €	Risk weighted assets €	Capital required €
<b>As at 31 December 2019</b>			
Central banks	52,800,482	4,784,553.45	382,764
Multilateral development banks	133,796	-	-
Institutions	33,231,422	10,800,592.40	864,047
Corporates	10,222,154	10,222,153.92	817,772
Equity	5,255,893	5,255,892.85	420,471
Other	1,031,575	1,030,613.44	82,449
Credit risk	102,675,322	32,093,806	2,567,503
Foreign exchange risk		3,787,910	303,033
Operational risk		52,689,041	4,215,123
<b>Total capital required</b>		<b>88,570,757</b>	<b>7,085,659</b>
<b>Total own funds</b>			
Common Equity Tier 1 capital			24,638,165
<b>Total own funds</b>			<b>24,638,165</b>
<b>Total capital ratio</b>			<b>27.8%</b>

As required by the CRR, the minimum level of the Capital Requirements Ratio stands at 8%. The Bank fully implemented the CRD IV capital requirements with effect from January 2019. In this respect, Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act, 1994', requires additional buffers, namely the 'capital conservation buffer', the 'countercyclical buffer', 'other systemically important institutions (O-SII) buffer' and the 'systemic risk buffer'. Automatic restrictions on capital distributions apply if the local group's CET1 capital falls below the level of its CRD IV combined buffer.

The Bank is 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 has been phased in over the period from 1 January 2016 to 31 December 2018, with full transitional application effective as from 1 January 2019.

CRD IV contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is set in the range of 0-2.5% of relevant credit exposure RWAs, whereby the rate consists of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located. Since the Bank's exposures are predominately to institutions in Malta, and to interbank exposures, the Bank is subject to a very low countercyclical buffer requirement of 0.17% arising from UK exposures as at 31 December 2019.

**2. Capital risk management (continued)****2.6 Capital requirements (continued)**

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

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

**2.7 Exposures to equities**

The Bank is exposed to market price risk arising from the uncertainty about the future market prices of the investment held by the Bank in the preference shares of Visa Inc. that are classified in the statement of financial position as financial assets at FVPL. The preference shares are convertible into ordinary shares of Visa Inc. they have no maturity and represent a residual interest in the issuer's net assets. Furthermore, in view of the absence of quoted market prices for such instruments, the fair value of the preference shares has been determined on the basis of an internal valuation model, which is dependent on a number of assumptions including the value of Visa Inc.'s ordinary shares, which have a quoted price.

The impact of a change in the fair value of such instruments resulting from a change in equity prices, is included in these financial statements as part of the sensitivity analyses that have been performed on the key assumptions used in the valuation of such instruments, within Note 2.6 'Fair value of financial assets and liabilities'.

**2.8 Use of External Credit Assessment Institutions**

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

## 2. Capital risk management (continued)

### 2.8 Use of External Credit Assessment Institutions (continued)

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

At 31 December 2019	Credit quality step	Central banks	Multilateral development banks	Institutions	Total
		€	€	€	€
AAA to AA-	1		133,796	19,166,665	19,300,461
A+ to A-	2	52,800,482		13,727,856	66,528,339
BBB+ to BBB-	3			336,900	336,900
<b>Total</b>		<b>52,800,482</b>	<b>133,796</b>	<b>33,231,422</b>	<b>86,165,700</b>

### 2.9 Internal Capital Adequacy Assessment Process (ICAAP)

The Bank's policy is to maintain a strong capital base so as to maintain investor and creditor 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 amount of internal capital allocated to the Bank's exposures differs from the regulatory capital allocation, as the regulatory requirements do not reflect the differing risk profile of the Bank. In this respect, the Bank allocates the majority of its capital against the risks resulting from chargebacks which merchants would not be able to fund in the ordinary course of business.

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

In addition, stress testing is employed to ascertain what the Bank's key sensitivities are, so as to ensure that the capital level is sufficient to withstand unlikely, but possible, stress scenarios.

The ICAAP as required by the MFSA Banking Rule 12, shall be submitted to the MFSA in April 2020.

## 3. Asset encumbrance

In the ordinary course of business, the Bank is required by card schemes to pledge an amount of funds in their favour to serve as collateral against the credit risk of the Bank. Thus, the Bank's encumbered assets as at 31 December 2019 amounted to €13,847,694 (median value during 2019 amounted to €6,709,667). However, during 2019 the Bank had term placements with other banks representing amounts pledged against a letter of credit issued in favour of card schemes that served as collateral against the credit risk of the Bank. None of the Bank's other assets are considered encumbered as at the end of the reporting period, except for €299,174 with the Central Bank of Malta which is pledged in favour of the Depositor Compensation Scheme. Furthermore, as at 31 December 2018, the Bank did not have any outstanding liabilities associated with encumbered assets.

### 3. Asset encumbrance (continued)

Accordingly, as at 31 December 2019, the Bank's pool of unencumbered assets that could be used to support potential future funding and collateral needs, amounted to €18,119,809 (median value during 2019 amounted to €21,354,427) of total assets. Of this amount, €12,730,120 (median value during 2019 amounted to €6,365,060) were assessed to be readily realisable.

Funds held in a fiduciary capacity amount to €59,155,878 (median value during 2019 amounted to €48,463,843) have been excluded from the balance of unencumbered assets above. This balance represents the surplus cash, which in the ordinary course of business arises since the incoming amounts from the card schemes precede when the funding to merchants falls due. This significantly mitigates the Bank's liquidity risk.

### 4. Remuneration policy

The achievement of the Bank's objectives is dependent on the quality and commitment of its employees. Accordingly, the Bank offers remuneration packages, composed of fixed and variable pay and selected benefits, aimed at attracting, retaining and motivating people with the requisite knowledge and experience. Remuneration packages reflect the extent of decision-making and risk management responsibilities assigned to respective individuals.

Taking into consideration the size of the Bank, the non-complex operations and the straightforward remuneration structure, the Board of Directors does not deem necessary the establishment of a Remuneration Committee for the Bank, although this will be reviewed on an annual basis. Consequently, the Board of Directors performs the functions of the Remuneration Committee for the Bank. The Board of the Bank determines the remuneration policy which is applicable to the Bank's employees as well as that applicable to Material Risk Takers ("MRTs"), that is, staff whose professional activities have a material impact on the Bank's risk profile and which are identified on the basis of quantitative and qualitative criteria set out in Commission Delegated Regulation 604/2014.

Currently, the Bank's MRTs are deemed to be represented by members of the Executive Committee, which includes all the respective function Heads and the Managing Director, the Head of Treasury and Head of Risk Operations as identified staff members heading material business units, and staff who are responsible for the internal control functions, including the Head of Compliance & MLRO, Enterprise Risk Manager and Internal Auditor.

On the other hand, the remuneration of the Board members, which are currently all non-executive directors except for one executive director, is determined by the Remuneration Committee of Credorax Inc. (the parent company).

The key features of the Bank's Remuneration Policy are:

- all the Bank's employees receive only fixed remuneration (with the exception of sales people) comprising the base salary and fixed pay allowances. 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,

#### 4. Remuneration policy (continued)

- the Bank's Sales Operations team members are entitled to cash-based variable pay which does not however exceed 100% of fixed remuneration. The variable element of their compensation is dependent on the achievement of pre-set targets in terms of the processing volumes and profitability (which includes any chargebacks and losses) of their merchant portfolio. Sales people introduce prospective merchants and partners to the Bank but have no approval authority during the onboarding stage. Once successfully onboarded, the merchants and partners introduced by a sales person will be included in the sales person's portfolio and performance as aforementioned will be monitored and rewarded when targets are met and exceeded. In this way, variable compensation paid in cash is intended to reward the accomplishment of targets and merchant quality, which are set in line with the Bank's goals and direction.
- where a staff member benefits from variable remuneration, the characteristics of their variable remuneration, as well as the process and criteria that will be used to assess the impact of their activities on the risk profile of the institution and their variable remuneration should be transparent to the staff member. In particular the appraisal process with regard to the individual's performance should be properly documented and should be transparent to the staff concerned.
- the fixed and variable remuneration of the MRTs do not exceed a total remuneration of EUR 500,000 or more, nor is it within the 0.3% of the number of staff who have been awarded the highest total remuneration.
- no performance-related compensation is awarded to directors or selected employees, with the exception of the Sales Operations team members which are entitled to cash based variable remuneration and share based compensation awarded to senior management and selected employees.
- Additionally, the Bank's non-executive directors are not eligible to receive performance incentives. The variable component of the remuneration is mainly rewarded through a share-based compensation plan established for the Group's employees by the Bank's parent company, Credorax Inc., whereby share options are granted to directors and selected employees in exchange for their services at the discretion of the Board. No consideration is payable on the grant of an option 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.
- Options may generally be exercised to the extent that they have vested. The options are subject to deferral and vest according to the relevant schedule generally within four years after the grant date and expire within ten years after the date of grant. The exercise price is determined by the Board of Directors of Credorax Inc. based on the fair value of shares at grant date. In this manner, variable compensation through share-based compensation does not exceed 100% of fixed remuneration and is structured in a manner that incentivises staff to pursue the goals and interests of the Bank, enabling them to share in its success while promoting sound risk management.
- It is the Bank's policy not to award severance pays unless this is required by law.

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.

The table on the following page sets out the fixed and variable remuneration of the Bank's MRTs during financial year 2019.

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#### 4. Remuneration policy (continued)

*Remuneration – fixed and variable amounts*

	2019	2018
	Senior Management	Senior Management
Weighted average number of MRTs	11	9
	€	€
<b>Fixed Pay</b>		
Cash-based remuneration	1,113,920	927,583
<b>Total fixed pay</b>	1,113,920	927,583
<b>Variable pay</b>		
Deferred share options		
- Vested	33,438	30,125
- Unvested	6,000	85,750
<b>Total variable pay</b>	39,438	115,875
<b>Total remuneration</b>	1,153,358	1,043,458

Total Non-Executive Directors' fees attributable for the financial year ended 31 December 2019 amounted to €79,000 (2018: €81,500), of which none (2018: €2,500) was variable. All the variable remuneration awarded during the year was deferred. Other directors who are employed within the Group are not paid any fees for their directorship.

#### 5. 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 in terms of capital as a proportion of total exposures. Capital is defined as Tier 1 capital in line with Article 25 of the CRR, whilst total exposure relates to the total on and off-balance sheet exposures less the deductions applied to Tier 1 capital.

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 abides by the minimum 3% Tier 1 leverage ratio, based on fully transitioned Basel III standards.

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

CREDORAX BANK LIMITED  
Additional Regulatory Disclosures – 31 December 2019

**5. Leverage (continued)**

	<b>2019</b> €
Tier 1 capital	24,638,165
Total exposure measure for the purposes of the leverage ratio	102,675,322
	102,675,322
<b>Leverage ratio</b>	<b>24.00%</b>

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

	<b>2019</b> €
<b>On-balance sheet exposures (excluding derivatives)</b>	
On-balance sheet items (excluding derivatives)	106,728,777
Asset amounts deducted in determining Tier 1 capital	(4,294,763)
	102,434,014
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>102,434,014</b>
<b>Derivative exposures</b>	
Derivatives exposures at gross notional amount	-
Adjustments for PFE associated with derivative transactions	241,308
	241,308
<b>Derivative exposures</b>	<b>241,308</b>

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

	<b>2019</b> €
Total assets as per published financial statements	106,728,777
Adjustments for derivative instruments	241,308
Other adjustments	
Deduction for intangible assets	(4,294,763)
	102,675,322
<b>Leverage ratio exposure</b>	<b>102,675,322</b>

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

## 5. Leverage (continued)

### Total on-balance sheet exposures (excluding derivatives and intangible assets), of which:

	<b>2019</b> <b>€</b>
Exposures treated as sovereigns	52,800,482
Multilateral development banks	133,796
Institutions	33,231,422
Corporates	9,980,845
Equity	5,255,893
Other exposures	1,031,575

The risk of excessive leverage is managed as part of the Bank's risk appetite framework and monitored using a leverage ratio metric within our Risk Appetite Statement. The Risk Appetite Statement articulates the type and level of risk that the Bank is willing to accept in its business activities in order to achieve its strategic business objectives. The Risk Appetite Statement is monitored via the risk dashboard, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk dashboard is monitored monthly and presented to the Risk Oversight Committee on a quarterly basis.

The Bank manages the risk of excessive leverage by ensuring a sound relationship between the size of the Tier 1 capital and the sum of the on-balance sheet and off-balance sheet exposures. It should however be noted that the leverage ratio of the Bank typically exceeds significantly the minimum regulatory threshold of 3% in view of the Bank's asset exposures.

## 6. Other directorships

According to the 'Guide to banking supervision' issued by the European Central Bank in November 2014, a credit institution is 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%.

Credorax Bank Limited 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.

## 6. Other directorships (continued)

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
Binyamin Nachman	Non-Executive Director	2
Frederick Ellul	Non-Executive Director	2
Nathan Shaked	Non-Executive Director	3
Igal Rotem	Executive Director	-
David Blumberg	Non-Executive Director	14
Tonio Fenech	Non-Executive Director	4
Anthony Depasquale	Non-Executive Director	9
Aviram Shemer	Non-Executive Director	-
Joshua Floum	Non-Executive Director	1 ( <i>resigned 23 April 2020</i> )

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

## 7. Recruitment and diversity policy

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

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

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 the acquiring and payment processing services, as well as risks that are intrinsic to banking business in general are appropriately managed and mitigated within the Board's approach. The Bank will continue to promote this diversity by recruiting the ideal individual for the vacant position, regardless of the individual's gender, race, family, disability, sexual orientation, identity or preference.

CREDORAX BANK LIMITED  
Additional Regulatory Disclosures – 31 December 2019

## 5 Year Summary

### Statements of financial position

	2019	2018	2017	2016	2015
	€	€	€	€	€
<b>ASSETS</b>					
Cash and balances with Central Bank of Malta	52,801,444	43,294,531	220,297	9,116,861	15,998
Funds receivable from card schemes	5,333,687	2,832,251	57,081,738	26,884,813	21,557,080
Loans and advances to banks	19,383,728	43,272,815	51,707,544	40,318,279	33,377,776
Loans and advances to customers	2,039,267	1,086,798	1,741,126	948,677	-
Financial investments	5,389,689	2,672,053	2,105,057	1,526,865	15,849,900
Funds advanced under collateral arrangements	13,847,694	6,452,100	12,241,683	14,417,960	11,868,612
Property, plant and equipment	198,968	234,973	258,644	335,445	408,263
Right-of-use assets	514,483	-	-	-	-
Intangible assets	4,294,763	2,841,604	2,480,834	626,737	590,816
Deferred taxation	-	-	1,511,751	1,962,685	1,911,605
Other assets	2,925,054	7,927,137	6,497,042	4,192,174	291,397
<b>Total assets</b>	<b>106,728,777</b>	<b>110,614,262</b>	<b>135,845,716</b>	<b>100,330,496</b>	<b>85,871,447</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	23,000,000	23,000,000	23,000,000	23,000,000	11,000,000
Share based compensation reserve	146,983	537,515	511,645	1,071,018	2,554,209
Fair value reserve	-	-	562,049	121,006	15,816,020
Retained earnings	10,932,928	10,699,810	3,612,866	3,680,577	(3,529,328)
<b>Total equity</b>	<b>34,079,911</b>	<b>34,237,325</b>	<b>27,686,560</b>	<b>27,872,601</b>	<b>25,840,901</b>
<b>Liabilities</b>					
Amounts owed to customers	10,639,696	5,193,145	5,419,538	5,081,156	1,757,242
Settlement processing obligations	58,696,443	64,771,701	99,800,882	64,919,015	55,719,739
Current taxation	-	2,785,029	-	-	-
Deferred taxation	241,112	464,238	-	-	-
Lease liabilities	452,276	-	-	-	-
Other liabilities	2,619,339	3,162,824	2,938,736	2,457,724	2,553,565
<b>Total liabilities</b>	<b>72,648,866</b>	<b>76,376,937</b>	<b>108,159,156</b>	<b>72,457,895</b>	<b>60,030,546</b>
<b>Total equity and liabilities</b>	<b>106,728,777</b>	<b>110,614,262</b>	<b>135,845,716</b>	<b>100,330,496</b>	<b>85,871,447</b>

CREDORAX BANK LIMITED  
Additional Regulatory Disclosures – 31 December 2019

## 5 Year Summary

### Statements of comprehensive income

	2019 €	2018 €	2017 €	2016 €	2015
<b>Interest Income</b>	746,342	359,288	303,736	83,846	11,641
Fee and commission income	88,653,599	88,808,591	67,189,044	50,025,012	44,053,068
Fee and commission expense	(64,410,496)	(67,899,851)	(55,263,381)	(41,093,220)	(32,717,077)
<b>Net fee and commission expense</b>	24,243,103	20,908,740	11,925,663	8,931,792	11,335,991
Net trading income	10,188,048	8,452,897	4,075,770	2,330,055	79,950
Net income from financial instruments measured	2,771,647	563,812	35,875	17,590	-
Gain on disposal of membership interest in Visa	-	-	-	19,248,515	-
<b>Operating income</b>	37,949,140	30,284,737	16,341,044	30,611,798	11,427,582
Employee compensation and benefits	(6,231,390)	(6,187,757)	(6,333,563)	(7,426,329)	(7,931,211)
General and administration expenses	(17,676,547)	(7,584,836)	(5,014,762)	(3,961,429)	(3,792,467)
Net impairment charges	-	-	(1,306,695)	247,870	(651,280)
Reversal of provision for future chargebacks	500,000	920,352	-	-	-
Changes in expected credit losses and other impairment	11,638	(1,258,171)	-	-	-
Depreciation and amortisation expense	(1,052,959)	(738,884)	(301,828)	(312,011)	(151,945)
<b>(Loss)/Profit before tax</b>	13,499,882	15,435,441	3,384,196	19,159,899	(1,099,321)
Income tax credit/(expense)	(266,764)	(4,813,865)	(451,907)	50,006	373,728
<b>(Loss)/Profit for the year</b>	13,233,118	10,621,576	2,932,289	19,209,905	(725,593)
<b>Other comprehensive income:</b>					
Items that are or may be subsequently reclassified to profit or loss					
Fair value gains on available-for-sale	-	-	441,043	3,553,501	15,816,020
Fair value gains reclassified to profit or loss on disposal	-	-	-	(19,248,515)	-
<b>Other comprehensive income for the year net of tax</b>	-	-	441,043	(15,695,014)	15,816,020
<b>Total comprehensive income for the year</b>	13,233,118	10,621,576	3,373,332	3,514,891	15,090,427

CREDORAX BANK LIMITED  
Additional Regulatory Disclosures – 31 December 2019

## 5 Year Summary

### Statements of cash flows

	2019	2018	2017	2016	2015
	€	€	€	€	
<b>Cash flows from operating activities</b>					
Net cash generated from operations	(13,021,102)	35,727,896	4,033,755	-558,533	2,035,337
Tax paid	(2,778,734)	(788)	(973)	(1,074)	(1,882)
<b>Net cash generated from operating activities</b>	<b>(15,799,836)</b>	<b>35,727,108</b>	<b>4,032,782</b>	<b>(559,607)</b>	<b>2,033,455</b>
<b>Cash flows from investing activities</b>					
Dividends received	52,970	32,020	35,875	17,590	-
Purchase of debt instruments	-	(126,771)	(88,100)	-	-
Proceeds from maturity of debt instruments	-	86,670	-	-	-
Investment in fixed term placement	-	(7,450,259)	-	-	-
Proceeds from maturity of fixed term placement	7,721,657	-	-	-	-
Purchase of equipment	(53,624)	(78,036)	(55,197)	(76,000)	(140,311)
Proceeds from disposal of equipment	3,960	-	1,300	-	-
Purchase of intangible assets	(86,232)	(962,163)	(1,433,959)	(199,113)	(318,993)
Cash consideration received from Visa Inc.	1,435,624	-	-	-	-
Disposal of membership interest in Visa Europe	-	-	-	16,858,497	-
<b>Net cash used in investing activities</b>	<b>9,074,355</b>	<b>(8,498,539)</b>	<b>(1,540,081)</b>	<b>16,600,974</b>	<b>(459,304)</b>
<b>Cash flows from financing activities</b>					
Repayments of lease liability	(245,757)	-	-	-	-
<b>Net cash from financing activities</b>	<b>(245,757)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net movement in cash and cash equivalents</b>	<b>(6,971,238)</b>	<b>27,228,569</b>	<b>2,492,701</b>	<b>16,041,367</b>	<b>1,574,151</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>79,156,410</b>	<b>51,927,841</b>	<b>49,435,140</b>	<b>33,393,773</b>	<b>31,819,622</b>
<b>Cash and cash equivalents at end of year</b>	<b>72,185,172</b>	<b>79,156,410</b>	<b>51,927,841</b>	<b>49,435,140</b>	<b>33,393,773</b>