

CREDORAX BANK LIMITED

Annual Report and Financial Statements
31 December 2021

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Directors' report

The directors present their annual report and the audited financial statements of Credorax Bank Limited now trading as Finaro (the "Bank") for the year ended 31 December 2021.

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) and MasterCard. 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

During the year ended 31 December 2021, the Bank exceeded processing volumes by €2.2 billion to €8.9 billion (2020: €6.7 billion) and generated revenues of €153 million (2020: €105 million). The Bank's operating income has increased by €7 million to €59 million (2020: €52 million), despite the prior year's €5 million extraordinary gain of that was realised as a result of an outright sale of shares held in Visa Inc. Other operating expenses increased by €2.8 million and amounted to €54.4 million (2020: €51.6 million). Against this setting, the Bank registered a profit after tax of €4.4 million (2020: €0.7 million).

During 2021, the Bank has continued with its deposit-taking activities from depositors other than its acquiring merchant base, through deposit-raising marketplaces. The Bank's deposits as at the end of December 2021 were very similar to the 2020 levels, as matured term deposits during the year have been replaced by new ones. Likewise, the Bank's loans and investments are also not very far away from the 2020 numbers. The persistent low to negative interest rates continued to set considerable pressure on interest margins.

Total net assets stood at €39 million (2020: €35 million). The resilient performance by the Bank and its financial position are considered satisfactory and the directors expect that the Bank will continue to improve its position in the future.

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.

	2021	2020	YOY
	€'000	€'000	
Processing Values	8,864,640	6,720,640	32%
Revenues	152,559	105,771	44%
Operating profits	59,015	51,926	14%
EBITDA	6,613	2,139	209%
Shareholders' Equity	39,281	34,950	12%
Total Assets	190,577	163,486	17%
CET 1 Capital Ratio	24.57%	24.45%	0.12%

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

Directors' report (continued)

Principal 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.

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 the year, the Bank did not declare any dividend. The directors do not recommend the payment of a final dividend.

The directors propose that the balance of retained earnings amounting to €16,027,874 (2020: €11,621,092) be carried forward to the next financial year.

Directors' report (continued)

COVID-19 trading update

Since the onset of the Covid-19 pandemic at the beginning of 2020, consumers across the world have become increasingly reliant on eCommerce. Combined with widespread restrictions of social distancing and lockdowns and quarantines, the pandemic has accelerated the adoption of eCommerce virtually overnight by consumers turning to contactless shopping often out of necessity, and businesses rapidly shifting their activities online to keep operating. The turn to eCommerce has also led to a surge in digital and cashless payments creating significant opportunities for business models powered by emerging technology.

In this context, well-positioned to capitalize on opportunities arising from the unprecedented conditions of this pandemic, the Bank has emerged stronger than it entered it, with 2020 and 2021 being two exceptionally strong years for the Bank, as processing volumes grew by 38% and 32% year-on-year respectively. This growth was primarily driven by the strength of the Bank's business model which is predominantly focused on eCommerce (card-not-present) transactions and its merchant base diversification. In 2021, the Bank was able to secure a number of new strategic merchants, which also contributed to a significant growth in almost all its verticals. Considerable growth was registered in verticals such as online retail and service providers, gambling and online content operators – verticals which have all benefitted from the overall shift to online spending and digital consumption. The embrace of e-commerce will also be long lasting in the new verticals that the Bank is also focusing on, including online food delivery which has been on the rise worldwide. Additionally, the Bank has also witnessed the ramping up of processing in the travel vertical during 2021 - a vertical which during 2022 is expected to grow even stronger than before the pandemic as travellers continue benefiting from the protection offered by vaccines and boosters, which is leading governments across the world to loosen coronavirus restrictions and shifting their approach to accepting Covid-19 as a manageable part of everyday life.

Although it might be premature to state that the pandemic is over, at the date of writing, it looks as if the worst of the pandemic phase of Covid-19 is ending for most countries, unless a significant and severe new variant emerges. While this may lead to some uncertainties in the shorter term, on the basis of the Bank's performance during these challenging two years, its resilient business model, consistent track record, and its strong balance sheet and liquidity position, the Board of Directors remains confident in the Bank's foreseeable future and its ability to continue weathering the current pandemic and provide best service to its merchants, whilst also benefiting from future opportunities that this pandemic will leave in the future.

Acquisition by Shift 4 Payments Inc.

On 1 March 2022, the Bank's parent, Credorax Inc. announced its acquisition by Shift4 Payments Inc. an American payment processing company publicly listed on the New York Stock Exchange. Joining forces with Shift4 Payments Inc. allows both companies to expand their services and provide global merchants a complete offering and a multi-dimensional processing experience unlike any other. The acquisition is expected to close in the fourth quarter of 2022.

Russian military invasion of Ukraine

In the context of the conflict between Russia and Ukraine which officially started on 24 February 2022, the Bank confirms that it has limited direct exposure to the region. As such, the Board of Directors deems that the impact of this conflict on the Bank's core business lines is minimal. Nevertheless, due to the high level of uncertainty and the potentially devastating impact from the progression of these events, the Bank will continue to monitor the situation closely.

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

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 2020	31 December 2021	27 April 2022
FTV IV, LP	25.92%	25.63%	25.63%
Blumberg Capital II, L.P.	11.81%	11.68%	11.67%
Israeli VC Partners, LP	8.08%	7.99%	7.99%
Blumberg Capital Opportunity Fund (CR), L.P.	7.75%	7.67%	7.67%

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 2021 are included in the Annual Report 2021, 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.

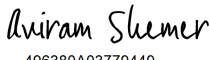
On behalf of the board

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Igal Rotem
Director

80, Palazzo Homedes
Strait Street
Valletta
VLT 1436

27 April 2022

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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

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of Credorax Bank Limited (the Bank) as at 31 December 2021, and of the bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386) and the Maltese Banking Act (Cap. 371).

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

What we have audited

Credorax Bank Limited's financial statements, set out on pages 16 to 69, comprise:

- the statement of financial position as at 31 December 2021;
- the income statement for the year then ended;
- the statement of other 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 significant accounting policies and other explanatory information.

Basis for opinion

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

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



Independent auditor's report - continued

To the Shareholders of Credorax Bank Limited

Independence

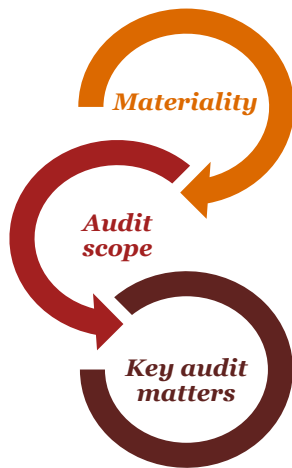
We are independent of the bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession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

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 2021 to 31 December 2021, are disclosed in note 33 to the financial statements.

Our audit approach

Overview



Overall materiality: €1.3 million, which represents approximately 3% of net fee and commission income.

Fee and commission income and settlement processing obligations.



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.

<i>Overall materiality</i>	€1.3 million
<i>How we determined it</i>	Approximately 3% of net fee and commission income
<i>Rationale for the materiality benchmark applied</i>	We chose net fee and commission income 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 3% based on our professional judgement noting that it is also within the range of commonly accepted profit and loss related thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €66k 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>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 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> <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>



Independent auditor's report - continued

To the Shareholders of Credorax Bank Limited

Key audit matter	How our audit addressed the Key audit matter
<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: Accounting policy: Note 1.16; Note on fee and commission income: Note 26; and Note on settlement processing obligations: Note 20.</p>	<p>We agreed funds that are expected to be recovered from card schemes as at 31 December 2021 to receipts after year-end, loans and advances to banks attributable to merchants, and 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>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>



Independent auditor's report - continued

To the Shareholders of Credorax Bank Limited

Other information

The directors are responsible for the other information. The other information comprises the directors' report and the additional regulatory disclosures (but does not include the financial statements and our auditor's report thereon).

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

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

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

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

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

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

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, actions taken to eliminate threats or safeguards applied.



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

The *Annual Report and Financial Statements 2021* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

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

Area of the Annual Report and Financial Statements 2021 and the related Directors' responsibilities	Our responsibilities	Our reporting
<p>Directors' report (on pages 1 to 5)</p> <p>The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.</p>	<p>We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.</p> <p>We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements.</p> <p>In addition, we are required to state whether, in the light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.</p>	<p>In our opinion:</p> <ul style="list-style-type: none"> 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). <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p>



Independent auditor's report - continued

To the Shareholders of Credorax Bank Limited

Area of the Annual Report and Financial Statements 2021 and the related Directors' responsibilities	Our responsibilities	Our reporting
	<p>Other matters prescribed by the Maltese Banking Act (Cap. 371)</p> <p>In terms of the requirements of the Maltese Banking Act (Cap. 371), we are also required to report whether:</p> <ul style="list-style-type: none"> • we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; • proper books of account have been kept by the bank, so far as appears from our examination of those books; • the bank's financial statements are in agreement with the books of account; • in our opinion, and to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law which may from time to time be in force in the manner so required. 	<p>In our opinion:</p> <ul style="list-style-type: none"> • 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.
	<p>Other matters on which we are required to report by exception</p> <p>We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion, adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.</p>	<p>We have nothing to report to you in respect of these responsibilities.</p>



Independent auditor's report - continued

To the Shareholders of Credorax Bank Limited

Other matter – use of this report

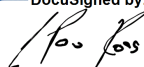
Our report, including the opinions, has been prepared for and only for the Bank's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any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

Appointment

We were first appointed as auditors of the Bank on 12 February 2010 for the year ended 31 December 2009. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 13 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
Zone 5, Central Business District
Qormi
Malta

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Lucienne Pace Ross
Partner

27 April 2022

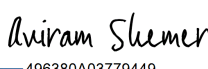
Statement of financial position

	Notes	As at 31 December	
		2021	2020
		€	€
ASSETS			
Cash and balances with Central Bank of Malta	4	71,522,603	64,798,955
Funds receivable from merchants	5	1,797,922	4,051,803
Loans and advances to banks and financial institutions	6	43,917,276	33,004,409
Loans and advances to customers	7	4,635,676	8,477,219
Financial investments	8	29,502,410	23,803,896
Funds advanced under collateral arrangements	9	27,190,859	19,139,601
Property and equipment	10	238,038	242,876
Right-of-use assets	11	150,020	356,135
Intangible assets	12	2,530,088	4,183,873
Other assets	13	9,092,201	5,427,121
Total assets		190,577,093	163,485,888
EQUITY			
Share capital	14	23,000,000	23,000,000
Fair value reserve	15	(141,469)	242,265
Share based compensation reserve	16	394,913	87,119
Retained earnings		16,027,874	11,621,092
Total equity		39,281,318	34,950,476
LIABILITIES			
Amounts owed to customers	19	60,633,781	60,862,158
Settlement processing obligations	20	82,171,676	62,672,609
Deferred taxation	21	6,071	58,376
Lease liabilities	22	77,784	292,041
Other liabilities	23	8,406,463	4,650,228
Total liabilities		151,295,775	128,535,412
Total equity and liabilities		190,577,093	163,485,888

The notes on pages 21 to 69 are an integral part of these financial statements. The financial statements on pages 16 to 69 were authorised for issue by the board on 27 April 2022 and were signed on its behalf by:

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 Igal Rotem
 Director

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 Aviram Shemer
 Director

Income statement

	Notes	Year ended 31 December	
		2021	2020
		€	€
Interest and similar income	24	939,928	780,529
Interest expense	25	(1,006,859)	(687,854)
Net interest (expense)/income		(66,931)	92,675
Fee and commission income	26	151,618,617	104,990,717
Fee and commission expense	27	(107,512,727)	(71,838,610)
Net fee and commission income		44,105,890	33,152,107
Other income	28	1,269,075	-
Net trading income	29	12,843,839	13,543,801
Net income from financial instruments mandatorily measured at FVPL	30	672,281	5,137,131
Gain of disposal of financial instrument measured at FVOCI	31	190,841	-
Operating income		59,014,995	51,925,714
Employee compensation and benefits	32	(7,911,089)	(6,723,127)
General and administration expenses	33	(44,341,848)	(42,817,580)
Changes in expected credit losses and other impairment allowances	34	(149,059)	(246,095)
Depreciation and amortisation expense		(2,007,440)	(1,881,432)
Profit before income tax		4,605,559	257,480
Tax (expense)/income	35	(198,777)	430,684
Profit for the year		4,406,782	688,164

The notes on pages 21 to 69 are an integral part of these financial statements.

Statement of other comprehensive income

Profit for the year	4,406,782	688,164
Other comprehensive income for the period		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Financial assets measured at fair value through other comprehensive income:		
Net changes in fair value arising during the year, before tax	(594,771)	255,016
Reclassification to profit or loss upon sale of investment	31 190,841	-
Income tax relating to components of other comprehensive income	20,196	(12,751)
Other comprehensive income for the year net of tax	(383,734)	242,265
Total comprehensive income for the period	4,023,048	930,429

The notes on pages 21 to 69 are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital €	Share based compensation reserve €	Fair value reserve €	Retained earnings €	Total €
Balance at 1 January 2020		23,000,000	146,983	-	10,932,928	34,079,911
Comprehensive income						
Profit for the year		-	-	-	688,164	688,164
Other comprehensive income:						
Financial assets measured at FVOCI:						
- fair value gains, net of tax		-	-	242,265	-	242,265
Total comprehensive income		-	-	242,265	688,164	930,429
Transactions with owners						
Share based compensation value attributable to:	17					
- employees' services	32	-	51,142	-	-	51,142
Recharge of value of employee services determined by reference to vested share options granted by the parent entity	16	-	(111,006)	-	-	(111,006)
Total transactions with owners		-	(59,864)	-	-	(59,864)
Balance at 31 December 2020		23,000,000	87,119	242,265	11,621,092	34,950,476
Balance at 1 January 2021		23,000,000	87,119	242,265	11,621,092	34,950,476
Comprehensive income						
Profit for the year		-	-	-	4,406,782	4,406,782
Other comprehensive income:						
Financial assets measured at FVOCI:						
- fair value losses, net of tax		-	-	(574,575)	-	(574,575)
Reclassification to profit or loss upon sale of investment		-	-	190,841	-	190,841
Total comprehensive income		-	-	(383,734)	4,406,782	4,023,048
Transactions with owners						
Share based compensation value attributable to:	17					
- employees' services	32	-	478,806	-	-	478,806
Recharge of value of employee services determined by reference to vested share options granted by the parent entity	16	-	(171,012)	-	-	(171,012)
Total transactions with owners		-	307,794	-	-	307,794
Balance at 31 December 2021		23,000,000	394,913	(141,469)	16,027,874	39,281,318

The notes on pages 21 to 69 are an integral part of these financial statements.

Statement of cash flows

	Year ended 31 December	
	2021	2020
	€	€
Cash flows from operating activities		
Interest received	939,545	699,186
Interest paid	(877,667)	(619,740)
Fees and commission received	165,483,380	120,638,214
Fees and commission paid	(106,621,097)	(72,015,760)
Payments to employees and suppliers	(12,446,085)	(12,148,134)
Cash flows from operating activities before changes in operating assets and liabilities	46,478,076	36,553,766
(Increase)/decrease in operating assets:		
Loans and advance to customers	3,860,865	(6,691,967)
Funds advanced under collateral arrangements	(7,503,402)	(6,156,624)
Funds receivable from merchants	2,032,275	1,281,884
Other assets:		
Advances to group undertakings	(45,772,755)	(41,491,485)
Repayments from group undertakings	2,416,016	621,502
Other advances	105,108	330,437
Increase/(decrease) in operating liabilities:		
Amounts owed to customers	(515,005)	50,341,960
Settlement processing obligations	20,160,280	5,616,258
Other liabilities	2,112,462	(1,276,635)
Net cash generated from operating activities	23,373,920	39,129,096
Cash flows used in investing activities		
Dividends received	24,625	61,541
Purchase of debt instruments	(15,953,770)	(20,462,700)
Proceeds from sale of debt instruments	10,677,178	136,649
Proceeds from the sale of USD Visa Inc. Class A Common Stock	-	7,338,004
Purchase of equipment	(80,103)	(129,520)
Proceeds from disposal of equipment	4,970	-
Purchase of intangible assets	(176,017)	(228,483)
Net cash used in investing activities	(5,503,117)	(13,284,509)
Cash flows used in financing activities		
Principal element of lease liability	(234,288)	(226,395)
Net cash used in financing activities	(234,288)	(226,395)
Net movement in cash and cash equivalents	17,636,515	25,618,192
Cash and cash equivalents at beginning of the year	97,803,364	72,185,172
Cash and cash equivalents at end of the year (Note 36)	115,439,879	97,803,364

The notes on pages 21 to 69 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 derivative instruments and investments measured at fair value through profit or loss or through other comprehensive income.

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

1.1.1 Standards, interpretations and amendments to published standards effective in 2021

In 2021, the Bank adopted, amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2021. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

Specifically, in respect of the 'Interest Rate Benchmark Reform – Phase 2', the Bank did not have any assets or liabilities that reference Libor or the EONIA benchmark rates. As a result, the amendments to the standards in this respect had no impact on the Bank.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for accounting period beginning after 1 January 2021. The Bank has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Bank's directors are of the opinion that there are no requirements that will have a possible significant impact on the Bank's financial statements in the period of initial application.

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. Summary of significant accounting policies (continued)

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; (b) fair value through profit or loss (FVPL); or (c) fair value through other comprehensive income (FVOCI). The classification varies depending on whether the financial asset is a debt or an equity instrument, taking into account the business model for managing the financial assets and the contractual terms of the cash flows.

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 one of the following two measurement categories.

Amortised cost: 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 Note 1.3.3. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'gains and losses on disposal of financial assets measured at amortised cost'.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income (FVOCI).

1. Summary of significant accounting policies (continued)

1.3 Financial assets (continued)

1.3.2 Classification and measurement (continued)

Debt instruments (continued)

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are all recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gain or loss on disposal of financial assets measured at fair value through other comprehensive income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Impairment gains or losses are presented separately in profit or loss.

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.

Dividends from such investments continue to be recognised in profit or loss when the Bank's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in 'Net income from financial instruments mandatorily measured at FVPL' in the income statement.

1. Summary of significant accounting policies (continued)

1.3 Financial assets (continued)

1.3.3 Impairment of amortised cost and FVOCI financial assets

The Bank recognises loss allowances for ECL on financial assets measured at amortised cost, debt instruments measured at FVOCI 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 (SICR)

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 that are 'not rated', are considered by the Bank to be financial assets 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. This includes funds receivable from merchants, which in substance represent funds receivable from card schemes, which attract strong credit ratings.

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)

In respect of loans and advances to customers, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The Bank typically considers that a loan or advance to a customer has experienced a significant increase in credit risk when one or more of the following criteria have been met:

- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans.

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

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 terminated 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.

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

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.

Receivables from merchants, from group undertakings (within 'Other assets') and loans and advances to customers 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.

For loans and advances to customers with a contractual and/or expected life that is beyond 12 months, a Lifetime PD is developed by determining marginal PDs and reflecting such PDs within the maturity profile of the financial instrument using the 12M PD referred to above as the starting point. This is relevant for loans and advances to customers within the Stage 2 category, i.e. those that would have experienced an SICR event.

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.

1. Summary of significant accounting policies (continued)

1.3 Financial assets (continued)

1.3.3 Impairment of amortised cost financial assets (continued)

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.

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.

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.

1. Summary of significant accounting policies (continued)

1.5 Intangible assets (continued)

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.

At the end of each reporting period, intangible assets are reviewed for indicators of impairment or changes in estimated future economic benefits (see Note 1.8). 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:

	%
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. Summary of significant accounting policies (continued)

1.7 Leases

The Bank is the lessee

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

Lease liabilities arising from such contracts are measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the entity, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security, and conditions.

Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- any variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- any amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs where applicable.

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. Summary of significant accounting policies (continued)

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.

1.9 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.

Since the outbreak of the COVID-19 pandemic, ecommerce worldwide has accelerated and as a consequence ensued a surge in digital payments. 2021 has been another record year for the Bank in terms of processing volumes and revenues, and no financial losses were suffered due to for example the default of merchants.

This outcome is expected to continue over the foreseeable future and accordingly, other than for merchants operating in the travel sector, the Bank saw and continues to see considerable growth opportunities which far exceed the risks presented by the pandemic.

In the meantime, the Bank has continued to support the merchants experiencing challenges, particularly those operating within the travel sector, by for example facilitating refunds to customers to ensure that the burden to chargeback costs on these merchants are kept to a minimum.

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. Financial risk management

2.2 Credit risk (continued)

2.2.1 Introduction (continued)

2.2.2 Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk 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	2021 €	2020 €
Balances with Central Bank of Malta	71,525,922	64,798,790
Funds receivable from merchants	2,019,528	4,154,352
Loans and advances to banks and financial institutions	43,918,815	33,004,655
Loans and advances to customers	4,840,292	8,645,848
Financial investments at amortised cost	11,188,513	10,155,853
Financial investments at FVOCI	14,788,780	10,705,000
Funds advanced under collateral arrangements	27,204,404	19,147,821
Other assets	-	4,772,660
Gross carrying amount	175,486,254	155,384,979
Allowances for expected credit losses	(562,234)	(426,653)
Carrying amount on-balance sheet	174,924,020	154,958,326

Funds receivable from merchants include an amount of €221,606 (2020: €102,549), 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 2021, the Bank retained €3,611,569 (2020: €2,719,947) in merchant funds in its possession.

2. Financial risk management (continued)

2.2 Credit risk (continued)

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.

In the prior year credit risk also arose from amounts owed by group undertakings (within "other assets"), which were unsecured, interest free and had no fixed date or repayment. When the Bank has receivables from group undertakings, management evaluates such related party relationships and credit arrangements and forms a view on the risk of expected losses from non-performance or default. As at 31 December 2021, the Bank does not have any receivables from group undertakings, as these have been netted off with amounts owed to group undertakings pursuant to an assignment agreement that has been entered into by Credorax Inc. and all of its subsidiaries. The Bank has however effected prepayments to group undertakings in relation to Technical and Support services, which are subject to performance risk.

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. As at 31 December 2021, the Bank held €1,871,856 (2020: €4,097,132) in receivables from 204 active merchants (2020: 137) related to prefunded amounts.

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 2021, receivables amounting to €147,672 (2020: €57,220) from 108 merchants (2020: 94 merchants) related to chargeback transactions in excess of collateral held.

In addition, the Bank extends loans and advances to merchants seeking funding to meet certain liquidity requirements. In this respect, the Bank deems that it is exposed to a degree of concentration risk, since these amounts are due from a limited amount of customers, all of which are considered large exposures for regulatory reporting purposes, in accordance with the requirements of Part Four of the Capital Requirements Regulations (CRR), Large Exposures.

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, as well as the fair value of debt instruments measured at FVOCI and the associated allowance for ECL.

Financial Assets	Stage Classification	31 Dec 2021		At 31 Dec 2020	
		Gross carrying/ nominal amount €	Allowance for ECL €	Gross carrying/ nominal amount €	Allowance for ECL €
Balances with Central Bank of Malta	Stage 1	71,525,922	(3,957)	64,798,790	-
Funds receivable from merchants	Stage 1	1,871,856	(73,934)	4,097,132	(45,329)
Funds receivable from merchants	POCI	147,672	(147,672)	57,220	(57,220)
Loans and advances to banks and financial institutions	Stage 1	43,918,815	(1,539)	33,004,655	(246)
Loans and advances to customers	Stage 1	4,840,292	(204,616)	4,645,848	(90,613)
	Stage 2	-	-	4,000,000	(78,016)
Financial investments at amortised cost	Stage 1	11,188,513	(116,971)	10,155,853	(52,013)
Funds advanced under collateral	Stage 1	27,204,404	(13,545)	19,147,821	(8,220)
Other assets	Stage 1	-	-	4,772,660	(94,996)
Total carrying amount on-balance sheet		160,697,474	(562,234)	144,679,979	(426,653)
	Stage Classification	Fair value €	Allowance for ECL €	Fair value €	Allowance for ECL €
Financial investments at FVOCI	Stage 1	14,788,780	-	10,705,000	(1,445)

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

- Stage 1: unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised;
- Stage 2: a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised;
- POCI: purchased or originated as credit impaired on which a lifetime ECL is recognised.

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. Receivables from merchants that would have been terminated by the Bank are classified immediately as credit-impaired as the amount is automatically 'past due'. As at 31 December 2021, receivables amounting to €147,672 (2020: €57,220), related to chargeback transactions in excess of collateral held, pertaining to 108 terminated merchants (2020: 94) and considered to be credit impaired. Accordingly, these were provided for in full.

As at 31 December 2021, the Bank also held €1,871,856 (2020: €4,097,132) in other receivables related to prefunded amounts from 204 active merchants (2020: 137), for which the Bank expects full recoverability. Accordingly, these were classified in stage 1 and an ECL allowance of €73,934 (2020: €45,329) was provided for.

In determining Expected Credit Loss allowances, the Bank does not consider the effect that any collateral or other credit enhancements may have on recoveries.

Further to the above Expected Credit Loss allowance, the Bank typically 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'. As at 31 December 2021 and 2020 there were no such provisions.

2. Financial risk management (continued)

2.2 Credit risk (continued)

2.2.4 Allowances for expected credit losses (continued)

The following tables provide a reconciliation by stage, of the Bank's financial instruments' gross carrying/nominal amounts or fair values and the respective loss allowances, for financial instruments subject to the impairment requirements in terms of IFRS 9.

	Non-credit impaired Stage 1		Stage 2		Credit impaired POCI		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	€	€	€	€	€	€	€	€
Financial assets at amortised cost								
At 31 December 2020	140,622,759	(291,417)	4,000,000	(78,016)	57,220	(57,220)	144,679,979	(426,653)
Net movements	15,927,043	(45,129)	-	-	105,375	(105,375)	16,032,418	(150,504)
Transfers from Stage 2 to Stage 1	4,000,000	(78,016)	(4,000,000)	78,016	-	-	-	-
Assets written off	-	-	-	-	(14,923)	14,923	(14,923)	14,923
	19,927,043	(123,145)	(4,000,000)	78,016	90,452	(90,452)	16,017,495	(135,581)
At 31 December 2021	160,549,802	(414,562)	-	-	147,672	(147,672)	160,697,474	(562,234)
Financial assets at FVOCI								
	Stage 1		Stage 2		Stage 3		Total	
	Fair value	Allowance for ECL	Fair value	Allowance for ECL	Fair value	Allowance for ECL	Fair value	Allowance for ECL
	€	€	€	€	€	€	€	€
At 31 December 2020	10,705,000	(1,445)	-	-	-	-	10,705,000	(1,445)
Net movements	4,083,780	1,445	-	-	-	-	4,083,780	1,445
At 31 December 2021	14,788,780	-	-	-	-	-	14,788,780	-
ECL charge								134,136
Assets written off								14,923
Total change in ECL for the period								149,059

2. Financial risk management (continued)

2.2 Credit risk (continued)

2.2.4 Allowances for expected credit losses (continued)

	Non-credit impaired Stage 1		Stage 2		Credit impaired POCI		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	€	€	€	€	€	€	€	€
Financial assets at amortised cost								
At 31 December 2019	96,253,788	(107,241)	-	-	345,373	(345,373)	96,599,161	(452,614)
Net movements	48,368,971	(262,192)	-	-	(17,542)	17,542	48,351,429	(244,650)
Transfers from Stage 1 to Stage 2	(4,000,000)	78,016	4,000,000	(78,016)	-	-	-	-
Assets written off	-	-	-	-	(270,611)	270,611	(270,611)	270,611
	44,368,971	(184,176)	4,000,000	(78,016)	(288,153)	288,153	48,080,818	25,961
At 31 December 2020	140,622,759	(291,417)	4,000,000	(78,016)	57,220	(57,220)	144,679,979	(426,653)
Financial assets at FVOCI								
	Stage 1		Stage 2		Stage 3		Total	
	Fair value	Allowance for ECL	Fair value	Allowance for ECL	Fair value	Allowance for ECL	Fair value	Allowance for ECL
	€	€	€	€	€	€	€	€
At 31 December 2019	-	-	-	-	-	-	-	-
Net movements	10,705,000	(1,445)	-	-	-	-	10,705,000	(1,445)
At 31 December 2020	10,705,000	(1,445)	-	-	-	-	10,705,000	(1,445)
ECL charge								(24,516)
Assets written off								270,611
Total change in ECL for the period								246,095

Balances within 'Transfers from Stage 2 to Stage 1' represent the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL of the financial instruments, including those that were originated during the year. There is no re-measurement of ECL resulting from the stage transfer due to the short-term nature of the exposure. During the preceding financial year, the Bank has experienced a transfer of financial assets between 'Stage 1 to Stage 2'.

In the context of the nature of the exposure of the Bank's financial assets and the insignificance of the resultant ECLs, movements in ECL resulting from changes in risk parameters, such as changes in PDs and LGDs, are not significant and are accordingly not disclosed separately. They are included in the table above within 'Net movements'.

In addition, during the year there were no instances where contractual terms of loan were modified, due for example a customer's financial difficulties. As a result, as at 31 December 2021 the Bank had no renegotiated or forbore loans and advances to customers.

2. Financial risk management (continued)

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.

(a) Interest rate risk

The Bank's placements with the Central Bank of Malta amounting to €71,521,965 (2020: €64,798,790), balances with other banks and financial institutions repayable on call and at short notice amounting to €22,402,623 (2020: €25,951,051), loans and advances to customers of €4,635,676 (2020: €8,477,219), funds advanced under collateral arrangements amounting to €27,190,859 (2020: €19,139,601), and debt instruments amounting to €25,860,322 (2020: €20,808,840), are the Bank's interest-bearing financial assets. The Bank's exposure to interest rate risk arising from its financial assets is not deemed to be significant given that the majority of these assets are either re-priced to current market rates frequently or are short-term in nature.

Meanwhile, 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, and since they are measured at amortised cost, they also do not expose the Bank to fair value interest rate risk.

In the context of the Bank's acquiring operation the Bank's exposure to interest rate risk is deemed by the directors to be insignificant. 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 spot or forward foreign exchange contracts with terms which match those of the hedged items.

Specifically, for its USD exposures, the Bank enters into one-month foreign exchange forward contracts with Credorax Inc. at market rates to hedge its USD open position. The notional amounts of the outstanding foreign exchange contract as well as the values of any unsettled spot transactions at the end of the reporting period are included within the tables below, which disclose the Bank's net open foreign exchange position by currency.

2. Financial risk management (continued)

2.3 Market risk (continued)

(b) Currency risk (continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2021 and 2020. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

As at 31 December 2021	Total €	EUR €	USD €	GBP €	Other €
Financial assets					
Cash and balances with Central Bank of Malta	71,522,603	40,980,896	25,781,388	4,760,319	-
Funds receivable from merchants	1,797,922	857,544	259,652	284,239	396,487
Loans and advances to banks and financial institutions	43,917,276	9,655,381	20,065,201	4,993,753	9,202,941
Loans and advances to customers	4,635,676	4,387,640	248,036	-	-
Financial investments	29,502,410	25,860,322	3,642,088	-	-
Funds advanced under collateral arrangements	27,190,859	18,179,852	9,011,007	-	-
Other assets	-	-	-	-	-
Total financial assets	178,566,746	99,921,635	59,007,372	10,038,311	9,599,428
Financial liabilities					
Amounts owed to customers	60,633,781	58,087,159	1,813,586	733,036	-
Settlement processing obligations	82,171,676	31,953,548	32,217,378	9,016,695	8,984,055
Lease liabilities	77,784	77,784	-	-	-
Other liabilities	8,406,463	5,955,811	2,450,652	-	-
Total financial liabilities	151,289,704	96,074,302	36,481,616	9,749,731	8,984,055
Net on balance sheet financial position		3,847,333	22,525,756	288,580	615,373
Notional amounts of derivative instruments			(23,856,977)	-	-
Net open position			(1,331,221)	288,580	615,373

2. Financial risk management (continued)

2.3 Market risk (continued)

(b) Currency risk (continued)

As at 31 December 2020	Total €	EUR €	USD €	GBP €	Other €
Financial assets					
Cash and balances with Central Bank of Malta	64,798,955	36,564,252	19,558,308	6,117,705	2,558,690
Funds receivable from merchants	4,051,803	686,201	757,399	1,071,675	1,536,528
Loans and advances to banks and financial institutions	33,004,409	11,139,498	9,780,196	2,836,842	9,247,874
Loans and advances to customers	8,477,219	7,353,720	1,123,499	-	-
Financial investments	23,803,896	20,808,840	2,995,056	-	-
Funds advanced under collateral arrangements	19,139,601	13,135,669	6,003,932	-	-
Other assets	4,677,665	-	4,677,665	-	-
Total financial assets	157,953,548	89,688,180	44,896,055	10,026,222	13,343,092
Financial liabilities					
Amounts owed to customers	60,862,158	58,219,128	2,209,789	433,241	-
Settlement processing obligations	62,672,609	25,692,775	18,179,492	8,937,914	9,862,428
Current tax	-	-	-	-	-
Lease liabilities	292,041	292,041	-	-	-
Other liabilities	4,650,228	4,650,228	-	-	-
Total financial liabilities	128,477,036	88,854,172	20,389,281	9,371,155	9,862,428
Net on balance sheet financial position		834,008	24,506,774	655,067	3,480,664
Notional amounts of derivative instruments			(26,077,744)	-	-
Net open position			(1,570,970)	655,067	3,480,664

Under the scenario that the euro appreciates against the USD from 1.1326 to 1.3326 (2020: from 1.2271 to 1.4271) and against the GBP from 0.8403 to 1.000 (2020: 0.8990 to 1.000) the impact recognised in profit or loss would amount to a pre-tax loss of €153,701 (2020: €154,001). If on the other hand, the euro depreciates against the USD to 1.0000 (2020: 1.0000) and against the GBP to 0.7403 (2020: 0.7990) the impact recognised in profit or loss would amount to a loss before tax of €137,537 (2020: €274,782).

(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. In this respect, a sensitivity analysis disclosing the potential impact of changes to the assumptions within the Bank's valuation model is provided within *Note 2.6 Fair values of financial assets and liabilities*.

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 19, 20 and 23). 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 generally 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 its liabilities in respect of settlement processing obligations after the cash is collected from the card schemes. The Bank manages in a very active manner the relationship between the funds held with other institutions (an amount of which are segregate and deemed to be attributable to merchants) and its settlement processing obligations such that funds held with other institutions immediately available for use are always in excess of the Bank's settlement processing obligations. 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 ca. 68.5% (2020: 60%) maturing in over one year from the end of the reporting period.

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.

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 2021	Total €	Within 3 months €	Between 3 months and one year €	Between one year and 3 years €	More than 3 years €	No maturity date €
Financial assets						
Cash and balances with Central Bank of Malta	71,522,603	71,018,422	-	-	-	504,181
Funds receivable from merchants	1,797,922	1,797,922	-	-	-	-
Loans and advances to banks and financial institutions	43,917,276	43,917,276	-	-	-	-
Loans and advances to customers	4,635,676	2,672,928	1,798,502	164,246	-	-
Financial investments	29,502,410	742,159	1,608,012	4,576,647	18,933,504	3,642,088
Funds advanced under collateral arrangements	27,190,859	-	-	-	-	27,190,859
Total financial assets	178,566,746	120,148,707	3,406,514	4,740,893	18,933,504	31,337,128
Financial liabilities						
Amounts owed to customers	60,633,781	5,338,517	16,563,067	17,925,410	20,806,787	-
Settlement processing obligations	82,171,676	64,134,524	10,345,517	-	-	7,691,635
Lease liabilities	77,784	2,444	75,340	-	-	-
Other liabilities	8,406,463	7,553,736	278,769	229,571	344,387	-
Total financial liabilities	151,289,704	77,029,221	27,262,693	18,154,981	21,151,174	7,691,635
Maturity gap		43,119,486	(23,856,179)	(13,414,088)	(2,217,670)	
Cumulative gap		43,119,486	19,263,307	5,849,219	3,631,549	

Assets which are not immediately accessible and readily available as at 31 December 2021 consist of €360,159 held with the Central Bank of Malta pledged in favour of the Depositor Compensation Scheme, together with €144,022 representing the Bank's Minimum Reserve Requirement. Similarly, as at 31 December 2021 financial investments amounting to €3,642,088 are also not readily available for sale, since they are illiquid. Additionally, funds advanced under collateral arrangements amounting to €27,190,859 are considered to be encumbered. Meanwhile, financial investments with a fair value of €14,788,780 are classified within the above table as maturing in more than 3 years. However, these represent investments in Malta Government Stock which are readily available for sale and could be disposed of earlier to meet any of the Bank's liquidity needs. In this respect, Malta Government Stock with a carrying amount of €9,700,000 have been pledged against the provision of credit lines by the Central Bank of Malta. As at 31 December 2021, no balances were outstanding against these credit lines.

2. Financial risk management (continued)

2.4 Liquidity risk (continued)

Additionally, the contractual undiscounted cash outflows attributable to the Bank's financial liabilities analysed by remaining contractual maturities at reporting date is presented in the following table. The balances in the below table do not agree with the carrying amount as the table incorporates all cash flows, on an undiscounted basis, related to principal as well as those associated with all future interest payments.

	Total	Within 3 months	Between 3 months and one year	Between one year and 3 years	More than 3 years	No maturity date
	€	€	€	€	€	€
As at 31 December 2021						
Amounts owed to customers	61,510,931	5,362,941	16,841,836	18,154,981	21,151,173	-
Settlement processing obligations	82,171,676	64,134,524	10,345,517	-	-	7,691,635
Lease liabilities	85,152	4,888	80,264	-	-	-
Other liabilities	7,529,312	7,529,312	-	-	-	-
Total financial liabilities	151,297,071	77,031,665	27,267,617	18,154,981	21,151,173	7,691,635
As at 31 December 2020						
Financial assets						
Cash and balances with Central Bank of Malta	64,798,955	64,222,800	-	-	-	576,155
Funds receivable from merchants	4,051,803	4,051,803	-	-	-	-
Loans and advances to banks and financial institutions	33,004,409	33,004,409	-	-	-	-
Loans and advances to customers	8,477,219	502,617	5,873,152	2,101,450	-	-
Financial investments	23,803,896	-	-	-	20,808,840	2,995,056
Funds advanced under collateral arrangements	19,139,601	-	-	-	-	19,139,601
Other assets	4,677,665	-	4,677,665	-	-	-
Total financial assets	157,953,548	101,781,629	10,550,817	2,101,450	20,808,840	22,710,812
Financial liabilities						
Amounts owed to customers	60,862,158	12,869,748	9,492,903	24,157,928	14,341,579	-
Settlement processing obligations	62,672,609	48,815,484	5,971,485	-	-	7,885,640
Lease liabilities	292,041	27,358	187,882	76,801	-	-
Other liabilities	4,650,228	4,293,416	64,407	196,648	95,757	-
Total financial liabilities	128,477,036	66,006,006	15,716,677	24,431,377	14,437,336	7,885,640
Maturity gap		35,775,623	(5,165,860)	(22,329,927)	6,371,504	14,825,172
Cumulative gap		35,775,623	30,609,763	8,279,836	14,651,340	29,476,512

Assets which are not immediately accessible and readily available as at 31 December 2020 consist of €331,374 held with the Central Bank of Malta pledged in favour of the Depositor Compensation Scheme, together with €244,781 representing the Bank's Minimum Reserve Requirement. Similarly, as at 31 December 2020 financial investments amounting to €2,995,056 are also not readily available for sale, since they are illiquid. Additionally, funds advanced under collateral arrangements amounting to €19,139,601 are considered to be encumbered.

2. Financial risk management (continued)

2.4 Liquidity risk (continued)

Additionally, the contractual undiscounted cash outflows attributable to the Bank's financial liabilities analysed by remaining contractual maturities at reporting date is presented in the following table. The balances in the below table do not agree with the carrying amount as the table incorporates all cash flows, on an undiscounted basis, related to principal as well as those associated with all future interest payments.

	Total	Within 3	Between 3	Between one	More than 3	No maturity
	€	months	months and	year and 3	years	date
	€	€	one year	years	€	€
As at 31 December 2020						
Amounts owed to customers	62,697,826	12,946,846	9,587,767	24,829,976	15,333,237	-
Settlement processing obligations	62,672,609	48,815,484	5,971,485	-	-	7,885,640
Lease liabilities	318,229	33,000	200,077	85,152	-	-
Other liabilities	4,235,128	4,235,128	-	-	-	-
Total financial liabilities	151,289,703	77,104,561	27,187,353	18,154,981	21,151,173	7,691,635

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 subject to maintain a ratio of total regulatory capital to risk-weighted assets ('Capital adequacy ratio') of 15.55% which constitutes the following: (a) a minimum own funds requirement of 8% (6% of which needs to be composed of T1 capital), (b) an additional P2R of 4% (c) combined buffer requirements of 2.55% (d) a P2G of 1% which is entirely made up of CET1 capital. The Bank has processes to ensure that the minimum regulatory requirements in relation to own funds are met at all times.

2. Financial risk management (continued)

2.5 Capital risk management (continued)

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

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

	2021 €	2020 €
Common Equity Tier 1 (CET1) Capital		
Share capital	23,000,000	23,000,000
Fair value reserve	(141,469)	242,265
Retained earnings		
Previous year's retained earnings	11,621,092	10,932,928
Profit for the year	4,406,782	688,164
	<hr/>	<hr/>
CET1 capital before regulatory adjustments	38,886,405	34,863,357
Deductions:		
Intangible assets	(2,530,088)	(4,183,873)
	<hr/>	<hr/>
Total own funds	36,356,317	30,679,484
	<hr/>	<hr/>

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.

The recurring fair value measurements 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 financial assets categorised within Level 1 comprise the Bank's investment in two Malta Government Stocks (2020: one) which are listed on the Malta Stock Exchange. The fair value of the Malta Government Stock is determined on the basis of quoted bid price at the close of trading on the year end date, which amounted to €14,788,780 (2020: €10,705,000). The market in respect of Malta Government Stocks is regarded as active since quoted prices are readily and regularly available and prices represent actual and regularly occurring market transactions on an arm's length basis.

The Bank's derivative instruments are categorised as level 2, since they 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 open derivatives at 31 December 2021 and 2020 were entered into on 31 December, the fair value of such derivatives was nil.

The Bank's financial asset categorised within Level 3 comprise the Bank's investment in Visa Inc. preference shares, which amounted to €3,642,088 (2020: €2,995,056) as at 31 December 2021 and are measured at FVPL. 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.

2. Financial risk management (continued)

2.6 Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

Also as explained in Note 8, as a holder of a share of Preferred Stock, during 2020 Credorax received a number of shares of Series A Convertible Participating Preferred Stock, that was automatically convertible into 42,000 Class A Common Stock, which Credorax sold on 9 October 2020.

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

	2021	2020
	€	€
At beginning of year	2,995,056	5,255,893
Gains in fair value recognised in profit or loss	647,032	5,077,167
Disposal of assets (Note 8)	-	(7,338,004)
At end of year	3,642,088	2,995,056

In order to determine the fair value of the Visa Inc. preference shares as at 31 December 2021 and 2020, 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 2021	As at 31 December 2020
	Increase/ (decrease)	Increase/ (decrease)
	€	€
Discount for the lack of marketability increases by 5%	(260,798)	(213,907)
Discount for the lack of marketability decreases by 5%	260,798	213,907

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.

No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial years ended 31 December 2021 and 2020.

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:

	2021 €	2020 €
Assets		
Cash and balances with Central Bank of Malta	71,522,603	64,798,955
Funds receivable from merchants	1,797,922	4,051,803
Loans and advances to banks and financial institutions	43,917,276	33,004,409
Loans and advances to customers	4,635,676	8,477,219
Debt and other fixed income instruments	11,071,542	10,103,840
Funds advanced under collateral arrangements	27,190,859	19,139,601
Other assets	-	4,677,665
	160,135,878	144,253,492
Liabilities		
Amounts owed to customers	60,633,781	60,862,158
Settlement processing obligations	82,171,676	62,672,609
Other liabilities	8,406,463	4,650,228
	151,211,920	128,184,995

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, considering the materiality of the impact relating to the fair valuation of the Bank's interest in Visa Inc. measured at FVPL and the materiality of the potential impact arising from ECLs in respect of loans and advances to customers, 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.

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.

4. Cash and balances with Central Bank of Malta

	2021	2020
	€	€
Cash in hand	638	165
Balances with Central Bank of Malta	71,525,922	64,798,790
Allowances for expected credit losses	(3,957)	-
	71,522,603	64,798,955

Deposits with the Central Bank of Malta as at 31 December 2021 represent mandatory reserve deposits amounting to €144,022 (2020: €244,781), as required in terms of Article 32 of the Central Bank of Malta Act, Cap. 204 of the Laws of Malta. These are not available for use in the Bank's day-to-day operations. Included in this balance is an amount of €360,159 (2020: €331,374) pledged in favour of the Depositors Compensation Scheme.

The balances with the Central Bank of Malta are held also to fulfil any Liquidity Coverage Ratio (LCR) requirement. A negative deposit facility interest rate of 0.50% (2020: 0.50%) applies to the Bank's average reserve holdings in excess of the minimum reserve requirements.

5. Funds receivable from merchants

	2021	2020
	€	€
Funds receivable from merchants	2,019,528	4,154,352
Allowances for expected credit losses	(221,606)	(102,549)
	1,797,922	4,051,803

The funds receivable from merchants as at 31 December 2021 and 2020 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

	2021	2020
	€	€
Repayable on call and at short notice	43,918,815	33,004,655
Allowances for expected credit losses	(1,539)	(246)
	43,917,276	33,004,409

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.

7. Loans and advances to customers

	2021	2020
	€	€
Term loan	4,840,292	8,645,848
Allowances for expected credit losses	(204,616)	(168,629)
	4,635,676	8,477,219

Loans and advances to customers consist of credit facilities granted to specific merchants with fixed maturity dates and are subject to fixed interest rates ranging between at 4.5% and 6%.

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 2021, the Bank retained €3,611,569 (2020: €2,719,947) in merchant funds in its possession.

During the financial year ended 31 December 2021, there were no instances of non-performing exposures.

8. Financial investments

	2021	2020
	€	€
Financial assets mandatorily measured at FVPL		
Investment in Series C Visa Inc. preferred stock	3,642,088	2,995,056
Financial assets at FVOCI		
Debt and other fixed income instruments	14,788,780	10,705,000
Financial assets at amortised cost		
Debt and other fixed income instruments	11,188,513	10,155,853
Allowances for expected credit losses	(116,971)	(52,013)
	29,502,410	23,803,896

Financial assets mandatorily measured at FVPL as at 31 December 2021 comprise preference shares of Visa Inc., 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 Class A ordinary shares of Visa Inc. and represent a residual interest in the issuer's net assets. They have been issued to provide Visa Inc. with protection against all litigation risk associated with interchange fees linked to the activity of Visa Europe Limited, such that if litigation losses occur as a result of interchange fees linked to the activity of Visa Europe Limited prior to its acquisition by Visa Inc, these would be borne by the previous members of Visa Europe Limited.

In this respect, following the determination of any liability, Visa makes a "conversion adjustment" to the Class A Common Equivalent Number for the preference shares, which transfers the litigation risk described above from 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.

Accordingly, the preference shares are mandatorily measured at fair value as they have failed the SPPI test.

8. Financial investments (continued)

On 1 September 2020, Visa Inc. announced the release of approximately \$7.3 billion of Convertible Participating Preferred Stock. The release effectively resulted in a partial conversion of the Preferred Series C Stock into Class A Common Stock (i.e. ordinary shares) of Visa Inc. as well as a downward “conversion adjustment” to the Class A Common Equivalent Number for the Series C Preferred Stock.

For the Bank, the release has resulted in the holding of 42,000 Class A Common Stock, which were sold on 9 October 2020 and a 50% downward conversion adjustment from 13.722 to 6.861 to Series C Preferred Stock, such that the Bank holds 50% of the preferred stock held prior to the release.

As noted previously, the conversion rate adjustment referred to above is dependent upon the uncertain outcome of litigation. Hence, the value of the preference shares depends on the level and success of any future litigation, which is not possible to assess with a degree of certainty.

Accordingly, 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.

Debt instruments measured at FVOCI represent investments in Malta Government Stocks. Instruments with a carrying amount of €9,700,000 (2020: €5,000,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2021, no balances were outstanding against these credit lines (2020: nil).

The debt and other fixed income instruments held at amortised cost as at 31 December 2021, consist of a bond issued by a compartment cell within a securitisation vehicle which invests in consumer credit loan receivables originated from a third-party bank.

The Bank is the sole investor in the bond issued by the compartment cell, which entitles the Bank to the net returns generated by the underlying portfolio of consumer credit loans. More specifically, the return on the Bank’s investment equates to the interest income generated by the underlying portfolio of loans, net of credit losses, and management and administrative fees relating to the portfolio and compartment cell respectively. The bond also entitles the Bank to determine the date at which the payment of principal and interest is due, as well as the interest rate at which the distribution is made. The lifetime of the instrument is split into 2 periods being a reinvestment period and an amortisation period. During the reinvestment period, the Bank has determined a fixed distribution rate, with all residual income being reinvested automatically within the compartment cell to acquire new consumer credit loans.

Subsequent to the expiry of the reinvestment period, which is subject to the discretion of the Bank, the underlying portfolio will be run-off with net returns fully distributed to the Bank in the form of principal and interest payments. During the year, the Board of Directors decided to commence the amortisation period as from 1 January 2022. The instrument will get repaid in line with the repayments of the underlying loans which have an expected average maturity of 5 years.

In this respect, the Bank assessed and concluded that in the light of IFRS 10 requirements, it has no control over the compartment cell and accordingly, does not consolidate it. In addition, the Bank concluded that the bond should be accounted for at Amortised Cost on the basis that it is held to collect contractual cashflows deriving from operations of the compartment cell, as well as on the basis that the cashflows from the bond, which in terms of IFRS 9 para B4.1.17 are dependent on the cashflow characteristics of the underlying assets, meet the SPPI criteria.

8. Financial investments (continued)

The directors have determined that in the context of the Bank's operations, its exposure to the compartment cell is considered insignificant. Accordingly, the directors have determined that disclosures in respect of changes in the risks associated with this investment are not warranted.

9. Funds advanced under collateral arrangements

	2021	2020
	€	€
Funds advanced under collateral arrangements	27,204,404	19,147,821
Allowances for expected credit losses	(13,545)	(8,220)
	27,190,859	19,139,601

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

10. Property and equipment

	Computer and electronic equipment €	Fixtures, fittings and office furniture €	Total €
Cost			
As at 1 January 2020	794,879	427,889	1,222,768
Additions	129,520	-	129,520
As at 31 December 2020	924,399	427,889	1,352,288
Additions	78,728	1,375	80,103
Disposals	(54,811)	(1,980)	(56,791)
As at 31 December 2021	948,316	427,284	1,375,600
Accumulated depreciation			
As at 1 January 2020	679,204	344,596	1,023,800
Charge for the year	57,472	28,140	85,612
As at 31 December 2020	736,676	372,736	1,109,412
Charge for the year	67,460	15,581	83,041
Depreciation released on disposals	(53,868)	(1,023)	(54,891)
As at 31 December 2021	750,268	387,294	1,137,562
Net Book Value			
As at 31 December 2020	187,723	55,153	242,876
As at 31 December 2021	198,048	39,990	238,038

11. Right-of-use assets

As at 31 December 2021 and 2020, 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. 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.

	2021 €	2020 €
At 1 January	356,135	514,483
Depreciation	(207,172)	(195,288)
Re-measurement attributable to changes in variable lease liability	1,057	36,940
At 31 December	150,020	356,135

The right of use assets at the end of the reporting period relate solely to the lease of office space.

12. Intangible assets

	Computer software and licenses €
Cost	
As at 1 January 2020	6,136,540
Additions	1,489,641
As at 31 December 2020	7,626,181
Additions	845,708
Write offs	(1,380,083)
As at 31 December 2021	7,091,806
Accumulated amortisation	
As at 1 January 2020	1,841,777
Charge for the year	1,600,531
As at 31 December 2020	3,442,308
Charge for the year	1,717,227
Depreciation released on write offs	(597,817)
As at 31 December 2021	4,561,718
Net Book Value	
As at 31 December 2020	4,183,873
As at 31 December 2021	2,530,088

12. Intangible assets (continued)

As at 31 December 2021, additions to computer software amounting to €131,647 (2020: nil) relate to assets in the course of development.

13. Other assets

	2021 €	2020 €
Amounts owed by group undertakings	-	4,772,660
Allowances for expected credit losses	-	(94,996)
	-	4,677,664
Prepayments made to group companies	8,300,917	-
Other prepayments and receivables	791,284	749,457
	9,092,201	5,427,121

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. Albeit, prepayments for services acquired from group companies are not subject to the assignment agreement. As a result, prepayments cannot be netted off with amounts owed to group undertakings.

14. Share capital

	2021 €	2020 €
Authorised Ordinary shares of €1 each		
200,000,000 Ordinary shares of €1 each	200,000,000	200,000,000
Issued and fully paid		
23,000,000 Ordinary shares of €1 each	23,000,000	23,000,000

15. Fair value reserve

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

16. 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 17) 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, upon vesting, the recharge is recognised by the Bank as a liability to the parent. During 2021, vested share options recognised as a liability to the parent amounted to €171,012 (2020: €111,006).

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.

17. 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 USD7.73 (2020: 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 45.19% (2020: 87.6%) which is based on historical volatility of the share price, dividend yield of nil% (2020: nil%), contractual life of ten years, and a risk free interest rate between 1.71% and 2.16% (2020: between 0.27% and 0.35%). A summary of the share option activity for the year ended 31 December is as follows:

	2021	Weighted average exercise price USD	2020	Weighted average exercise price USD
	Number of share options		Number of share options	
Outstanding as at 1 January	687,083	7.21	703,983	7.21
Granted	109,900	7.73	6,500	7.56
Forfeited	(91,150)	4.72	(23,400)	7.45
Exercised	(600)	11.01	-	-
Balance at 31 December	705,233	7.21	687,083	7.21

17. Share based employee compensation (continued)

During the financial year under review, 51,438 (2020: 63,313) options at a weighted exercise price of USD7.56 (2020: USD8.10) had vested. As at 31 December 2021, 578,208 (2020: 603,895) share options were exercisable at a weighted average price of USD7.57 (2020: USD7.14). 600 options were exercised during the financial year ended 31 December 2021 (2020: nil).

The weighted average remaining contractual life of options outstanding as at 31 December 2021 and 2020, analysed by exercise price were as follows:

Option price	2021		2020	
	Options granted	Weighted average remaining contractual life	Options granted	Weighted Average Remaining Contractual Life
USD2.60	52,933	1.06	95,866	1.01
USD3.80	74,250	1.01	74,250	2.01
USD5.00	-	-	21,467	0.25
USD6.40	47,000	1.36	47,000	2.36
USD7.56	300,150	8.14	217,000	7.53
USD9.00	68,200	2.07	89,500	3.23
USD11.01	160,200	3.88	142,000	4.95
USD15.47	2,500	9.91	-	-

The total expense recognised in the Bank's financial statements throughout the period in relation to share based employee compensation amounted to €478,806 (2020: €51,142) and is included within employee benefit expense and directors' emoluments (refer to Note 32).

18. Derivative financial instruments

The Bank enters into derivatives primarily to manage its foreign exchange risk. The derivative financial instrument at 31 December 2021 related to the forward purchase of USD 26.5 million (2020: USD 32 million) against the euro at contractual rate of 1.1332 (2020: 1.1228). The foreign exchange forward contract matures within one month (2020: one month) from the end of the reporting period. Since the Bank entered into the derivative on 31 December 2021, the fair value of such a derivative approximates to nil (2020: nil).

19. Amounts owed to customers

	2021	2020
	€	€
Term deposits	56,554,439	56,843,900
Redeemable at notice	3,129,206	2,961,104
Repayable on demand	950,136	1,057,154
	60,633,781	60,862,158

Amounts owed to customers are classified as liabilities at amortised cost. Term and notice deposits are subject to fixed rates of interest ranging from 0.15% to 1.42% (2020: 0.40% to 1.42%), while deposits redeemable at notice are subject to a fixed rate of interest of 0.25%.

20. Settlement processing obligations

	2021 €	2020 €
Amounts owed to merchants	81,324,912	62,062,755
Other settlement processing obligations	846,764	609,854
	82,171,676	62,672,609

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

21. Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 5% (2020: 5%), which is the effective rate of tax applicable to the fiscal unit to which the Bank form part of under the Consolidated Group (Income Tax) Rules as described in Note 1.13.

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

	2021 €	2020 €
At beginning of year	58,376	241,112
Recognised in profit or loss (Note 35)		
Deferred taxes on fair valuation of financial assets mandatorily measured at FVPL	-	(189,820)
Deferred taxes on temporary differences arising on depreciation of property and equipment	(31,355)	5,249
Deferred taxes on temporary differences arising on ECLs	(753)	(10,916)
Deferred taxes on unutilised tax losses assumed by the principal taxpayer	1,343	(235,197)
<i>Recognised in other comprehensive income</i>		
Fair value movements on financial instruments	(20,196)	12,751
DTA on unutilised tax losses assumed by the principal taxpayer	-	235,197
Over-assumption of deferred taxes by the principal taxpayer in the prior period	(1,344)	-
At end of year	6,071	58,376

The balance at 31 December represents temporary differences attributable to:

	2021 €	2020 €
Unrealised movements on fair value gains on financial asset:	(7,446)	12,751
Accelerated tax depreciation on fixed assets	30,548	61,903
Allowances for expected credit losses	(17,031)	(16,278)
	6,071	58,376

21. Deferred taxation (continued)

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.

With effect from 2019, the Bank forms 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, is 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 saves the Consolidated Group 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.

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, assumes the obligation to remit taxes to the Maltese Inland Revenue, and the member entities 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.

In line with the terms of the agreement, in 2020, the Bank had derecognised its deferred tax assets arising from unutilised losses and unabsorbed capital allowances amounting to €235,197 and recognised a receivable of the same amount from Credorax Inc. During 2021, the Bank did not have any deferred tax assets arising from unused tax losses that would also be recognised as a receivable from the parent company. There was, however, an over-assumption of deferred tax assets by Credorax Inc. in the prior year amounting to €1,343, which has been recognised as a payable by the Bank to Credorax Inc. and included within amounts owed to group undertakings (Note 23) in accordance with the terms of the common assignment agreement entered into between Credorax Inc. and all of its subsidiaries.

22. 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 the date of initial measurement.

Lease liabilities at 31 December 2021, which relate to the lease of office premises by the Bank, subject to normal commercial terms and conditions, amounted to €77,784 (2020: €292,041). The movement in lease liabilities is analysed below:

	2021 €	2020 €
Lease liabilities		
At 1 January	292,041	452,276
Interest expense on lease liability	18,974	29,220
Repayment of lease liability	(233,231)	(189,455)
At 31 December	77,784	292,041

Lease liabilities are analysed by maturity as follows:

	Future mimimum lease payments 2021 €	Interest 2021 €	Present value of minimum lease payments 2021 €
Less than one year	85,152	7,368	77,784
	85,152	7,368	77,784

	Future mimimum lease payments 2020 €	Interest 2020 €	Present value of minimum lease payments 2020 €
Less than one year	233,077	18,820	214,257
Between one and five years	85,152	7,368	77,784
	318,229	26,188	292,041

22. Lease liabilities (continued)

The income statement reflects the following amounts relating to leases:

	2021	2020
	€	€
Depreciation charge on right-of-use assets	207,172	195,288
Interest expense on lease liability	18,974	29,220

Total cash payments for leases in 2021 amounted to €234,288 (2020: €226,395).

Expenses relating to short term and low value leases amounted to €16,433 (2020: €27,574)

23. Other liabilities

	2021	2020
	€	€
Amounts owed to group undertakings (Note 41)	2,450,640	-
Indirect taxation	123,692	94,976
Accruals and payables	5,832,131	4,555,252
	8,406,463	4,650,228

As referred to in Note 13, Credorax Inc. and all of its subsidiaries are subject to a common assignment agreement. As such, amounts owed by/to group undertakings are reported in the statement of financial position on a net basis.

As referred to in Note 1.13 and Note 21, the Bank forms part of a Fiscal Unit for Maltese income tax purposes, under which the parent, as principal taxpayer, assumes the obligation to remit taxes to the Maltese Inland Revenue. 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.

In this respect, the Bank's current tax liability, which as at 31 December 2021 amounted to €229,542, is recognised as a liability towards the parent and accordingly included within amounts owed to group undertakings.

24. Interest and similar income

	2021	2020
	€	€
On loans and advances to banks	133,230	150,808
On loans and advances to customers	358,821	345,930
On other assets	383	38,894
On debt and other fixed income instruments	447,494	244,897
	939,928	780,529

25. Interest expense

	2021	2020
	€	€
On loans and advances to banks	236,028	209,643
On Treasury Bills	-	2,530
On amounts owed to customers	641,639	420,110
On collateral arrangements	110,218	26,351
On lease liability	18,974	29,220
	1,006,859	687,854

26. Fee and commission income

	2021	2020
	€	€
Acquiring revenue	147,155,176	101,452,373
Other fees	4,463,441	3,538,344
	151,618,617	104,990,717

27. Fee and commission expense

	2021	2020
	€	€
Transaction and other processing fees	51,483,053	35,881,412
Fees paid to card schemes	48,303,447	32,214,324
Sales commissions	7,354,237	3,413,280
Other fee and commission expenses	371,990	329,594
	107,512,727	71,838,610

28. Other income

Other income relates to proceeds which the Bank has received as a final settlement to a claim for damages that the Company had with one of its disconnected merchants.

29. Net trading income

	2021	2020
	€	€
Net fair value (losses) / gains on derivative financial instruments	(2,373,409)	2,770,016
Net income from foreign exchange activities	13,857,968	15,031,990
Other foreign exchange differences	1,359,280	(4,258,205)
	12,843,839	13,543,801

30. Net income from financial instruments mandatorily measured at FVPL

	2021 €	2020 €
Changes in fair value	647,032	5,077,167
Dividend income	25,249	59,964
	672,281	5,137,131

31. Gain of disposal of financial instrument measured at FVOCI

During 2021, the Bank has sold an investment in Malta Government Stock, on which it has recognised a gain of €190,841. This gain was reclassified out of the Bank's other comprehensive income to profit or loss upon sale of investment.

32. Employee compensation and benefits

	2021 €	2020 €
Wages and salaries	7,297,941	6,479,441
Social security costs	134,342	192,544
Employees' share based compensation	478,806	51,142
	7,911,089	6,723,127

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

	2021	2020
Managerial	35	35
Supervisory and clerical	91	77
Others	4	4
	130	116

33. General and administration expenses

	2021 €	2020 €
Services from group undertakings:		
Technical support	30,957,716	23,800,471
Management	4,000,000	12,000,000
Sales and marketing	3,669,984	2,651,900
Travelling and accomodation	320,911	312,722
Legal and professional fees	1,369,421	757,054
Auditor's remuneration	140,000	132,500
Short term and low value lease expenses	14,083	16,610
Consultancy fees	544,785	685,957
Write off of intangible assets	779,197	-
Other expenses	2,545,751	2,460,366
	44,341,848	42,817,580

The total cash payments for leases, including short-term and low-value leases, in 2021 was €250,721 (2020: €253,969). The depreciation expense on Right of Use assets and the interest expense attributable to lease liabilities are disclosed within Notes 11 and 25 respectively.

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

	2021 €	2020 €
Annual statutory audit	140,000	132,500
Tax advisory services	18,100	10,360
Other non-assurance services	80,000	60,000
	238,100	202,860

34. Changes in expected credit losses and other impairment allowances

	2021 €	2020 €
Amounts written off during the year	14,923	270,611
Changes in expected credit losses:		
Receivables from merchants		
Reversal attributable to amounts written off	(14,923)	(270,611)
Other receivables from merchants	133,980	27,787
Investments in debt securities - amortised cost	64,958	52,013
Investments in debt securities - FVOCI	(1,445)	1,445
Loans and advances to banks	5,250	(193)
Loans and advances to customers	35,987	128,435
Funds advanced under collateral arrangements	5,325	2,333
Other	(94,996)	34,275
	149,059	246,095

35. Tax expense

	2021 €	2020 €
Current tax	(229,542)	-
Deferred tax (Note 21)	30,765	430,684
	(198,777)	430,684

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

	2021 €	2020 €
Profit before tax	4,605,559	257,480
Tax at the applicable rate of 5%	(230,278)	(12,874)
Tax effect of:		
Non-taxable income	32,352	449,726
Expenses not deductible for tax purposes	(2,841)	(4,068)
Other	1,990	(2,100)
	(198,777)	430,684

36. 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 integral part of the Bank's cash management.

	2021 €	2020 €
Cash and balances with Central Bank of Malta (Note 4)	71,526,560	64,798,955
Loans and advances to banks and financial institutions (Note 6)	43,918,815	33,004,655
Cash and cash equivalents	115,445,375	97,803,610
Adjustments for:		
Expected credit loss allowances	(5,496)	(246)
Cash and cash equivalents (net of credit allowances)	115,439,879	97,803,364

37. Significant non-cash transactions

During 2021, the Bank advanced a total of €35,772,755 (2020: €41,491,485) to finance the operations of various group entities, of which €2,416,016 (2020: €621,502) were directly repaid, and a total amount of €629,036 was paid by group entities on behalf of Credorax Bank.

For 2021, the Bank also procured services from group companies in the amount of €38,627,700 (Note 40) and a total amount of €8,300,917 in prepaid services for 2022. The Bank has paid a total of €10,000,000 in cash and the remaining €36,928,617 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).

The Bank has recorded a foreign exchange loss of €2,373,409 (2020: gain of 2,770,016) on the forward contracts entered into with Credorax Inc. which was offset against the receivables due by the ultimate parent.

Further to the above, during 2021, the Bank capitalised software from related entities amounting to €669,691 (2020: €1,261,158). These were also offset against the advance by the Bank referred to above.

Also, as part of the Bank's change in tax status described in Note 21, a current tax liability of the Bank amounting to €229,542 has been assumed by the parent company, Credorax Inc. under the tax funding agreement. This balance was added to the payables due to the ultimate parent, Credorax Inc. in accordance with the terms of the common assignment agreement referred to above.

Unrealised foreign exchange gains on the intercompany balance amounted to €444,439 (2020: loss of €789,666).

38. Capital commitments

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

	2021	2020
	€	€
Not later than 1 year	733,589	511,692
Later than 1 year and not later than 5 years	180,689	449,479
	914,278	961,171

39. Contingencies

As at 31 December 2021 and 2020, the Bank had no legal proceeding outstanding against it arising in its normal course of business.

40. 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.

No dividends were recognised as distributions during the year ended 31 December 2021 (2020: nil).

41. 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:

	2021 €	2020 €
<i>Purchases of services from group undertakings</i>		
Technical support	30,957,716	23,800,471
Sales and marketing	3,669,984	2,651,900
Management	4,000,000	12,000,000
	38,627,700	38,452,371
 <i>Other purchases from group undertakings</i>		
Internally generated software	669,691	1,261,158
 <i>Directors' emoluments (including non-executive directors)</i>		
Salaries and other emoluments	79,000	79,000

None of the directors received any emoluments in the form of share options.

During 2021 the Bank also advanced a total of €35,772,755 (2020: €41,491,485) to finance the operations of the group entities, of which €2,416,016 (2020: €621,502) were repaid. In addition, as disclosed in Note 27, the Bank has also been party to significant non-cash transactions with group entities, including in relation to the recharge of share-based payments by Credorax Inc. as referred to in Note 17 as well as the settlement of the Bank's net tax liabilities as disclosed in Notes 21 and 23.

Balances with related parties as at the end of the reporting period are disclosed in Notes 13 and 23 to the financial statements.

42. Statutory information

Credorax Bank Limited is a limited liability company and is incorporated in Malta, with its registered address at 80, Palazzo Homedes, Strait Street, Valletta, VLT 1436, Malta.

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) and MasterCard. 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.

42. Statutory information (continued)

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.

43. Subsequent events

43.1 Merger with Shift 4 Payments Inc.

On March 1, 2022, the Bank's parent, Credorax Inc., entered into an agreement and plan of merger (the "Merger Agreement") with Shift4 Payments LLC ("Shift4 LLC"), a subsidiary of Shift4 Payments Inc., an American payment processing company publicly listed on the New York Stock Exchange (symbol: FOUR), alongside (i) Shift4 (BVI) Limited, a company incorporated under the laws of the British Virgin Islands which is a wholly owned subsidiary of Shift4 LLC ("Shift4 Sub"), (ii) Krieg Merger Sub Limited, a company incorporated under the laws of the British Virgin Islands which is a wholly owned subsidiary of Shift4 Sub ("Merger Sub"), and (iii) certain shareholders of the Company named in the Merger Agreement (the "Sellers").

Subject to the terms and conditions of the Merger Agreement, the Merger Sub will merge with and into Credorax Inc., with Credorax Inc. being the surviving company following the merger and will become the wholly-owned subsidiary of the Shift4 Sub (such merger, the "Merger").

The Boards of Directors of Shift4 Payments Inc. and the parties to the Merger Agreement have unanimously approved the Merger Agreement and the transactions contemplated thereby. The Merger is expected to close in the fourth quarter of 2022.

43.2 Russian military invasion of Ukraine

The Russian military invasion of Ukraine during February 2022 is deemed by management to constitute a non-adjusting post-balance sheet event. Even though geopolitical tensions between the two countries have been long-standing, a conclusive threat of invasion only became evident during February 2022. Therefore, there is no additional evidence that these conditions existed as at 31 December 2021.

Nonetheless, an assessment was performed by the Bank's management to evaluate the potential impact of the Russian military invasion of Ukraine on the Bank's financial position and ongoing financial performance. The assessment considered impacts on the valuation of assets as a result of credit and market risk, the effect of the military invasion on the Bank's processes as well as on the merchant's and depositor's business environment, and other risk factors including the potential impact of sanctions and market instability.

Based on this assessment, it was concluded by management that the impact of the Russian military invasion of Ukraine on the Bank's going concern assessment and on its core business lines was deemed to be minimal. Nevertheless, due to the high level of uncertainty and the potentially devastating impact from the progression of these events, the Bank will continue to monitor the situation closely and to update its assessment as necessary.

Additional Regulatory Disclosures
31 December 2021

1. Risk management

1.1 Overview of risk disclosures

The Additional Regulatory Disclosures ('ARDs') were prepared by Credorax Bank Limited now trading as Finaro ('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 EU Directive 878/2019 of the European Parliament and of the Council of 20 May 2019 amending EU Directive 2013/36/EU (Capital Requirements Directive V – "CRDV") and Part Eight of the EU Regulation 876/2019 of the European Parliament and of the Council of 20 May 2019 amending EU Regulation No. 575/2013 (Capital Requirements Regulation II – "CRR II") 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 2021 is 2.49% (2020 is 0.51%). 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 in favour of the cardholders without being able to recover the corresponding funds from the merchants, which may result in the incurrance of financial 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 SVP 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 VP of Risk Operations, the VP Legal Regulatory Affairs, the VP of Compliance and 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)

During 2020, the Bank established an Asset and Liability Management Committee (“ALCO”), where its main responsibilities comprise of the implementation and maintenance of the Credit Risk Management Policy; monitoring the Bank’s capital adequacy ratio and liquidity management and taking certain credit portfolio management responsibilities, including the review and approval or rejection raised by management for the granting of new credit facilities. The ALCO is composed of the Managing Director, the VP Finance and Regulatory Reporting, VP of Treasury and Chief Underwriting Officer.

The second line is represented by the Enterprise Risk Manager and the VP 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. Her 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 of the Bank’s risks, 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.

Additionally, 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 Head of Internal Audit form the third line of defence who reports to the Audit Committee. 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 Head of Internal Audit, 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.

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 2021, 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 2021, the Bank has opted not to apply these regulatory transitional arrangements.

(a) Share capital

The Bank's share capital as at 31 December 2021 is analysed as follows:

	2021	2020
	€	€
Authorised		
200,000,000 Ordinary shares of €1 each	200,000,000	200,000,000
Issued and fully paid up		
23,000,000 Ordinary shares of €1 each	23,000,000	23,000,000

(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 the year, the Bank did not declare any dividend (2020: nil).

2. Capital risk management (continued)

2.1 Own funds (continued)

	As at 31 December 2021
	€
Common Equity Tier 1 (CET1) capital	
<i>Common Equity Tier 1 (CET1) capital: instruments and reserves</i>	
Share capital	23,000,000
Fair Value Reserve	(141,469)
Retained Earnings	
Previous year's retained earnings	11,621,092
Profit for the year	4,406,782
Dividends	-
	38,886,405
<i>Common Equity Tier 1 (CET1) capital: regulatory adjustments</i>	
Intangible assets	(2,530,088)
Total regulatory adjustments to CET1	(2,530,088)
CET1 capital	36,356,317
Total capital	36,356,317
Total risk weighted assets	147,999,514
 Capital ratios	
CET1 capital	24.6%
Tier 1 capital	24.6%
Total capital	24.6%
Institution specific buffer requirement	7.0%
of which: capital conservation buffer	2.5%
of which: countercyclical buffer	0.02%
Common Equity Tier 1 available to meet buffers	12.6%

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 onboarding 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 VP 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:

	2021	2021
	Average value	Year end exposure value
	€	€
Central banks	86,673,754	86,316,823
Institutions	73,853,949	71,108,286
Corporates	13,043,286	7,754,191
Retail	10,703,542	11,175,928
Equity	3,303,814	3,642,088
Other items	7,962,882	9,359,945
	195,541,227	189,357,261

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 2021, the Bank retained €3,611,569 (2020: €2,719,947) in merchant funds in its possession.

2. Capital risk management (continued)

2.2 Credit risk (continued)

2.2.2 Credit risk management (continued)

Credit risk exposures analysed by residual maturity

	Total	Within three months	Within one year but over three months	More than one year	More than three years	No maturity
	€	€	€	€	€	€
As at 31 December 2021						
Central banks	86,316,823	71,017,784	-	-	14,794,858	504,181
Institutions	71,108,286	43,917,427	-	-	-	27,190,859
Corporates	7,754,191	5,791,443	1,798,502	164,246	-	-
Retail	11,175,928	-	-	-	11,175,928	-
Equity	3,642,088	-	-	-	-	3,642,088
Other items	9,359,945	-	-	-	-	9,359,945
Total	189,357,261	120,726,654	1,798,502	164,246	25,970,786	40,697,073

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

	Total	Malta	Other EU countries	Rest of world
	€	€	€	€
As at 31 December 2021				
Central banks	86,316,823	86,316,823	-	-
Institutions	71,108,286	1,687,940	15,004,781	54,415,565
Corporates	7,754,191	-	5,956,269	1,797,922
Retail	11,175,928	-	11,175,928	-
Equity	3,642,088	-	-	3,642,088
Other items	9,359,945	9,306,243	21,670	32,032
Total	189,357,261	97,311,006	32,158,648	59,887,607

2. Capital risk management (continued)

2.2 Credit risk (continued)

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.

The following table shows 2021 processing volumes analysed by industry:

	FY 2021 €'000
Gambling	2,508,706
Retail	2,414,898
Financial services	1,987,711
Online Entertainment	859,089
OTAs & Travel	521,327
Services	459,920
Other	112,989
	8,864,640

2. Capital risk management (continued)

2.2 Credit risk (continued)

2.2.3 Credit quality of the Bank's merchants

The following table shows the geographical analysis of 2021 processing volumes:

	FY 2021 €'000
United Kingdom	4,408,574
Malta	1,283,694
Cyprus	531,944
France	396,292
Czech Republic	345,199
Spain	341,156
Ireland	245,030
Denmark	231,231
Lithuania	210,228
Italy	149,970
Gibraltar	137,948
Sweden	117,507
Netherlands	113,623
Other	352,244
	8,864,640

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. 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. Receivables from merchants that would have been terminated by the Bank are classified immediately as credit-impaired as the amount is automatically 'past due'. As at 31 December 2021, receivables amounting to €147,672 (2020: €57,220), related to chargeback transactions in excess of collateral held, pertaining to 108 terminated merchants (2020: 94) and considered to be credit impaired. Accordingly, these were provided for in full.

As at 31 December 2021, the Bank also held €1,871,856 (2020: €4,097,132) in other receivables related to prefunded amounts from 204 active merchants (2020: 137), for which the Bank expects full recoverability. Accordingly, these were classified in stage 1 and an ECL allowance of €73,934 (2020: €45,329) was provided for.

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 €10,269,186 (2020: €9,908,206), while the rolling reserves amount to €32,136,649 (2020: €20,502,004).

2. Capital risk management (continued)

2.3 Market risk

2.3.1 Interest rate risk

The Bank's placements with the Central Bank of Malta amounting to €71,521,965 (2020: €64,798,790), balances with other banks and financial institutions repayable on call and at short notice amounting to €22,402,623 (2020: €25,951,051), loans and advances to customers of €4,635,676 (2020: €8,477,219), funds advanced under collateral arrangements amounting to €27,190,859 (2020: €19,139,601), and debt instruments amounting to €25,860,322 (2020: €20,808,840), are the Bank's interest-bearing financial assets. The Bank's exposure to interest rate risk arising from its financial assets is not deemed to be significant given that the majority of these assets are either re-priced to current market rates frequently or are short-term in nature.

Meanwhile, 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, and since they are measured at amortised cost, they also do not expose the Bank to fair value interest rate risk.

In the context of the Bank's acquiring operation the Bank's exposure to interest rate risk is deemed by the directors to be insignificant. 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.

2.3.2 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 2021	Long Position €	Short Position €	Net exposure €
GBP	288,580	-	288,580
USD	-	(1,331,223)	(1,331,223)
Other	1,339,028	(723,655)	615,373
	1,627,608	(2,054,878)	(427,270)

Based on the above positions, the regulatory risk capital charge in respect of currency risk is €164,390 (2020: €330,859).

2. Capital risk management (continued)

2.4 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 2021 amounted to €7,065,588 (2020: €5,615,452).

2.5 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 over the previous 3 years of positive gross income. The total capital ratio is calculated in accordance with the requirements of the CRR II.

2. Capital risk management (continued)

2.5 Capital requirements (continued)

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

	Exposure value €	Risk weighted assets €	Capital required €
As at 31 December 2021			
Central banks	71,521,965	6,108,341	488,667
Central Government	14,794,858	-	-
Institutions	71,108,286	22,378,915	1,790,313
Corporates	7,754,191	7,754,191	620,335
Retail	11,175,928	8,381,946	670,556
Equity	3,642,088	3,642,088	291,367
Other	9,359,945	9,359,307	748,745
Credit risk	189,357,261	57,624,788	4,609,983
Foreign exchange risk		2,054,877	164,390
Operational risk		88,319,849	7,065,588
Total capital required		147,999,514	11,839,961
Total own funds			
Common Equity Tier 1 capital			36,356,317
Total own funds			36,356,317
Total capital ratio			24.6%

As required by CRRII, the minimum level of the Capital Adequacy Ratio stands at 8%. The Bank fully implemented the revised CRD V capital requirements. 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 V 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 V contemplates 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 0.02% as at 31 December 2021 (2020: 0.05%).

2. Capital risk management (continued)

2.5 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 V 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.

2.6 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'.

2.7 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, 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*'.

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

At 31 December 2021	Credit quality step	Central banks €	Institutions €	Corporates €	Total €
AAA to AA-	1	-	24,281,986	3,642,088	27,924,074
A+ to A-	2	14,794,858	27,070,859	-	41,865,717
BBB+ to BBB-	3	-	310,578	-	310,578
Total		14,794,858	51,663,423	3,642,088	70,100,369

2. Capital risk management (continued)

2.8 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 2022.

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 2021 amounted to € 27,190,859 (median value during 2021 amounted to €26,866,383). None of the Bank's other assets are considered encumbered as at the end of the reporting period, except for €360,159 (2020: €331,374) with the Central Bank of Malta which is pledged in favour of the Depositor Compensation Scheme and €144,022 (2020: €244,781) which represents the Minimum Reserve requirement. Furthermore, as at 31 December 2021, the Bank did not have any outstanding liabilities associated with encumbered assets.

Accordingly, as at 31 December 2021, the Bank's pool of unencumbered assets that could be used to support potential future funding and collateral needs, amounted to €69,066,648 (median value during 2021 amounted to €73,551,220) of total assets. Of this amount, €46,804,548 (median value during 2021 amounted to €48,303,327) were assessed to be readily realisable.

Funds held in a fiduciary capacity amount to €81,925,370 (median value during 2021 amounted to €77,919,220) 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 aimed at attracting, retaining and motivating employees 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 therefore 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, staff who are responsible for the internal control functions, including the VP of Compliance and MLRO, Enterprise Risk Manager and Head of Internal Audit, and other identified staff members heading key business units namely the VP of Treasury, VP Legal Regulatory Affairs and VP of Risk Operations.

The Board of Directors sets out remuneration packages offered to senior management (particularly Executive Committee members) with the aim to 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.

On the other hand, the remuneration of the Bank's Board members is determined by the Board of Credorax Inc. (the parent company).

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. These are in line with quantitative criteria of the Commission Delegated Regulation (EU) No. 923/2021.

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

- i. Fixed remuneration: all the Bank's employees receive mainly fixed remuneration (with the exception of the Bank's Sales Operations team members as explained in point (ii) below) 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. Employee's fixed remuneration may be increased following periodic performance reviews and subsequently to an employee's promotion to a more senior role.
- ii. Variable remuneration: as previously explained, the Bank's employees receive mainly fixed remuneration. The Bank currently only offers variable pay in the following instances:

4. Remuneration policy (continued)

- a. remuneration to Sales Team: the role of the Bank's Sales Operations team is to introduce new prospective merchants and partners to the Bank in relation to the acquiring activities. Sales Operations team members are entitled to cash-based variable pay which does not however exceed 100% of their 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. What should be noted is that members of the Sales Operations team are not considered as MRTs, given that they have no approval authority during the onboarding stage. More specifically, subsequent to initial contact with a new prospective client by the Sales Operations team, the credit risk assessment at onboarding stage is conducted by the Bank's Risk & Fraud Team. Subsequently, a decision to onboard or reject the customer is taken in accordance with the escalation process set out in the Bank's Credit Risk Policy for acquiring activities during a meeting of the Underwriting Committee where members of the Sales Operations team are not present. Once successfully onboarded, the merchants and partners introduced by the Sales Operations team member will be included in the latter's portfolio and performance as aforementioned is 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.
- b. share option scheme: During 2012, Credorax Inc., the Bank's parent company, introduced a share-based employee compensation 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. The award of share-based compensation is determined by the Board of Directors of Credorax Inc, on the basis of the performance of the directors and selected employees as determined on a case-by-case basis. Share-based compensation is a form of non-cash based variable compensation, and thus, no consideration is payable to a director or employee 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, on the basis of the fair value of shares at grant date. In any case, variable remuneration through share-based compensation does not exceed 100% of fixed remuneration and is structured in a manner that incentivizes staff to pursue the goals and interests of the Bank, enabling them to share in its success while promoting sound risk management.

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 Bank and their variable remuneration should be transparent to the staff member. In particular the appraisal process with regard to the individual's performance would be properly documented and transparent to the staff member concerned.

- iii. Remuneration to Board members: the Bank's non-executive directors are compensated by means of fixed directors' emoluments and are not eligible to receive variable performance incentives. The only variable component of remuneration non-executive Directors are eligible to comprises of the share-based compensation plan as explained in (ii)(b) above whereby share options are granted to directors in exchange for their services at the discretion of the Board of the parent company.
- iv. Severance pay: it is the Bank's policy not to award severance pays unless this is required by law.
- v. Pension benefits: no pension benefits are payable by the Bank

4. Remuneration policy (continued)

The table below sets out the fixed and variable remuneration of the Bank's MRTs .

Remuneration – fixed and variable amounts

	2021	2020
	Senior	Senior
	Management	Management
Weighted average number of MRTs	12	11
	€	€
Fixed remuneration		
Cash-based remuneration	1,403,673	1,169,115
Total fixed remuneration	1,403,673	1,169,115
Variable remuneration		
Vested deferred share options ¹	67,153	54,002
Unvested deferred share options ²	112,552	14,163
Total variable remuneration	179,705	68,165
Total remuneration	1,583,378	1,237,280

¹ Outstanding deferred share options awarded during and prior to 2021, which vested during 2021.

² Outstanding deferred share options awarded during and prior to 2021, not yet vested as at 31 December 2021.

Total Non-Executive Directors' fees attributable for the financial year ended 31 December 2021 amounted to €79,000 (2020: €79,000), of which none was variable in both years. 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 CRRII, whilst total exposure relates to the total on and off-balance sheet exposures less the deductions applied to Tier 1 capital.

Article 92 of CRRII has introduced a 3% leverage ratio as a binding Pillar I requirement, which the Bank was already in adherence with, prior to CRRII entry into force in June 2021, 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.

5. Leverage (continued)

	2021 €
Tier 1 capital	36,356,317
Total exposure measure for the purposes of the leverage ratio	189,357,261
	189,357,261
Leverage ratio	19.2%

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

	2021 €
On-balance sheet exposures (excluding derivatives)	
On-balance sheet items (excluding derivatives)	190,577,093
Asset amounts deducted in determining Tier 1 capital	(2,530,088)
	188,047,005
Derivative exposures	
Derivatives exposures at gross notional amount	-
Adjustments for PFE associated with derivative transactions	1,310,256
	1,310,256

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

	2021 €
Total assets as per published financial statements	190,577,093
Adjustments for derivative instruments	1,310,256
Adjustments for off-balance sheet items	-
Other adjustments	
Deduction for intangible assets	(2,530,088)
	189,357,261
Leverage ratio exposure	189,357,261

5. Leverage (continued)

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

Total on-balance sheet exposures (excluding derivatives and intangible assets), of which:	2021
	€
Exposures treated as sovereigns	86,316,823
Institutions	71,108,286
Corporates	6,443,935
Retail	11,175,928
Equity	3,642,088
Other exposures	9,359,945

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	3
Nathan Shaked	Non-Executive Director	1
Igal Rotem	Executive Director	1
David Blumberg	Non-Executive Director	10
Tonio Fenech	Non-Executive Director	1
Anthony Depasquale	Non-Executive Director	8
Aviram Shemer	Executive Director	-

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

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.

5 Year Summary

Statements of financial position

	2021 €	2020 €	2019 €	2018 €	2017 €
ASSETS					
Cash and balances with Central Bank of Malta	71,522,603	64,798,955	52,801,444	43,294,531	220,297
Funds receivable from merchants	1,797,922	4,051,803	5,333,687	2,832,251	57,081,738
Loans and advances to banks and financial institutions	43,917,276	33,004,409	19,383,728	43,272,815	51,707,544
Loans and advances to customers	4,635,676	8,477,219	2,039,267	1,086,798	1,741,126
Financial investments	29,502,410	23,803,896	5,389,689	2,672,053	2,105,057
Funds advanced under collateral arrangements	27,190,859	19,139,601	13,847,694	6,452,100	12,241,683
Property, plant and equipment	238,038	242,876	198,968	234,973	258,644
Right-of-use assets	150,020	356,135	514,483	-	-
Intangible assets	2,530,088	4,183,873	4,294,763	2,841,604	2,480,834
Deferred taxation	-	-	-	-	1,511,751
Other assets	9,092,201	5,427,121	2,925,054	7,927,137	6,497,042
Total assets	190,577,093	163,485,888	106,728,777	110,614,262	135,845,716
EQUITY AND LIABILITIES					
Equity					
Share capital	23,000,000	23,000,000	23,000,000	23,000,000	23,000,000
Share based compensation reserve	394,913	87,119	146,983	537,515	511,645
Fair value reserve	(141,469)	242,265	-	-	562,049
Retained earnings	16,027,874	11,621,092	10,932,928	10,699,810	3,612,866
Total equity	39,281,318	34,950,476	34,079,911	34,237,325	27,686,560
Liabilities					
Amounts owed to customers	60,633,781	60,862,158	10,639,696	5,193,145	5,419,538
Settlement processing obligations	82,171,676	62,672,609	58,696,443	64,771,701	99,800,882
Current taxation	-	-	-	2,785,029	-
Deferred taxation	6,071	58,376	241,112	464,238	-
Lease liabilities	77,784	292,041	452,276	-	-
Other liabilities	8,406,463	4,650,228	2,619,339	3,162,824	2,938,736
Total liabilities	151,295,775	128,535,412	72,648,866	76,376,937	108,159,156
Total equity and liabilities	190,577,093	163,485,888	106,728,777	110,614,262	135,845,716

5 Year Summary

Statements of comprehensive income

	2021 €	2020 €	2019 €	2018 €	2017 €
Interest and similar income	939,928	780,529	845,374	386,868	312,096
Interest expense	(1,006,859)	(687,854)	(99,032)	(27,580)	(8,360)
Net interest (expense)/income	(66,931)	92,675	746,342	359,288	303,736
Fee and commission income	151,618,617	104,990,717	88,653,599	88,808,591	67,189,044
Fee and commission expense	(107,512,727)	(71,838,610)	(64,411,453)	(67,899,851)	(55,263,381)
Net fee and commission expense	44,105,890	33,152,107	24,242,146	20,908,740	11,925,663
Other income	1,269,075	-	-	-	-
Net trading income	12,843,839	13,543,801	10,189,005	8,452,897	4,075,770
Net income from financial instruments mandatorily measured at FVPL	672,281	5,137,131	2,771,647	563,812	35,875
Gain of disposal of financial instrument measured at FVOCI	190,841	-	-	-	-
Operating income	59,014,995	51,925,714	37,949,140	30,284,737	16,341,044
Employee compensation and benefits	(7,911,089)	(6,723,127)	(6,231,390)	(6,187,757)	(6,333,563)
General and administration expenses	(44,341,848)	(42,817,580)	(17,676,547)	(7,584,836)	(5,014,762)
Net impairment charges	-	-	-	-	(1,306,695)
Reversal of provision for future chargebacks	-	-	500,000	920,352	-
Changes in expected credit losses and other impairment allowances	(149,059)	(246,095)	11,638	(1,258,171)	-
Depreciation and amortisation expense	(2,007,440)	(1,881,432)	(1,052,959)	(738,884)	(301,828)
Profit before tax	4,605,559	257,480	13,499,882	15,435,441	3,384,196
Tax (expense)/income	(198,777)	430,684	(266,764)	(4,813,865)	(451,907)
Profit for the year	4,406,782	688,164	13,233,118	10,621,576	2,932,289
Other comprehensive income:					
Net changes in fair value arising during the year, before tax	(594,771)	255,016	-	-	441,043
Reclassification to profit or loss upon sale of investment	190,841	-	-	-	-
Income tax relating to components of other comprehensive income	20,196	(12,751)	-	-	-
Other comprehensive income for the year net of tax	(383,734)	242,265	-	-	441,043
Total comprehensive income for the year	4,023,048	930,429	13,233,118	10,621,576	3,373,332

5 Year Summary

Statements of cash flows

	2021 €	2020 €	2019 €	2018 €	2017 €
Cash flows from operating activities					
Net cash generated from operations	23,373,920	39,129,096	(13,021,102)	35,727,896	4,033,755
Tax paid	-	-	(2,778,734)	(788)	(973)
Net cash generated from operating activities	23,373,920	39,129,096	(15,799,836)	35,727,108	4,032,782
Cash flows used in investing activities					
Dividends received	24,625	61,541	52,970	32,020	35,875
Purchase of debt instruments	(15,953,770)	(20,462,700)	-	(126,771)	(88,100)
Proceeds from sale of debt instruments	10,677,178	136,649	-	86,670	-
Proceeds from the sale of USD Visa Inc. Class A Common Stock	-	7,338,004	-	(7,450,259)	-
Proceeds from maturity of fixed term placement	-	-	7,721,657	-	-
Purchase of equipment	(80,103)	(129,520)	(53,624)	(78,036)	(55,197)
Proceeds from disposal of equipment	4,970	-	3,960	-	1,300
Purchase of intangible assets	(176,017)	(228,483)	(86,232)	(962,163)	(1,433,959)
Cash consideration received from Visa Inc.	-	-	1,435,624	-	-
Net cash used in investing activities	(5,503,117)	(13,284,509)	9,074,355	(8,498,539)	(1,540,081)
Cash flows from financing activities					
Cash flows used in financing activities	(234,288)	(226,395)	(245,757)	-	-
Net cash used in financing activities	(234,288)	(226,395)	(245,757)	-	-
Net movement in cash and cash equivalents	17,636,515	25,618,192	(6,971,238)	27,228,569	2,492,701
Cash and cash equivalents at beginning of year	97,803,364	72,185,172	79,156,410	51,927,841	49,435,140
Cash and cash equivalents at end of year	115,439,879	97,803,364	72,185,172	79,156,410	51,927,841