



ASSET RECOVERY  
BUREAU

MALTA

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BUREAU

MALTA

2019

ANNUAL REPORT

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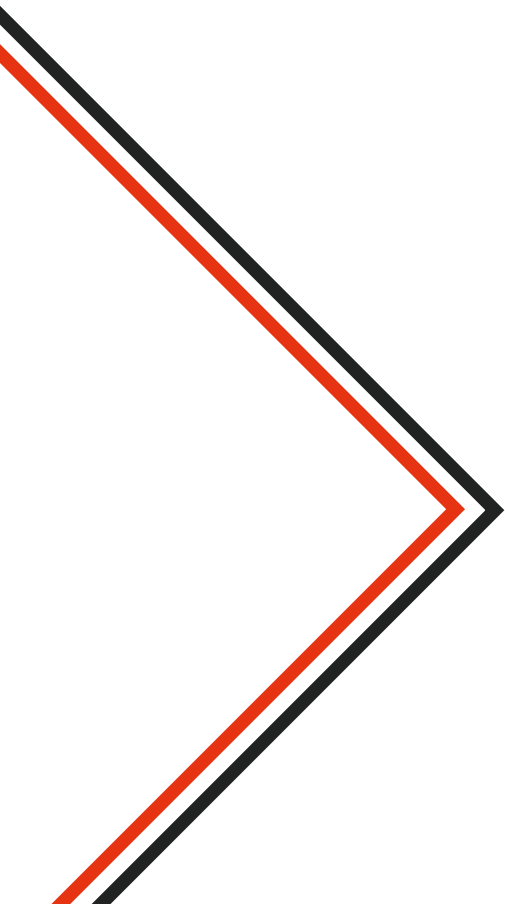
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# Statement of the Chairperson

## Asset Recovery Bureau Board

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This second annual report of the Asset Recovery Bureau hereinafter the (ARB) is intended to present a short overview of the activities of the Bureau, from January 2019 to 31 December 2019. My contribution to last year's annual report gave salient information about how the Bureau was established, how the ARB Regulations (S.L. 9.23) were brought into force through a two stages procedure. It also briefly pointed out what was achieved during 2018 and indicated my vision for the future of the ARB. What was stated there will not be repeated here, but it would not go amiss to keep in mind the landmark date 20th August 2018, when the ARB became operationally empowered to start implementing the remit extended to it by the ARB Regulations.



JUDGE EMERITUS  
DR. JOSEPH DAVID CAMILLERI

Chairperson - Asset Recovery Bureau Board

As the ARB is, relatively speaking, a new institution in Malta's rule of law setup, a short note focussing on the core mission of the ARB will not be out of place here. Basically the ARB works to ensure, as much as is humanly possible, that crime does not pay. It tries to achieve this objective by denying and depriving criminals of their illegally acquired assets. It is acknowledged that financial crime places a severe threat to the safety of our society, the integrity of our financial system and indeed the stability of our economy. The recent National Risk Assessment exercise has recognised that the establishment of an effective ARB is one of the key components of Malta's strategy to combat organised crime, money laundering and terrorism financing. A fine and/or a custodial sentence, necessary as they are, by themselves alone, rarely deter determined criminals. Much better results can be achieved by investigating and analysing financial trails of criminal activity and effectively confiscating the proceeds of crime. The ARB targets these illegally acquired assets thereby depriving criminals of their major motivation to commit crime, namely the acquisition of financial gain.

The ARB Board is made up of key institutional stakeholders involved in combatting financial crime. It is currently composed of Judge Emeritus Joseph David Camilleri, as Chairperson, Mr Frankie Mercieca, currently the Chief Executive Officer of the Court Services Agency (Malta), as Deputy Chairperson, Assistant Commissioner Mr Ian Abdilla, as representative of the Commissioner of Police, Mr Marvin Gaerty, the Commissioner for Revenue and Mr Kenneth Farrugia, the Director of the Financial Intelligence Analysis Unit.

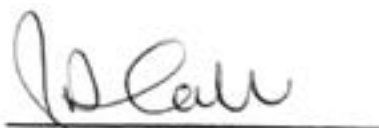
Since the ARB Board was constituted under the current chairmanship, it has met thirty-eight (38) times, including eleven times during the year under review. I acknowledge the cooperation extended to the Board by all its Members, who notwithstanding their other onerous responsibilities, attended regularly and participated actively in the deliberations of the Board. I also acknowledge the ARB Director's contribution during meetings of the Board, which he attended as envisaged by Regulation 12 (5) of S.L. 9.23. Minutes of these meetings have been regularly kept and several important and necessary decisions were taken during these meetings in order to enhance and continue building the operational capacity of the ARB on the foundations established the previous year.

During the year under review, the Chairman of the ARB Board, assisted by the Director ARB, participated in a number of important meetings in connection with the follow-up of the National Risk Assessment exercise carried out with the aim of identifying, assessing and understanding the risks of money laundering and terrorist financing in Malta. They also took part in the meetings of the National Coordinating Committee on Combatting Money Laundering and

Funding of Terrorism set up in terms of Article 12 A of the Prevention of Money Laundering Act (Chapter 373 of the Laws of Malta) to draw up a national strategy to combat these crimes and co-ordinate any action needed to address threats, vulnerabilities and risks identified. Moreover, the Chairman of the ARB Board, and the Director, participated in a number of important meetings in connection with the Fifth MONEYVAL Evaluation Round of Malta that was being implemented by this Committee of the Council of Europe. Participation during these meetings confirmed the ARB's important role in the context of Malta's national strategy to combat money laundering and terrorism financing. During the current year the ARB Board acquired temporary storage facilities. The Board also planned and implemented the preliminary measures for the acquisition of land and the building thereon of offices and a dedicated storage compound. Moveable confiscated assets would be stored and properly managed in such a building prior to their disposal in favour of the government. The Board, with the support of the ARB Directorate, continued its analysis of the legal tools at its disposal, aiming at identifying weaknesses and shortcomings in the current ARB Regulations as well as under the current confiscation regime. The Board's objective on this issue, is to propose to the competent authorities amendments to the current legislative regime with the aim of creating robust legislation to make illegal asset recovery more effective and efficient.

In the following pages, the Director ARB, who functions under the general supervision of the Board, will be giving a detailed account of the operational work conducted by the Bureau.

Finally, I would like to thank the hard-working Bureau Officers and staff for their dedication in fulfilling their duties. I would also like to acknowledge the assistance extended to the Bureau by the Permanent Secretaries of the Ministry of Justice and the Ministry of Finance and thank them for their support.



JUDGE EMERITUS Dr. JOSEPH DAVID CAMILLERI  
Chairperson - Asset Recovery Bureau Board



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# Director`s Foreword

## Asset Recovery Bureau

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**2019** marked the first full year of operations for the Asset Recovery Bureau (ARB) and a year, in which the ARB was exposed to several challenges and rewarding occasions which have strengthened both its administrative and operational capacity. Since my appointment in 2018 as the Director of the Asset Recovery Bureau, I look forward to continuing leading its Directorate and implementing our ambitious strategies in the field of asset recovery, which can be defined as follows:

### Identification of Key Challenges

Persons accused or convicted of an offence tend to contest any decision that may strip them off their wealth. The likelihood of actual seizing and disposing of illicit assets is directly proportional to the strength of the legal provisions available. Most often, confiscations are subject to appeals or claims through civil cases for the return or release. Asset recovery practices are considered fair new in law enforcement and as such, this requires the re-thinking of the current legislation to reflect today's criminal trends.

### Strengthening cooperation with other Competent Authorities

Cooperation amongst competent authorities is key to strengthen the role of asset recovery and this also encompasses the need to create more awareness amongst such authorities on the role and the benefits of tackling crime through asset recovery practices. In effect, more agreements have been signed between competent authorities as a means to sustain mutual cooperation and increase efforts towards better coordinated operations and engagements against organised crime.

### Making asset recovery known to all

Awareness of asset recovery practices is still low amongst the general public. The confiscation of criminal assets by the Courts is of utmost importance in combatting the criminal economy. The freezing and confiscation of assets raises the actual and perceived risks of committing crime. It prevents gains from criminal activities to penetrate the legitimate economy and deprive criminals from the spoils of their criminal profits. Above all, asset recovery practices are meant to ensure that crime does not pay.

### Investment in new technologies

We are living in a world in which criminal activities are constantly operating across borders through the digital market, using blockchain technology as a means to purchase or accept payments for goods and services. As a result, the ARB has embarked on a plan to increase its awareness on blockchain, and cryptocurrencies while expanding efforts to establish fast exchange of information and cross border cooperation. As a matter of fact, the ARB has secured an open line of communication with Europol ARO team and the EU Asset Recovery Offices platform, with whom it can exchange intelligence and advice.

### Re-defining asset management practices

Besides the identification and tracing of assets pertaining to the accused the ARB Directorate was also involved in asset management which demands that confiscated assets are secured, preserved and disposed. A number of confiscated assets were transferred from Police custody to the ARB's temporary secure storage facility, for preservation and eventually disposed, the amount of which is transferred in favour of the government. Indeed,



**MR. BRIAN FARRUGIA**

Director - Asset Recovery Bureau

the ARB managed to carry out its first ever sale by auction of confiscated assets in Newport, UK. The proceeds from these sales were documented and the amount of which was transferred to the national consolidated fund. Moreover, during 2019, the ARB put forward its proposal for the design and building of a dedicated and secure Asset Recovery Facility.

### **International Relations**

The recovery of confiscated assets is considered one of the most important measures in fighting organised crime. The ARB increased its participation at the international level while continued to observe and contribute towards the alignment of national legislation and practices with new standards, guidelines and obligations. As asset recovery practitioners, we are conscious to the fact that we need international cooperation. Close cooperation enables each asset recovery office to enhance its intelligence capacity whilst using a collective effort to increase awareness and mitigate challenges of cross border cooperation, especially when the need arises to freeze, seize or confiscate assets located in foreign jurisdictions.

### **Training and Staff Development**

The ARB is aware that a robust training programme plays an integral role in driving the success of an organization. The first step taken was to identify the training requirements for new staff, working in a new environment and a newly established public entity which was still setting up its standard of procedures and tackling the first cases. To this effect, staff is encouraged to further their studies and training in all disciplines available at the ARB, ranging from finance and corporate services, to asset tracing techniques and asset management practices.

In 2019, a Corporate Social Responsibility day was also introduced amongst staff and this is commemorated every year on the same date when the ARB Regulations came into effect, i.e. on the 20th of August.

Asset recovery continues to play a critical role in strengthening some of the key foundations of our community and nothing could have been achieved in 2019, without the dedication and hard works expressed by all Bureau Officers, together with the support of the Chairperson and the ARB Board Members.



MR. BRIAN FARRUGIA

Director - Asset Recovery Bureau



# The Asset Recovery Bureau's Directorate

The ARB Directorate was devised at the beginning of 2018 and started to operate with the entry into force of the ARB Regulations in August 2018. This meant that the Directorate had to be well prepared to sustain its operational functions while complemented with an adequate staff capacity.

One of the first tasks implemented at the beginning of 2019 involved the successful conversion of the ARB's accounting system from cash based accounts system to an accrual based system. This was complemented with the installation of a dedicated financial system software to record financial data and produce detailed financial reports, together with the opening of an official bank account for the ARB. Training was also offered to staff working within the Finance and Administration unit, wherein they have completed a forty-five-hour course funded by the European Social Fund 2014 – 2020 on accounting principles.

The acquisition of supplies or services is likewise important to the overall success of operations of the ARB. Procurement is carried out in line with the Public Procurement Regulations and the officer in charge attended training sessions held by Institute for Public Services and additional training was also provided on eProcurement. Moreover, recognising the importance of data protection and data management within the ARB was likewise significant; for the year 2019 a training session was organised for all bureau officers covering all core aspects of the General Data Protection Regulation and national legislation in this regard. This training was applied to the personal data as well as the general data being dealt with by the ARB, ensuring that all regulations surrounding the different nature of the data handled were being observed by all the units found within the ARB.

## Recruitment

The recruitment and management of staff played an important role in the administration of the Directorate. For this reason, standard of procedures focusing on administrative guidelines were introduced for all bureau officers. The designation of Bureau Officer I and Bureau Officer II were also established as new ranks within the ARB Structure. The number of the bureau officers employed by the ARB in 2019 is presented in the below table:

2019	Total	Male	Female
Managers	3	0	3
Bureau Officer II	2	0	2
Bureau Officer I	2	1	1
General Hands	1	1	0

## Specialised Training

To ensure that proper techniques are being implemented within the specialised functions of the ARB there were numerous courses attended by multiple officers working within the different aspects surrounding asset tracing, asset recovery and asset management.

Bureau officers attended MFSA organised workshops on the Fundamentals of DLT Technology and its Applicability within the Financial Services Sector, allowing the participants to be able to acquire current concepts being utilised within this new technology. Moreover, officers also attended a workshop organised by the US Internal Revenue Service, entitled ‘Criminal Investigations on the subject of Financial Investigative Techniques’ allowing participants to gain insight on improved techniques adopted by multiple national agencies participating in this session as well as those adopted by the Internal Revenue Services of the United States itself.

<b>General Training</b>	<b>General Data Protection Regulation Course</b>
	<b>ESPD Implementation and Integration with eCERTIS and National Registers in Malta`s eProcurement System</b>
	<b>Travel Regulations and Procedures by the Institute for Public Service</b>
<b>Specialised Training</b>	<b>Info Session on the Storage and Sale of Crypto Currency by Wilson Auction hosted by ARB</b>
	<b>Participation: 1st MFSA Workshop on the Fundamentals of DLT Technology and its Applicability within the Financial Service Sector</b>
	<b>Participation: 2nd MFSA Workshop on the Fundamentals of DLT Technology and its Applicability within the Financial Service Sector</b>
	<b>Participation: Financial Investigative Techniques presented by the US Internal Revenue Service - Criminal Investigations</b>
	<b>Auctions Processes and Procedures, Travel Visit to Wilsons Newport, United Kingdom</b>
	<b>Delta Summit</b>

## Corporate Social Responsibility

To mark its first anniversary and as means of contributing to society, the ARB dedicated the 20th of August as Corporate Social Responsibility Day.

During this day bureau officers visited a charitable institution and organized a half day informal activity with the children residing in this institution. This day also served as a team building activity for the bureau officers which helped them to integrate more with each other while offering their voluntary service to others. Besides this event, the bureau officers collected funds, bought various stationery material and was donated to these children.

This day was considered as an achievement for all participants involved; providing a sense of satisfaction and accomplishment for the bureau officers, and perhaps distributing some inspiration amongst the children encountered. Thus, going forward this day will be included in the ARB’s calendar of events.

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## Policy Framework

Confiscating assets that are considered as instrumentalities or proceeds of crime “is essential to combat the financial incentive to commit crime”. This is a complex process that entails appropriate actions to be carried out by experienced officers, together with an adequate legislative framework.

To this effect, legislative amendments were carried out throughout this year to three different Acts that address criminal actions. These Acts are namely the Criminal Code, Chapter 9 of the Laws of Malta, the Dangerous Drugs Ordinance, Chapter 101 of the Laws of Malta, and the Prevention of Money Laundering Act, Chapter 373 of the Laws of Malta. These amendments were deemed necessary because the Asset Recovery Bureau is set up under subsidiary legislation 9.23 titled The Asset Recovery Bureau Regulations. In view of that, such subsidiary legislation can only be defined in terms of the Criminal Code and cannot be applied for further interpretations with respect to the Dangerous Drugs Ordinance and the Prevention of Money Laundering Act.

The amendments that were carried out can be grouped under two different sub-headings, as follows:

### *1. The Director of the Asset Recovery Bureau to conduct enquiries*

The enquiries, whether arising under the Criminal Code, the Dangerous Drugs Ordinance or the Prevention of Money Laundering Act used to be carried out by the Registrar of Criminal Courts. However, these amendments have given fruition to subsidiary legislation 9.23 whereby the Director of the Asset Recovery Bureau is now entrusted with the carrying out of enquiries and the drafting of the asset inventory which is thereafter presented to the Maltese Courts.

### *2. Disposal of property*

The process of disposing of property is not regulated by subsidiary legislation 9.23. This process is, however, regulated by article 679 of the Criminal Code. Nonetheless, article 679 entrusts such disposal of property to be carried out by the Registrar of Criminal Courts. Yet, article 700 of the Criminal Code establishes that there shall be established a body corporate having a distinct legal personality. This body corporate was established with the enactment of subsidiary legislation 9.23 as the Asset Recovery Bureau. Consequently, an ambiguity was created with the establishment of this body corporate under this subsidiary legislation and by the non-amendment of article 679. In this regard, amendments to article 679 were proposed to change the process of disposal of property from the Registrar of Criminal Courts to the Director of the Asset Recovery Bureau.

Although the above amendments were deemed necessary, they are nonetheless seen as a temporary measure. The ARB embarked on an exercise to screen relevant national and international legislation as a means to start assessing and considering future amendments that will lead to more effective asset recovery practices concerning any criminal offence, including but not limited to drug trafficking, fraud and anti-money laundering. In particular, the EU Directive 2014/42/EU on the freezing and confiscation of instrumentalities and proceeds of crime in the European Union, Regulation (EU) 2018/1805 on the mutual recognition of freezing orders and confiscation orders and Directive (EU) 2018/843 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing were taken cognisance of. The ARB has also provided its feedback in respect of the said Directives.

## Research and Data Management

### *Methodology*

The Research and Data Management Unit went through the process of instituting its first set of procedures prior to the commencement of the first operative months of 2018 and to such a degree these initial months facilitated the identification of which processes were working and which processes required further modifications. Thus, 2019 was a year wherein failures and successes were examined considering what had been encountered in previous months. Not only did this year bring the deployment of modified process, but additional procedures were established in order to ensure that challenges encountered were addressed accordingly.

As highlighted through the 1st Annual Report 2018 issued by the ARB last year, this entity initiates its processes once a Court decree reaches its offices ordering either a freezing order or any other order which would require the ARB to carry out a search on all the assets held by an individual. For this purpose, the Research and Data Management Unit communicates with its stakeholders in order to collect the required information over a thirty-day time window, as specified by Court within the freezing orders. Throughout this time window the ARB will continually send out reminders: on the fifteen-day mark, and upon the thirty-day mark as a final reminder; informing the stakeholders that they are still to submit a reply to the request for information sent.

This Unit adopted a practice wherein all stakeholders are requested to reply to the requests for information sent, even in those instances where no positive hit is encountered by the stakeholders themselves. This practice was introduced as a means of accountability for all parties involved within this process, wherein there would be no doubts raised on whether the stakeholders are in receipt of the requests sent by the ARB or not. For this reason, and in order to increase the level of participation from all stakeholders; alongside this practice, reminders were also introduced to those stakeholders which do not provide a reply as previously discussed.

Throughout 2019 the ARB attempted to enter onto multiple projects which would enable the above mentioned process to be carried out with a certain level of automation. Notwithstanding, after various attempts the process is still currently being carried out manually leaving a margin of error which would be likely reduced with an automatic process, filing the replies received and sending out reminders with minimal human intervention. Aside from producing much more efficient results when sending out requests to the stakeholders, an automatic processes would allow for much faster data collection to be carried out.

### *Presentation of Replies to Court*

Throughout the year our stakeholders have continuously directed numerous information to the ARB, thus this data had to be analysed in order to identify what could be included into the inventory of assets report in relation to assets currently held by the accused. Once analysed, such data is presented on oath within the report itself. Nevertheless, any other information which is not included is not necessarily discarded. Information gathered, albeit not presented into the report, is still useful as it might help the ARB to isolate any asset which is no longer registered or identify any lacunas which might exist between official registration systems and unofficial listings.

During this period a total of forty-one (41) inventory of asset reports were submitted to Court, out of which fifteen (15) were related to cases with freezing orders originating in the first operational period of 2018. As per Figure 1 below, throughout the year and especially by the end of October, 94% of the 2018 cases were submitted to Court – there was only one (1) case left pending to be submitted in 2020. The majority of the submissions throughout this twelve-month period were related to cases which had a freezing order issued within the same year. Nevertheless, the process for each case is different and different timelines are expected to be encountered throughout each separate case.

## Presentation of Replies to Court

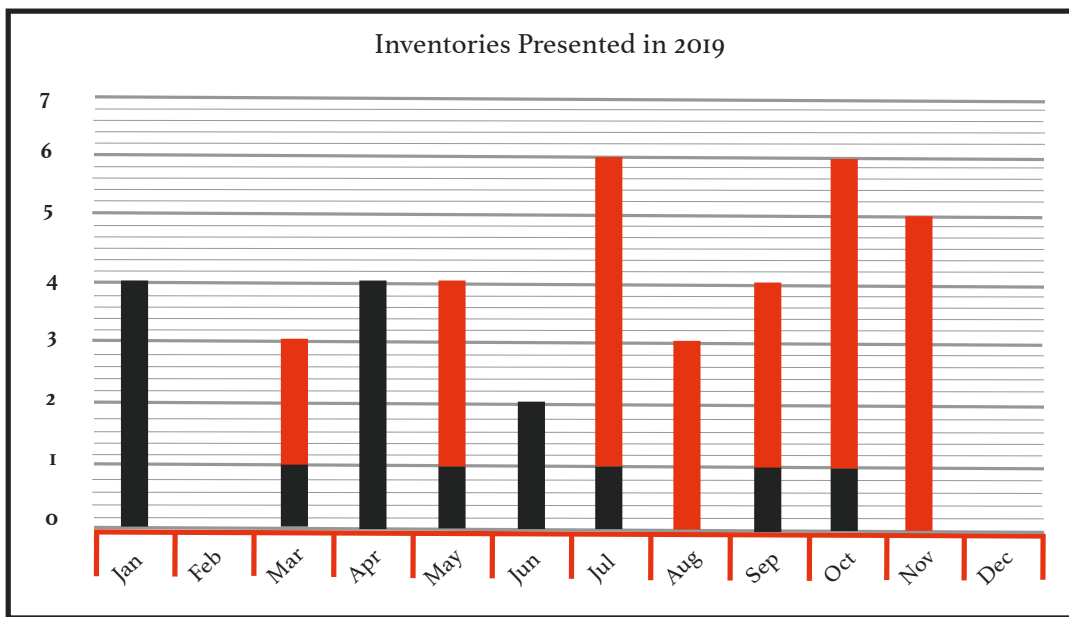
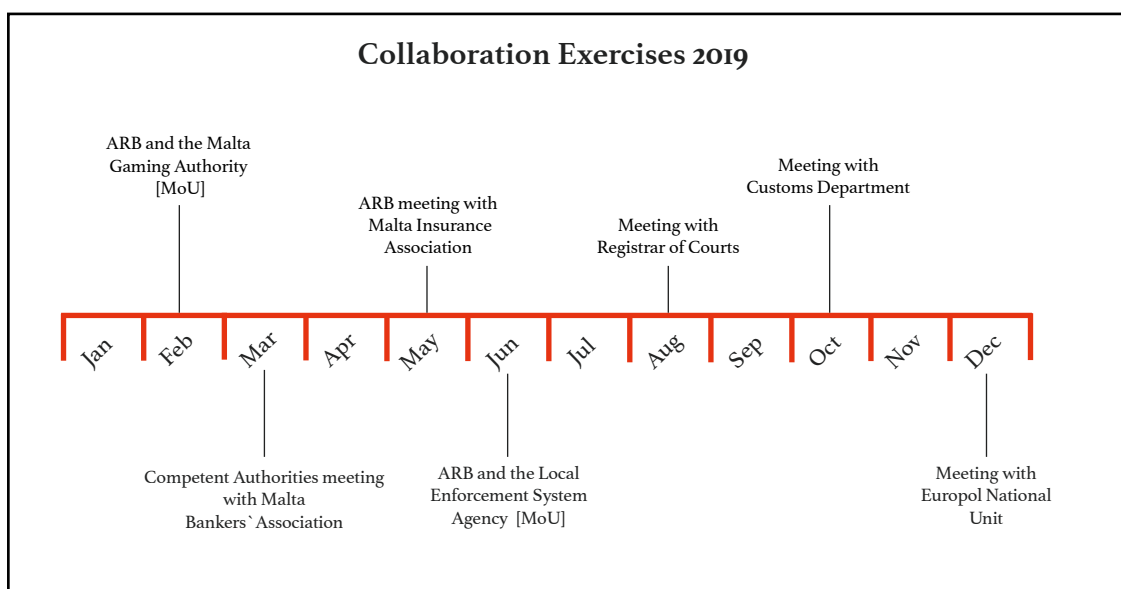


Figure 1: Inventory of Assets presented throughout 2019

## Collaboration with Stakeholders and Authorities

A new year brought new challenges for the ARB wherein cooperation on a larger scale was being sought with all entities, institutions and authorities operating in Malta. To overcome such a challenge, it was imperative for the ARB to seek ways and means to establish connections and build bridges. As a result 2019 brought a series of cooperation exercises carried out in conjunction with other entities to reach out and address certain difficulties encountered in a holistic matter. Meetings with associations were carried out in order to understand and mitigate any present difficulties and Memorandums of Understandings were also signed together with other entities ensuring that there are closer and official channels established for even better networking.



## **Collaboration with Stakeholders**

Building on the rudiments established in 2018, throughout this new operative year the ARB has sought to establish even stronger collaborative channels with all the stakeholders participant within our mailing list. On this matter, during 2019 the ARB participated in a meeting organised by the Malta Bankers' Association (MBA), allowing the Bureau to formally introduce itself to this valuable section of stakeholders and to address any teething problems which might have manifested throughout the first phases of operation of the ARB. This introductory meeting allowed the ARB to reach out to the MBA and forward its queries in order to understand how certain functions of the sector are implemented and how the Bureau can better assist in ensuring that court orders are observed when in force. In addition to this meeting, the ARB carried out a separate informal consultation with the Malta Insurance Association (MIA) wherein multiple points were discussed on how to improve and increase the communication channels used. Notwithstanding these two meetings addressing specific segments within our stakeholders' list, the ARB has also kept all communication channels open with the stakeholders and throughout the year there were multiple instances wherein stakeholders approached the Bureau with various queries and vice-versa.

Nonetheless, the ARB recognises that for the most efficient execution of its operations there must be an increase within the communications and the relations established already. Not only will the new operative year 2020 bring an added effort to meet up with new segments of the stakeholders, but meetings are in the pipeline wherein particular queries and issues arising from court orders as published by the ARB will be addressed together with these valuable members. Moreover, in order to simplify the data collection process for all the stakeholders, the ARB will be implementing an electronic system which would allow replies to be collected in a more uniform and efficient manner. The process for the creation of this system is still in the initial stages and the ARB plans on including the stakeholders from very early stages in order to understand any difficulties which might be encountered.

## **Cooperating with Authorities**

After initial meetings carried out by the ARB with multiple stakeholders during the first operative months, lacunas were identified and as a result different measures were adopted in order to make sure that the gaps are minimised or eliminated altogether. Sharing information and intelligence between agencies has been acknowledged to be one of the best methodologies to obtain successful results throughout all stages of the criminal process including the identification and tracing of assets. Thus, this prompted new rethinking within the ARB wherein the focus was also shifted on the level of information sharing carried out on a national level.

Throughout the year the ARB has sought to collaborate with various agencies ensuring that any relevant information held is brought forward and directed to the competent authority. Multiple meetings were carried out between the Malta Police Force (MPF) and the ARB in order to deliver any information collected especially in cases wherein foreign nationals were involved. These case-meetings allowed other agencies to be involved within this process, introducing the beneficial input that such agencies can provide in order to understand all information gathered throughout the case.

In this regard, a series of Memorandums of Understandings (MoUs) were concluded throughout the year focusing on the prospects of better data sharing and establishing procedures on best practices to be used in order to carry this out. The first quarter of the year saw an MoU signed between the ARB and the Malta Gaming Authority (MGA) effective on the 18th of February 2019, whilst later on during the third quarter another MoU was signed with the Local Enforcement System Agency (LESA) effective on the 4th of July 2019. In addition to data sharing, these MoUs also list the possibility of contributing to training. Thus, wherein possible training which is applicable to other agencies will be carried out in conjunction with them.

Notwithstanding these efforts, there are further plans to increase focus on the notion of data and information sharing at a national level between the competent and relevant authorities. Going forward the ARB is in preparation

so that its goal is achieved at a national level by creating a well-structured approach when sharing its intelligence with the relevant authorities. Moreover, there are various MoUs in the pipeline which are likely to be concluded within the coming year to create a harmonised approach for national data sharing.

#### *Case Study*

*The year 2019 brought cases which shaped the procedures and processes of the ARB. During the year, there was a perceptible increase in the use of thresholds implemented within the context of a freezing order. Currently the implementation of thresholds rests on the identification of a monetary amount which is clearly distinguishable without any reasonable doubt, such as an amount emanating from contracts, payments or statements in relation to the criminal offence committed. Once this amount is distinguished, through a judicial process the freezing order can be limited to reach only those assets which are equivalent to the mentioned amount.*

*In these circumstances, two different variables were encountered: freezing orders issued with a limit imposed from the very beginning, and freezing order updated to include an identified limit accordingly. Nonetheless, the adopted procedure remained the same throughout both instances, being: indicating all the assets held by the accused, and identifying which assets will be held frozen as per limitation and which assets will be released.*

*Understandably, this process involves multiple exchanges between the judicial authorities, the ARB and the relevant third parties maintaining records of the assets in order to ensure that any updates are disseminated accordingly. As a result, and as was evident throughout the mentioned case, all communication exchanged must include clear concise instructions on how to proceed.*

#### Foreign requests for assistance

The ARB acknowledged the importance of widening its tracing operations abroad in order to identify any assets held by the accused beyond the national borders. Thus, the beginning of the year brought new challenges wherein the ARB sought to mitigate these cross-border issues by efficiently tracing any assets held and closing in on the distance between different countries.

In the first quarter of 2019 the ARB, together with the Malta Police Force (MPF), brought new changes in the implementation of a structured system that would enable communication to be carried out through secure channels in order to send and receive foreign requests of assistance. The ARB conducted meetings with MPF to establish new procedures, which were ultimately adopted to allow the Bureau to transmit requests through Secure Information Exchange Network Application (SIENA) channels, which is managed by the MPF itself. The SIENA platform was created in order to solve the communication needs of EU law enforcements, however access to this platform was also extended to AROs during recent years.

Processing our requests through these SIENA channels allowed the ARB to expand its reach wherein as per Figure 2 a total of twenty-six (26) requests were sent to foreign Asset Recovery Offices (AROs). These requests, covering a total of nineteen (19) separate cases, have reached eighteen (18) countries as can be identified through Figure 3 below. Most of the requests sent were on individuals holding foreign passports, with only 14.29% of the requests being on Maltese nationals.

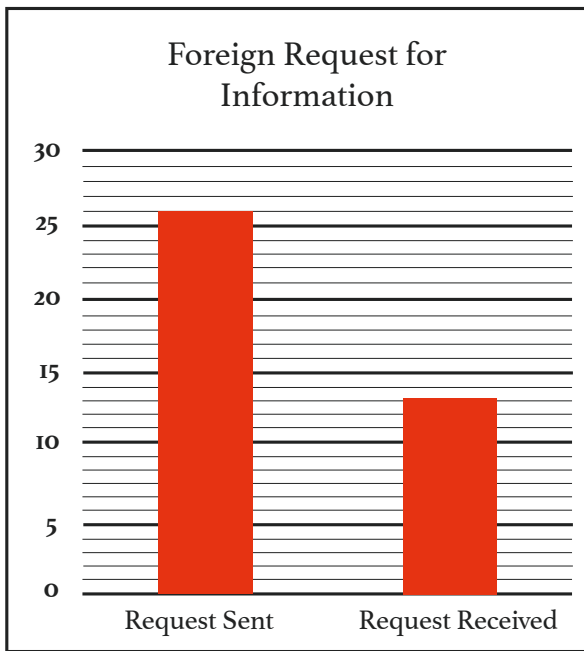


Figure 2: Foreign Request for Information

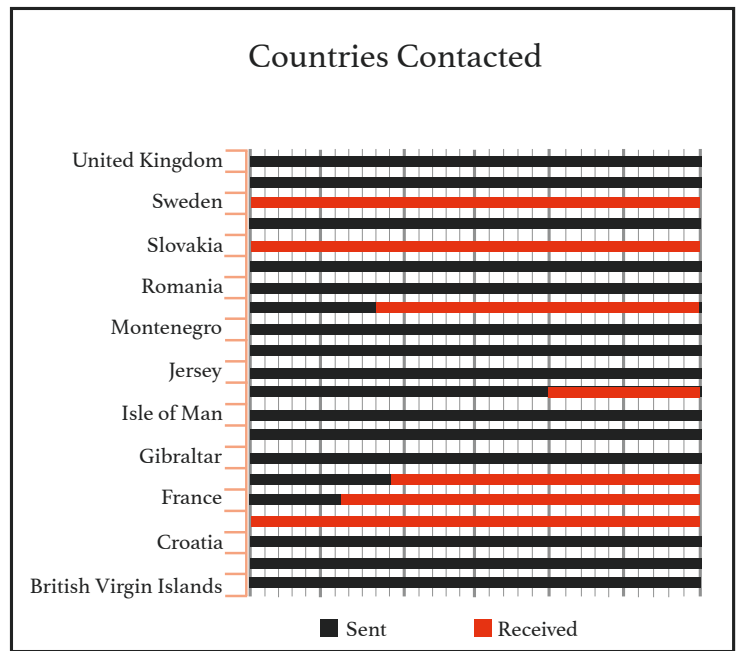


Figure 3: Countries Contacted for Foreign Request for Information

Furthermore, having established a secure communication exchange channel enabled the AROs to connect to the ARB and thus, for the first time during its operations foreign requests were introduced and managed by the ARB. In this regard, a total of thirteen (13) foreign requests were received emanating from seven (7) different countries as seen in Figure 2 and Figure 3 respectively.

The ARB is committed to continue developing the work which was initiated throughout this year. In conjunction with assistance provided by the MPF, the ARB has approved and scheduled a safeguarded IT system that would enable direct access to SIENA channels. This undertaking is expected to be executed throughout the year 2020, with the eventual implementation in the third quarter of the year. In this manner replies and queries can be sent immediately by the ARB, with the main objective that of making the ARB tracing processes even more efficient.

Notwithstanding the above, challenges were encountered when using the SIENA platform and when carrying out the process of asset tracing overseas. A discernible issue is that of contacting those countries which are not included within the platform itself. Thus, the new year will bring an even stronger resolve to use all possible instruments available for communication between countries and establish new connections through various international fora of which the ARB is member of, to effectively close any possible gaps.

**Statistics**

Data collection is a vital aspect for data management within the Research and Data Management Unit. The collection of data and statistics serves as a foundation for high quality research to be implemented. Keeping a record of all the details pertaining to each case will ensure ease of reference for future queries that might arise and for answers to be found. Therefore, data collection and its storage must be carried out in an organised manner since this is fundamental for the analysis, evaluation and decision-making process required for the managing of assets. Furthermore, by collecting data and statistics, it will be easier for the Bureau to make comparisons and future predictions which, in turn, contribute to the efficiency and effectiveness of the Bureau.

Throughout 2019 the ARB published a total of seventy-one (71) new Freezing Orders within the Government Gazette and the FIAU website, thus indicating that the similar average reported last year of one (1) freezing order per week was maintained also throughout this year. The following graphical representation as per Figure 4 depicts the volume of the freezing orders by month, indicating the busiest months as April and November with nine (9) orders and ten (10) orders published respectively.

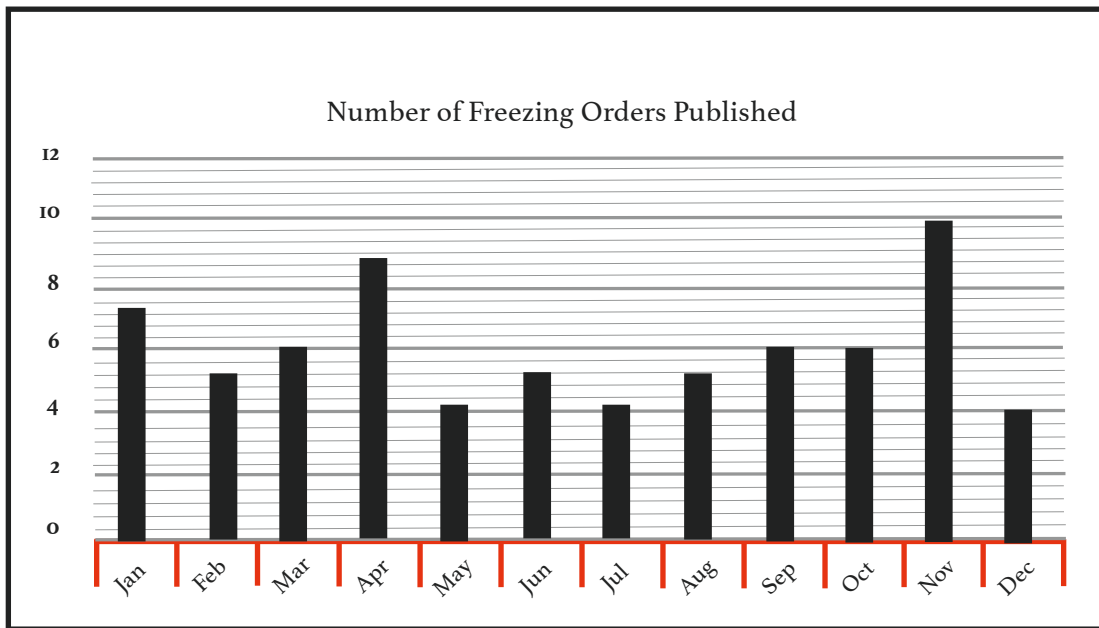


Figure 4: Freezing orders published during 2019

As the operational process of the ARB continued throughout 2019, the first instances of Variation Orders published were also encountered with a total of twelve (12) issued over the period as per depiction in the below Figure 5. The majority of these, with a total of nine (9) variation orders are covering repayments of loans, or specific instructions including bank accounts and branches from which the withdrawal of the annual allowance is being permitted to the accused. Currently there have been no Cancellation Orders issued by the ARB.

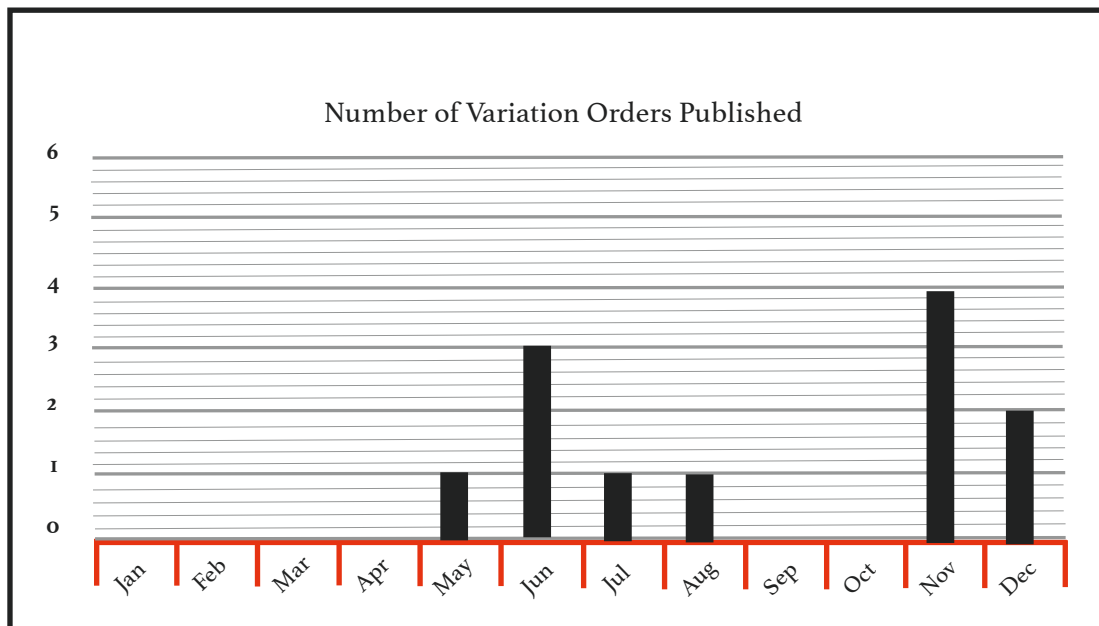


Figure 5: Variation orders published during 2019

The freezing orders issued through the 2019 period follow the same predispositions which were identified during the first operative months of the ARB. The legal basis used by the prosecution and the judicature for the freezing order rests between Chapter 9, Chapter 101 and Chapter 373 of the Laws of Malta. For all cases managed by the ARB, the tendency is that Chapter 9 is always used in conjunction with the other chapters. Nonetheless there were instances wherein only Chapter 9 was applied, and also a singular case which had all the elements as identified through the mentioned three chapters. This can be better understood through the following graphical representation hereunder in Figure 6.

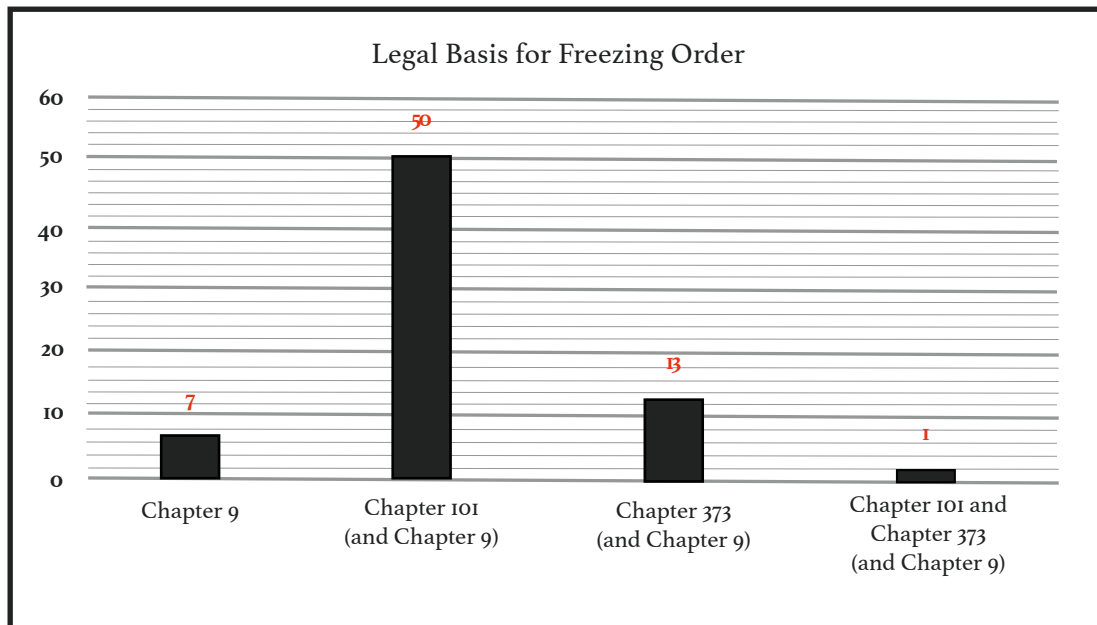


Figure 6: Legal basis for freezing orders published

As evident through the above representation, the predominant offences followed the same categories as apparent through the legal basis used, and thus the most common offences as per Figure 7 were related to drugs with a total of 71.83% of all cases, followed by fraud and money laundering and others.

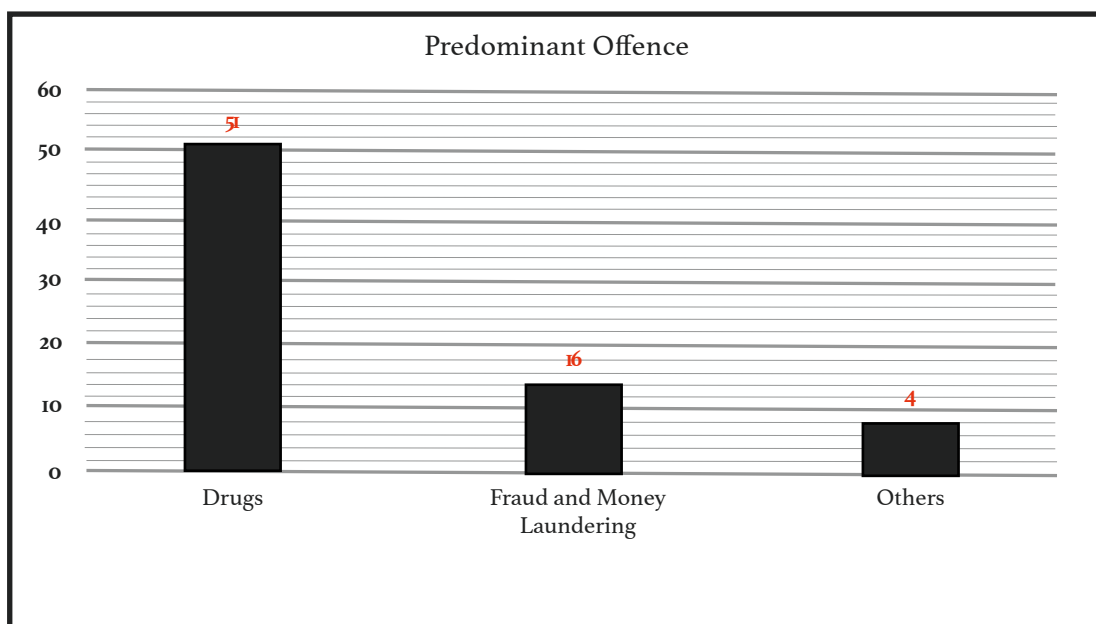


Figure 7: Predominant offences on freezing orders published in 2019

In 2018, the freezing orders issued by the ARB were all following one or more natural person, and albeit this remained as the standard throughout 2019, there were also cases introducing freezing orders issued on legal persons. For the large part, the above mentioned freezing orders were covering a total of seventy-five (75) different natural persons and one (1) legal person as represented in Figure 8.

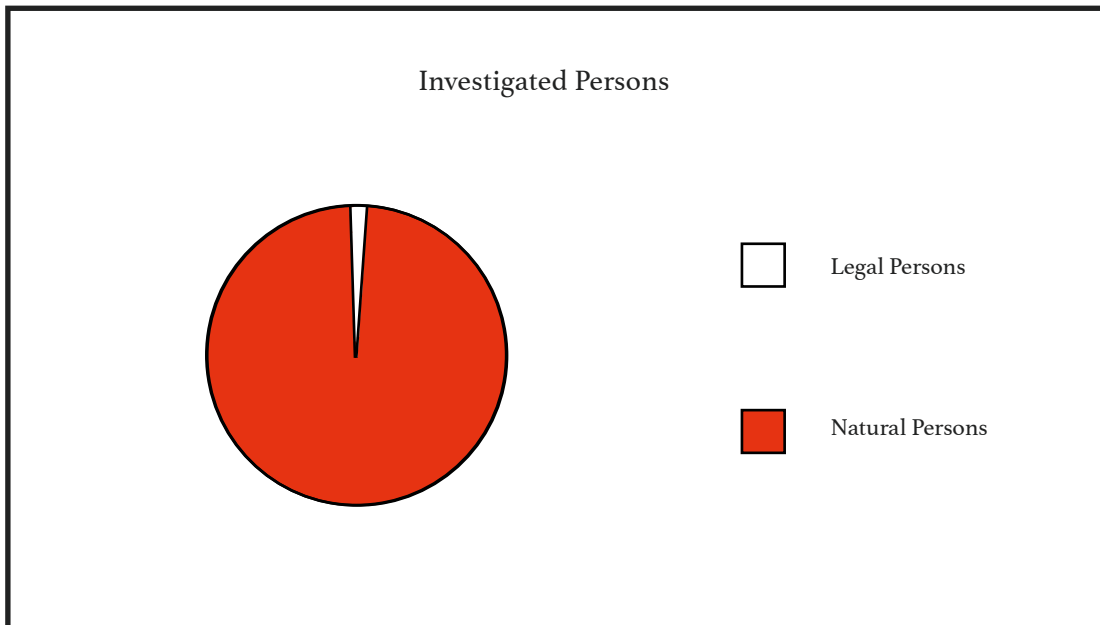


Figure 8: Investigated persons as per freezing orders published in 2019

These natural persons are being distinguished as being different and separate from one another given that during the mentioned period there were a few instances wherein freezing orders were issued on the same natural person within the same year. As a result, these are not being included in the values given above. The analysis of these natural persons also indicates that for the most part freezing orders are issued on males, reporting a total of 90.67% and Maltese nationals, with a total of 62.67% reported; both values are as recorded in Figure 9 and Figure 10 respectively.

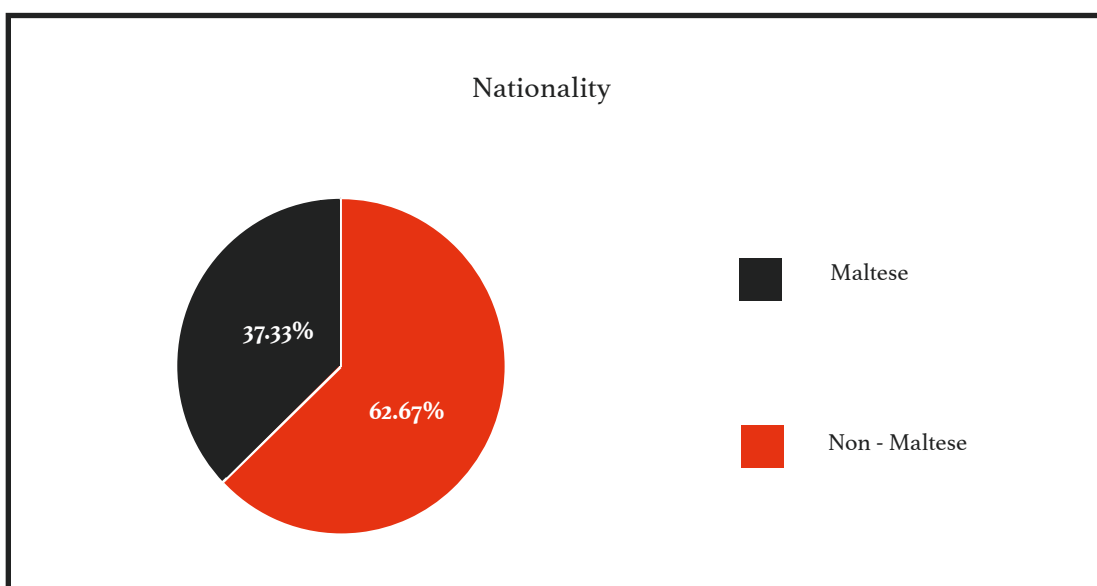


Figure 9: Nationality as per freezing orders published in 2019

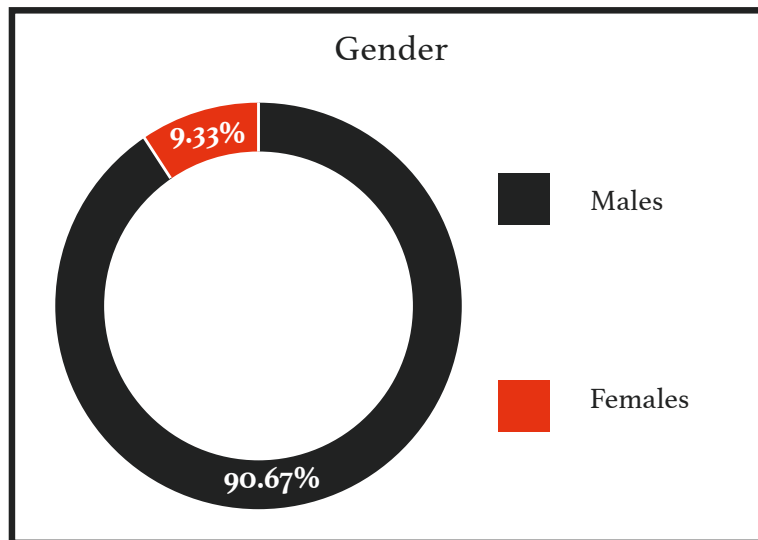


Figure 10: Gender as per freezing orders published in 2019

These natural persons are being distinguished as being different and separate from one another given that during the mentioned period there were a few instances wherein freezing orders were issued on the same natural person within the same year. As a result, these are not being included in the values given above. The analysis of these natural persons also indicates that for the most part freezing orders are issued on males, reporting a total of 90.67% and Maltese nationals, with a total of 62.67% reported; both values are as recorded in Figure 9 and Figure 10 respectively.

As reported for the first active period of the ARB, the values for the frozen assets affected by the court orders for the year 2019 were mostly related to movable assets, such as bank accounts and vehicles. The values depicted within the representation below through Figure 11 are values resting on the quantities of assets held frozen. The monetary amounts recorded within the bank accounts reported result in a total of €386,954.45 held in credit and €839,050.83 held in debit by the different credit institutions. Nevertheless, the amounts reported are not definite amounts since the multiple freezing orders managed by the ARB might have variation orders allowing for the repayment of loans or allowances for the basic living amount of €13,976.24 to be availed of annually.

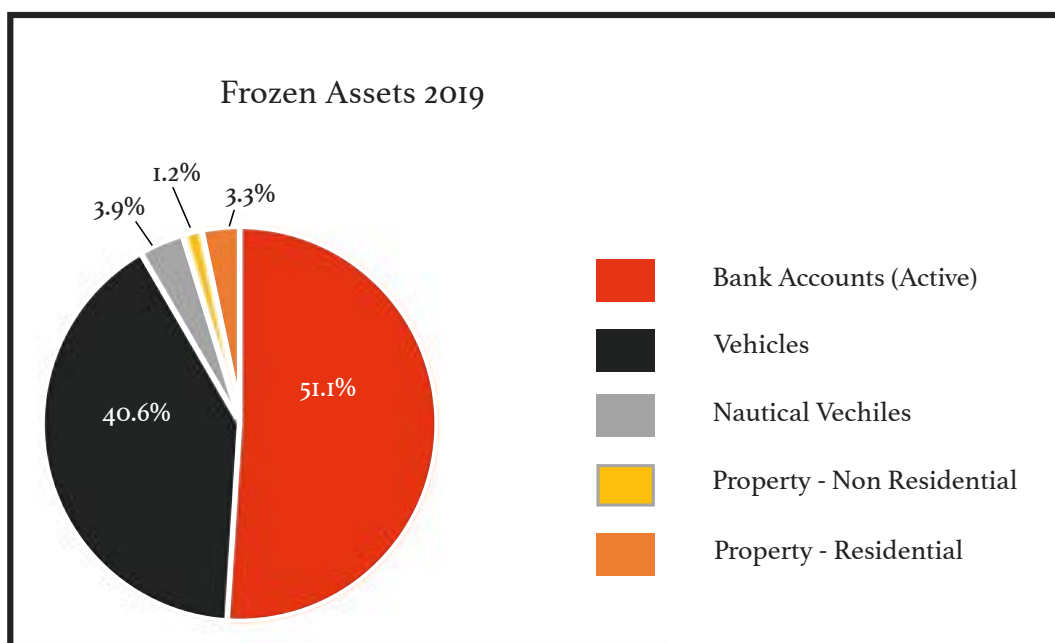


Figure 11: Assets frozen through freezing orders published in 2019

## Asset Management

Confiscated assets, as ordered by a Court judgment, are those assets identified as deriving from criminal activities or used to carry out a criminal activity. Prior to the coming into force of Act No. XXXI of 2019 on the 6th of December 2019, confiscated assets were collected by the ARB under a delegation from the Registrar of the Criminal Court and as directed by the said Registrar.

These assets are transferred to a secure storage facility, according to the specific type and nature of the asset being handled. Throughout 2019 the asset management team introduced a new asset management software and all confiscated assets were registered in this software. This system allows the ARB to store important information on the assets under its management, such as date of entry, date of release and date of disposal, condition in which the asset was originally found, location wherein the assets are being stored and any other authorized movements on such assets. The assets stored at the ARB compound are maintained to the highest level in order to ensure that upon disposal the maximum amount possible is obtained to be transferred in favour of the Government. To assist in the management of these assets, the compound itself is equipped with secure CCTVs and an intruder alarm surveillance. Notwithstanding the compound itself is not adjacent to the main premises of the ARB, constant monitoring is achieved through the remote access technology attributed with the security features installed at the premises.

Confiscated assets may only be disposed of, following a res judicata judgment. The ARB embarked on a pilot project with Wilsons Auctions Ltd based in UK & Ireland, which specializes in the sale of criminal proceeds through online and live public auctions. This pilot project was not just beneficial for the sale of the confiscated assets but also offered the opportunity to exchange good practices and practical training of staff on asset management techniques.



**“Asset Recovery Bearue embarked on a pilot project with Wilsons Auctions Ltd”**

In April 2019 representatives from Wilsons Auctions Ltd were invited to Malta for a two-day Technical Working Group. On the first day, a site visit was organised to the ARB storage compound wherein training was provided on the correct techniques used when handling such assets as well as training for the use of the online platform offered by Wilsons Auctions in order to prepare assets for auction. On the second day, Wilsons Auctions delivered a half day information session organized by the ARB. This information session was made accessible to relevant competent authorities that may directly or indirectly deal with seizure or tracing of assets such as the MPF, the Registrar of Courts and Customs. The experts provided information on how to maximise the value of such assets and how to keep proper management throughout; issues which are fundamental in asset management. During the information session, the correct techniques used for the valuation, preservation and remarketing for the sale of these assets were discussed. Moreover, the audience were encouraged to look at assets with different mindsets wherein objects such as clothing and footwear were introduced into the forum as possible high value assets which might result in good returns collected when these are at disposal stage. This session also highlighted the importance of cryptocurrency as potential confiscated criminal assets, but more importantly, information was provided on methodologies by which such volatile high value assets can be collected, secured and managed.

To strengthen the knowledge obtained throughout the first information session organized in April, officers from ARB visited one of the Wilsons Auctions Ltd. branches situated in Newport UK. During this visit organized in July 2019, the officers experienced a sale by auction, providing them with practical guidance on the different methodologies that can be adopted in asset disposal.

Bureau officers were also presented with practical sessions by in-house experts on how assets are categorised prior to their disposal and the importance of formulating reports such as Asset Condition Reports prior to disposal. These practices were introduced into the ARB standard of procedures on assets management ensuring best practices were being employed by all officers involved within this process.

The UK experts recommended that ARB should invest in a facility with adequate space for offices, storage for authorised personnel only, an access controlled zone for public viewing and a small hall to serve as a training venue.

The ARB managed to carry out its first sale by online public auction in August 2019. The auction was open to both local and foreigners alike. Confiscated assets were shipped to the UK and the amount of which was transferred to the government consolidated fund. This system allows for adequate due diligence on interested bidders and is backed up by a clear audit trail and a sales report.



## Case Study

Court judgement ordered the confiscation of one vehicle registered in Malta, following a money laundering offence. The disposal of this vehicle was delegated to the Asset Recovery Bureau, whereby the vehicle was collected and transferred to the ARB Compound for preservation, valuation and in preparation for disposal.

The vehicle was eventually shipped to the UK and set on auctions. It was bought by an anonymous bidder on the 30 August 2019 as lot no.22 and the net sales were later on transferred to the Government consolidated fund.

The ARB carried out a transfer of €38,657.72 in favour of the Government of Malta. This amount was related to items confiscated which were collected and sold in 2019. Thus, the result amount is the value with which the items were eventually sold in foreign markets.

**“The ARB managed  
to carry out its  
first sale by online  
public auction  
in August 2019”**

# Financial Statements



## Asset Recovery Bureau Financial Statements

For the Year Ended 31 December 2019

	Note	2019 €	2018 (restated) €
Government subvention		450,000	214,113
Administrative expenses		(368,143)	(210,489)
Finance costs	5.	<u>(4,105)</u>	<u>(876)</u>
<b>Profit for the year/period</b>	6.	<u>77,752</u>	<u>2,748</u>
<b>Total comprehensive income for the year/period</b>		<u><u>77,752</u></u>	<u><u>2,748</u></u>



## Asset Recovery Bureau Statement of Financial Position

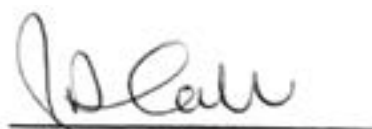
As at 31 December 2019

	Note	2019 €	2018 (restated) €
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8.	59,781	56,269
Intangible assets	9.	<u>1,535</u>	-
<b>Total non-current assets</b>		<u>61,316</u>	<u>56,269</u>
<b>Current assets</b>			
Cash and cash equivalents	10.	<u>117,514</u>	-
<b>TOTAL ASSETS</b>		<u><u>178,830</u></u>	<u><u>56,269</u></u>



**Asset Recovery Bureau**  
**Statement of Financial Position**  
As at 31 December 2019

	Note	2019 €	2018 (restated) €
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Retained earnings		<u>80,500</u>	<u>2,748</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Lease liability	II.	<u>-</u>	<u>22,562</u>
<b>Current liabilities</b>			
Lease liability	II.	46,353	21,467
Trade and other payables	12.	<u>51,977</u>	<u>9,492</u>
<b>Total current liabilities</b>		<u>98,330</u>	<u>30,959</u>
<b>Total liabilities</b>		<u>98,330</u>	<u>53,521</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>178,830</u></u>	<u><u>56,269</u></u>



JUDGE EMERITUS DR. JOSEPH DAVID CAMILLERI  
Chairperson - Asset Recovery Bureau Board



MR. BRIAN FARRUGIA  
Director - Asset Recovery Bureau



## Asset Recovery Bureau Statement of Changes in Equity

As at 31 December 2019

	Retained earnings €	Total equity €
<b>At 1 January 2019</b>	2,748	2,748
<b>Profit for the year</b>	77,752	77,752
<b>Balance at 31 December 2019</b>	<b>80,500</b>	<b>80,500</b>
<b>Opening balance</b>	-	-
<b>Profit for the period (as restated)</b>	2,748	2,748
<b>Balance at 31 December 2018</b>	<b>2,748</b>	<b>2,748</b>

## Asset Recovery Bureau Statement of Cash Flows

As at 31 December 2019

	2019	2018 (restated)
	€	€
<b>Cash flows from operating activities:</b>		
Profit for the year/period	77,752	2,748
Bank interest expense	724	-
Interest expense on leases	3,381	876
Depreciation and amortisation	51,337	25,380
<b>Profit from operations</b>	<b>133,194</b>	<b>29,004</b>
Movement in trade and other payables	42,485	9,492
Bank interest paid	(724)	-
<b>Net cash flows from operating activities</b>	<b>174,955</b>	<b>38,496</b>
<b>Cash flows from investing activities:</b>		
Payments to acquire property, plant and equipment	(6,394)	(14,496)
Payments to acquire intangible assets	(2,047)	-
<b>Net cash flows used in investing activities</b>	<b>(8,441)</b>	<b>(14,496)</b>
<b>Cash flows from financing activities:</b>		
Payments for leases	(49,000)	(24,000)
<b>Net cash flows used in financing activities</b>	<b>(49,000)</b>	<b>(24,000)</b>
<b>Net movement in cash and cash equivalents</b>	<b>117,514</b>	<b>-</b>
Cash and cash equivalents at beginning of year/period	-	-
<b>Cash and cash equivalents at end of year/period</b>	<b>117,514</b>	<b>-</b>

10.



## Asset Recovery Bureau

### Notes to the Financial Statements (Continues)

For the Year Ended 31 December 2019

#### **1. Basis of preparation**

##### **a. Statement of compliance**

The financial statements have been prepared and presented in accordance with the requirements of the Asset Recovery Bureau Regulations (S.L. 9.23) as promulgated by Legal Notice 357 of 2015 and International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the EU. These are the Bureau's first financial statements prepared in accordance with IFRS (see note 15 for explanation of the transition to IFRS).

##### **b. Basis of measurement**

The financial statements have been prepared on the historical cost basis.

##### **c. Functional and presentation currency**

The financial statements are presented in euro (€), which is the Bureau's functional currency. Transactions denominated in foreign currencies are converted to the functional currency at the rates of exchange ruling on the dates on which the transactions first qualify for recognition. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in profit or loss.

#### **2. Change in accounting policies**

a. New and revised standards that are effective for annual periods beginning on or after 1 January 2019  
In 2019, the bureau adopted new standards, amendments and interpretations to existing standards that are mandatory for the Bureau's accounting period beginning on 1 January 2019.

##### **IFRS 16 Leases**

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Bureau recognising a right of use asset and related lease liability in connection with all former operating leases except for those identified as low value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the full retrospective approach which requires the application of IFRS 16 to all periods presented as if it had always been applied.

A third statement of financial position in accordance with IAS 1 Presentation of Financial Statements upon the application of the full retrospective approach was not required as the comparative period ending 31 December 2018 was the first financial period of the Bureau.

**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
For the Year Ended 31 December 2019

**2. Change in accounting policies (continued)**

**a. New and revised standards that are effective for annual periods beginning on or after 1 January 2019 (continued)**

IFRS 16 was adopted along with the Bureau's first time adoption of IFRS as explained in more detail in note 14.

**b. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bureau**

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the bureau.

Management anticipates that all relevant pronouncements will be adopted in the bureau's accounting policies for the first period beginning after the effective date of the pronouncement. The Bureau does not expect that new standards, interpretations and amendments will have a material impact on the bureau's financial statements.

**3. Significant Accounting Policies**

**a. Property, plant and equipment**

**i. Recognition and measurement**

The cost of an item of property, plant and equipment is recognised as an asset when it is probable that the future economic benefits that are associated with the asset will flow to the entity and the cost can be measured reliably. Property, plant and equipment are initially measured at cost comprising the purchase price, any costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the item and restoring the site to which it is located. Subsequent expenditure is capitalised as part of the cost of property, plant and equipment only if it enhances the economic benefits of an asset in excess of the previously assessed standard of performance, or it replaces or restores a component that has been separately depreciated over its useful life.

After initial recognition, property, plant and equipment is carried under the cost model, that is at cost less any accumulated depreciation and any accumulated impairment losses.

**ii. Depreciation**

Depreciation is calculated to write down the carrying amount of the asset on a systematic basis over its expected useful life. Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) or the date that the asset is derecognised. The depreciation charge for each period is recognised in profit or loss.



**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
 For the Year Ended 31 December 2019

**3. Significant Accounting Policies (continued)**

**a. Property, plant and equipment (continued)**

**ii. Depreciation (continued)**

Land is not depreciated. The rates of depreciation used for other items of property, plant and equipment are the following:

Plant and machinery	16.67% straight line
Furniture and fixtures	10% straight line
Office equipment	25% straight line
IT equipment	25% straight line

In the case of right of use assets, expected useful lives are determined by reference to comparable owned assets or the lease term, if shorter.

The depreciation method applied, the residual value and the useful life are reviewed on a regular basis and when necessary, revised with the effect of any changes in estimate being accounted for prospectively.

**iii. Derecognition**

Property, plant and equipment is derecognised and removed from the statement of financial position on disposal or when no future economic benefits are expected. Gains and losses from derecognition are measured as the difference between the net disposal proceeds, if any, and the carrying amount and are recognised in profit or loss.

**b. Intangible assets**

**i. Recognition and measurement**

An acquired intangible asset is recognised only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost, comprising its purchase price and any directly attributable cost of preparing the asset for its intended use.

Intangible assets are subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.

**ii. Amortisation**

Amortisation on fixed life intangible assets is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of intangible assets. The estimated useful lives for intangibles with definite lives are as follows:

Computer software	25% straight line
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The useful lives of the intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly.

**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
For the Year Ended 31 December 2019

**3. Significant Accounting Policies (continued)**

**b. Intangible assets (continued)**

**iii. Derecognition**

Intangible assets are derecognised and removed from the statement of financial position on disposal or when no future economic benefits are expected. Gains and losses from derecognition are measured as the difference between the net disposal proceeds, if any, and the carrying amount and are recognised in profit or loss.

**c. Leases**

For lease agreements, the Bureau considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Bureau assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bureau
- the Bureau has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Bureau has the right to direct the use of the identified asset throughout the period of use. The Bureau assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Bureau recognises a right of use asset and a lease liability on the balance sheet. The right of use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bureau, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bureau depreciates the right of use assets on a straight line basis from the lease 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. The Bureau also assesses the right of use asset for impairment when such indicators exist.

At the commencement date, the Bureau measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bureau's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right of use asset, or profit and loss if the right of use asset is already reduced to zero.

## Asset Recovery Bureau

### Notes to the Financial Statements (Continues)

For the Year Ended 31 December 2019

The Bureau has elected to account for short term leases and leases of low value assets using the practical expedients. Instead of recognising a right of use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight line basis over the lease term.

On the statement of financial position, right of use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

#### **d. Impairment testing of non financial assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non financial assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period

#### **e. Financial instruments**

##### **i. Recognition and derecognition**

Financial assets and financial liabilities are recognised when the Bureau becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

##### **ii. Financial assets**

Classification and initial measurement of financial assets

At initial recognition, the Bureau measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Bureau has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

## Asset Recovery Bureau

### Notes to the Financial Statements (Continues)

For the Year Ended 31 December 2019

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or finance income, except for impairment of trade receivables which is presented within administrative expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Bureau's cash and cash equivalents fall into this category of financial instruments.

Impairment of financial assets

IFRS 9's impairment requirements use more forward looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the new requirements included loans and other debt type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Bureau first identifying a credit loss event. Instead, the Bureau considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12 month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument.

iii. Financial liabilities

The Bureau's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Bureau designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

## Asset Recovery Bureau

### Notes to the Financial Statements (Continues)

For the Year Ended 31 December 2019

All interest related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

**f. Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short term investments that are held to meet short term cash commitments rather than for investment or other purposes. Bank overdrafts, which are repayable on demand and form an integral part of the Bureau's cash and management, are a component of cash and cash equivalents.

**g. Equity**

Retained earnings include current and prior period results.

**h. Revenue recognition**

**i. Government subvention**

The Bureau's Government subvention is recorded on a time accruals basis.

**ii. Interest income**

Revenue is recognised as interest accrues (using the effective interest method). Interest income is included in finance revenue in the income statement.

**i. Borrowing costs**

Borrowing costs, including those costs that are directly attributable to the acquisition, construction or production of qualifying assets, are recognised as an expense in profit or loss in the period in which they are incurred.

**j. Significant management judgement and estimates**

International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates in the preparation of financial statements. IFRS also requires management to exercise judgement in the process of applying the Bureau's accounting policies. Any areas that involve a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are required to be separately disclosed. For the year ended 31 December 2019, there are no significant judgements and estimates that management believes are critical and require separate disclosure.

**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
For the Year Ended 31 December 2019

**4. Custody and disposal of confiscated assets**

By virtue of the Recovery Bureau Regulations (S.L. 9.23), the Bureau is empowered to collect, administer and dispose of property recovered from the proceeds of crime and to deposit such in the Government's Consolidated Fund.

The results for the year under review were as follows:

	2019	2018 (restated)
	€	€
Proceeds derived from disposal of assets	38,658	-
Transfer to Government's Consolidated Fund	(38,658)	-
	<u>-</u>	<u>-</u>

At year end, the Asset Recovery Bureau held confiscated assets and cash on behalf of the Government of Malta.

**5. Finance costs**

	2019	2018 (restated)
	€	€
Interest expense on leases	3,381	876
Bank interest expense	724	-
	<u>4,105</u>	<u>876</u>



**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
 For the Year Ended 31 December 2019

**6. Profit for the year/period**

Profit for the year/period is stated after charging the following:

	2019	2018 (restated)
	€	€
Auditor's remuneration	1,074	-
Depreciation and amortisation	51,337	25,380
	<u>51,337</u>	<u>25,380</u>

**7. Wages and salaries**

Payroll costs for the year/period comprise of the following:

	2019	2018 (restated)
	€	€
Board members' remuneration	39,000	39,000
Salaries, wages and employee benefits	240,888	120,761
	<u>279,888</u>	<u>159,761</u>

The average number of persons employed by the Bureau during the year/period was as follows:

	2019 No	2018 No
Board members	5	5
Director	1	1
Operations and administration	7	3
	<u>13</u>	<u>9</u>

**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
For the Year Ended 31 December 2019

**8. Property, plant and equipment**

	Buildings €	Plant and machinery €	Furniture and fixtures €	Office equipment €	IT equipment €	Total €
<b>31 December 2019</b>						
<b>Cost</b>						
Opening balance	67,153	-	4,189	1,138	9,169	81,649
Additions	47,943	715	440	3,533	1,706	54,337
<b>At 31 December 2019</b>	<b>115,096</b>	<b>715</b>	<b>4,629</b>	<b>4,671</b>	<b>10,875</b>	<b>135,986</b>
<b>Depreciation</b>						
Opening balance	(22,384)	-	(419)	(285)	(2,292)	(25,380)
Charge for the year	(46,356)	(119)	(463)	(1,168)	(2,719)	(50,825)
<b>At 31 December 2019</b>	<b>(68,740)</b>	<b>(119)</b>	<b>(882)</b>	<b>(1,453)</b>	<b>(5,011)</b>	<b>(76,205)</b>
<b>Carrying amount</b>						
<b>At 31 December 2019</b>	<b>46,356</b>	<b>596</b>	<b>3,747</b>	<b>3,218</b>	<b>5,864</b>	<b>59,781</b>
<b>31 December 2018</b>						
<b>Cost</b>						
Opening balance	-	-	-	-	-	-
Additions	67,153	-	4,189	1,138	9,169	81,649
<b>At 31 December 2018</b>	<b>67,153</b>	<b>-</b>	<b>4,189</b>	<b>1,138</b>	<b>9,169</b>	<b>81,649</b>
<b>Depreciation</b>						
Opening balance	-	-	-	-	-	-
Charge for the period	(22,384)	-	(419)	(285)	(2,292)	(25,380)
<b>At 31 December 2018</b>	<b>(22,384)</b>	<b>-</b>	<b>(419)</b>	<b>(285)</b>	<b>(2,292)</b>	<b>(25,380)</b>
<b>Carrying amount</b>						
<b>At 31 December 2018</b>	<b>44,769</b>	<b>-</b>	<b>3,770</b>	<b>853</b>	<b>6,877</b>	<b>56,269</b>

**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
For the Year Ended 31 December 2019

**8. Property, plant and equipment (continued)**

Included in the net carrying amount of property, plant and equipment are right-of-use assets as follows:

	2019 €	2018 €
Buildings	46,356	44,769
<b>Total right-of-use assets</b>	<b>46,356</b>	<b>44,769</b>

Depreciation on right-of-use assets for the year under review was of € 46,356 (2018: € 22,384).

**9. Intangible assets**

**31 December 2019**

	Computer software €
<b>Cost</b>	
Opening balance	-
Additions	2,047
<b>At 31 December 2019</b>	<b>2,047</b>
<b>Amortisation</b>	
Opening balance	-
Charge for the year	(512)
<b>At 31 December 2019</b>	<b>(512)</b>
<b>Carrying amount</b>	
<b>At 31 December 2019</b>	<b>1,535</b>

**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
For the Year Ended 31 December 2019

**10. Cash and cash equivalents**

Cash and cash equivalents for the purpose of the cash flow statement are as follows:

	2019	2018
	€	€
Cash on hand	120	-
Bank balances	117,394	-
<b>Total cash and cash equivalents</b>	<u>117,514</u>	<u>-</u>

Included in cash and cash equivalents are € 239 held on behalf of a third party, and which are therefore not available for the Bureau's personal use.

**11. Lease liability**

	2019	2018
	€	(restated) €
Non-current - between 2 and 5 years	-	22,562
Current - less than 1 year	46,353	21,467
<b>Present value of lease liability</b>	<u>46,353</u>	<u>44,029</u>

The Bureau has leases for the office building and store. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset. The Bureau classifies its right-of-use assets in a consistent manner to its property, plant and equipment.

Both leases are non-cancellable and expire between January and March 2021. The lease for the office building has an extension option at the end of the "de fermo" period, for a further 3 years, renewable annually. None of the leases has variable payments linked to an index and do not give the option to the Bureau to acquire the underlying property.

For leases over these buildings, the Bureau must keep the properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bureau must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

## Asset Recovery Bureau

### Notes to the Financial Statements (Continues)

For the Year Ended 31 December 2019

Future minimum lease payments on buildings leased by the Bureau at 31 December 2019 and 2018 were as follows:

	2019	2018
	€	€
Less than 1 year	49,000	24,000
Between 2 and 5 years	-	24,000
<b>Future minimum lease payments</b>	<u>49,000</u>	<u>48,000</u>

#### ii. Lease liability (continued)

The Bureau has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	2019	2018
	€	€
Short term leases	<u>3,215</u>	-

Total cash outflow for leases for the year ended 31 December 2019 was € 49,000 (2018: € 24,000).

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

#### 12. Trade and other payables

	2019	2018
	€	(restated) €
Trade payables	36,924	2,075
Accruals	14,814	7,417
Other payables	239	-
	<u>51,977</u>	<u>9,492</u>

Information about the Bureau's exposure to liquidity risk arising from trade and other payables is disclosed in note 13.

**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
For the Year Ended 31 December 2019

**13. Financial risk management**

Asset Recovery Bureau is exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk

Responsibility for risk management rests with the Bureau's Board Members who develop and monitor risk management policies and oversees the management of the risks.

**Credit risk**

Credit risk is the risk of financial loss to the Bureau if the counterparty fails to meet its obligation. Credit risk arises from operating activities from trade and other receivables and cash and cash equivalents, which are subject to the expected credit loss model.

The Bureau measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical data and forward-looking information in determining any expected credit loss.

The maximum exposure to credit risk at the end of the reporting period in respect of these financial assets is equivalent to their carrying amount. The Bureau does not hold any collateral as security in this respect.

Credit risk from trade and other receivables is minimised by establishing credit policies such as determining and monitoring customer credit limits, requiring credit approvals, and the monitoring of customer credit risks by grouping customers according to their credit characteristics. Other monitoring procedures are in place to recover overdue accounts, to ensure minimal dependencies on a small number of customers, and to assess impairment.

The Bureau's cash is placed with reputable financial institutions, such that the Board does not expect any institution to fail to meet repayments of amounts held. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was insignificant.

As at the end of the reporting period, the Bureau had no past due or impaired financial assets.

The Bureau's credit risk exposure is as follows:

	2019	2018
	€	€
<b>Financial assets measured at amortised cost</b>		
Cash and cash equivalents	117,514	-

## Asset Recovery Bureau

### Notes to the Financial Statements (Continues)

For the Year Ended 31 December 2019

#### 13. Financial risk management (continued)

##### Liquidity risk

Liquidity risk is the risk that the Bureau will encounter difficulty in meeting its short-term obligations associated with financial liabilities.

Liquidity needs are monitored by the Board Members to ensure that the Bureau has sufficient funds to meet its liabilities when due, under normal and unexpected conditions, without incurring unacceptable losses or breaches in borrowing limits or covenants. Liquidity is managed by reviewing expected cash flows through cash flow forecasts, maintaining sufficient liquid funds and committed credit facilities to meet the Bureau's funding obligations, and matching maturity profiles of financial assets and liabilities.

At year-end, the bureau's financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	Less than 1 year €	1 to 5 years €	Over 5 years €
<b>31 December 2019</b>			
Lease liability	49,000	-	-
Trade and other payables	51,977	-	-
	100,977	-	-
<b>31 December 2018</b>			
Lease liability	24,000	24,000	-
Trade and other payables	9,492	-	-
	33,492	24,000	-

#### 14. Related parties

The Bureau considers the Ministry for Justice, Equality & Governance (MJEG) and the Malta Information Technology Agency (MITA) to be related parties.

Transactions with related parties during the current and previous reporting periods were the following:

	Transaction value for the year/period		Balance outstanding	
	2019 €	2018 €	2019 €	2018 €
Government subvention received from	450,000	214,113	-	-
Recharge of board remuneration, wages and salaries from	(279,888)	(159,761)	(36,364)	-
IT expenses incurred from	(3,281)	(1,549)	(221)	-

**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
For the Year Ended 31 December 2019

**15. First-time adoption of IFRS**

These are the Bureau's first financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The date of transition to IFRS is the beginning of the comparative period. Financial statements for the period ended 31 December 2018 were prepared on a cash basis.

The Bureau's IFRS accounting policies presented in note 3 have been applied in preparing the financial statements for the year ended 31 December 2019 and the comparative information.

The Bureau has applied IFRS 1 'First-time Adoption of International Financial Reporting Standards' in preparing these first IFRS financial statements.

First-time adoption of IFRS had the following impacts on the Bureau's financial statements:

	31 December 2018 As originally reported €	IFRS first-time adoption €	31 December 2018 As restated €
<b>Income statement for the year ended 31 December 2018:</b>			
Government subvention	208,277	5,836	214,113
Administrative expenses	(208,277)	(2,212)	(210,489)
Finance costs	-	(876)	(876)
Profit for the period	-	2,748	2,748

	31 December 2018 As originally reported €	IFRS first-time adoption €	31 December 2018 As restated €
<b>Balance sheet for the year ended 31 December 2018:</b>			
Property, plant and equipment	-	56,269	56,269
Total assets	-	56,269	56,269
Lease liability	-	(44,029)	(44,029)
Trade and other payables	-	(9,492)	(9,492)
Total liabilities	-	(53,521)	(53,521)
Retained earnings	-	2,748	2,748
Total equity	-	2,748	2,748

## Asset Recovery Bureau

### Notes to the Financial Statements (Continues)

For the Year Ended 31 December 2019

#### Opinion

We have audited the accompanying financial statements of Asset Recovery Bureau set out on pages 3 to 23 which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the balance sheet of the Bureau as at 31 December 2019, and of its financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Recovery Bureau Regulations (S.L. 9.23).

#### 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 are independent of the Bureau in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Matter

The financial statements of the Bureau for the period ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion on those statements on 24 April 2019.

#### Other Information

The Board Members are responsible for the other information. The other information comprises the Board Members' report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information 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.

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

- the information given in the Board Members' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Board Members' report has been prepared in accordance with the Recovery Bureau Regulations (S.L. 9.23).

In addition, in light of the knowledge and understanding of the Bureau and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Board Members' report and other information. We have nothing to report in this regard.

**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
For the Year Ended 31 December 2019

**Responsibilities of the Board Members**

The Board Members responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board Members 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 Board Members are responsible for assessing the Bureau'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 Board Members either intend to liquidate the Bureau or to cease operations, or has no realistic alternative but to do so.

**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 judgment 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 Bureau's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members.
- Conclude on the appropriateness of the Board Members' 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 Bureau'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 audit report. However, future events or conditions may cause the Bureau to cease to continue operating as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

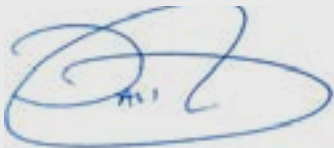
**Asset Recovery Bureau**  
**Notes to the Financial Statements (Continues)**  
For the Year Ended 31 December 2019

We communicate with the Board Members 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.

**Report on Other Legal and Regulatory Requirements**

Under the Recovery Bureau Regulations (S.L. 9.23) we are required to report to you if, in our opinion, proper books of account have not been kept by the Bureau.

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



**David Sammut**  
for and on behalf of  
CCPS Audit Limited

15, Level 1, Suite 4  
Naxxar Road  
Birkirkara BKR 9049  
Malta

5<sup>th</sup> March 2020



ASSET RECOVERY  
BUREAU

MALTA

