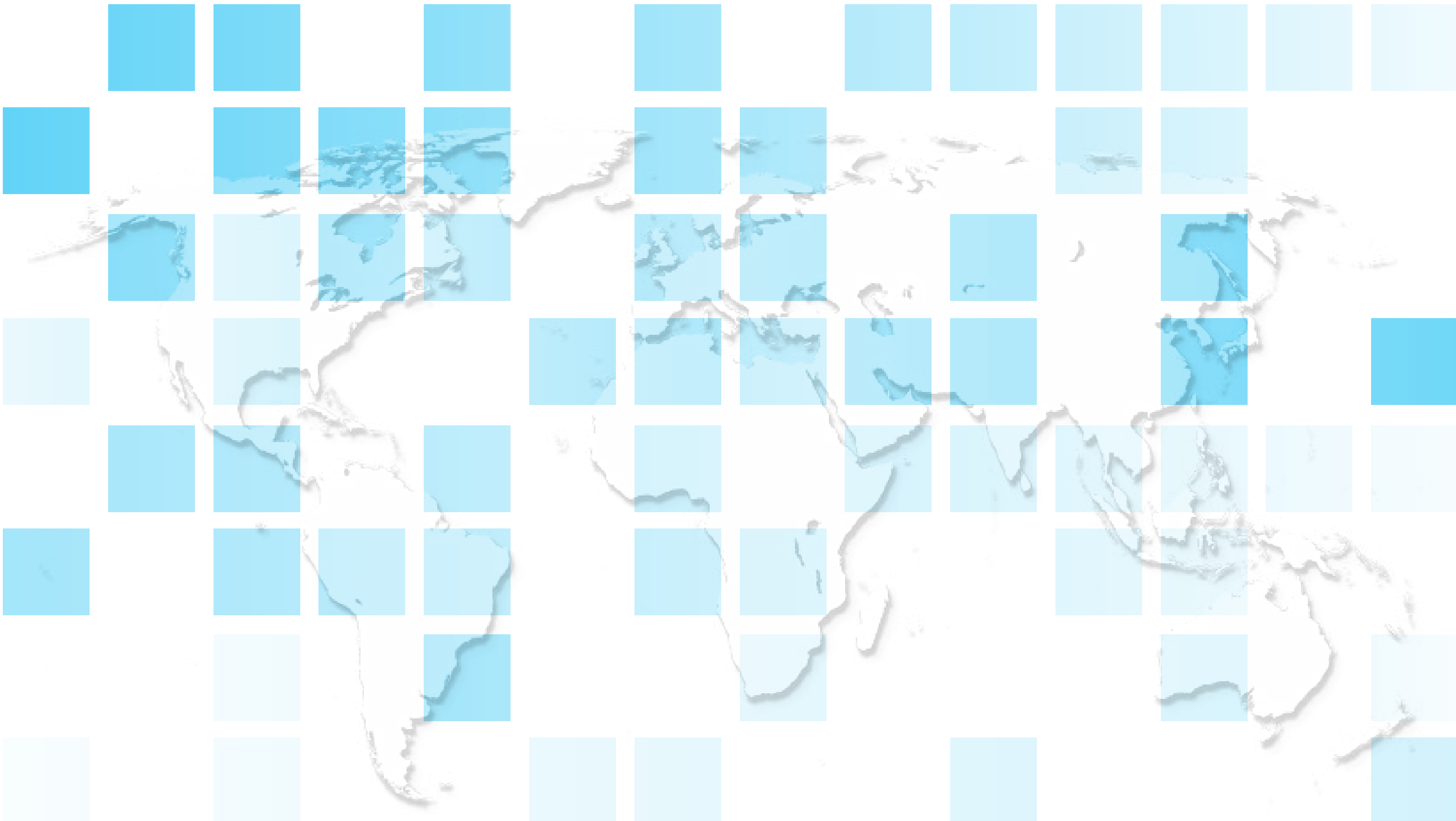


FIMBANK
GROUP

annual report & financial statements 2012

FIMBANK
GROUP

annual report & financial statements 2012

Annual Report & Financial Statements

Schedules to the Annual Report

chairman's statement to the shareholders

My first annual statement as Chairman of the FIMBank Group comes at the end of what was yet another intense year for the Board of Directors and executive management.

The year under review started off with indications of a recovery in the growth of international trade, though in September the World Trade Organization issued a note of caution in this respect, pointing to the potential slowdown in such key economies as the Eurozone and the USA. A relative slowing down in main emerging economies, namely China, India and Brazil, was also in evidence, albeit from previously high growth rates. Markets where the Group is active demonstrated mixed signs. Parts of North Africa continued to show a gradual return to political stability, although elsewhere in Africa we saw heightened political tensions. The MENA region's economies generally kept on the road to normality, while Turkey and Russia continued to perform relatively strongly. In this climate, the Group's exposures remained short-term and centred on providing support to trade business.

Given the above scenario, I am pleased to report that during the year under review, the Group went on to register a pre-tax profit of USD8.80 million, a 7% increase on the USD8.28 million reported last year. The value of our Balance Sheet also saw considerable growth, with Total Consolidated Assets as at 31 December 2012 once again exceeding the USD1 billion mark and standing at USD1.13 billion, an increase of 11% over end-2011 figures. These results reflect the success of our strategies, the strength and relevance of the values which drive us and most of all, the quality of our people at all levels. In the light of this year's positive performance, obtained in the face of a challenging global economic climate, the Board feels that it should reward our shareholders who have kept faith with FIMBank throughout another year. We are therefore recommending a cash dividend per ordinary share of US cents 3.693149 (2011: US cents 2.003884). Looking to the future, we are unlikely to see significant improvements in the macro environment in the coming year, however, our positioning as an increasingly strong player in the specialist world of international trade finance means that 2013 will continue to provide FIMBank with a range of significant opportunities. We will therefore continue to operate in a disciplined and prudent manner, while maintaining our focus on doing what FIMBank knows best - trade finance with a focus in emerging markets. We have built a solid platform for the future and the Group is confident that our customer focused strategy positions the business well for the long term. Only by focusing on our customers' needs and offering them products and services that address those needs can we expect to be successful and deliver benefits to our partners and shareholders alike.

I also take the opportunity to refer to the Extraordinary General Meeting held at the end of January where an overwhelming majority of our shareholders approved the two principal resolutions. This development will enable Burgan Bank S.A.K. of Kuwait and United Gulf Bank B.S.C. of Bahrain to acquire a controlling interest in the company through a multi-step approach, subject to the relative regulatory approvals. This is a landmark milestone for FIMBank not least because it will allow us to expand even further our horizons and pursue opportunities which to date were effectively out of our reach.

Over the years, I have observed our executive management at work, and I have always remained impressed by the level of talent that exists at all levels, and in particular by the culture of innovation that permeates this organisation. I congratulate management and all our staff across the Group for the way they have handled and adapted to the challenges and change of the past years. I would also like to extend my sincere thanks to all my colleagues on the Board for the warm welcome I have experienced and the commitment and support they continue to display.

Finally, I would like to express my deep appreciation to our customers, partners and shareholders for their continuing loyalty and confidence in the FIMBank Group.

John C. Grech
CHAIRMAN

بيان رئيس مجلس الإدارة

يأتى بيانى السنوى الأول كرئيس لمجلس إدارة مجموعة (فيم بنك) فى نهاية سنة مكثفة أخرى لمجلس الإدارة و الإدارة التنفيذية. لقد بدأ العام الذي نتحدث عنه بمؤشرات لتعافي نمو التجارة الدولية ، إلا أنه في شهر سبتمبر أصدرت منظمة التجارة الدولية تحذيراً فى هذا الصدد مشيرة الى احتمال تباطؤ الاقتصاديات الكبري ، كمنطقة اليورو و الولايات المتحدة الأمريكية، كما أشارت الى احتمال حدوث تباطؤ نسبى فى الاقتصاديات الواعدة كالصين و الهند و البرازيل ، على الرغم من معدلات النمو المرتفعة التى سجلتها هذه الدول سابقاً. أما فى المناطق التي تنشط فيها المجموعة فقد لوحظت دلائل متذبذبة ، فواصلت مناطق فى شمال أفريقيا تقدمها التدريجي نحو الاستقرار السياسي ، بينما لاحظنا أزمات سياسية فى مناطق أخرى فى أفريقيا. على أية حال ، فأن منطقة الشرق الأوسط و شمال أفريقيا واصلت تقدمها على طريق الاستقرار ، بينما استمر صعود مستوى الأداء الاقتصادي فى روسيا و تركيا. و فى هذا المناخ ، واصلت المجموعة تقديمها للدعم قصير الأجل للأعمال التجارية.

و فى إطار ذلك .. يسعدنى أن أعلن أنه خلال العام الماضي سجلت المجموعة أرباحاً – قبل سداد الضرائب – وصلت إلى ٨,٨٠ مليون دولار أمريكى ، بزيادة بلغت ٧٪ عن الأرباح المسجلة فى عام ٢٠١١ (٨,٢٨ مليون دولار أمريكى). و من جانبٍ آخرٍ ، سجلت المجموعة نمواً ملحوظاً فى ميزانيتها العمومية ، حيث تجاوز إجمالى الأصول الموحدة فى ٣١ ديسمبر ٢٠١٢ حاجز البليون دولار أمريكى مرة أخرى (١,١٣ بليون دولار أمريكى) ، مسجلاً زيادة بلغت ١١٪ عن الزيادة المسجلة فى نهاية عام ٢٠١١. هذه الأرقام تعكس نجاح استراتيجياتنا و قوة و أهمية القيم التى تحكمنا جميعاً ، كما تدل على تميز أداء العاملين بالمجموعة على كافة المستويات.

و على ضوء هذه النتائج الإيجابية هذا العام ، و هى النتائج التى تحصلنا عليها فى مواجهة تحديات الاقتصاد العالمى ، يرى مجلس إدارة المجموعة أن عليه مكافأة مساهمينا الذين احتفظوا بثقتهم فى (فيم بنك) لعام آخر. و لهذا فنحن نوصي بتوزيع أرباح نقدية للسهم العادى بالسنت الأمريكى تصلُ إلي ٣,٦٩٣١٤٩ سنتاً (٢٠١١: ٢,٠٠٣٨٨٤ سنتاً أمريكياً).

و بالنظر إلى المستقبل ، فأننا فى أغلب الأحوال لن نرى تحسناً ضخماً فى العوامل الداخلية الخارجة عن إرادة المجموعة فى العام المقبل. إلا أن وضعنا الحالى كلاعب قوى تتزايد قوته فى مجال تمويل التجارة الدولية ، يعنى أن عام ٢٠١٣ سوف يزود مجموعة (فيم بنك) بفرصٍ قوية. حيث أننا سنستمر فى العمل بطريقة منضبطة و حكيمة ، محتفظين بسمعة (فيم بنك) فى تمويل التجارة ، بتركيزٍ على الأسواق الواعدة.

لقد قمنا ببناء قاعدة صلبة للمستقبل ، و المجموعة واثقة من أن استراتيجيتنا التى تقوم بالتركيز على العميل والتى تضع عملنا فى وضعٍ راسخٍ على المدى البعيد ، ففقط من خلال التركيز على احتياجات عملاءنا و منحهم منتجات و خدمات تتناسب مع هذه الاحتياجات يمكننا أن نحقق النجاح ، و أن نحقق أرباحاً لشركاءنا ومساهمينا على حد السواء.

أود أيضاً أن أغتنم الفرصة للإشارة إلى اجتماع الجمعية العمومية الاستثنائية، الذى عُقِدَ فى نهاية شهر يناير ، عندما وافقت الاغلبية على القرارين الرئيسيين. هذا التطور سوف يمكن مصرفى البرقان الكويتى و الخليج المتحد البحرينى من الاستحواذ على حصة غالبة فى الشركة عبر نهج متعدد الخطوات ، بعد الحصول على الموافقات التنظيمية اللازمة ، و هو ما يعد ترسيخاً لـ (فيم بنك) ، لأنه سوف يسمح لنا بالتوسع و استغلال فرصٍ لم تكن متاحة لنا حتي هذه اللحظة.

لقد لاحظتُ إدراتنا التنفيذية عن كثب خلال عملها عبر السنوات الماضية ، و كنت دائماً مبهوراً بمستوى الأداء الموجود فى جميع المستويات ، و بالأخص بثقافة الإبداع التى تتخلل المجموعة.

و لذلك أود أن أهنىء إدارتنا و جميع العاملين بكامل المجموعة على الطريقة التى تعاملوا بها مع التحديات و التغيرات فى الأعوام الماضية ، كما أود أن أتقدم بخالص شكرى لجميع زملائى فى مجلس الإدارة على ترحيبهم الدافىء بشخصى و التزامهم و دعمهم الدائمين.

فى النهاية ، أود أن اعرب عن تقديرى العميق لعملاءنا و شركاءنا ومساهمينا على ولاءهم الدائم و ثقتهم فى مجموعة (فيم بنك).

John C. Grech
CHAIRMAN

déclaration du président

Ma première déclaration annuelle en tant que président du groupe FIMBank arrive à la fin de ce qui fut, une fois de plus, une année intense pour le conseil d'administration et la direction.

L'année 2012 a débuté avec quelques signes de reprise de la croissance du commerce international, bien qu'au mois de septembre, l'Organisation mondiale du commerce ait publié une note à cet égard, montrant le ralentissement potentiel des économies phares, telles que la zone euro et les États-Unis. Un ralentissement relatif des principales économies émergentes, à savoir la Chine, l'Inde, et le Brésil, a également été mis en évidence, en dépit d'un précédent taux de croissance élevé. Les marchés au sein desquels le groupe opère ont montré des signes mitigés. Certaines régions d'Afrique du Nord ont continué à afficher un retour progressif à la stabilité politique, même si d'autres zones du continent ont connu une augmentation des tensions politiques. Les économies de la région MENA ont, de manière générale, poursuivi leur chemin vers la normalité, tandis que la Turquie et la Russie ont continué à fournir de solides performances. Dans un tel climat, nous avons limité l'exposition du groupe à des objectifs à court terme et nous avons axé notre travail sur le soutien des activités commerciales.

Malgré le scénario ci-dessus, je suis heureux d'annoncer que, pour l'année de référence, le groupe a une nouvelle fois enregistré un bénéfice avant impôts de 8,80 millions de dollars, soit une augmentation de 7 % sur les 8,28 millions de dollars annoncé l'an dernier. Les chiffres de notre dernier bilan montrent également une croissance considérable, avec un total des actifs consolidés à la date du 31 décembre 2012 dépassant à nouveau la barre du milliard de dollars et s'élevant à 1,13 milliards, soit une hausse de 11% par rapport à la fin de l'année 2011. Ces résultats reflètent le succès de nos stratégies, la force et la pertinence des valeurs qui nous animent et surtout, les compétences à tous les niveaux de chaque individu au sein du groupe. À la lumière de ces résultats positifs, que nous avons atteints dans un climat économique mondial hostile, le conseil estime qu'il devrait récompenser nos actionnaires qui n'ont cessé de croire en FIMBank en nous soutenant encore une fois cette année. Nous recommandons ainsi le versement d'un dividende par action ordinaire de 3,693149 centimes de dollar (2011 : 2,003884 centimes de dollar). Quant à l'avenir, des améliorations significatives de l'environnement macroéconomique sont peu probables au cours de l'année à venir, toutefois, notre position de plus en plus forte en tant qu'acteur dans le secteur spécialisé du financement du commerce international signifie que 2013 continuera à offrir à FIMBank un florilège d'opportunités importantes. Nous continuerons, par conséquent, à fonctionner de manière disciplinée et prudente, tout en maintenant nos efforts orientés vers le domaine dans lequel FIMBank est le plus compétent – le financement du commerce axé principalement sur les marchés émergents. Nous avons construit une plate-forme solide pour l'avenir et nous sommes convaincus que notre stratégie centrée sur le client assure au groupe une position dominante sur le long terme. C'est seulement en concentrant nos efforts sur les besoins de nos clients et en leur proposant les produits et les services qui répondent à ces besoins que nous pouvons réussir et offrir des avantages à nos partenaires et à nos actionnaires.

Je profite également de cette occasion pour faire référence à l'Assemblée générale extraordinaire tenue à la fin du mois de janvier et au cours de laquelle une écrasante majorité de nos actionnaires a approuvé les deux principales résolutions. Ce développement permettra à Burgan Bank S.A.K. du Koweït et à United Gulf Bank B.S.C. de Bahreïn d'acquérir une participation majoritaire dans notre Groupe à travers une approche en plusieurs étapes, sous réserve des approbations réglementaires usuelles. Il s'agit d'une étape décisive pour le groupe FIMBank notamment parce qu'elle nous permettra de développer encore davantage nos horizons et de saisir les occasions qui, jusqu'à ce jour, restaient hors de notre portée.

Au fil des années, j'ai observé le travail de notre direction et j'ai toujours été impressionné par le talent qui existe à tous les niveaux, et en particulier par la culture de l'innovation qui règne au sein de cette organisation. Je tiens à féliciter la direction et l'ensemble du personnel du groupe pour la façon dont ils ont su gérer et s'adapter aux défis et aux changements auxquels nous avons été confrontés au cours des dernières années. Je tiens également à remercier tous mes collègues du conseil pour l'accueil chaleureux qui m'a été réservé ainsi que l'engagement et le soutien qu'ils ne cessent de témoigner.

Enfin, je tiens à exprimer ma profonde gratitude envers nos clients, partenaires et actionnaires pour leur constante fidélité et la confiance qu'ils manifestent à l'égard du groupe FIMBank.

John C. Grech
CHAIRMAN

FIMBank Group Review 2012

Margrith Lütschg-Emmenegger, FIMBank Group President

selective and focused diversification

The year 2012 has once again seen us remain focused on highly specialised trade-related business, and the kind of complex commodity transactions that require a more personalised service and bespoke approach. During this period, market conditions continued to call for prudence, attention to strong risk management, compliance, and focus on doing what the Group knows best – cross-border Trade Finance with an emphasis on emerging markets. In line with a strategy of selective and focused diversification, we refined and added new products to our trade related portfolio, thus complementing and enhancing our product offering to further improve our services.

We have been benefiting from the experience acquired during the last 17 years of operations, as well as the momentum generated through our presence in eleven financial centres worldwide. In 2012, we invested considerable effort in laying the groundwork for the expansion of our global footprint further, especially in Africa, Asia and Latin America, while continuing to build the FIMBank brand.

In 2012, the business landscape was affected by the inception of Basle III. We firmly believe that Trade Finance is a low-risk, short-term business and should not require the same capital weighting as other asset classes. Trade is the lifeblood of the global economy and therefore a lack of adequate funding for international trade could seriously impact the world's economies and affect negatively the creation of jobs generated by strong trade activites globally. I cannot overemphasize what I have already said on various occasions: Trade Finance is one of the drivers of all economies and it supports and promotes trade flows, which in turn support the healthy development of economies. It is therefore imperative that we keep taking steps to ensure its availability and accessibility, especially for small businesses in the less developed economies.

strategic direction

The outlook for the global economy in 2012 was not particularly encouraging. The WTO's projected 3.7% growth rate for world merchandise trade, was well below the long-term average of 6.0% for 1990-2008, and even below the average over the last 20 years.

The year promised to be characterised by the recession in Europe, at best nominal growth in the United States, and a considerable slowdown in China, one of the drivers of the global economy. Indeed, many emerging market economies such as India, Russia and Brazil were also affected by lower commodity prices resulting from the falling demand by China and the Western economies. The recession in the Eurozone

A dynamic approach is key to our ongoing ability to assist our customers

A strong risk management culture underpins all our commercial decisions

threatened to act as a brake on economic activity in Central and Eastern Europe, among others as a result of weaker trade. Meanwhile, political turmoil in the Middle East was heightening economic instability both there and elsewhere, with the result that high oil prices stood to constrain global growth.

We have always set ourselves ambitious performance goals and consistently deliver against them. During 2011, in pursuance of our policy of diversification, we had made important inroads into new countries and products and strengthened our presence in important trading centres. Diversification, which would remain one of the cornerstones of our strategy, had contributed critically towards FIMBank's positive financial performance during 2011.

Between 2009 and 2011 we had registered significant milestones in international factoring, highlighted by the positive contribution of MENAFactors in Dubai, the consolidation of factoring operations in India and our belief in the potential of other markets, where we set up joint operations with major institutional partners, such as Russia and Brazil.

getting the banking basics right

The attainment of our strategic objectives remains underlined by our relentless focus and disciplined approach with regard to the basics of banking, primarily in relation to risk management, solid liquidity and capital ratios, as well as strong cost controls.

In 2012 we were able to increase our Total Consolidated Assets again further to USD 1,130 million an increase of 11% over 2011 while equity increased slightly to USD 131 million. Capital Ratio at 16.4% remains strong and provides a solid base for the introduction of Basle III in 2014.

credit and operational risk

When compared with other forms of bank lending international trade finance has always proven to be lower risk, and this is attributed to the self-liquidating, short-term nature of the transactions which are typically secured by the underlying goods. Risk management, which post-crisis emerged as a even more critical foundation of our strategy, remains embedded in our day-to-day business decisions, and this is evidenced by the continued good asset quality. We have developed a strong risk management culture and effective risk management which prevails throughout the Group and underpins all our commercial decisions.

Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring, and are designed to detect operational weaknesses, such as system or process failures, documentation errors, fraud, and compliance issues.

The bar on what constitutes effective risk management is constantly being raised and we have made significant additional investment in this area in order to continue improving our risk management capabilities, including the methodologies and approaches to monitor and enforce risk appetite. These rigorous processes are primed to ensure that we understand the risks we undertake and manage them well. We are committed to keep pace with the ongoing regulatory changes and scrutiny while meeting demands for stronger governance and enhanced transparency.

costs

The ability to balance costs with the undertaking of investments is a fundamental prerequisite for a rapidly growing institution such as FIMBank. Consequently, in line with our determination to optimise the benefits we can derive from opportunities which present themselves on the market, we continue to have a zero based approach to our expenditure planning. The financial results for 2012, which show a further reduction in the Group Cost Income Ratio (CIR), reflect the positive outcome of this rigorous process.

Indeed, during 2012 we were able to contain cost despite investing also substantially in our new state-of-the-art head office in St.Julian's.

innovation and diversification

A dynamic approach is key to our continuing ability to assist our customers to meet ever-challenging market conditions. We challenge the status quo by looking for ways to engender innovation and creativity, not only to meet the changing requirements of our clients but also to mitigate the financial risks involved in Trade Finance business and to improve profitability. Our reputation as an effective global player in Trade Finance requires that while maintaining efficient support for traditional products, we also remain focused on creating new products, ideas and structures, backed by cutting-edge technology.

London Forfaiting, which has now been a leader in the forfaiting industry for over 28 years, experienced another successful year, with a substantial increase in its trading volumes. The setting up, at the turn of the year, of BrasilFactors, our latest factoring joint venture in Brazil, alongside similar ventures in Russia and India, established in the previous year, represents a further extension of our regional reach and expansion into fast growing emerging markets.

Bolstering our equity and balance sheet size allows us to optimise our capabilities and potential. Consequently, attracting funding, both internationally as well as locally, continued to be high on our agenda throughout the year in review.

FIMBank President Margrith Lütschg-Emmenegger with IFC officials during the loan signing ceremony, held on the 21st December 2012

Towards the end of 2012, we signed a USD 30 million loan agreement with the International Finance Corporation (IFC), a FIMBank shareholder since 2005 and a partner in our factoring joint ventures in Russia, Egypt and Brazil. The loan provides FIMBank with finance to support eligible trade transactions designed to support and expand trade flows covering consumer goods, intermediate goods, smaller machinery and commodities which are supplied and required by market enterprises in eligible countries in Africa and the MENA region. The IFC has long been a firm supporter and believer of FIMBank's strategy to unlock the potential of underprovided Trade Finance products in emerging markets, and we see their support as a crucial and vital vote of confidence in the FIMBank Group and its strategy.

We are very pleased with the results we have been obtaining from Easisave.com, an innovative online banking product launched in 2011, and created in line with FIMBank's overall strategy to seek alternative sources of funding. This web-based solution is a quality banking product that allows consumers to benefit from excellent returns on their savings. During the year in review, we launched an Easisave joint savings account option designed to further enhance the product's desirability, and we will continue to develop additional functionality, including fixed term deposits allowing customers to tie their funds for up to three years in various fixed terms. After experiencing this product's potential on the local market, we firmly believe that Easisave could prove successful in other European markets, and during 2013 we plan to conduct studies to determine the feasibility of such expansion. The fact that Easisave.com is entirely internet-based and does not require distribution through a branch network means that it creates less overheads, which in turn allows FIMBank to offer more attractive rates to its depositors, benefiting all.

the pursuit of excellence

The partnerships and long-term relationships we continue to build with shareholders, bondholders, clients, correspondent banks and associates, constitute a central part of our success. The year under review saw both FIMBank plc and London Forfaiting Company Ltd (LFC), two companies which form part of the FIMBank Group, receive industry recognition for their commitment to offer the best service possible to our clients, thus enhancing the Group's reputation as a consistent partner in the dynamic and specialist world of Trade Finance.

Early on in 2012, Global Finance, a leading global corporate finance monthly magazine with over 200,000 readers internationally, proclaimed FIMBank the 'Best Trade Finance Bank' in Malta for the year. Later on in

FIMBank promoted its range of deposit products during the Malta Trade Fair 2012

June, the Bank was awarded the STP Excellence Award by Deutsche Bank for the fifth year in succession. This award recognises the high level of Straight Through Processing (STP) achieved by FIMBank in processing both USD and EUR electronic fund transfers.

A month later, we got the news that the services provided by FIMBank and LFC, were lauded as the best in their respective categories by the readers of leading international trade finance magazine Trade & Forfaiting Review (TFR). The TFR awards, which are determined on the basis of polls conducted among the magazine's readers, saw FIMBank plc recognised as 'Best Factoring Institution', while London Forfaiting Company Ltd was awarded the title of 'Best Forfaiting Institution'.

At the end of 2012, the Group once again received acclaim for the excellent standard of the services provided by FIMBank and LFC when these were declared 'Best Factoring House' and 'Best Forfaiting House' respectively by international trade finance magazine Global Trade Review (GTR). The awards are the result of GTR's readers' poll for the 'Leaders in Trade 2012'. FIMBank won this award for the fourth consecutive year while LFC has won this title many times in the past.

empowered employees … our most formidable asset

The primary purpose of any organisation is to assemble a group of people who previously had no association with each other and empower them to accomplish productive work towards the achievement of the organisation's objectives. At FIMBank, we organise our talent into units, groups and teams and enable them with tools, resources, processes, authority and incentives to motivate them. I believe that more effective empowerment equals more productive work.

Our client-focused way of working, as well as our openness and clarity in communicating and constructing our products, is recognised by the industry, our customers and the specialist media. Such a vibrant culture cannot foster without the active and consistent drive of all our employees who ensure that our core values are reflected in everything we do.

Trade Finance centres very much on people and relationships, and if the extent and quality of these relationships is any indicator of success in this business, we owe it all to our 160 employees. These have the relevant insights, language skills and cultural awareness – together with an in-depth knowledge of traditional

Our dedicated workforce are trained and motivated to provide high quality banking and innovative Trade Finance instruments. These allow us to provide innovative and tailor-made solutions backed by the latest technologies to corporates and banks worldwide.

We offer 'quality banking', where a dedicated workforce delivers the highest quality customer service at all times, underlined by competence, courtesy and overall proficiency. And I am proud to state that despite the uncertain external climate which pervaded the global trading scenario, our staff, though on the whole fairly young, managed to maintain focus and concentration throughout the year. This is also thanks to those seasoned and experienced bankers amongst us, who have guided and channelled the energies and dynamism of the younger professionals.

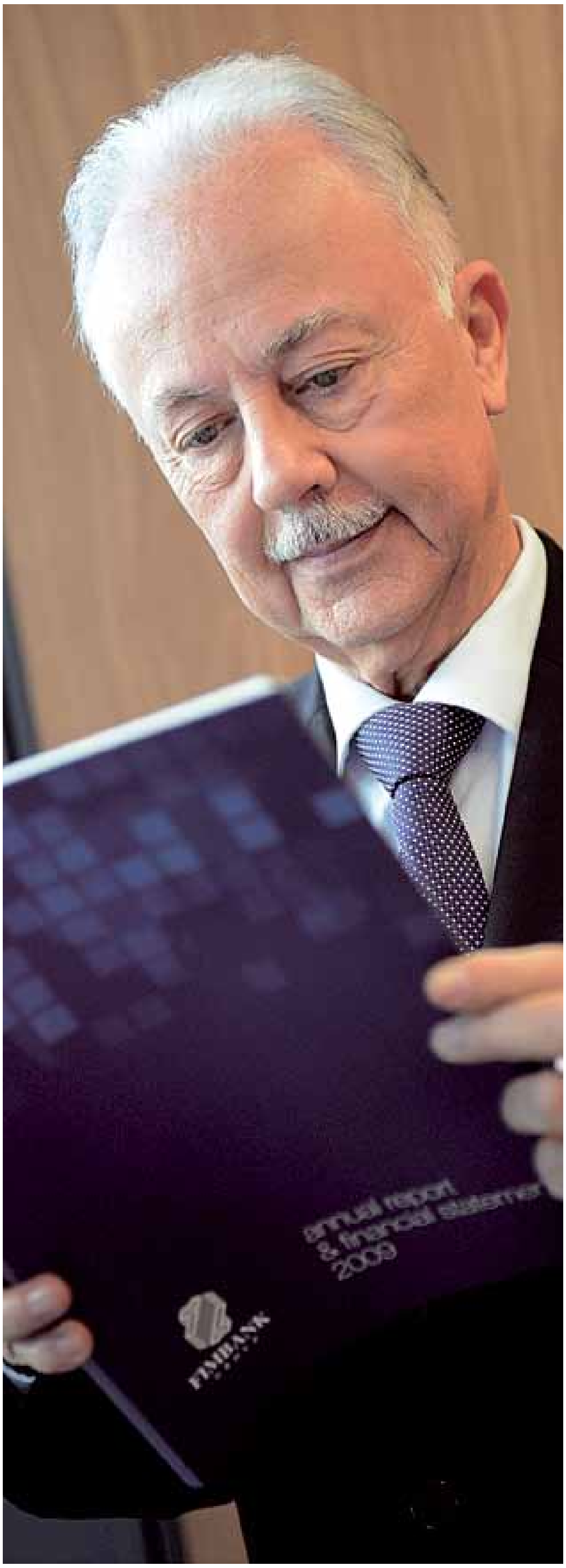
FIMBank strives to offer employees opportunities and space to develop and thereby remains an attractive employer for the best talent around. We will continue to place a very high focus on staff quality, welfare and training – we have in place an on-going programme of staff development courses designed to enhance the technical skills and specialist knowledge of our people at all levels. This approach has enabled us to attract and retain some of the best and brightest in the industry.

sound, efficient management

Global economic conditions during the year under review once again put our management and business model to the test, and it was only thanks to its resilience that the Group managed to produce yet another positive outcome within the context of a persistently challenging environment. Though prudence remained an important motto, we continued seeking new business opportunities in Trade Finance while being selective in pursuing potential avenues for diversification in terms of markets and services. This approach enabled us to respond promptly and effectively to changing circumstances, all the while maintaining a regime of sound financial and credit risk management.

The news that Fitch had retained FIMBank's rating at 'BB', with a now improved stable outlook despite the current deterioration in global economic performance and the negative impact this has had on the rating of several of our competitors, was of substantial satisfaction to us. It further underlined the fact that our strategy is supported and valued.

Apart from remaining prudent and adopting a vigilant risk management approach, FIMBank is also determined to maintain a sound core capital ratio. This will be critical in ensuring the continuing growth of the Group,. During the year in review, we continued to manage our balance sheet judiciously, enjoying healthy capital and liquidity ratios. A strong and flexible balance sheet is important in ensuring that we can continue to support our customers and capitalise on opportunities. We also realise that in an environment characterised by



FIMBank retained its Fitch rating at 'BB', now with an improved 'stable' outlook.

volatility, we must remain financially and operationally flexible and be ready to adapt to the world around us.

the future is factoring

Factoring continues to be the fastest growing product in Trade Finance, outperforming all other tools. The current crisis has brought about more awareness about Factoring and the product's ability to finance domestic and international trade, while mitigating risks. Specialist banks and Factoring houses, such as FIMBank, are taking advantage of this increased interest in Factoring by promoting the importance of this alternative financial solution and its advantages for both domestic and export-oriented businesses.

Many businesses are starting to factor their invoices to pay bills, take advantage of early payment discounts, increase sales, and last but not least, to fund their business' growth. Prior to the crisis, Factoring services, particularly in Europe, tended to be more focused on the finance aspect. The reality is that more customers are now viewing Factoring from a different perspective. They see the service as offering a potential means of managing risks and providing cash management solutions, over and above funding considerations. This trend is growing, particularly for exports from emerging markets to the more developed ones. The place which Factoring occupies within FIMBank's map of strategic priorities, reflects our acknowledgement of the importance of SMEs as the backbone of international trade and our long-standing commitment to support them in their role as drivers of the global economy.

We are pleased to state that our strategy is bearing fruit, with FIMBank occupying a strong strategic position and well placed to pursue further development and expansion in this sector. During 2012, India Factoring, which was launched at the beginning of 2011, was busy consolidating its presence in India, with encouraging results. The confirmation of a positive outlook for the business and economic environment in the Middle East is reflected in the performance of MENAFactors.

Russia's membership of the WTO in August of this year should see improved prospects for providers of international factoring services, and we see FactorRus as being well-positioned to tap into new opportunities in this market. Egypt Factors, on the other hand, still has to contend with a difficult scenario as the country seeks to come to terms with political and economic reform. However, we have full confidence in the ability of our experienced management team there to keep their ears to the ground and exploit opportunities which are bound to arise.

In Brazil, factoring is an important alternative to the banking sector for the financing of small and medium sized enterprises. Given the high barriers to entry into the formal banking system, factoring companies such as our joint venture BrasilFactors, which was launched in the latter half of 2011, have found an important market niche, and the prospects are very positive indeed.

Our selling proposition as far as Factoring is concerned remains our extensive expertise and focus on these highly specialist products as well as the quality of our service, which sees us employ the highest professional standards in delivering these solutions to our target markets. These attributes serve to attract joint venture partners who are all leaders in their respective markets.

At the beginning of the year in review, we brought together the CEOs of all our international factoring joint ventures to discuss corporate strategy and opportunities for growth within the context of the current global economic and financial scenarios. These explored avenues for improving performance and establish effective ways to facilitate cross-fertilization within FIMBank's global network. The meeting was also an opportunity for our subsidiary FIM Business Solutions to present developments in various technology and Business Process Outsourcing (BSO) services which it offers to the network and third parties. FIMBank's technical expertise and ISO certified factoring back-office operations offer partners additional comfort when evaluating international factoring ventures with FIMBank.

part of the community

At FIMBank we are committed to the idea that our Corporate Social Responsibility (CSR) should aim to reflect and enhance our relationships with clients, shareholders, employees and the Maltese community at large. As a global bank based in Malta, we acknowledge the fact that our social, environmental or ethical conduct has an impact on the Group's image and on the community within which we operate, and we therefore take our corporate social responsibilities seriously.

We consider ourselves fortunate to have Malta as our home, and we always make it a point to underline the benefits arising from basing the Group's operations on these islands. Our CSR projects are therefore primarily aimed at giving something back to the Maltese people, and throughout the year under review we supported a number of initiatives that benefit the local community.

In September we announced the completion of the project, coordinated by Din l-Art Ħelwa and sponsored by FIMBank, to preserve the nine monuments which adorn the Maglio Gardens in Floriana for posterity. This project reflects our commitment to contribute towards the safeguarding of Malta's historical heritage. The personalities which these monuments commemorate contributed greatly to Malta's social development and the transformation of the Islands into a community of which we, as a Malta-based institution, are proud to form part. In May, in line with our desire to support the more contemporary cultural

Din L-Art Helwa President, Simone Mizzi with the FIMBank Group President during the official inauguration of the restoration of all monuments within the Maglio Gardens

highlights of the Island, FIMBank supported the 2012 edition of Malta Fashion Week and was the event's official financial institution.

Meanwhile, throughout the year under review, the Group and its staff were involved in a number of philanthropic initiatives in support of various good causes. In September, Chairman John C. Grech led members of staff on a visit to H.E. The President of Malta, Dr George Abela, where a financial contribution was presented to the Malta Community Chest Fund, a philanthropic organisation which falls under the auspices of H.E. The President.

we're here to stay

After five years of facing an ongoing financial crisis, businesses and individuals around the world are still struggling with its consequences. In this light, FIMBank's strong performance during this period is even more noteworthy. These tough years have, if anything strengthened our resolve to stay the course by focusing on trade related business and honing our ability to identify opportunities continually. Trade tends to be a stronger asset class, and combined with strong and solid risk management, our focus on this sector of the economy will provide us with a robust position which can take us successful through the good and bad times.

FIMBank will continue to be instrumental for businesses seeking to penetrate and succeed within foreign markets. For corporates that trade internationally, the expense and risk of navigating complicated overseas markets, understanding and complying with myriad regulations as well as cultural peculiarities, not to mention insuring against inherent risks, can all be offset with the support of a specialist financial institution having a global footprint such as FIMBank's. We will therefore continue assisting customers with their import and export requirements by providing innovative solutions towards financing, as well as assistance to mitigate risks attached with international and domestic trade, while ensuring it is also less risky for the Group. We will refine our offer of a one-stop-shop to facilitate the successful execution of each transaction, whether the underlying product is a soft or hard commodity.

It is indeed remarkable that since its inception a mere 17 years ago, the Group has grown, matured and diversified its Trade Finance activities and now boasts a physical presence in eleven financial centres worldwide. The hub of FIMBank's international network continues to be our head office based in Malta, which has hosted us since the Group's inception. As a facilitator of trade between developed and emerging economies, we have much in common with this forward-looking and reputable financial centre, which for thousands of years has been a meeting point for Mediterranean trade routes.

Period costumes displayed during the Malta Fashion Week 2012, which was sponsored by FIMBank p.l.c.

In June of 2012, we set in motion the migration of our head office operations to our new state-of-the-art, eco-friendly head office which forms part of the 'The Exchange', the financial and business centre in the heart of St. Julian's. Four key factors underlined this landmark project - a central location, functionality, flexibility and sustainability.

The building is not solely aesthetically pleasing but is also environmentally friendly. We were very proactive in implementing measures to minimise our impact on the environment and we will continue reviewing our performance in this regard, implementing recycling practices as well as pursuing efforts to reduce our carbon footprint. We have invested in superior external thermal insulation, high performance glazing, building management, intelligent lighting, reverse osmosis and heat recovery units built-in to our air-conditioning system in order to optimize energy efficiency to the highest standards. We also appreciate that water is a precious commodity on the Island, so we have constructed a reservoir for the harvesting of half a million litres of rain water.

It is also worth mentioning that the new data centre installed in the building, which provides the platform on which we run all our global operations was the subject of a case study commissioned by Hewlett Packard. This case study highlighted the innovative and effective approach undertaken by FIMBank in deploying this infrastructure.

Meanwhile, we are looking forward to the official inauguration of our new home in Malta, where we have established firm roots. This should take place once the landscaping, street and other exterior closure works are completed.

the year ahead

The overall picture of worsening government debt and shaky financial markets continues to dampen business confidence. The Eurozone recession has been heightened by concerns about how the sovereign debt crisis might unfold. Global growth has been predominantly reliant on the emerging economies, particularly China, India and Brazil, but these have also experienced slower growth as exports were hit by the sluggish performance of the advanced economies. Nevertheless, the emerging economies are expected to underpin growth in the world economy in 2013.

Navigating through these waters remains a challenge for the Group. At the same time, given our position as a specialist player in the finance of international trade, we are set to take advantage of opportunities which may arise from these scenarios. Quoting Albert Einstein: "In the midst of difficulty lies opportunity". FIMBank has a proven track record of identifying and seizing opportunities during troubled times, and 2012 was no exception. In a global scenario characterised

John C. Grech (FIMBank Group Chairman) and Margrith Lütschg-Emmenegger (FIMBank Group President and Vice Chairman) with Eduardo Eguren (Burgan Bank CEO)

by instability, FIMBank's business model, built and refined over the years, has enabled us to successfully tap a diverse range of product niches and geographical markets. While retaining our focus on well-structured transactions with established corporate clients or new, reputable relationships, a progressive pick-up in new opportunities, particularly in commodities such as energy, metals and softs, is in evidence and will continue to support healthy growth for the Group.

During 2012, an important milestone for the Group saw its beginnings with the announcement concerning the proposed joint acquisition by Kuwait-licensed Burgan Bank and Bahrain-licensed United Gulf Bank of 37.56 per cent of the Bank's capital, through a combination of debt-to-asset swap and an outright acquisition of Massaleh Investments KSCC's interest in FIMBank. This development, which is to date subject to regulatory approval, has the potential to enable FIMBank to extend its reach, tap new markets and undertake more ambitious transactions globally.

As we head into 2013, in line with FIMBank's culture and core values, we will continue to employ a disciplined approach in the way we operate, namely by maintaining a constant focus on our core competence, by increasing productivity and managing our risks, and by implementing cost improvement measures. All this will be underlined by our commitment to the well-being of our clients and partners, and to further develop our offer. We are satisfied that the Group's business model has proven to be resilient and that its robust size will continue to allow it to generate new business effectively and in rapid response to changes in global conditions.

directors' report

For the Year Ended 31 December 2012

The Directors are pleased to present their report together with the audited financial statements of the Bank and the Group for the year ended 31 December 2012. This report is prepared in terms of the Companies Act, 1995 (Chapter 386, Laws of Malta, "The Companies Act") and complies with the disclosure requirements of the Sixth Schedule to the same Act.

results for the year

The Bank and the Group reported a profit after tax of USD1,528,152 and USD8,798,533 respectively for the year under review.

Further information about the results is provided in the "Income Statements" and the "Statements of Comprehensive Income" on pages 24 to 32 and in the "Review of Performance" below.

principal activities

The FIMBank Group of Companies (the "Group") comprises FIMBank p.l.c. (the "Bank"), and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), and FIMFactors B.V. ("FIMFactors"). LFC is itself a parent of a number of subsidiaries as set out in note 26 to the financial statements whilst FIMFactors is the parent of a wholly owned subsidiary Menafactors Limited ("Menafactors"). A brief description of the activities in the FIMBank Group follows (% shareholding follows after the name):

a) The Bank is a public limited company registered under the laws of Malta, and listed on the Malta Stock Exchange. It is licensed as a credit institution under the Banking Act, 1994. The Bank is principally active in providing international trade finance and to act as an intermediary to other financial institutions for international settlements, forfaiting, factoring and loan syndications. The Group is supervised on a consolidated basis by the Malta Financial Services Authority, whilst Menafactors and FIMBank's Branch in the United Arab Emirates are licensed and regulated by the Dubai Financial Services Authority.

b) LFC (100%) is registered in the United Kingdom as a private limited liability company. It was founded in 1984 and provides international trade finance services (with particular focus on forfaiting business) through an international network of offices. Some of these offices have distinct corporate status in the various jurisdictions where they are providing the service. LFC's activities include the trading of bills of exchange, promissory notes, loans, deferred payment letters of credit and the provision of other financial facilities to companies and banks.

c) Menafactors (100%) is incorporated in the United Arab Emirates and is licensed and regulated by the Dubai Financial Services Authority to provide international factoring and forfaiting services in the Gulf and MENA region. The Bank's holding in Menafactors is through FIMFactors. Menafactors, in turn, holds 50% in Levant Factors S.A.L., a company registered in Lebanon.

d) FIMFactors B.V. (100%), registered in the Netherlands, is the corporate vehicle for FIMBank's holdings in factoring joint ventures and associated companies.

e) FBS (100%), registered in Malta, has as its primary purpose the provision of information technology and support services to the Group and its associated companies, to correspondent banks as well as to third party factoring services providers.

f) FPI (100%), registered in Malta, owns and manages the FIMBank's head office in Malta. FIM Property Investment Limited is responsible for the day-to-day management of the building and leasing, if any, of space for commercial purposes.

The Bank also holds the following equity investments:

a) The Egyptian Company for Factoring S.A.E. ("Egypt Factors" - 40%), a company incorporated in Egypt, where the other shareholders are Commercial International Bank (Egypt) holding 40% and International Finance Corporation ("IFC") holding 20% of the shares. Egypt Factors is active in providing factoring and forfaiting services to Egyptian companies.

b) through its wholly owned subsidiary FIMFactors in:

i. CIS Factors Holdings B.V. ("CIS Factors" - 40%), a company set-up under the laws of the Netherlands which serve as an investment vehicle for a factoring company incorporated under the laws of the Russian Federation and which provides factoring services in Russia. CIS Factors' other shareholders are the Joint Stock Bank Transcapitalbank ("Transcapitalbank") and the International Finance Corporation ("IFC"), holding 40% and 20% respectively.

ii. India Factoring and Finance Solutions Private Limited ("India Factoring" – 49%), a company incorporated under Indian law which provides factoring, forfaiting and trade finance related activities in India. The other shareholders are Punjab National Bank (30%), Banca IFIS (10%), Blend Financial Services Limited (1%) and India Factoring Employee Welfare Trust (10%). India Factoring is regulated by the Reserve Bank of India.

iii. BRASILFACTORS (40%), a joint venture with headquarters in the São Paulo, Brasil, with its core business focused on factoring services and forfaiting targeting small and medium-sized companies. The other shareholders are Banco Industrial e Comercial S.A. ("BICBANCO") with 40% and the IFC with 20%.

review of performance

2012 unfolded as a year which saw further normality returning to financial markets as political, monetary and fiscal measures across a number of European economies started to show results. In most of the North African and Middle East segments where the FIMBank Group is active, political stability continued to make a gradual return. These conditions helped present increasingly encouraging opportunities in international trade finance and for the Group. FIMBank maintained its selective approach to business and continued to explore openings in commodity finance, particularly softs, metals and energy, as the Bank made further inroads into trade-related transactional banking business with new clients and markets. London Forfaiting Company again posted a strong performance buoyed by strong trading results and consistent growth in its book. Menafactors also returned a positive 2012 as the outlook for business in the MENA region continued to strengthen, helping also the recovery of previously problematic, albeit fully reserved, accounts. On the other hand, the results from the main associated companies in Egypt, Russia and India were disappointing. Egypt Factors and FactorRus faced challenging market conditions which in turn returned a negative performance while India Factoring, after an impressive entry into the market and a strong 2011, posted high provisions as it settled to levels more consistent with the cautious economic outlook and lower growth forecasts for the sub-continent. Brasilfactors completed its start-up year of operations with a break-even operating performance and a good platform to build on for 2013.

The year under review was also marked by the announcement in the first quarter of the proposed transfer by Massaleh Investments K.S.C.C. of its shareholding interest in FIMBank to Burgan Bank S.A.K. ("Burgan"), and the latter's intention to inject new equity which would see it increase its prospective holding to above 50% of FIMBank's issued share capital. After the successful completion of a due diligence exercise and protracted negotiations which took up most of the year, in November it was announced that Burgan and its related, Bahrain-based United Gulf Bank B.S.C. ("UGB"), both forming part of the KIPCO Group, had submitted a joint offer providing for a comprehensive approach comprising not only the share transfer but also for a convertible loan and culminating in a rights issue to increase FIMBank's capital base and in Burgan and UGB potentially acquiring a controlling interest in the Bank. So a certain degree of anticipation which these developments inevitably caused to prevail over most of 2012 now promises to shape the future of the FIMBank Group for 2013 and beyond, once the due regulatory approvals allowing the process to proceed are in place.

For the year ended 31 December 2012, FIMBank Group delivered an after tax profit of USD8.80 million, compared with USD9.13 million in 2011, with Group Basic Earnings per Share of US cents 6.17 (2011 – US cents 6.45).

income statement

The Group's Operating Income increased by 4% over the same period in 2011, from USD37.4 million to USD38.7 million. Net Interest Income decreased by 4% with net interest margin of 43% of Gross Interest Income (2011: 46%). This is a result of increased costs of funding reflecting the Group's continued efforts to grow its deposit base from banks and corporates. To the contrary, Net Fees and Commission increased by 11% as a result of improved documentary credit volumes across all Group entities. The Group also reported an increase in net trading income and net gains from other financial instruments, which when taken together yielded an improved result of USD1 million, from USD5.4 million to USD6.4 million. This is a reflection of improved trading results from forfaiting deals and marked-to-market recoveries on financial instruments compensated by a deterioration in foreign exchange results. Net Impairment losses amounted to USD1.3 million, an increase of USD1.2 million from 2011, mainly due to a charge in General Provisions resulting from a growing business portfolio.

Group Operating Expenses remained fairly in line with 2011, with a decrease of 2% to USD28.5 million, driven by lower administrative costs (including staff costs) and compensated by an increase in depreciation as a result of new depreciation charges on own property. The Group's Associated Entities returned a net loss of USD1.4 million, comparing negatively with 2011 net losses of USD0.2 million, as a result of negative returns from all main associated entities.

financial position developments

Total Consolidated Assets as at 31 December 2012 stood at USD1.13 billion, an increase of 11% over end-2011 figures. Loans and Advances to Customers registered the largest increase of USD84 million, an increase of 34%. Trading Assets, mainly made up of LFC's forfaiting portfolio, increased by USD15 million to USD245 million. A notable increase of USD14 million (35%) was also registered in Financial Assets carried at Fair value, comprising a portfolio of financial securities (bonds and credit linked notes). During the year, the Group also entered the Treasury Bills market as an enhanced liquidity tool, booking USD13 million of such assets as at year-end. Loans and Advances to Banks decreased by USD22 million, a decrease of 5% over end-2011, reflecting a shift in liquidity management from a focus on bank deposits to marketable securities in the form of Treasury Bills and Bonds. Investments in equity-accounted investees increased by 24% (USD5.3 million) to USD27.8 million, an increase mainly attributable to new equity investments in India and Egypt, compensated by recognised share of losses and a loss on currency translation. During the year the Group also finalised the Head Office project with the Malta Group entities now operating from St Julian's.

Total Consolidated Liabilities as at financial reporting date stood at USD1 billion, up by 12% from USD893 million on 2011. Significant increases were recorded in Amounts owed to Banks, increasing by 18% (USD66 million) and in Amounts Owed to Customer of 11% (USD43 million). Movement in the Group's debt securities and subordinated debt largely reflects the currency fluctuations in the Euro-denominated 7% and 4.25% Bonds. During 2012, LFC continued developing its own funding resources through issues of promissory notes and the Bank also redeemed part of the IFC Subordinated Loan in line with the loan agreement.

Group Equity as at 31 December 2012 stood at USD131 million, up by 5% when compared to the equity levels reported at 31 December 2011, reflecting the profit performance for the year as well as the equity retention resulting from the scrip dividend approved in May. Consolidated Basle II Capital Adequacy ratio of 16.4% (2011 – 19.3%), remained very strong and well above the regulatory minimum of 8%. Liquidity, with daily ratios averaging 50% during 2012, was prudently and consistently maintained above the 30% minimum regulatory requirement.

Group commitments, comprising mainly confirmed letters of credits, documentary credits, commitments to purchase forfaiting assets, factoring commitments and undrawn credit facilities, increased to USD205 million (2011 – USD164 million), with reported increases in confirmed documentary credits and undrawn credits. Contingent liabilities stood at USD73 million at 31 December 2012, up by 10% on 2011.

2013 promises to be the year when FIMBank's new institutional shareholding profile comes on board, with that also the anticipation of significantly increased prospects to take on new and bigger business, to benefit from better funding opportunities and to overall improve the Group's operating performance, while remaining faithful to the core business model built around a track record in trade finance. These developments will be timely not only for the openings which they will give the Group to grow but also for the support that they can provide in a year which will see the arrival of heavy waves of new regulation, not least the first implementations of Basle 3/CRD IV. Critical to the development of the FIMBank Group will be its ability to maintain strong capital ratios, enhance its credit rating, secure better access to funding and improve its operational and financial efficiency. These are key targets which the Board is confident will be met and achieved in the year ahead, creating opportunities for the Bank, its subsidiaries as well as for the growth of its joint-venture undertakings.

dividends and reserves

The Directors will be recommending to the Annual General Meeting of shareholders the payment of a cash dividend amounting to USD5,279,120 (2011: USD2,738,034), representing a net dividend per ordinary share of US cents 3.693149 (2011: US cents 2.003884, diluted to 1.926812 due to 1:25 Bonus Issue in May 2012).

standard licence conditions and regulatory sanctions

During the year under review, no breaches of licence requirements occurred. Also, no regulatory sanctions were taken against the Bank.

approvals at the annual general meeting of shareholders

The Bank convened its Annual General Meeting on 10 May 2012. Along with the statutory Ordinary Resolutions, the Meeting approved Resolutions presented as special business to the shareholders, namely (a) the disclosure of unpublished price-sensitive information under certain circumstances, and (b) a 1 for 25 bonus share issue. Furthermore, two Extraordinary Resolutions were approved, namely (a) authority to the Bank to acquire its own shares and (b) amendments to the Memorandum of Association of the Bank.

disclosure in terms of the sixth schedule to the Companies Act, 1995

Save as otherwise mentioned in this Report and in the Financial Statements, there is no further information that requires disclosure pursuant to the Sixth Schedule of the Companies Act.

shareholder register information pursuant to Listing Rule 5.64

The Directors refer to the following disclosures in terms of Listing Rule 5.64:

a. Details of the structure of the Capital, the class of shares and, the rights and obligations attaching to it and the percentage of total share capital that it represents are, unless otherwise stated in this Report, disclosed in the Notes to the Financial Statements.

b. Except as provided for by Articles 6A and 41 of the Articles of Association of the Bank, or where the consents of the supervisory authorities may be required, there are no restrictions on the transfer of securities, or limitations on the holding of securities, or the need to obtain the approval of the Bank or other holders of securities of the Bank for any such transfer or holding.

c. Shareholders holding 5% or more of the Share Capital as at 31 December 2012 are as follows:

	Number of Shares	Percentage Holding
Massaleh Investments K.S.C.C.	55,066,820	38.52%
Fouad M. T. Alghanim	8,935,215	6.25%
International Finance Corporation	8,286,448	5.80%
Astrolabe General Trading & Contracting Company	8,142,560	5.70%

d. In accordance with Article 6A of the Articles of Association of the Bank, for a number of reserved matters, the Bank needs to obtain the prior written consent of the International Finance Corporation. The reserved matters are the following:

- Reduction in the capital of the Bank;
- Change in the nominal value of, or the rights attached to any shares of any class of the Bank, unless this is specifically required by Maltese law;
- Merger or consolidation of the Bank;
- Material reorganization of the Bank;
- Sale of all or substantially all of the Bank's assets;

- Change in the Bank's capital structure, except for the issuance of any new shares or securities convertible into shares. In case of issue of new shares or securities convertible into shares, the Bank needs to inform the IFC 90 days prior to the issuance of such shares; and
- Alteration or amendment to the Memorandum or Articles of Association.

e. There is no share scheme in place which gives employees rights to any form of control.

f. The Bank's Articles of Association do not contain more stringent provisions than the ones contained in the Companies Act governing the changes or variations in the rights attached to shares.

In terms of Article 12 of the Bank's Articles of Association the rights attached to any class of shares may be varied either with the consent in writing of the holders of not less than 80% of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of that class. However in terms of Article 6A of the Memorandum of Association of the Bank, the IFC's prior consent is to be obtained to change the rights attaching to any class of shares. The Banking Act obliges the Bank to obtain the consent of the supervisory authority (MFSA) to effect any material change in voting rights.

g. Except for the effects, if any, of the Put Option and Share Retention Agreement in place between IFC and Massaleh Investments K.S.C.C. whereby Massaleh may not, without the express consent of IFC, transfer or in any manner permit a lien on its shareholding if this will result in its holding to fall below 30%, there are no agreements between shareholders, known to the Bank, which may result in restrictions on the transfer of securities and/or voting rights.

h. The rules and procedures governing the appointment and replacement of Board members are provided by the Articles of Association and are referred to in the "Statement of Compliance with the Principles of Good Corporate Governance". Any amendments to the Articles shall be by means of an Extraordinary Resolution in accordance with the provisions of Articles 90 and 91.

i. At the 2012 Annual General Meeting the Bank requested and obtained a renewal authorisation from the shareholders to buy back its own shares, as indeed empowered to do so by Article 23 of the Articles of Association. Such authorisation is required in terms of the Companies Act and is valid until the Annual General Meeting in 2013. The number of shares which the Company is authorised to buy back may not exceed the maximum permissible at law, i.e. up to 10% of the issued share capital. Any prospective acquisition will be financed from profits available for distribution in terms of law. The Bank has declared that it would be its intention to acquire such shares with a view to dispose of them in an orderly manner and within a reasonable time-frame; they will neither be retained as own shares for a considerable period of time nor cancelled as part of a capital reduction exercise. The price range was established to be between USD 0.500 and USD 1.500, per ordinary share.

j. Unless otherwise disclosed in this Annual Report, there are no significant agreements to which the Bank is a party and which take effect, alter or terminate upon a change of control of the Bank following a takeover bid and the effects thereof.

k. There are no agreements between the Bank and its Board Members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

events after the financial reporting date

On 31 January 2013 the Bank held an extraordinary general meeting of shareholders which approved an offer made by Burgan Bank S.A.K. ("Burgan") of Kuwait, and United Gulf Bank B.S.C. ("UGB") of Bahrain. Further information is provided in note 46 to the Financial Statements.

going concern

As required by Listing Rule 5.62, upon due consideration of the Bank's profitability and statement of financial position, capital adequacy and solvency, the Directors confirm that, at the time of approving these financial statements, the Bank is capable of continuing to operate as a going concern for the foreseeable future.

directors

The Directors who served during the financial year (inclusive of any changes to the date of this report) were:

John C. Grech	(Chairman)
Margrith Lütschg-Emmenegger	(Vice-Chairman, Appointed on 10 May 2012)
Hamad Musaed Bader M. Al-Sayer	
Fouad M. T. Alghanim	
Faisal Y. Al-Awadi	(Appointed on 10 May 2012)
John D. Freeman	
Tarik Kaoukji	(Appointed on 10 May 2012)
John W. Kiefer	(Appointed on 10 May 2012)
Rogers David LeBaron	
Mehdi R. Malaki	(Appointed on 10 May 2012)
Mohammed Ibrahim Husain Marafie	
Islam Zughayer	(Appointed on 10 May 2012)
Pierre-Olivier Fragnière	(Resigned on 4 April 2012)
Gerard Lohier	(Resigned on 4 April 2012)
Najeeb Hamad Musaad Al-Saleh	(Retired on 10 May 2012)
Tareq M. Al-Saleh	(Retired on 10 May 2012)
Francis J. Vassallo	(Retired on 10 May 2012)
Jacques Leblanc	(Retired on 10 May 2012)

independent auditors

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

Approved by the Board of Directors on 6 March 2013 and signed on its behalf by:

John C. Grech
Chairman

Margrith Lütschg-Emmenegger
Vice Chairman

Registered Address
Mercury Tower
The Exchange Financial and Business Centre
Elia Zammit Street
St. Julian's STJ 3155
Malta

statement of compliance with the principles of good corporate governance

introduction

Pursuant to the requirements of Listing Rules 5.94 et seq of the Malta Financial Services Authority (the "MFSA"), the Board of Directors (the "Board" or "Directors") of FIMBank p.l.c. (the "Bank") hereby details the extent to which the Code of Principles of Good Corporate Governance ("the Principles"), published as Appendix 5.1 to Chapter 5 of the Listing Rules, have been adopted together with the effective measures taken to ensure compliance with such Principles.

part 1: compliance with the principles

The Board firmly believes that strong corporate governance permits the Bank and the Group to benefit from greater transparency in its activities as well as in its relations with the market, thereby enhancing integrity and confidence. Although the Principles are not mandatory, the MFSA has recommended that Listed Companies endeavour to adopt such Principles. The Board has considered this to be in the best interests of the shareholders because they commit the Directors, Management and employees of the Bank to internationally recognised standards of corporate governance.

Ultimate responsibility for good corporate governance remains with the Directors who have therefore resolved to adopt the Principles and endorse them accordingly, except for those instances where particular circumstances exist that warrant non-adherence thereto, or at least postponement for the time being.

The Board is committed to improve further its corporate governance standards which is an ongoing process.

principle 1: roles and responsibilities of the board

The Board is responsible for the overall long-term direction of the Group, for setting its strategy and policies and ensuring that they are pursued through good management practices. The Board discharges its responsibilities by:

a. exercising prudent and effective controls and ensuring that such controls are appropriately reviewed for effectiveness and monitored for compliance on a regular basis;
b. determining the strategic aims and the organizational structure;
c. regularly reviewing management performance and ensuring that the Bank/Group has the appropriate mix of financial and human resources to run its business;
d. being conversant with relevant statutory and regulatory requirements;
e. ensuring that all Directors regularly attend meetings of the Board, agree business objectives, financial plans and general parameters within which the Board, the Board Committees and Management are to function;
f. ensuring that systems and controls are in place to mitigate significant business risks and that exposures are identified and properly managed;
g. setting appropriate business standards, codes of corporate governance and ethical behaviour for all Directors and employees, as well as monitoring their performance;
h. appointing the President who is entrusted with day-to-day management of the Group and its operations, together with members of Management.

Over the years, the Board has created a framework through which it effectively performs its functions and discharges its liabilities. The Board has also established terms of reference and charters for the various Board Committees and the conduct of their meetings.

The Members of the Board of Directors of the Bank bring to their office a mix of backgrounds and capabilities, ranging from business to financial services. This ensures a good blend of expertise and experience. Moreover, the suitability of any individual to become a Director of the Bank is, in the first place, considered by the Chairman and incumbent Board members in the context of the Board's succession planning. Subsequently, the proposal for an individual to become a Director is assessed by the MFSA, which reviews, inter alia, the individual's competence to serve as Director against established 'fit and proper' criteria. In this connection, the individual is required to provide all information, including detailed personal and career information, as the competent authorities may deem necessary. Upon appointment, new Directors receive general information about the Bank, its business and affairs, and queries in this regard are in the first instance handled by the Company Secretary and/or the President.

principle 2: roles and responsibilities of the chairman and of the president

The roles of the Chairman and of the President are completely separate from one another to ensure clear division of responsibilities at the head of the Bank.

The Chairman is a non-executive office who is selected from amongst the Directors. The Chairman is responsible for leading the Board and setting its agenda, ensuring that the Directors receive precise, timely and objective information so that they can properly execute their duties, encouraging their active engagement in meetings and issues and ensuring effective communication with shareholders.

The President is the most senior executive of the Group and was elected Executive Director in 2012 acting in the role of Vice Chairman of the Board. She is responsible for leading the Management in the execution of the strategy and to run the day-to-day activities of the Group.

principle 3: board composition and appointment of directors

The Bank's Articles of Association (the "Articles") contain detailed provisions (in Clauses 93 to 114) as to the manner of appointment and retirement of Directors. Directors hold office from the close of the Annual General Meeting at which they are appointed until the day of the consecutive General Meeting, at which they become eligible for re-election. The Articles also provide that the Chairman and Vice-Chairman are to be appointed by the Directors from amongst their number and shall hold office for a period of one year, unless otherwise decided by a simple majority of the Board. Any member may nominate an individual in the manner prescribed by the Articles, provided that such nomination is seconded by a member or members who in the aggregate hold at least twenty thousand (20,000) shares.

As at the date of this Statement, the Directors and their respective first date of appointment to the Board are as follows:

	Year when first appointed
John C. Grech (Chairman)	2004
Margrith Lütschg-Emmenegger (Vice Chairman)	2012
Hamad Musaed Bader Mohammed Al-Sayer	2002
Fouad M. T. Alghanim	1997
John D. Freeman	2008
Rogers David LeBaron	2006
Mohamed I.H. Marafie	1994
Faisal Y. Al-Awadi	2012
Tarik Kaoukji	2012
Mehdi R. Malaki	2012
John W. Kiefer	2012
Islam Zughayer	2012

Except for their involvement in Board Committees as described below, all Directors aside from Margrith Lütschg-Emmenegger hold office in a non-executive capacity.

In March 2012 the Board, after noting the contents of an Internal Memorandum on the subject prepared by the Company Secretary, considered and resolved that all non-executive directors meet the requisites for them to be deemed independent. This decision was based on the representations given by the individual directors, including those with a shareholding in FIMBank or associated with entities having a shareholding in FIMBank.

Although the Directors have not so far been asked to make a written declaration of independence, this will be addressed in 2013. Moreover given that certain of those Directors have served on the Board for more than 12 years, the Board considers that all Directors bring a sufficiently balanced character and frame of mind to their duties and judgment that they are consequently deemed to be independent.

principles 4 and 5: duties and proceedings of directors

The Board of FIMBank carries out its duties through a structure that starts with the strategy and policy formulated at meetings and subsequently delegated to Committees and Management for implementation and execution at various levels, both functional and operational.

In the first instance, the proceedings of Directors are regulated by the Bank's Articles of Association. Meetings of the Board for any calendar year are normally set at the last meeting of the preceding year, so that advance preparation and daily planning for the meetings can be made. Meetings are held at least quarterly and are formally notified by the Company Secretary at least seven days before the meeting with the issue of the agenda for the forthcoming meeting. Occasionally, meetings are also called at short notice or on an ad hoc basis, in which case the Directors may decide to waive the statutory period of notice. The agenda is accompanied by such papers and documents as are necessary to make Directors informed of issues relating to their roles and responsibilities, and in particular of the decisions they are expected to take. All Directors were duly notified of every meeting and given the statutory notice period, which, in the case of the meetings by conference facilities, was waived by approval of the Directors. With notices of meetings, the Directors are also served with Alternate Director Appointment Forms which, in case of non-attendance, are invited to complete and send to the Company Secretary prior to the meeting.

Meetings include presentations by Management, whilst other information and documentation is made available for perusal by the Directors, at their request. Members of senior management attend Board meetings by invitation depending on the agenda content and relevance. The Board also might request that the meetings be attended by other employees or by professional advisors, as and when necessary. In all other circumstances, the Directors are expected to play a full and constructive role in the Group's affairs. As soon as possible after a meeting, draft minutes are circulated amongst the members for their information. Minutes are then read and approved at the following meeting. Since early 2011 an intranet facility has been introduced which allows Directors to access Board documents, including all past minutes of Board and committees meetings.

Board meetings also serve as an opportunity where the progress and decisions of the committees, covered under Principle 8, is reported. All Board committees are either a mix of Directors and Management (Executive Committee and ALCO) or include the participation of Management (Audit Committee, Compensation Committee). Committees report to the Board on their activities through their respective chairmen at each Board meeting. Management reporting is also done directly to the Board at each meeting, either by means of an update presentation from the President or usually through the Executive Committee. In any case, each Board meeting receives an update on the performance of the Bank and the Group, on known risk cases, litigation and potential problems, about key strategic developments, including the progress of investees such as subsidiaries and joint ventures and key financial indicators that enable performance to be measured against internal budgets and prior financial periods.

principle 6: information and professional development

Upon first appointment, all Directors are offered an introduction to the Bank and Group which includes tailored induction and familiarisation by the President and the Company Secretary. This usually covers legal and statutory responsibilities as well as a good overview of the Group's business and activities. Access to the services of the company secretary and resources of the Bank, including, where necessary, independent professional advice at the Bank's expense, are also available.

The intranet facility introduced in 2011 makes it easier for documents, materials and presentations, including professional resources and access to sources of online information, to be made easily accessible to Directors. Wherever possible and feasible, training and education opportunities, e.g. attendance at conferences, are also brought to the attention of Directors.

Moreover, the Board ensures that the President maintains systems and procedures for the development and training of the management and employees generally, in order to retain the best quality staff, optimise on management and staff morale and to establish a succession plan for senior management.

principle 7: evaluation of the board's performance

Members of the Board of Directors are subject to comprehensive fit and proper tests by the supervisory authorities before they are formally cleared for appointment to the Board. During 2012 a formal evaluation procedure of the Board members was introduced, based on a self-assessment exercise which is requested from each Director and submitted on an annual basis. The self-assessment forms are then evaluated by a committee, which function has been entrusted to the Audit Committee, which then reports directly to the Board Chairman who is required to act on the results of the performance evaluation process. The outcome would be to ascertain the strengths and to address the weaknesses of the Board and to report to the Board itself and, where appropriate, to the Annual General Meeting. The first self-assessment from Directors was requested in the last quarter of 2012, with the formal evaluation taking place, and expected to be concluded during the first quarter of 2013.

principle 8: board committees

The Bank's Articles of Association establish that the Directors may delegate certain powers, authorities and discretions to any person and/or Committee appointed by them. The composition of such Committees, as well as the participation of Directors on them, is decided upon by the Board. It has been the practice that all such Board Committees include at least one Director.

Accordingly, the Board has established the following committees:

- Executive Committee
- Audit Committee (also serves as an Evaluation Committee)
- Risk Committees (Board Risk Committee and Management Risk Committee)
- Asset-Liability Committee
- Compensation Committee (refer to Remuneration Report on Page 33)

The Bank has so far opted not to constitute a Nominations Committee. Further explanation is provided under the section entitled 'Non-Compliance with the Principles' of this Statement.

executive committee

The Executive Committee acts as the highest delegated authority by the Board in overseeing the activities and management of the Group and approving limits beyond the powers of the other Committees. The Executive Committee's terms of reference are included in the Executive Committee Charter.

The members of the Executive Committee are:
Margrith Lütschg-Emmenegger (Chairman)
John C. Grech
Rogers David LeBaron
Islam Zughayer
Armin Eckermann
Marcel Cassar
Simon Lay
Christian Bless

The Executive Committee met on 6 occasions during 2012, however communication with and between Management and the Committee's members is regular and ongoing.

audit committee

The Audit Committee assists the Board in fulfilling its supervisory and monitoring responsibilities, according to detailed terms of reference included in the Audit Committee Charter and which reflect the recent requirements of the Listing Rules as well as current best practices and recommendations of good corporate governance. The terms of reference of the Audit Committee, as detailed in the Audit Committee Charter include:

a) the monitoring of the financial reporting process, including the audit of the annual and consolidated accounts;
b) the monitoring of the effectiveness of the Group's internal control, internal audit, compliance and risk management systems;
c) the maintenance of communication on such matters between the Board, Management, the external Auditors the Internal Auditors and the Compliance function;
d) the monitoring and reviewing of the external Auditor's independence, and in particular, the provision of additional services to the Issuer;
e) the monitoring and reviewing of proposed transactions by the Group with related parties; and
f) the performance of the Group's Internal Audit and Compliance functions.

The Audit Committee also considers the arm's length nature of related party transactions, vets and approves them. Both the Audit Committee's and the Head of Internal Audit's terms of reference clearly stipulate their independence from other Board Committees and management, and such independence is also acknowledged by external regulatory verification. The Head of Internal Audit has direct access to the Audit Committee Chairman at all times, attends all meetings and acts as secretary to the Audit Committee. The Head of Compliance also has direct access to the Audit Committee Chairman and attends all meetings.

The members of the Audit Committee are:

John D. Freeman (Chairman)
Hamad M.B.M. Al-Sayer
Rogers David LeBaron
Faisal Y. Al-Awadi

The member of the Audit Committee who, as required by the Listing Rules, is designated as independent and competent in auditing and/or accounting is John D. Freeman. Mr. Freeman served for many years as President and Managing Director of Quabbin Capital, a private equity investment firm as well as a board member of a number of its portfolio companies. The Audit Committee normally requests members of Management to attend its meetings.

The Audit Committee, also serves as the Evaluation Committee. The Evaluation Committee is a new committee which has been introduced in 2012 in order to comply with the Principle of Good Corporate Governance regulating the Evaluation of Directors Performance.

The Audit Committee held 6 meetings during 2012, two of which were attended by the independent external auditors. However, communication with and between the Secretary/Head of Internal Audit and the Committee's members is ongoing, and considerations that required the Committee's attention were acted upon between meetings and decided by the Members (where necessary) through electronic circulation and correspondence.

risk committees

The Board Risk Committee is responsible for overseeing the Group's credit policy and risk, for approving individual limits for banks and corporates within its delegated parameters of MFSA, and also for recommending country limits for approval by the Executive Committee. The Board Risk Committee is also responsible for the oversight of operational and legal risk matters related to credit activity.

Certain powers of the Board Risk Committee have been delegated to the Management Risk Committee. Consequently, the Management Risk Committee decides on credit applications up to and including USD10 million. Credit applications exceeding USD10 million up to the Bank's legal lending limit are decided by the Board Risk Committee. Additional limits of authority based on specific criteria and up to a maximum of USD3 million have been delegated to Management.

The Board Risk Committee members are:

John C. Grech (Chairman)
Margrith Lütschg-Emmenegger (Vice Chairman)
John W. Kiefer
Armin Eckermann
Marcel Cassar

statement of compliance with the principles of good corporate governance - continued

The Management Risk Committee members are:

Margrith Lütschg-Emmenegger (Chairman)
Armin Eckermann (Vice Chairman)
Giovanni Bartolotta
Marcel Cassar
Simon Lay
Carmelo Occhipinti
Renald Theuma
Christian Bless

Additionally, the Head of Legal and Head of Compliance have right of attendance at Committee meetings. The Head of Risk Management acts as secretary to the Board Risk Committee and is responsible for the secretarial support to both committees.

During 2012, the Board Risk Committee met on 38 occasions and the Management Risk Committee met on 36 occasions.

asset-liability committee

The Asset-Liability Committee ("ALCO") is responsible for establishing appropriate asset and liability management policies, monitoring their application and reviewing financial information on the basis of which investment and funding decisions are taken.

The Asset-Liability Committee members are:

Tariq Kaoukji (Chairman)
Margrith Lütscgh-Emmenegger
Armin Eckermann
Marcel Cassar
Carmelo Occhipinti

In addition, Aly Siby, Head of Corporate & Institutional Banking, Toufic Yafaoui, Head of Treasury and Ronald Mizzi, Head of Finance, are non-voting members of the ALCO and attend all meetings.

During 2012, the ALCO met on 3 occasions.

principles 9 and 10: commitment to institutional shareholders, an informed market and transparency in dealings by directors, management and staff

All eligible shareholders are served with a notice to attend the Annual General Meeting, which is held during the first half of the year. The notice contains all the resolutions proposed for approval by the Annual General Meeting and, as necessary, notes accompanying such resolutions. Pursuant to the Companies Act, notices are delivered to shareholders at least 14 clear days before the date of the Annual General Meeting. Advance notification of the resolutions proposed for approval is also given by way of a Company Announcement as soon as these are decided and approved, normally at the same Board meeting that approves the Annual Financial Statements. The Board also considers the Annual Report to be an effective document which, in addition to the statutory disclosures, contains detailed information about the Group's performance. Moreover, the Board ensures that the Annual General Meeting serves as a medium at which information is communicated to shareholders in a transparent and accountable manner. Additionally, the Bank holds meetings from time to time with financial intermediaries and financial market practitioners to disseminate information about the Group's progress, activities and financial performance. These meetings are usually organised to follow the publication of the half yearly and annual financial results as well as in connection with other Group developments and events.

The Board complies with the provisions of the Bank's Memorandum and Articles of Association, as well as all legislation, rules and regulations that require it to maintain a fair and informed market in the Bank's equity securities. It discharges its obligations by having in place formal procedures for dealing with potentially price-sensitive information and ensuring the proper conduct of its officers and staff in that regard. Regular contact with shareholders and the general market is maintained through company announcements, which are issued in conformity with the obligations arising from the Listing Rules. During 2012 the Bank issued eighteen announcements. More specifically, in accordance with Listing Rules 5.86 et seq., two announcements were made regarding the Interim Directors' Statements, on 16 May 2012 and 22 November 2012 respectively.

The Bank also maintains a presence on the web through www.fimbank.com, which includes an informative and comprehensive 'Investor Relations' section that contains, amongst other things, all company announcements, Annual General Meeting information, regulated information and press releases.

The "FIMBank Financial Instruments Internal Code of Dealing" which has been drawn up in accordance with the requirements of the Listing Rules contains dealings restriction guidelines and reporting procedures to be observed by Directors, Management and Staff when dealing, or prospecting to deal, in the Bank's equity securities. Directors and employees are also notified by the Company Secretary of their obligations to observe the restricted 'time-windows' accompanying the publication of half yearly and annual financial results during which no dealings in the Bank's equity securities are allowed.

Control by any shareholder, whether direct or indirect, and any potential abuse thereof, is regulated by the Banking Act and Rules issued thereunder. The Act and such Rules provide mechanisms for, and obligations on, persons intending to acquire control, as well as on all Directors and management, to notify and report to the supervisory authorities in such eventuality. There are additional obligations obtaining on Directors in terms of the Listing Rules and there is good communication in place between the management, the company secretariat and the Board to ensure that any issues are flagged and acted appropriately.

principle 11: conflicts of interest

While the overall tone for instilling a strong culture about the proper management of conflicts of interest is set at the top, situations of potential conflicts of interest with Board members are in the first instance specifically regulated by clauses 119 and 120 of the Bank's Articles of Association. In terms of the Articles of Association, whenever a conflict of interest situation, real or potential, arises in connection with any matter, the interest has to be declared. In particular, the Director concerned refrains from taking part in proceedings relating to the matter and his vote is excluded from the count of the decision. The minutes of Board meetings, as well as those of Board Committees, invariably include a suitable record of such declaration and of the action taken by the individual Director concerned. Similar arrangements apply to management in the course of the conduct of their duties at Board Committees. Besides, where Directors and management have related party involvements, these are reported and it is an integral part of the Audit Committee's terms of reference to provide oversight on related party transactions.

The number of shares held in the Bank by Directors directly in their name as at 31 December 2012 is as follows:

John C. Grech * (Chairman)	575,747
Margrith Lütschg-Emmenegger (Vice Chairman)	Nil
Hamad Musaed Bader Mohammed Al-Sayer *	Nil
Fouad M. T. Alghanim	8,935,215
Faisal Y. Al-Awadi	Nil
John D. Freeman	Nil
Rogers David LeBaron	Nil
Tarik Kaoukji	Nil
John W. Kiefer	Nil
Mohamed I.H. Marafie *	515,596
Mehdi R. Malaki	Nil
Islam Zughayer	Nil

Aside from these direct interests in the shareholding of the Bank, the directors marked above with an * are considered to be associated with companies that hold a beneficial interest in the Bank's shareholding. Other than in the case of the IFC – who has the right to appoint a Director pursuant to the Bank's Memorandum of Association - no shareholder is entitled to any automatic right to nominate or appoint a director on the Board. Details of outstanding loans, guarantees or similar facilities made available to related parties or beneficial interests thereof, including directors, are disclosed in the Notes to the Financial Statements.

statement of compliance with the principles of good corporate governance - continued

principle 12: corporate social responsibility

The Board of Directors encourages that sound principles of corporate social responsibility are adhered to in the ongoing management practices of the Group. As a result, from time to time the Bank and its subsidiaries are involved in supporting initiatives at both national and community level aimed at contributing to economic and societal development. They also assist and promote small-scale projects of a charitable and humanitarian nature. Details of corporate social responsibility initiatives undertaken by the Group in 2012 are explained in other parts of the Annual Report.

part 2: non-compliance with the principles

principle 4: succession policy for directors

Whereas Principle 4.2.7 calls on the Directors to develop a succession policy for the future composition of the Board, and "particularly the executive component thereof, for which the Chairman should hold key responsibility", this is considered to be not applicable in view of the fact that aside from the Vice Chairman, the Board is composed solely of non-executive members. On the other hand, a succession policy for management is in place and is reviewed by the Compensation Committee.

principle 5: board meetings

The Board held 8 meetings during 2012, of which 5 were held with Directors being asked to attend in person while 3 were held via long-distance conferencing facilities. The overall attendance rate for the 5 physical meetings was 78% while for the 3 held by conferencing the attendance rate was 69%. So far, there has not been the practice of communicating the individual attendance of shareholders at meetings to the Annual General Meeting. In cases where a Board Member has been absent from attending successive meetings, the Board considers the overall commitment, support and contribution of that Director aside from the mere physical attendance at meetings, especially where the Director is representing an important equity interest in the Bank.

principle 8: nomination committee

The manner in which the Directors are nominated for appointment follows the procedure set out in the Articles of Association, i.e. any nomination must be seconded by a member or members who in the aggregate hold at least 20,000 shares. This process is also rendered public with an announcement in the Malta press, usually in the first quarter of the financial year and in good time before the Annual General Meeting, which allows at least 10 business days for any nomination to be made to the Company Secretary. Because the Board of Directors comprises a mix of independent and non-independent Board members which has thus far reflected fairly the balance between larger and smaller shareholders, past nominations have tended to be initiated by the Chairman with the incumbent Board members who identify and approach potential candidates for office. Consequently, the need to create a specific Nominations Committee has not been considered necessary, however the matter will be kept under review for the future.

internal control

The Board is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group, and for ensuring that proper systems of internal control are in place. The Board has delegated Management with the task of creating an effective control environment to the highest possible standards. The internal audit function performs periodic audits to specifically test compliance with policies, standards and procedures and the effectiveness of the internal control environment within the Group. To ensure the effectiveness of the internal systems of control the Head of Internal Audit reviews and tests such systems independently from Management, adopting a risk-based approach. The Internal Auditor reports to the Audit Committee, however, the Chairman of the Board of Directors is copied with all internal audit reports issued.

The Board has identified key features within the Group's environment of internal controls to ensure compliance with the Principles. The Management is responsible for the identification and evaluation of key risks applicable to the respective areas of business. The Board receives regular reports from Management giving detailed and comprehensive analysis of financial and operational performance, including variance analysis between budgeted and actual figures, activities and prospects.

It is also hereby declared that the contents of the Directors' Report and of this Statement of Compliance with the Principles of Good Corporate Governance cover the requirements of the provisions of Listing Rule 5.97.

Approved by the Board of Directors on 6 March 2013 and signed on its behalf by:

John C. Grech
Chairman

Margrith Lütschg-Emmenegger
Vice Chairman

remuneration report

For the Year Ended 31 December 2012

1. terms of reference and membership

The Compensation Committee (the "Committee") is responsible for reviewing and making decisions on the Board of Directors' remuneration and that of the senior executives.

Prior to the Annual General Meeting ("AGM") of 10 May 2012, the Committee was composed of Najeeb H.M. Al-Saleh (Chairman), Jacques Leblanc (Secretary), Gerard Lohier, Tareq M. Al-Saleh, Pierre-Olivier Fragnière and Francis J. Vassallo, all of whom were independent non-executive Directors. Margrith Lütschg-Emmenegger, Group President, also attended these meetings.

Following the AGM, the Committee is now composed of John D. Freeman (Chairman) and Mehdi R. Malaki who are independent non-executive Directors, Margrith Lütschg-Emmenegger, Group President and Vice Chairman, and Jacques Leblanc (member and Secretary).

2. meetings

The Committee met twice during the period under review, which meetings were attended as follows:

Members	Attended
Najeeb H.M. Al-Saleh	0
Jacques Leblanc	2
Gerard Lohier	1
Tareq M. Al-Saleh	0
Pierre-Olivier Fragnière	0
Francis J. Vassallo	1
Margrith Lütschg-Emmenegger	2
John D. Freeman	1
Mehdi R. Malaki	1

The following matters were determined and/or discussed:

a) Compensation Committee Charter;
b) remuneration policy for Directors and senior executives;
c) remuneration report and statement;
d) salary reviews , bonuses and share options for Group employees;
e) recruitment policy for 2013;
f) senior management promotions; and
g) share option schemes for subsidiaries of the Bank.

3. remuneration statement

The Committee has the role of making recommendations on the Board of Directors' remuneration. The guiding principle, as outlined in the remuneration policy, is that the remuneration and other terms of employment for the Directors shall be competitive to ensure that the Group attracts and retains outstanding individuals of integrity, caliber, credibility and who have the necessary skills and experience to bring an independent judgement to bear on the issues of strategy, performance and resources for the success of the Group.

The Annual General Meeting of shareholders approves the maximum annual aggregate remuneration which the Directors may receive for the holding of their office. At the Annual General Meeting of 5 May 2012 the shareholders approved the maximum aggregate emoluments of the Directors for the financial year ending 31 December 2012 at USD350,000. No Director, in his capacity as a Director of the Bank, is entitled to profit sharing, share options or pension benefits. The Board Committee fees for the financial year ending 31 December 2012 amounted to USD233,413.

4. code provision 8.A.5

For 2012, the total payments received by Directors were:

Fixed remuneration	USD233,413
Variable remuneration	-
Executive share options	NIL
Others	USD156,388

The methodology for the remuneration of Directors was amended in May 2012. Apart from a fixed annual emolument, Directors are also remunerated depending upon which committee they sit on. The above remuneration only represents allowances paid during the year under review and excludes any accrued remuneration.

For Senior Executives, namely the President and the Executive Vice Presidents, the remuneration package ensures the right qualities and skills for the proper management of the Group as well as the proper execution of the strategy devised by the Board of Directors. There have been no significant changes in the Group's remuneration policy during the financial year under review, and no significant changes are envisaged for year ending 2012.

The various remuneration components are:

a) fixed remuneration;
b) variable remuneration;
c) executive share options; and
d) others e.g. company car, subsidized home loans and other fringe benefits.

which are combined to ensure an appropriate and balanced remuneration package that reflects the employee's rank in the Bank and professional activity as well as external market practice.

For 2012, the total emoluments received by Senior Executives were:

Fixed remuneration	USD1,784,941
Variable remuneration	USD513,785
Executive share options	NIL
Others	USD134,449

The Committee decisions are made within the guidelines set by the Board of Directors when reviewing the Group Budget.

directors' responsibility for the financial statements

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) and the Banking Act, 1994 (Chapter 371, Laws of Malta).

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

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

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's and Group's objective of preparing financial statements as required by the Companies Act, 1995 (Chapter 386, Laws of Malta) and managing risks that may give rise to material misstatements in those financial statements.

In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors by:

John C. Grech
Chairman

Margrith Lütschg-Emmenegger
Vice Chairman

statements of financial position

As at 31 December 2012

	Note	Group 2012 USD	Group 2011 USD	Bank 2012 USD	Bank 2011 USD
ASSETS					
Balances with the Central Bank of Malta, Treasury Bills and cash	18	20,831,547	11,220,465	20,818,657	11,202,132
Trading assets	19	245,061,077	230,286,337	-	-
Derivative assets held for risk management	20	893,552	1,844,035	939,512	1,852,222
Financial assets designated at fair value through profit or loss	21	55,589,393	41,320,260	55,589,393	41,320,260
Loans and advances to banks	22	396,320,420	417,884,197	392,215,931	410,335,778
Loans and advances to customers	23	329,330,290	245,186,411	476,424,777	417,827,014
Investments available-for-sale	24	92,742	92,742	92,040	92,040
Investments in equity accounted investees	25	27,810,254	22,501,596	6,013,425	3,213,425
Investments in subsidiaries	26	-	-	78,234,301	73,481,359
Property and equipment	27	34,790,467	26,033,673	2,180,245	1,882,113
Intangible assets	28	1,335,559	1,573,025	622,001	653,646
Current tax assets		1,416,225	448,583	1,416,225	448,583
Deferred taxation	29	11,196,161	11,205,891	4,456,996	4,466,875
Other assets	30	3,925,264	3,507,147	2,581,299	2,773,613
Prepayments and accrued income	31	1,815,224	4,668,122	1,405,124	4,412,473
Total assets		1,130,408,175	1,017,772,484	1,042,989,926	973,961,533
LIABILITIES AND EQUITY					
Liabilities					
Derivative liabilities held for risk management	20	791,622	4,722,154	791,622	4,722,154
Amounts owed to banks	32	431,841,922	365,202,188	412,808,494	358,274,318
Amounts owed to customers	33	454,857,480	411,565,369	427,387,411	408,123,600
Debt securities in issue	34	51,956,119	50,554,467	43,141,189	42,346,073
Subordinated debt	35	40,122,813	41,162,938	40,122,813	41,162,938
Provisions	36	3,034,789	3,010,366	1,733,104	1,733,104
Other liabilities		409,346	94,392	409,346	94,392
Accruals and deferred income	37	16,753,818	16,731,411	5,858,275	6,265,596
Total liabilities		999,767,909	893,043,285	932,252,254	862,722,175
Equity					
Share capital	38	71,471,801	68,318,160	71,471,801	68,318,160
Share premium	38	8,028,945	10,474,390	8,028,945	10,474,390
Currency translation reserve	38	(3,832,562)	(2,974,934)	-	-
Fair value reserve	38	(97,470)	(97,470)	(97,470)	(97,470)
Other reserve	38	10,463,255	12,442,022	2,681,041	2,681,041
Retained earnings	38	44,606,297	36,567,031	28,653,355	29,863,237
Total equity		130,640,266	124,729,199	110,737,672	111,239,358
Total liabilities and equity		1,130,408,175	1,017,772,484	1,042,989,926	973,961,533

statements of financial position

As at 31 December 2012

		Group		Bank	
	Note	2012 USD	2011 USD	2012 USD	2011 USD
MEMORANDUM ITEMS					
Contingent liabilities	39	73,271,995	66,848,581	82,152,480	72,685,336
Commitments	40	205,344,075	163,711,561	173,120,939	116,747,046

The official middle rate of exchange issued by the European Central Bank between US Dollar and Euro as at 31 December 2012 was 1.3194.

The notes on pages 44 to 112 are an integral part of these financial statements.

The financial statements on pages 36 to 112 were approved and authorised for issue by the Board of Directors on 6 March 2013 and were signed on its behalf by:

John C. Grech
Chairman

Margrith Lütschg-Emmenegger
Vice Chairman

statements of changes in equity

For the year ended 31 December 2012

Group

	Share capital USD	Share premium USD	Currency translation reserve USD	Fair value reserve USD	Other reserve USD	Retained earnings USD	Total USD
At 1 January 2011	67,976,317	10,235,339	(507,632)	(51,665)	8,098,579	35,155,650	120,906,588
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	9,126,779	9,126,779
	-	-	-	-	-	9,126,779	9,126,779
Other comprehensive income							
Change in fair value of available-for- sale financial assets	-	-	-	(45,805)	-	-	(45,805)
Currency translation reserve	-	-	(2,467,302)	-	-	-	(2,467,302)
Total other comprehensive income	-	-	(2,467,302)	(45,805)	-	-	(2,513,107)
Total comprehensive income for the year	-	-	(2,467,302)	(45,805)	-	9,126,779	6,613,672
Transactions with owners, recorded directly in equity							
Dividends to equity holders	-	-	-	-	-	(3,371,955)	(3,371,955)
Scrip issue of ordinary shares	341,843	239,051	-	-	-	-	580,894
Total contributions by and distributions to owners	341,843	239,051	-	-	-	(3,371,955)	(2,791,061)
Transfer from retained earnings	-	-	-	-	4,343,443	(4,343,443)	-
As at 31 December 2011	68,318,160	10,474,390	(2,974,934)	(97,470)	12,442,022	36,567,031	124,729,199
At 1 January 2012	68,318,160	10,474,390	(2,974,934)	(97,470)	12,442,022	36,567,031	124,729,199
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	8,798,533	8,798,533
	-	-	-	-	-	8,798,533	8,798,533
Other comprehensive income							
Currency translation reserve	-	-	(857,628)	-	-	-	(857,628)
Total other comprehensive income	-	-	(857,628)	-	-	-	(857,628)
Total comprehensive income for the year	-	-	(857,628)	-	-	8,798,533	7,940,905
Transactions with owners, recorded directly in equity							
Bonus issue of shares	2,732,948	(2,732,948)	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	(2,738,034)	(2,738,034)
Scrip issue of ordinary shares	420,693	287,503	-	-	-	-	708,196
Total contributions by and distributions to owners	3,153,641	(2,445,445)	-	-	-	(2,738,034)	(2,029,838)
Transfer to retained earnings	-	-	-	-	(1,978,767)	1,978,767	-
As at 31 December 2012	71,471,801	8,028,945	(3,832,562)	(97,470)	10,463,255	44,606,297	130,640,266

statements of changes in equity

For the year ended 31 December 2012

Bank

	Share capital USD	Share premium USD	Fair value reserve USD	Other reserve USD	Retained earnings USD	Total USD
At 1 January 2011	67,976,317	10,235,339	(51,665)	2,681,041	31,395,958	112,236,990
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,839,234	1,839,234
	-	-	-	-	1,839,234	1,839,234
Other comprehensive income						
Change in fair value of available-for-sale financial assets	-	-	(45,805)	-	-	(45,805)
Total other comprehensive income for the year	-	-	(45,805)	-	-	(45,805)
Total comprehensive income for the year	-	-	(45,805)	-	1,839,234	1,793,429
Transactions with owners, recorded directly in equity						
Dividends to equity holders	-	-	-	-	(3,371,955)	(3,371,955)
Scrip issue of ordinary shares	341,843	239,051	-	-	-	580,894
Total contributions by and distributions to owners	341,843	239,051	-	-	(3,371,955)	(2,791,061)
As at 31 December 2011	68,318,160	10,474,390	(97,470)	2,681,041	29,863,237	111,239,358
At 1 January 2012	68,318,160	10,474,390	(97,470)	2,681,041	29,863,237	111,239,358
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,528,152	1,528,152
	-	-	-	-	1,528,152	1,528,152
Transactions with owners, recorded directly in equity						
Bonus issue of shares	2,732,948	(2,732,948)	-	-	-	-
Dividends to equity holders	-	-	-	-	(2,738,034)	(2,738,034)
Scrip issue of ordinary shares	420,693	287,503	-	-	-	708,196
Total contributions by and distributions to owners	3,153,641	(2,445,445)	-	-	(2,738,034)	(2,029,838)
As at 31 December 2012	71,471,801	8,028,945	(97,470)	2,681,041	28,653,355	110,737,672

The notes on pages 44 to 112 are an integral part of these financial statements.

income statements

For the year ended 31 December 2012

	Note	Group 2012 USD	Group 2011 USD	Bank 2012 USD	Bank 2011 USD
Interest income	8	30,177,040	29,178,828	21,815,348	20,990,805
Interest expense	8	(17,201,281)	(15,667,074)	(16,288,411)	(15,080,538)
Net interest income	8	12,975,759	13,511,754	5,526,937	5,910,267
Fee and commission income	9	23,169,507	20,750,013	15,543,409	14,629,402
Fee and commission expense	9	(2,471,295)	(2,151,053)	(1,304,577)	(1,429,800)
Net fee and commission income	9	20,698,212	18,598,960	14,238,832	13,199,602
Net trading (expense)/income	10	(4,875,179)	2,716,444	(7,377,031)	316,461
Net gain from other financial instruments carried at fair value	11	11,225,546	2,644,387	11,262,875	2,584,985
Dividend income	12	699	-	699	-
Other operating income	13	15,795	57,809	5,290	32,322
Operating income before net impairment		40,040,832	37,529,354	23,657,602	22,043,637
Net impairment (loss)/reversal on financial assets	14	(1,323,275)	(132,026)	(1,690,609)	328,517
Operating income		38,717,557	37,397,328	21,966,993	22,372,154
Administrative expenses	15	(27,003,171)	(27,765,367)	(19,730,475)	(20,681,648)
Depreciation and amortisation	27/28	(1,481,903)	(1,158,502)	(666,464)	(671,744)
Total operating expenses		(28,485,074)	(28,923,869)	(20,396,939)	(21,353,392)
Operating profit		10,232,483	8,473,459	1,570,054	1,018,762
Share of loss of equity accounted investees (net of tax)	25	(1,390,319)	(191,956)	-	-
Profit before tax		8,842,164	8,281,503	1,570,054	1,018,762
Taxation	16	(43,631)	845,276	(41,902)	820,472
Profit for the year		8,798,533	9,126,779	1,528,152	1,839,234
Basic earnings per share	17	6.17c	6.45c	1.07c	1.30c
Diluted earnings per share	17	6.17c	6.45c	1.07c	1.30c

The notes on pages 44 to 112 are an integral part of these financial statements.

statements of comprehensive income

For the year ended 31 December 2012

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Profit for the year	8,798,533	9,126,779	1,528,152	1,839,234
Other comprehensive income:				
Exchange differences on translation of foreign operations	(857,628)	(2,467,302)	-	-
Fair value reserve (available for sale financial assets):				
- Net change in fair value	-	(70,470)	-	(70,470)
- Taxation	-	24,665	-	24,665
Total other comprehensive income	(857,628)	(2,513,107)	-	(45,805)
Total comprehensive income for the year	7,940,905	6,613,672	1,528,152	1,793,429

The notes on pages 44 to 112 are an integral part of these financial statements.

statements of cash flows

For the year ended 31 December 2012

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Cash flows from operating activities				
Interest and commission receipts	59,369,117	49,150,459	40,237,707	34,249,514
Exchange received/(paid)	50,576	7,008,872	(213,719)	6,825,753
Interest and commission payments	(19,388,240)	(16,325,013)	(17,346,733)	(14,941,844)
Payments to employees and suppliers	(29,867,457)	(24,761,228)	(19,684,149)	(21,265,880)
Operating profit before changes in operating assets / liabilities	10,163,996	15,073,090	2,993,106	4,867,543
(Increase) / decrease in operating assets:				
- Financial assets at fair value through profit or loss	(25,842,927)	(21,702,168)	(13,187,393)	(24,188)
- Loans and advances to customers and banks	(102,125,296)	(33,413,242)	(94,621,058)	(44,424,996)
- Other assets	(418,117)	(820,554)	192,314	(903,174)
Increase / (decrease) in operating liabilities:				
- Amounts owed to customers and banks	204,880,800	107,097,265	169,106,891	102,416,777
- Other liabilities	314,954	(87,743)	314,954	(87,743)
- Net advances from/(to) subsidiary companies	-	-	15,569,506	(17,225,766)
Net cash inflows from operating activities before income tax	86,973,410	66,146,648	80,368,320	44,618,453
Income tax paid	(1,001,543)	(185,847)	(999,665)	(185,847)
Net cash flows from operating activities	85,971,867	65,960,801	79,368,655	44,432,606
Cash flows from investing activities				
- Payments to acquire property and equipment	(9,833,839)	(10,843,260)	(776,240)	(548,275)
- Payments to acquire intangible assets	(249,818)	(513,935)	(176,799)	(104,554)
- Proceeds on disposal of property and equipment	79,654	48,331	6,812	12,326
- Purchase of shares in subsidiary companies	-	-	(4,752,942)	(8,705,959)
- Purchase of shares in equity accounted investees	(7,552,941)	(9,332,627)	(2,800,000)	-
- Purchase of shares in available-for-sale financial assets	-	(719)	-	(719)
- Receipt of dividend	699	-	699	-
Net cash flows used in investing activities	(17,556,245)	(20,642,210)	(8,498,470)	(9,347,181)
Increase in cash and cash equivalents c/f	68,415,622	45,318,591	70,870,185	35,085,425

statements of cash flows

For the year ended 31 December 2012

	Note	Group 2012 USD	Group 2011 USD	Bank 2012 USD	Bank 2011 USD
Increase in cash and cash equivalents b/f		68,415,622	45,318,591	70,870,185	35,085,425
Cash flows from financing activities					
- Debt securities in issue		606,536	(4,460,683)	-	-
- Repayment of Subordinated Convertible Loan		(1,714,286)	(1,714,285)	(1,714,286)	(1,714,285)
- Dividends paid		(2,029,838)	(2,791,061)	(2,029,838)	(2,791,061)
Net cash flows used in financing activities		(3,137,588)	(8,966,029)	(3,744,124)	(4,505,346)
Increase in cash and cash equivalents		65,278,034	36,352,562	67,126,061	30,580,079
Analysed as follows:					
- Effect of exchange rate changes on cash and cash equivalents		1,779,083	(520,723)	1,732,571	(519,211)
- Net increase in cash and cash equivalents		63,498,951	36,873,285	65,393,490	31,099,290
Increase in cash and cash equivalents		65,278,034	36,352,562	67,126,061	30,580,079
Cash and cash equivalents at beginning of year		62,481,990	26,129,428	55,351,016	24,770,937
Cash and cash equivalents at end of year	41	127,760,024	62,481,990	122,477,077	55,351,016

The notes on pages 44 to 112 are an integral part of these financial statements.

notes to the financial statements

For the year ended 31 December 2012

notes to the financial statements

For the year ended 31 December 2012

1 reporting entity

FIMBank p.l.c. (the "Bank") is a company domiciled in Malta. The address of the Bank's registered office is Mercury Tower, The Exchange Financial and Business Centre, Elia Zammit Street, St. Julian's STJ 3155, Malta. The financial statements of the Bank as at and for the year ended 31 December 2012 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

2 basis of preparation

2.1 statement of compliance

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU ("the applicable framework"). All references in these financial statements to IAS, IFRS or SIC / IFRIC interpretations refer to those adopted by the EU.

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

The financial statements were authorised for issue by the Board of Directors on 6 March 2013.

2.2 basis of measurement

The financial statements have been prepared on the historical cost basis except for the following which are measured at fair value:

- trading assets;
- derivative financial instruments;
- financial instruments designated at fair value through profit or loss; and
- available-for-sale financial assets.

2.3 functional and presentation currency

These financial statements are presented in United States Dollar (USD), which is the Bank's functional currency.

2.4 use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 4 and 5.

3 significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

3 *significant accounting policies - continued*

3.1 basis of consolidation

3.1.1 *subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

3.1.2 *associates and jointly-controlled entities*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3.1.3 *transactions eliminated on consolidation*

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 foreign currency

3.2.1 *foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot 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 spot exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised directly in equity. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.2.2 *foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into US Dollar at spot exchange rates at the reporting date. The income and expenses of foreign operations, are translated into US Dollar at spot exchange rates at the dates of the transactions.

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of, the relevant amount in the currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is re-attributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the currency translation reserve.

3.3 interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest method;
- interest on available-for-sale investment securities calculated on an effective interest basis;
- interest on trading assets and liabilities;
- interest on financial assets designated at fair value through profit or loss.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net gain/(loss) from other financial instruments at fair value through profit or loss in the statement of comprehensive income.

3.4 fees and commissions

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

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

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

3.5 net trading income or expense

Net trading income or expense comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

3.6 net gain or loss from other financial instruments at fair value through profit or loss

Net gain or loss from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes and foreign exchange differences.

3 significant accounting policies - continued

3.7 dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

3.8 lease payments

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

3.9 income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

3.10 financial assets and liabilities

3.10.1 *recognition*

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.10.2 *classification*

See accounting policies 3.11, 3.12, 3.13, 3.14 and 3.15.

3.10.3 *derecognition*

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

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

3.10.4 *offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.10.5 *amortised cost measurement*

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

3.10.6 *fair value measurement*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, that is the fair value of the consideration given or received, unless the fair value of that instrument is evidenced

3 *significant accounting policies - continued*

by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

3.10.7 *identification and measurement of impairment*

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

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

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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

The Group writes off certain loans and advances and investment securities when they are determined to be uncollectible (see note 4).

3.10.8 designated at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss in the following circumstances:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; and
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Note 7 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

3.11 cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, treasury bills, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Loans and advances to banks and amounts owed to banks that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows. Subsequent to initial recognition cash equivalents are measured at amortised cost.

3.12 trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income or expense in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss upon initial recognition, may be reclassified out of the fair value through profit or loss (i.e. trading) category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity;
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

3.13 derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at

3 significant accounting policies - continued

fair value in the statement of financial position. The Group did not designate any derivatives as hedging instruments in qualifying hedging relationships. As a result, all changes in fair value of derivatives are recognised immediately in profit or loss as a component of net gain or loss from other financial instruments at fair value through profit or loss.

3.14 loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.15 investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available-for-sale.

The Group has investments classified as available-for-sale and designated at fair value through profit or loss.

3.15.1 *designated at fair value through profit or loss*

The Group designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy 3.10.8.

3.15.2 *available-for-sale*

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value. Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

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

3.16 investments in subsidiaries, associates and jointly-controlled entities

Investments in subsidiaries, associates and joint ventures are shown in the separate statement of financial position at cost less any impairment losses.

3.17 property and equipment

3.17.1 *recognition and measurement*

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised net within other income or expense in profit or loss.

3.17.2 *subsequent costs*

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

3.17.3 *depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Improvements to leasehold premises are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

- Freehold premises 50 years
- Computer system 7 years
- Computer equipment 5 years
- Others 4 – 14 years

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

3.18 intangible assets

3.18.1 *goodwill*

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

3.18.2 *software*

Software acquired by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any impairment losses.

3 *significant accounting policies - continued*

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

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

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

3.19 leased assets – lessee

Leases in terms of which the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases.

Leased assets held under operating lease are not recognised in the Group's statement of financial position.

3.20 impairment of non-financial assets

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

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

An impairment loss is recognised if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

3.21 deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. The Group did not choose to carry any non-derivative liabilities at fair value through profit or loss.

3.22 provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.23 financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

3.24 employee benefits

3.24.1 *defined contribution plans*

The Malta-registered Group entities contribute towards a defined contribution state pension plan in accordance with Maltese legislation. Other subsidiaries contribute to other defined contribution plans. The Group does not have a commitment beyond the payment of fixed contributions. Related costs are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3.24.2 *share-based payment transactions*

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date.

3.25 share capital

3.25.1 *ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3.25.2 *repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

3 *significant accounting policies - continued*

When such shares are later reissued, sold or cancelled, the consideration received is recognised as a change in equity. No gain or loss is recognised in the income statement.

3.26 earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.27 discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is represented as if the operation had been discontinued from the start of the comparative period.

3.28 segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by Executive Management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.
Segment results that are reported to Executive Management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

3.29 new standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are effective for the annual periods starting on or after 1 January 2012 have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements.

4 financial risk management

4.1 introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

risk management framework

The risk factors associated with the financial services industry are multiple and varied. Exposure to credit risk, liquidity risk, and market risk arises in the normal course of both the Bank's and the Group's business. As the Group is mainly engaged in trade finance business, control over contingent liabilities and commitments is fundamental since the risks involved are substantively the same as with on-balance sheet items. The Board of Directors (the "Board") is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group and for ensuring that proper systems of internal controls are in place. The Board has delegated management with the task of creating an effective control environment to the highest possible standards. The internal audit function monitors compliance with policies, standards and procedures and the effectiveness of the internal control environment of the Group. The internal auditor periodically reviews and tests the internal systems of control independently from management, adopting a risk-based approach. The internal auditor reports to the Audit Committee (a Board Committee). All reports are circulated and copied to the Chairman of the Board of Directors.

Adherence to the various banking directives and rules issued by the regulatory authorities from time to time and applicable to credit institutions licensed in Malta is and shall continue to form the basis of the risk control environment of the Group. The Group is committed to ensure strict compliance with the thresholds established by the regulatory framework in relation to capital adequacy, solvency ratios, liquidity ratios, credit management, quality of assets and financial reporting.

4.2 credit risk

Credit risk is the risk that one party to a financial transaction might fail to discharge an obligation and cause the other party to incur a financial loss. As illustrated above, the Group finances international trade in many countries worldwide, especially emerging markets, which in turn entails an exposure to sovereign, bank and corporate credit risk. Credit risk is not only akin to loans but also to other on- and off- balance sheet exposures such as letters of credit, guarantees, acceptances and money market products.

Strict credit assessment and control procedures are in place in order to monitor such exposures. The Group also complies with regulatory guidelines as defined by the Malta Financial Services Authority ("MFSA") and a limit of 25% of Own Funds applies to any particular customer or group of connected customers. The Risk Committees (Board Committees) are responsible for overseeing the Group's credit policy and risk, for approving individual limits for banks and corporates within their delegated parameters of authority and also for recommending country limits for approval by the Executive Committee (another Board Committee). The Risk Committees are also responsible for the oversight of operational, legal and reputational risk related to credit activity. Further information on the composition and function of the Risk Committees is noted in the "Statement of Compliance with the Principles of Good Corporate Governance".

The Group also ensures that it has a reasonable mix of loans to customers. This diversification of credit among different economic sectors is a policy adopted by the Group to mitigate such risks. The Group also monitors its risk on balances held with other banks by establishing bank and country limits. The risks associated with off-balance sheet assets and liabilities arise from the normal course of banking operations. In the case of risks associated with inter-bank participants under letters of credit, the Group exercises the same credit controls as those applied to on-balance sheet exposures.

All on- and off- balance sheet exposures are approved after a thorough review of the counterparties' credit worthiness. This is done by primarily evaluating the risk rating of the counterparty by reference to established Rating Agencies. In the absence of this and when it is deemed appropriate to do so, review is also done by means of other assessment criteria, including but not limited to, financial statement review.

4 *financial risk management - continued*

maximum exposure

Amounts that best represents the Bank and Group's maximum exposure to credit risk at the financial reporting date, without taking account of any collateral held or other credit enhancements are as follows:

Group

	Loans and advances to banks		Loans and advances to customers	
	2012 USD	2011 USD	2012 USD	2011 USD
Individually impaired	8,481,158	46,952	8,571,265	7,913,802
Neither past due nor impaired	387,839,262	417,837,245	320,759,025	237,272,609
Total carrying amount	396,320,420	417,884,197	329,330,290	245,186,411

Bank

	Loans and advances to banks		Loans and advances to customers	
	2012 USD	2011 USD	2012 USD	2011 USD
Individually impaired	8,481,158	46,952	2,958,877	2,004,526
Neither past due nor impaired	383,734,773	410,288,826	473,465,900	415,822,488
Total carrying amount	392,215,931	410,335,778	476,424,777	417,827,014

credit quality of neither past due nor impaired

The table below presents an analysis of financial assets, which are neither past due nor impaired, by rating agency designation at 31 December, based on Fitch ratings or their equivalent:

Group	Loans and advances to banks		Loans and advances to customers		Trading assets and financial assets designated at fair value through profit or loss	
	2012 USD	2011 USD	2012 USD	2011 USD	2012 USD	2011 USD
AAA/AA	2,370,457	2,892,862	16,558,487	19,052,950	7,670,784	19,097,825
A/BBB	190,131,937	151,317,897	-	-	101,041,361	65,977,888
BB/Lower	43,021,436	25,900,247	-	-	62,861,620	96,176,190
Unrated	152,315,432	237,726,239	304,200,538	218,219,659	129,076,705	90,354,694
	387,839,262	417,837,245	320,759,025	237,272,609	300,650,470	271,606,597

Bank	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss	
	2012 USD	2011 USD	2012 USD	2011 USD	2012 USD	2011 USD
AAA/AA	2,370,460	2,829,696	16,558,487	19,052,950	-	-
A/BBB	184,909,597	145,390,931	-	-	31,499,393	16,899,660
BB/Lower	43,021,436	25,900,247	-	-	24,090,000	24,420,600
Unrated	153,433,280	236,167,952	456,907,413	396,769,538	-	-
	383,734,773	410,288,826	473,465,900	415,822,488	55,589,393	41,320,260

impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/ securities agreement(s).

past due but not impaired loans

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

The Group did not have any exposures that at financial reporting date were past due but not impaired.

loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of the loan covenants. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

For the Group, the aggregate amount of renegotiated loans at reporting date amounted to USD11,929,791 (31 December 2011: Nil). For the Bank, the aggregate amount of renegotiated loans at reporting date amounted to USD7,192,405 (31 December 2011: Nil).

allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Efforts at recovering losses incurred in past financial periods are continuous. To this purpose, legal proceedings have been undertaken in the courts of competent jurisdiction.

write-off policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when it has been unequivocally determined that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, that proceeds from collateral will not be sufficient to pay back the entire exposure, or that future recoverability efforts are deemed unfeasible.

collaterals

Loans are typically secured either by property (including shipping vessels), pledged goods, cash collateral, credit insurance cover or by personal or bank guarantees. These collaterals are reviewed periodically by management both in terms of exposure to the Bank and the Group and to ensure the validity and enforceability of the security taken.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2012 and 2011.

4 *financial risk management - continued*

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Group

	Loans and advances to banks 2012 USD	Loans and advances to banks 2011 USD	Loans and advances to customers 2012 USD	Loans and advances to customers 2011 USD
Against neither past due nor impaired				
Cash or quasi cash	28,153,828	7,479,753	24,358,954	17,538,234
Property	-	-	20,830,201	55,434,682
Other	86,107	11,752,022	41,099,474	37,678,778
Against impaired				
Cash or quasi cash	7,326,391	46,952	388,425	175,346
Property	-	-	1,335,124	716,016
Other	-	-	-	125,681
	35,566,326	19,278,727	88,012,178	111,668,737

Bank

	Loans and advances to banks 2012 USD	Loans and advances to banks 2011 USD	Loans and advances to customers 2012 USD	Loans and advances to customers 2011 USD
Against neither past due nor impaired				
Cash or quasi cash	28,153,828	7,479,753	24,358,954	17,538,234
Property	-	-	20,830,201	55,434,682
Other	86,107	11,752,022	41,099,474	15,115,610
Against impaired				
Cash or quasi cash	7,326,391	46,952	338,425	175,346
Property	-	-	1,335,124	716,016
Other	-	-	-	-
	35,566,326	19,278,727	88,012,178	88,979,888

concentration of credit risk by sector

The following industry concentrations of gross loans and advances to banks and to customers are considered significant:

	Group 2012 USD	Group 2011 USD	Bank 2012 USD	Bank 2011 USD
Industrial raw materials	50,478,269	62,023,196	66,674,680	51,209,692
Ship pre-demolition	29,867,548	59,900,761	29,867,548	59,900,761
Wholesale and retail trade	186,419,439	92,673,747	166,576,411	81,740,988
Financial intermediation	439,455,511	436,989,803	605,903,311	638,337,836
Other services	35,279,171	27,709,104	14,452,635	11,958,901
	741,499,938	679,296,611	883,474,585	843,148,178

4 *financial risk management - continued*

concentration of credit risk by region

The Group monitors concentrations of credit risk by geographic location based on the exposure country of the borrower ("Country risk").

Country risk refers to risks associated with the economic, social and political environment of the obligor's exposure country. A component of country risk is transfer risk which arises when a borrower's obligation is not denominated in the respective local currency. The currency of the obligation may become unavailable to the borrower regardless of its particular condition.

As the Group carries out activities with counter-parties in emerging markets, there are certain risk factors which are particular to such activities and which require careful consideration by prospective investors since they are not usually associated with activities in more developed markets. Such exposure relates to the risks of major political and economic changes including but not limited to, higher price volatility, the effect of exchange control regulations and the risks of expropriation, nationalisation and/or confiscation of assets. The ineffectiveness of the legal and judicial systems in some of the emerging markets, including those in which the Group is carrying out activities, may pose difficulties for the Group in preserving its legal rights.

The Executive Committee approves country limits after these are presented with reports covering the political and economic situations for each of the countries to which a limit is issued. Senior officials of the Bank pay regular visits to those countries in which it is already doing business and in those countries where it seeks to develop business, in order to provide a deeper understanding of the risks posed by any such countries.

Group

	Loans and advances to banks		Loans and advances to customers		Trading assets and financial assets designated at fair value through profit or loss		Investments available-for-sale	
	2012 USD	2011 USD	2012 USD	2011 USD	2012 USD	2011 USD	2012 USD	2011 USD
Europe	226,597,535	277,968,407	162,691,602	78,430,830	79,144,939	80,826,252	17,866	17,866
Sub-Sahara Africa (SSA)	82,791,166	47,749,575	13,408,804	16,813,079	47,433,450	18,742,449	-	-
Middle East and North Africa (MENA)	43,731,791	9,565,963	86,985,645	100,255,318	18,608,833	26,550,811	-	-
Commonwealth of Independent States (CIS)	18,549,476	19,556,049	12,164,449	10,048,220	65,569,253	85,876,656	74,876	74,876
Others	26,759,497	65,568,586	56,486,886	41,314,109	89,893,995	59,610,429	-	-
	398,429,465	420,408,580	331,737,386	246,861,556	300,650,470	271,606,597	92,742	92,742
Collective impairment	(2,109,045)	(2,524,383)	(2,407,096)	(1,675,145)	-	-	-	-
	396,320,420	417,884,197	329,330,290	245,186,411	300,650,470	271,606,597	92,742	92,742

4 *financial risk management - continued*

Bank

	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss		Investments available-for-sale	
	2012 USD	2011 USD	2012 USD	2011 USD	2012 USD	2011 USD	2012 USD	2011 USD
Europe	227,895,487	276,171,219	323,254,198	264,777,417	23,387,393	8,400,000	17,866	17,866
Sub-Sahara Africa (SSA)	82,791,166	47,749,575	13,408,804	16,813,079	-	-	-	-
Middle East and North Africa (MENA)	42,639,662	7,989,368	73,342,751	86,513,207	8,112,000	8,499,660	-	-
Commonwealth of Independent States (CIS)	18,537,908	19,536,908	12,164,449	10,048,220	19,840,000	19,420,600	74,174	74,174
Others	22,460,753	61,413,091	56,486,888	41,314,111	4,250,000	5,000,000	-	-
	394,324,976	412,860,161	478,657,090	419,466,034	55,589,393	41,320,260	92,040	92,040
Collective impairment	(2,109,045)	(2,524,383)	(2,232,313)	(1,639,020)	-	-	-	-
	392,215,931	410,335,778	476,424,777	417,827,014	55,589,393	41,320,260	92,040	92,040

settlement risk

The Group faces settlement risk due to the fact that few financial transactions are settled simultaneously or on a same day basis. Consequently, the Group could suffer a loss if the counter-party fails to deliver on settlement date.

The Group controls the deals performed on a recorded line by the dealer and further ensures that the receipt of the deal and the confirmation received from the counter-party are reconciled and matched. This ensures that any settlement risk is identified immediately and that real-time action is taken to rectify any problematic situation.

4.3 liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its obligations as they become due because of an inability to liquidate assets or obtain adequate funding ("funding liquidity risk") or that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions ("market liquidity risk").

Liquidity risk arises in the general funding of the Group's activities and the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates as well as the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Group raises funds from deposits, other financial institutions (by means of loans and money market placements), by issuing promissory notes and similar paper and through increases in share capital and plough back of profits.

management of liquidity risk

Liquidity risk is managed by maintaining significant levels of liquid funds, and identifying and monitoring changes in funding required to meet business goals driven by management.

The Group's Assets-Liabilities Committee ("ALCO") (a Board Committee) is responsible for establishing appropriate asset and liability management policies, monitoring their application and reviewing financial information on the basis of which investment and funding decisions are taken. The daily application of the asset and liability management policies rests with the Treasury Unit of the Group.

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

4 *financial risk management - continued*

The Treasury Unit receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term loans from Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

When an operating subsidiary is subject to a liquidity limit imposed by its local regulator, the subsidiary is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Treasury. Treasury monitors compliance of all operating subsidiaries with local regulatory limits on a daily basis.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Group and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from Banks and Customers. For this purpose net liquid assets are computed by reference to Banking Rule 5, "Liquidity Requirements of Credit Institutions Authorised under the Banking Act 1994" issued by the Malta Financial Services Authority. Details of the reported Group liquidity ratio at the reporting date and during the reporting period were as follows:

	2012	2011
At 31 December	44.9%	51.3%
Average for the year	49.9%	52.5%
Maximum for the year	73.0%	72.9%
Minimum for the year	35.7%	37.2%

4 *financial risk management - continued*

residual contractual maturities of financial assets and liabilities

Group – 31 December 2012

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	20,831,547	20,884,688	20,884,688	-	-	-	-	-
Trading assets	245,061,077	245,061,077	245,061,077	-	-	-	-	-
Derivative assets held for risk management	893,552	893,552	435,187	96,302	243,919	118,144	-	-
Financial assets designated at fair value through profit or loss	55,589,393	55,589,393	55,589,393	-	-	-	-	-
Loans and advances to banks	396,320,420	403,198,421	250,738,523	82,020,473	43,515,719	1,868,848	5,149,531	19,905,327
Loans and advances to customers	329,330,290	334,305,861	46,705,287	211,898,386	18,676,539	21,520,872	4,563,335	30,941,442
Derivative liabilities held for risk management	(791,622)	(791,621)	(234,864)	(222,776)	(217,751)	(116,230)	-	-
Amounts owed to banks	(431,841,922)	(434,543,466)	(242,120,702)	(87,574,125)	(51,278,009)	(40,175,222)	(3,571,377)	(9,824,031)
Amounts owed to customers	(454,857,480)	(462,153,316)	(268,298,882)	(67,374,664)	(44,376,486)	(48,941,799)	(17,275,949)	(15,885,536)
Debt securities in issue	(51,956,119)	(53,669,430)	(7,827,220)	-	(1,762,290)	(44,079,920)	-	-
Subordinated debt	(40,122,813)	(57,761,482)	-	-	(2,651,383)	(914,737)	(1,829,474)	(52,365,888)

Group – 31 December 2011

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	11,220,465	11,220,465	11,220,465	-	-	-	-	-
Trading assets	230,286,337	230,286,337	230,286,337	-	-	-	-	-
Derivative assets held for risk management	1,844,035	1,844,035	141,208	1,078,355	554,405	70,067	-	-
Financial assets designated at fair value through profit or loss	41,320,260	41,320,260	41,320,260	-	-	-	-	-
Loans and advances to banks	417,884,197	424,194,075	309,086,877	32,868,541	28,030,378	33,191,991	1,000,382	20,015,905
Loans and advances to customers	245,186,411	250,421,636	66,236,258	110,590,802	21,149,818	24,041,468	654,216	27,749,074
Derivative liabilities held for risk management	(4,722,154)	(4,722,154)	(2,655,233)	(1,430,789)	(567,653)	(68,479)	-	-
Amounts owed to banks	(365,202,188)	(366,230,439)	(236,291,369)	(80,627,454)	(4,007,537)	(34,582,979)	(4,030,492)	(6,690,608)
Amounts owed to customers	(411,565,369)	(414,032,511)	(210,051,186)	(70,196,040)	(84,055,185)	(29,880,884)	(8,694,947)	(11,154,269)
Debt securities in issue	(50,554,467)	(54,179,242)	(3,155,161)	-	(6,039,837)	(913,212)	(44,071,032)	-
Subordinated debt	(41,162,938)	(64,175,780)	(41,382)	-	(1,393,067)	(1,434,449)	(6,173,324)	(55,133,558)

4 *financial risk management - continued*

Bank – 31 December 2012

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	20,818,657	20,871,798	20,871,798	-	-	-	-	-
Derivative assets held for risk management	939,512	939,512	481,147	96,302	243,919	118,144	-	-
Financial assets designated at fair value through profit or loss	55,589,393	55,589,393	55,589,393	-	-	-	-	-
Loans and advances to banks	392,215,931	399,093,930	245,551,148	81,916,527	44,460,695	1,988,837	5,269,695	19,907,028
Loans and advances to customers	476,424,777	481,400,345	59,064,244	329,437,504	34,405,209	19,668,846	2,837,019	35,987,523
Derivative liabilities held for risk management	(791,622)	(791,622)	(234,865)	(222,776)	(217,751)	(116,230)	-	-
Amounts owed to banks	(412,808,494)	(415,510,038)	(242,268,759)	(87,646,705)	(43,231,563)	(37,659,173)	(3,692,807)	(1,011,031)
Amounts owed to customers	(427,387,411)	(434,683,246)	(244,907,802)	(64,943,345)	(43,137,044)	(48,728,137)	(17,081,382)	(15,885,536)
Debt securities in issue	(43,141,189)	(44,854,500)	-	-	(774,580)	(44,079,920)	-	-
Subordinated debt	(40,122,813)	(57,761,482)	-	-	(2,651,383)	(914,737)	(1,829,474)	(52,365,888)

Bank – 31 December 2011

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	11,202,132	11,202,132	11,202,132	-	-	-	-	-
Derivative assets held for risk management	1,852,222	1,852,222	149,395	1,078,355	554,405	70,067	-	-
Financial assets designated at fair value through profit or loss	41,320,260	41,320,260	41,320,260	-	-	-	-	-
Loans and advances to banks	410,335,778	416,645,675	302,527,540	32,860,511	28,583,529	31,653,745	1,000,382	20,019,968
Loans and advances to customers	417,827,014	423,062,238	50,389,476	265,241,612	55,318,272	23,642,178	656,112	27,814,588
Derivative liabilities held for risk management	(4,722,154)	(4,722,154)	(2,655,233)	(1,430,789)	(567,653)	(68,479)	-	-
Amounts owed to banks	(358,274,318)	(359,302,567)	(237,008,501)	(80,627,454)	(4,565,096)	(33,071,024)	(4,030,492)	-
Amounts owed to customers	(408,123,600)	(411,718,186)	(209,223,540)	(67,871,275)	(83,953,750)	(29,867,973)	(8,519,937)	(12,281,711)
Debt securities in issue	(42,346,073)	(45,897,456)	-	-	(913,212)	(913,212)	(44,071,032)	-
Subordinated debt	(41,162,938)	(64,175,780)	(41,382)	-	(1,393,067)	(1,434,449)	(6,173,324)	(55,133,558)

The above table shows the undiscounted cash flows on the Group's and Bank's financial assets and liabilities on the basis of their earliest possible contractual maturity. The expected cash flows on these instruments vary significantly from this analysis.

As at 31 December 2012, the Group and Bank had outstanding guarantees incurred on behalf of third parties amounting to USD73,271,995 and USD82,152,480 (2011: USD66,848,531 and USD72,685,336) respectively which are calleable upon the request of the third party.

4 financial risk management - continued

4.4 *market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

foreign exchange risk

Foreign exchange risk is attached to those monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the Group. Transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. Currency risk is mitigated by a closely monitored currency position policy and is managed through matching within the foreign currency portfolio. Mismatches, which are allowed temporarily and for small amounts, are continuously monitored and regularised immediately. The Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies spot or forward when considered appropriate.

Group - 31 December 2012

All amounts are expressed in USD	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	2,671	20,824,281	3,745	850	20,831,547
Trading assets	211,303,034	17,701,530	16,056,513	-	245,061,077
Derivative assets held for risk management	18,486	734,048	31,552	109,466	893,552
Financial assets designated at fair value through profit or loss	42,402,000	13,187,393	-	-	55,589,393
Loans and advances to banks	141,665,379	235,694,771	2,441,302	16,518,968	396,320,420
Loans and advances to customers	259,685,377	64,245,845	4,405,803	993,265	329,330,290
Other assets	14,789,175	2,629,138	51,315	883,247	18,352,875
Derivative liabilities held for risk management	(18,657)	(694,651)	(33,244)	(45,070)	(791,622)
Amounts owed to banks	(237,853,738)	(192,793,703)	(895,119)	(299,362)	(431,841,922)
Amounts owed to customers	(224,395,735)	(201,814,330)	(22,272,507)	(6,374,908)	(454,857,480)
Debt securities in issue	(19,719,827)	(32,236,292)	-	-	(51,956,119)
Subordinated debt	(9,027,600)	(31,095,213)	-	-	(40,122,813)
Other liabilities	(14,319,504)	(5,209,569)	(292,083)	(376,797)	(20,197,953)
Net on balance sheet financial position	164,531,061	(108,826,752)	(502,723)	11,409,657	66,611,243
Notional amount of derivative instruments held for risk management	-	104,111,222	105,095	(11,381,363)	

4 *financial risk management - continued*

Group - 31 December 2011

All amounts are expressed in USD	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta and cash	2,835	11,217,033	597	-	11,220,465
Trading assets	199,297,848	27,944,910	3,043,579	-	230,286,337
Derivative assets held for risk management	18,485	1,714,266	24,552	86,732	1,844,035
Financial assets designated at fair value through profit or loss	41,320,260	-	-	-	41,320,260
Loans and advances to banks	149,366,424	227,954,194	17,140,856	23,422,723	417,884,197
Loans and advances to customers	200,890,835	35,730,569	4,093,299	4,471,708	245,186,411
Other assets	15,165,586	3,152,152	-	39,366	18,357,104
Derivative liabilities held for risk management	(18,657)	(4,614,327)	(26,036)	(63,134)	(4,722,154)
Amounts owed to banks	(148,766,234)	(214,173,142)	(816,620)	(1,446,192)	(365,202,188)
Amounts owed to customers	(239,819,065)	(142,118,052)	(23,870,600)	(5,757,652)	(411,565,369)
Debt securities in issue	(21,370,568)	(29,183,899)	-	-	(50,554,467)
Subordinated debt	(10,651,163)	(30,511,775)	-	-	(41,162,938)
Other liabilities	(13,249,092)	(5,512,536)	(648,000)	(332,148)	(19,741,776)
Net on balance sheet financial position	172,187,494	(118,400,607)	(1,058,373)	20,421,403	73,149,917
Notional amount of derivative instruments held for risk management	-	108,368,910	(78,343)	(20,431,676)	

Bank - 31 December 2012

All amounts are expressed in USD	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	-	20,818,657	-	-	20,818,657
Derivative assets held for risk management	64,446	734,048	31,552	109,466	939,512
Financial assets designated at fair value through profit or loss	42,402,000	13,187,393	-	-	55,589,393
Loans and advances to banks	136,401,608	236,645,293	2,804,474	16,364,556	392,215,931
Loans and advances to customers	383,291,329	72,003,787	20,136,396	993,265	476,424,777
Other assets	6,652,695	2,084,328	825	142,554	8,880,402
Derivative liabilities held for risk management	(18,657)	(694,651)	(33,244)	(45,070)	(791,622)
Amounts owed to banks	(220,040,738)	(191,133,509)	(1,334,885)	(299,362)	(412,808,494)
Amounts owed to customers	(196,925,665)	(201,814,330)	(22,272,507)	(6,374,909)	(427,387,411)
Debt securities in issue	(17,737,523)	(25,403,666)	-	-	(43,141,189)
Subordinated debt	(9,027,600)	(31,095,213)	-	-	(40,122,813)
Other liabilities	(4,342,177)	(3,335,169)	(292,083)	(31,297)	(8,000,726)
Net on balance sheet financial position	120,719,718	(108,003,032)	(959,472)	10,859,203	22,616,417
Notional amount of derivative instruments held for risk management	-	104,111,222	105,095	(11,381,363)	

4 financial risk management - continued

Bank - 31 December 2011

All amounts are expressed in USD	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta and cash	2,290	11,199,245	597	-	11,202,132
Derivative assets held for risk management	21,578	1,719,360	24,552	86,732	1,852,222
Financial assets designated at fair value through profit or loss	41,320,260	-	-	-	41,320,260
Loans and advances to banks	141,791,409	228,233,804	16,887,842	23,422,723	410,335,778
Loans and advances to customers	345,844,657	60,295,132	7,215,517	4,471,708	417,827,014
Other assets	8,536,268	2,415,436	-	23,629	10,975,333
Derivative liabilities held for risk management	(18,657)	(4,614,327)	(26,036)	(63,134)	(4,722,154)
Amounts owed to banks	(146,980,781)	(209,030,724)	(816,621)	(1,446,192)	(358,274,318)
Amounts owed to customers	(235,839,847)	(142,359,171)	(23,870,600)	(6,053,982)	(408,123,600)
Debt securities in issue	(17,419,055)	(24,927,018)	-	-	(42,346,073)
Subordinated debt	(10,651,163)	(30,511,775)	-	-	(41,162,938)
Other liabilities	(4,755,036)	(2,833,668)	(368,300)	(41,696)	(7,998,700)
Net on balance sheet financial position	121,851,923	(110,413,707)	(953,049)	20,399,788	30,884,955
Notional amount of derivative instruments held for risk management	-	108,368,910	(78,343)	(20,431,676)	

The following exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
USD	2012	2011	2012	2011
1 EUR	1.2850	1.3910	1.3187	1.2939
1 GBP	1.5844	1.6025	1.6137	1.5411

A 7 percent strengthening of the following currencies against the US Dollar at 31 December would have increased/(decreased) equity and/or profit or loss by amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Bank	
	Equity	Profit or loss	Equity	Profit or loss
	USD	USD	USD	USD
31 December 2012				
EUR	(330,087)	(330,087)	(272,427)	(272,427)
GBP	(27,834)	(27,834)	(59,806)	(59,806)
Other	1,981	1,981	(36,551)	(36,551)
31 December 2011				
EUR	(702,219)	(702,219)	(143,136)	(143,136)
GBP	(84,880)	(84,880)	(78,609)	(78,609)
Other	4,591	4,591	4,179	4,179

A 7 percent weakening of the above currencies against the US Dollar at 31 December would have equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

4 *financial risk management - continued*

interest rate risk

Interest rate risk refers to the exposure of the Bank's and Group's financial instruments to movements in interest rates. The risk impacts the earnings of the Group as a result of changes in the economic value of its assets, liabilities and off-balance sheet instruments. The Group's operations are subject to interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or at different amounts.

Accordingly, interest rate risk is managed through the matching of the interest resetting dates on assets and liabilities.

Group - 31 December 2012

	Less than 1 month	Between 1& 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta, Treasury Bills and cash	7,695,604	6,551,567	6,555,649	-	-	28,727	20,831,547
Trading assets	105,217,072	48,879,895	38,873,073	34,657,144	16,886,988	546,905	245,061,077
Derivative assets held for risk management	-	-	-	-	-	893,552	893,552
Financial assets designated at fair value through profit or loss	13,312,000	38,027,393	4,250,000	-	-	-	55,589,393
Loans and advances to banks	229,306,545	76,120,686	59,266,048	1,809,995	157,476	29,659,670	396,320,420
Loans and advances to customers	300,217,825	-	270,425	456,295	18,728,036	9,657,709	329,330,290
Other assets	-	-	-	-	-	82,381,896	82,381,896
Total assets	655,749,046	169,579,541	109,215,195	36,923,434	35,772,500	123,168,459	1,130,408,175
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	791,622	791,622
Amounts owed to banks	221,393,129	87,264,092	39,716,614	35,100,993	1,011,031	47,356,063	431,841,922
Amounts owed to customers	292,082,579	18,484,654	40,713,573	69,907,114	29,114,364	4,555,196	454,857,480
Debt securities in issue	7,827,220	-	987,710	43,141,189	-	-	51,956,119
Subordinated debt	1,714,286	-	-	-	38,408,527	-	40,122,813
Other liabilities	-	-	-	-	-	20,197,953	20,197,953
Equity	-	-	-	-	-	130,640,266	130,640,266
Total liabilities and equity	523,017,214	105,748,746	81,417,897	148,149,296	68,533,922	203,541,100	1,130,408,175

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	825,328,587	109,215,195	36,923,434	35,772,500	123,168,459	1,130,408,175
Liabilities	(628,765,960)	(81,417,897)	(148,149,296)	(68,533,922)	(203,541,100)	(1,130,408,175)
Interest sensitivity gap	196,562,627	27,797,298	(111,225,862)	(32,761,422)	(80,372,641)	-
Cumulative gap	196,562,627	224,359,925	113,134,063	80,372,641	-	-
change in interest rate for the period						
100bps increase	1,474,220	138,986	(92,688)			
100bps decrease	(1,474,220)	(138,986)	92,688			

4 *financial risk management - continued*

Group - 31 December 2011

	Less than 1 month	Between 1& 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	11,194,289	-	-	-	-	26,176	11,220,465
Trading assets	114,043,258	46,535,341	46,254,710	15,906,866	7,035,582	510,580	230,286,337
Derivative assets held for risk management	-	-	-	-	-	1,844,035	1,844,035
Financial assets designated at fair value through profit or loss	13,849,660	22,470,600	5,000,000	-	-	-	41,320,260
Loans and advances to banks	299,241,666	31,501,505	43,452,789	24,401,374	157,476	19,129,387	417,884,197
Loans and advances to customers	217,045,992	4,528,986	-	593,605	19,871,195	3,146,633	245,186,411
Other assets	-	-	-	-	-	70,030,779	70,030,779
Total assets	655,374,865	105,036,432	94,707,499	40,901,845	27,064,253	94,687,590	1,017,772,484
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	4,722,154	4,722,154
Amounts owed to banks	181,020,602	83,384,134	2,390,961	21,310,339	-	77,096,152	365,202,188
Amounts owed to customers	322,439,900	24,331,488	20,867,020	24,262,151	16,075,442	3,589,368	411,565,369
Debt securities in issue	3,152,229	-	5,056,164	-	42,346,074	-	50,554,467
Subordinated debt	3,428,572	-	-	-	37,734,366	-	41,162,938
Other liabilities	-	-	-	-	-	19,836,169	19,836,169
Equity	-	-	-	-	-	124,729,199	124,729,199
Total liabilities and equity	510,041,303	107,715,622	28,314,145	45,572,490	96,155,882	229,973,042	1,017,772,484

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	760,411,297	94,707,499	40,901,845	27,064,253	94,687,590	1,017,772,484
Liabilities	(617,756,925)	(28,314,145)	(45,572,490)	(96,155,882)	(229,973,042)	(1,017,772,484)
Interest sensitivity gap	142,654,372	66,393,354	(4,670,645)	(69,091,629)	(135,285,452)	-
Cumulative gap	142,654,372	209,047,726	204,377,081	135,285,452	-	-
change in interest rate for the period						
100bps increase	1,069,908	331,967	(3,892)			
100bps decrease	(1,069,908)	(331,967)	3,892			

4 *financial risk management - continued*

Bank - 31 December 2012

	Less than 1 month	Between 1& 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta, Treasury Bills and cash	7,695,604	6,551,567	6,555,649	-	-	15,837	20,818,657
Derivative assets held for risk management	-	-	-	-	-	939,512	939,512
Financial assets designated at fair value through profit or loss	13,312,000	38,027,393	4,250,000	-	-	-	55,589,393
Loans and advances to banks	223,967,046	75,938,642	59,266,048	1,809,995	157,476	31,076,724	392,215,931
Loans and advances to customers	447,388,561	-	270,425	456,295	18,728,036	9,581,460	476,424,777
Other assets	-	-	-	-	-	97,001,656	97,001,656
Total assets	692,363,211	120,517,602	70,342,122	2,266,290	18,885,512	138,615,189	1,042,989,926
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	791,622	791,622
Amounts owed to banks	212,393,129	78,451,092	39,716,614	32,463,515	1,011,031	48,773,113	412,808,494
Amounts owed to customers	287,240,904	18,484,654	40,836,214	47,407,114	29,114,364	4,304,161	427,387,411
Debt securities in issue	-	-	-	43,141,189	-	-	43,141,189
Subordinated debt	1,714,286	-	-	-	38,408,527	-	40,122,813
Other liabilities	-	-	-	-	-	8,000,725	8,000,725
Equity	-	-	-	-	-	110,737,672	110,737,672
Total liabilities and equity	501,348,319	96,935,746	80,552,828	123,011,818	68,533,922	172,607,293	1,042,989,926

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	812,880,813	70,342,122	2,266,290	18,885,512	138,615,189	1,042,989,926
Liabilities	(598,284,065)	(80,552,828)	(123,011,818)	(68,533,922)	(172,607,293)	(1,042,989,926)
Interest sensitivity gap	214,596,748	(10,210,706)	(120,745,528)	(49,648,410)	(33,992,104)	-
Cumulative gap	214,596,748	204,386,042	83,640,514	33,992,104	-	-
change in interest rate for the period						
100bps increase	1,609,476	(51,054)	(100,621)			
100bps decrease	(1,609,476)	51,054	100,621			

4 *financial risk management - continued*

Bank - 31 December 2011

	Less than 1 month	Between 1& 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	11,194,289	-	-	-	-	7,843	11,202,132
Derivative assets held for risk management	-	-	-	-	-	1,852,222	1,852,222
Financial assets designated at fair value through profit or loss	13,849,660	22,470,600	5,000,000	-	-	-	41,320,260
Loans and advances to banks	295,992,157	31,485,339	43,452,789	22,401,374	157,476	16,846,643	410,335,778
Loans and advances to customers	389,824,060	4,528,986	-	593,605	19,871,195	3,009,168	417,827,014
Other assets	-	-	-	-	-	91,424,127	91,424,127
Total assets	710,860,166	58,484,925	48,452,789	22,994,979	20,028,671	113,140,003	973,961,533
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	4,722,154	4,722,154
Amounts owed to banks	181,020,601	76,693,527	2,390,961	19,334,886	-	78,834,343	358,274,318
Amounts owed to customers	318,931,043	24,331,488	20,867,020	24,502,831	16,075,442	3,415,776	408,123,600
Debt securities in issue	-	-	-	-	42,346,073	-	42,346,073
Subordinated debt	3,428,571	-	-	-	37,734,367	-	41,162,938
Other liabilities	-	-	-	-	-	8,093,092	8,093,092
Equity	-	-	-	-	-	111,239,358	111,239,358
Total liabilities and equity	503,380,215	101,025,015	23,257,981	43,837,717	96,155,882	206,304,723	973,961,533

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	769,345,091	48,452,789	22,994,979	20,028,671	113,140,003	973,961,533
Liabilities	(604,405,230)	(23,257,981)	(43,837,717)	(96,155,882)	(206,304,723)	(973,961,533)
Interest sensitivity gap	164,939,861	25,194,808	(20,842,738)	(76,127,211)	(93,164,720)	-
Cumulative gap	164,939,861	190,134,669	169,291,931	93,164,720	-	-
change in interest rate for the period						
100bps increase	1,237,049	125,974	(17,369)			
100bps decrease	(1,237,049)	(125,974)	17,369			

4 *financial risk management - continued*

cash flow sensitivity analysis for repricing instruments

An increase of 100 basis points at the reporting date would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Group		Bank	
	Equity	Profit or loss	Equity	Profit or loss
	USD	USD	USD	USD
31 December 2012				
Repricing instruments	1,520,518	1,520,518	1,457,801	1,457,801
31 December 2011				
Repricing instruments	1,397,983	1,397,983	1,345,654	1,345,654

A decrease of 100 basis points at the reporting date would have equal but opposite effect on the above instruments to the amounts shown above, on the basis that all other variables remain constant.

other price risk

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Non-derivative financial assets at fair value				
Bonds	13,187,393	-	13,187,393	-
Credit linked notes	42,402,000	41,320,260	42,402,000	41,320,260
	55,589,393	41,320,260	55,589,393	41,320,260

In the case of forfaiting assets, price risk is considered to be a less relevant variable. Notwithstanding this, the Group endeavours to mitigate any price risk by building a diversified forfaiting portfolio with an ultimately different geographical exposure.

cash flow sensitivity analysis for market risk

An increase in the price of bonds and credit linked notes at the reporting date would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
10% increase in price for Bonds	1,318,739	-	1,318,739	-
10% increase in price for Credit Linked Notes	4,240,200	4,132,060	4,240,200	4,132,060

A decrease in the price of bonds and credit linked notes at the reporting date would have had an equal but opposite effect to that shown above, on the basis that all other variables remain constant.

4.5 operational risk

Operational risk arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses.

Operational risk events can be broadly categorised as (a) losses arising from internal and external frauds, as well as human errors and omissions; (b) losses arising from a defective transaction or a claim being made;

4 *financial risk management - continued*

(c) losses arising from loss of key personnel; (d) losses arising from breaches of fiduciary duty by employees, misuse of confidential customer information, money laundering activities and other improper conducts by employees; (e) losses arising from technological failures, telecommunication problems and utility outages; and (f) losses arising from insurance arrangements not adequately addressing the risk these are intended to cover. Such breakdowns can lead to financial losses through error, fraud, or failure to perform in a timely manner or cause the interests of the Group to be compromised in some other way. Other aspects of operational risk include major failure of information technology systems or events such as major fires or other disasters.

The Group has invested heavily in information technology, disaster recovery and contingency systems to assist its management to control this risk.

4.6 capital management

regulatory capital

FIMBank p.l.c. is a credit institution registered and authorised to conduct banking and other financial services by the Malta Financial Services Authority ("MFSA"). Under local regulations, the MFSA regulates the Group on both "solo" and "consolidated" basis, with the Banking Act (1994) and Banking Rules forming the basis of the Group's capital requirements.

In implementing current capital requirements, the MFSA requires the Group to maintain a minimum prescribed ratio of total capital to total risk-weighted on- and off- balance sheet assets.

The Group adopted the standardised approach to allocate capital against credit risk under Banking Rule (BR/04) "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994", which rule also introduces capital requirements for market risk and operational risk calculated under the basic indicator approach.

The second pillar of Basel II (Supervisory Review and Evaluation Process) involves both banks and regulators taking a view on whether a bank should hold additional capital against risks not covered in Pillar 1. Part of the Pillar 2 process is the Internal Capital Adequacy Assessment Process ("ICAAP") which is the bank's self assessment of risks not captured by Pillar 1.

Schedule V to this Annual Report and Financial Statements includes additional regulatory disclosures (Pillar 3) in terms of Banking Rule BR/07 "Publication of annual report and audited financial statements of credit institutions authorised under the Banking Act, 1994"

The Group's capital base is divided in two categories, as defined in Banking Rule (BR/03) "Own Funds of Credit Institutions Authorised under the Banking Act, 1994":

a. "Original own funds" comprise share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill and other intangible assets, 50% of the regulated associated companies, the depositor protection scheme reserve and recommended dividends are deducted in arriving at original own funds calculations.

b. "Additional own funds" comprise qualifying subordinated loan capital and collective impairment allowance. Additional own funds also include reserves arising from the revaluation of properties. The remaining 50% of the regulated associated companies are deducted in arriving at additional own funds calculations.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

4 financial risk management - continued

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

capital adequacy

Group

	Exposure Amount 2012 USD	Notional Risk Weight 2012 USD
RISK WEIGHTED EXPOSURE		
Type of Exposure:		
Sovereign	83,973,511	36,986,090
Institutions (Banks)	584,230,793	259,542,782
Corporates	628,353,836	448,295,697
Retail	6,179,554	790,082
Retail secured by real estate	4,850,557	3,548,409
Other items	60,491,311	60,462,581
	1,368,079,562	809,625,641
Operational risk		69,042,354
Foreign exchange risk		5,640,755
Total risk weighted exposure		884,308,750
OWN FUNDS		
Original own funds:		
Capital and reserves		121,841,733
Profit for the year		8,798,533
		130,640,266
Intangible assets		(1,335,559)
50% of investment in regulated entities		(10,738,652)
Market value of assets pledged in favour of the Depositor Compensation Scheme (refer to note 22)		(947,455)
Recommended dividend		(5,279,120)
Total original own funds		112,339,480
Additional own funds:		
Subordinated debt		38,570,093
General provisions		4,516,141
50% of investment in regulated entities		(10,738,652)
Total additional own funds		32,347,582
Total own funds		144,687,062
Capital adequacy ratio		16.36%
Regulatory minimum		8.00%

4 financial risk management - continued

Bank

	Exposure Amount 2012 USD	Notional Risk Weight 2012 USD
RISK WEIGHTED EXPOSURE		
Type of Exposure:		
Sovereign	58,258,596	26,271,177
Institutions (Banks)	476,410,798	190,193,293
Corporates	637,633,135	472,400,700
Retail	6,179,554	790,082
Retail secured by real estate	4,850,558	3,548,409
Other items	91,321,580	91,305,743
	1,274,654,221	784,509,404
Operational risk		43,565,179
Foreign exchange risk		3,026,671
Total risk weighted exposure		831,101,254
OWN FUNDS		
Original own funds:		
Capital and reserves		109,209,520
Profit for the year		1,528,152
		110,737,672
Intangible assets		(622,001)
50% of investment in regulated entities		(3,006,713)
Market value of assets pledged in favour of the Depositor Compensation Scheme (refer to note 22)		(947,455)
Recommended dividend		(5,279,120)
Total original own funds		100,882,383
Additional own funds:		
Subordinated debt		38,570,093
General provisions		4,341,358
50% of investment in regulated entities		(3,006,713)
Total additional own funds		39,904,738
Total own funds		140,787,121
Capital adequacy ratio		16.94%
Regulatory minimum		8.00%

The capital adequacy ratio of the Group and the Bank for the year ended 31 December 2011 stood at 19.31% and 19.65% respectively.

5 use of estimates and judgements

The directors considered the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 4).

5.1 key sources of estimation uncertainty

5.1.1 *allowances for credit losses*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.10.7.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Risk Management function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these reflect future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

5.1.2 *determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10.6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also note 5.2.3 below. The fair value hierarchy that reflects the significance of the inputs used in measuring financial instruments is set out in note 5.2.3 below.

5.2 critical accounting judgements in applying the Group's accounting policies

5.2.1 *impairment losses on loans and advances*

The Group reviews its loan portfolio to assess impairment on an ongoing basis as relevant generic data is observed concerning risks associated with groups of loans with similar risk characteristics. As a result, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease is actually identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the relative economic situation of an asset group or in the credit status of borrowers in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5.2.2 *impairment of investments available-for-sale*

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. If a decline in the fair value of an equity security is not significant or prolonged, then the Group considers if there are additional factors that indicate an impairment has

5 use of estimates and judgements - continued

occurred. This assessment is performed for all equity securities whose fair value is below cost, but for which the decline in fair value is not considered significant or prolonged.

5.2.3 *valuation of financial instruments*

The Group's accounting policy on fair value measurements is discussed in accounting policy 3.10.6.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities and exchange traded derivatives and simple over the counter derivatives like currency rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over the counter structured derivatives, certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

5 use of estimates and judgements - continued

The table below analyses financial instruments measured at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorised

Group - 31 December 2012

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	19	-	-	245,061,077	245,061,077
Derivative assets held for risk management	20	-	893,552	-	893,552
Financial assets designated at fair value through profit or loss	21	13,187,393	-	42,402,000	55,589,393
		13,187,393	893,552	287,463,077	301,544,022
Derivative liabilities held for risk management	20	-	791,622	-	791,622
		-	791,622	-	791,622

Group - 31 December 2011

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	19	-	-	230,286,337	230,286,337
Derivative assets held for risk management	20	-	1,844,035	-	1,844,035
Financial assets designated at fair value through profit or loss	21	-	-	41,320,260	41,320,260
		-	1,844,035	271,606,597	273,450,632
Derivative liabilities held for risk management	20	-	4,722,154	-	4,722,154
		-	4,722,154	-	4,722,154

Bank - 31 December 2012

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	20	-	939,512	-	939,512
Financial assets designated at fair value through profit or loss	21	13,187,393	-	42,402,000	55,589,393
		13,187,393	939,512	42,402,000	56,528,905
Derivative liabilities held for risk management	20	-	791,622	-	791,622
		-	791,622	-	791,622

Bank - 31 December 2011

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	20	-	1,852,222	-	1,852,222
Financial assets designated at fair value through profit or loss	21	-	-	41,320,260	41,320,260
		-	1,852,222	41,320,260	43,172,482
Derivative liabilities held for risk management	20	-	4,722,154	-	4,722,154
		-	4,722,154	-	4,722,154

5 use of estimates and judgements - continued

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

Group

	Trading Assets	Financial assets designated at fair value through profit or loss	Total
	USD	USD	USD
Balance at 1 January 2011	203,566,233	42,410,000	245,976,233
Total gains and losses in trading income	1,962,029	(1,089,740)	872,289
Purchases	341,635,612	27,033,118	368,668,730
Settlements	(316,877,537)	(27,033,118)	(343,910,655)
Balance at 31 December 2011	**230,286,337**	**41,320,260**	**271,606,597**
Balance at 1 January 2012	230,286,337	41,320,260	271,606,597
Total gains and losses in trading income	1,298,694	1,081,740	2,380,434
Purchases	417,256,238	-	417,256,238
Settlements	(403,780,192)	-	(403,780,192)
Balance at 31 December 2012	**245,061,077**	**42,402,000**	**287,463,077**

Bank

	Financial assets designated at fair value through profit or loss	Total
	USD	USD
Balance at 1 January 2011	42,410,000	42,410,000
Total gains and losses in trading income	(1,089,740)	(1,089,740)
Purchases	(27,033,118)	(27,033,118)
Settlements	27,033,118	27,033,118
Balance at 31 December 2011	**41,320,260**	**41,320,260**
Balance at 1 January 2012	41,320,260	41,320,260
Total gains and losses in trading income	1,081,740	1,081,740
Balance at 31 December 2012	**42,402,000**	**42,402,000**

For Level 3 "Trading Assets", the Group establishes fair value using a valuation technique based on the discounted expected future principal and interest cash flows. The discount rate is an estimate based on current expected credit margin spreads and interest rates at the reporting date. Inputs to valuation technique reasonably represent market expectation and measures of risk-return factors inherent in the financial instrument. The effect of an estimated general increase of one percentage point in interest rates as at 31 December 2012 would reduce the Group profit before tax by approximately USD 288,035 (2011: USD88,204).

For Level 3 "Financial Assets designated at Fair Value through Profit or Loss", fair value is calculated using a valuation technique based on the current credit worthiness of the counter parties by reference to specialised dealer price quotations. All these instruments have a floating-interest rate characteristic and the impact of interest rates on the value of the instrument is therefore limited to the interest repricing period which generally occurs on a quarterly or half-yearly basis. The effect on profit or loss is disclosed in note 4.4 to these financial statements.

6 operating segments

The Group has 4 significant reportable segments, Trade Finance, Forfaiting, Factoring and IT Solutions which are represented by different Group entities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by Executive Management. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Intersegment pricing is determined on an arm's length basis.

information about operating segments

Group - 2012
USD

	Trade Finance	Forfaiting	Factoring	IT Solutions	Other	Total
External revenue:						
Interest income	15,937,462	9,762,266	4,477,311	-	-	30,177,039
Fee and commission income	14,407,468	5,829,690	2,278,005	654,345	-	23,169,508
Trading income	(7,415,500)	2,241,954	110,205	(3,841)	192,004	(4,875,178)
	22,929,430	17,833,910	6,865,521	650,504	192,004	48,471,369
Intersegment revenue:						
Interest receivable	4,770,810	-	-	-	-	4,770,810
Fee and commission income	97,402	218,772	-	262,872	-	579,046
	4,868,212	218,772	-	262,872	-	5,349,856
Reportable segment profit/ (loss) before income tax	277,235	8,084,177	2,487,319	83,604	(409,512)	10,522,823
Reportable segment assets	1,014,510,660	253,114,697	79,981,784	1,299,349	66,153,988	1,415,060,478
Reportable segment liabilities	928,019,009	188,414,189	42,968,948	358,123	32,206,490	1,191,966,759

Group - 2011
USD

	Trade Finance	Forfaiting	Factoring	IT Solutions	Other	Total
External revenue:						
Interest income	16,261,738	7,796,245	5,120,845	-	-	29,178,828
Fee and commission income	13,866,973	4,827,164	1,449,136	599,777	6,963	20,750,013
Trading income	335,011	2,149,400	99,916	(237)	132,355	2,716,445
	30,463,722	14,772,809	6,669,897	599,540	139,318	52,645,286
Intersegment revenue:						
Interest receivable	3,843,420	-	-	-	-	3,843,420
Fee and commission income	149,657	241,083	-	264,997	-	655,737
	3,993,077	241,083	-	264,997	-	4,499,157
Reportable segment profit/ (loss) before income tax	294,896	6,572,433	1,868,956	218,256	(53,571)	8,900,970
Reportable segment assets	952,991,508	239,153,417	61,827,379	1,414,636	58,251,886	1,313,638,826
Reportable segment liabilities	859,451,319	182,537,086	32,592,262	557,162	26,893,708	1,102,031,537

6 *operating segments - continued*

reconciliations of reportable segment revenues, profit or loss and assets and liabilities

	2012 USD	2011 USD
REVENUES		
Total revenue for reportable segments	53,629,221	57,005,125
Other revenue	192,004	139,318
	53,821,225	57,144,443
Elimination of intersegment revenue	(5,349,856)	(4,499,157)
Consolidated revenue	48,471,369	52,645,286
PROFIT OR LOSS		
Total profit for reportable segments	10,932,335	8,954,541
Other profit or loss	(409,512)	(53,571)
	10,522,823	8,900,970
Share of loss of equity accounted investee	(1,390,319)	(191,956)
Effect of other consolidation adjustments on segment results	(290,340)	(427,511)
Consolidated profit before tax	8,842,164	8,281,503
ASSETS		
Total assets for reportable segments	1,348,906,491	1,255,386,940
Other assets	66,153,988	58,251,886
	1,415,060,479	1,313,638,826
Elimination of intersegment assets	(281,771,633)	(292,165,691)
Effect of other consolidation adjustments on segment results	(2,797,578)	(3,363,457)
Unallocated amounts	(83,093)	(337,194)
Consolidated assets	1,130,408,175	1,017,772,484
LIABILITIES		
Total liabilities for reportable segments	1,159,760,269	1,075,137,829
Other liabilities	32,206,490	26,893,708
	1,191,966,759	1,102,031,537
Elimination of intersegment liabilities	(192,163,438)	(208,802,780)
Unallocated amounts	(35,412)	(185,472)
Consolidated liabilities	999,767,909	893,043,285

6 *operating segments - continued*

geographical areas

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on the geographical location of the assets:

Group

	Malta		Other Countries		Total	
	2012 USD	2011 USD	2012 USD	2011 USD	2012 USD	2011 USD
External revenues	3,113,556	2,871,756	45,357,813	49,773,530	48,471,369	52,645,286
Non-current assets	33,701,552	27,358,805	2,424,475	247,896	36,126,027	27,606,701

7 financial assets and liabilities

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest).

Group - 31 December 2012

	Trading USD	Designated at fair value USD	Loans and receivables USD	Available - for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD	Fair value USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	-	20,831,547	-	-	20,831,547	20,831,547
Trading assets	245,061,077	-	-	-	-	245,061,077	245,061,077
Derivative assets held for risk management	-	893,552	-	-	-	893,552	893,552
Financial assets designated at fair value through profit or loss	-	55,589,393	-	-	-	55,589,393	55,589,393
Loans and advances to banks	-	-	396,320,420	-	-	396,320,420	396,320,420
Loans and advances to customers	-	-	329,330,290	-	-	329,330,290	329,330,290
Investments available-for-sale	-	-	-	92,742	-	92,742	92,742
Derivative liabilities held for risk management	-	791,622	-	-	-	791,622	791,622
Amounts owed to banks	-	-	-	-	431,841,922	431,841,922	431,841,922
Amounts owed to customers	-	-	-	-	454,857,480	454,857,480	454,857,480
Debt securities in issue	-	-	-	-	51,956,119	51,956,119	51,956,119
Subordinated debt	-	-	-	-	40,122,813	40,122,813	40,122,813

7 *financial assets and liabilities - continued*

Group - 31 December 2011

	Trading	Designated at fair value	Loans and receivables	Available - for-sale	Liabilities at amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	-	-	11,220,465	-	-	11,220,465	11,220,465
Trading assets	230,286,337	-	-	-	-	230,286,337	230,286,337
Derivative assets held for risk management	-	1,844,035	-	-	-	1,844,035	1,844,035
Financial assets designated at fair value through profit or loss	-	41,320,260	-	-	-	41,320,260	41,320,260
Loans and advances to banks	-	-	417,884,197	-	-	417,884,197	417,884,197
Loans and advances to customers	-	-	245,186,411	-	-	245,186,411	245,186,411
Investments available-for-sale	-	-	-	92,742	-	92,742	92,742
Derivative liabilities held for risk management	-	4,722,154	-	-	-	4,722,154	4,722,154
Amounts owed to banks	-	-	-	-	365,202,188	365,202,188	365,202,188
Amounts owed to customers	-	-	-	-	411,565,369	411,565,369	411,565,369
Debt securities in issue	-	-	-	-	50,554,467	50,554,467	50,554,467
Subordinated debt	-	-	-	-	41,162,938	41,162,938	41,162,938

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest).

Bank - 31 December 2012

	Trading	Designated at fair value	Loans and receivables	Available - for-sale	Liabilities at amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	-	20,818,657	-	-	20,818,657	20,818,657
Derivative assets held for risk management	-	939,512	-	-	-	939,512	939,512
Financial assets designated at fair value through profit or loss	-	55,589,393	-	-	-	55,589,393	55,589,393
Loans and advances to banks	-	-	392,215,931	-	-	392,215,931	392,215,931
Loans and advances to customers	-	-	476,424,777	-	-	476,424,777	476,424,777
Investments available-for-sale	-	-	-	92,040	-	92,040	92,040
Derivative liabilities held for risk management	-	791,622	-	-	-	791,622	791,622
Amounts owed to banks	-	-	-	-	412,808,494	412,808,494	412,808,494
Amounts owed to customers	-	-	-	-	427,387,411	427,387,411	427,387,411
Debt securities in issue	-	-	-	-	43,141,189	43,141,189	43,141,189
Subordinated debt	-	-	-	-	40,122,813	40,122,813	40,122,813

7 *financial assets and liabilities - continued*

Bank - 31 December 2011

	Trading	Designated at fair value	Loans and receivables	Available - for-sale	Liabilities at amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	-	-	11,202,132	-	-	11,202,132	11,202,132
Derivative assets held for risk management	-	1,852,222	-	-	-	1,852,222	1,852,222
Financial assets designated at fair value through profit or loss	-	41,320,260	-	-	-	41,320,260	41,320,260
Loans and advances to banks	-	-	410,335,778	-	-	410,335,778	410,335,778
Loans and advances to customers	-	-	417,827,014	-	-	417,827,014	417,827,014
Investments available-for-sale	-	-	-	92,040	-	92,040	92,040
Derivative liabilities held for risk management	-	4,722,154	-	-	-	4,722,154	4,722,154
Amounts owed to banks	-	-	-	-	358,274,318	358,274,318	358,274,318
Amounts owed to customers	-	-	-	-	408,123,600	408,123,600	408,123,600
Debt securities in issue	-	-	-	-	42,346,073	42,346,073	42,346,073
Subordinated debt	-	-	-	-	41,162,938	41,162,938	41,162,938

Financial assets not measured at fair value comprise loans and advances and balances with Central Bank. Loans and advances are reported net of impairment allowances to reflect the estimated recoverable amounts as at the financial reporting date. In the case of loans and advances which are repriceable in the short term, the carrying value approximates to fair value. 91% (2011: 90%) of the Group's and 94% (2011: 94%) of the Bank's loans and advances to customers are repriceable within six months. 92% (2011: 90%) of the Group's and 92% (2011: 90%) of the Bank's loans and advances to banks are repriceable within six months.

Financial liabilities measured at amortised cost comprise debt securities in issue, subordinated debt and amounts owed to banks and customers. 79% (2011: 82%) of the Group's and 81% (2011: 81%) of the Bank's amounts owed to banks and customers are repriceable within 6 months. The Group's debt securities in issue are subject to fixed and variable interest rates. Interest rates on debt securities are further disclosed in note 34. 96% (2011: 92%) of the Bank's and Group's subordinated debt is subject to fixed interest rates.

8 net interest income

	Group		Bank	
	2012	2011	2012	2011
	USD	USD	USD	USD
Interest income				
On loans and advances to banks	1,868,142	3,142,740	1,843,278	3,107,951
On loans and advances to customers	13,113,390	12,369,250	9,754,958	8,229,587
On loans and advances to subsidiary companies	-	-	4,770,810	3,843,420
On balances with Central Bank of Malta and Treasury Bills	145,707	147,248	145,707	147,248
	15,127,239	15,659,238	16,514,753	15,328,206
On forfaiting assets	9,749,205	7,781,621	-	-
On financial instruments carried at fair value	1,632,983	1,667,421	1,632,983	1,592,051
On other trade finance activities	3,667,613	4,070,548	3,667,612	4,070,548
	30,177,040	29,178,828	21,815,348	20,990,805
Interest expense				
On amounts owed to banks	4,458,912	4,173,517	4,237,415	4,015,998
On amounts owed to customers	7,349,461	5,719,360	6,995,139	5,728,273
On debt securities in issue	2,505,618	2,682,780	2,168,567	2,244,850
On subordinated debt	2,887,290	3,091,417	2,887,290	3,091,417
	17,201,281	15,667,074	16,288,411	15,080,538
Net interest income	12,975,759	13,511,754	5,526,937	5,910,267

9 net fee and commission income

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Fee and commission income				
Credit related fees and commission	2,880,979	2,455,380	2,880,979	2,455,380
On letters of credit	8,090,869	8,141,365	8,090,869	8,141,365
On factoring	2,133,005	1,389,136	1,038,538	612,770
On forfaiting activities	5,829,690	4,827,164	-	-
On IT Solutions	654,344	599,777	-	-
Other fees	3,580,620	3,337,191	3,533,023	3,419,887
	23,169,507	20,750,013	15,543,409	14,629,402
Fee and commission expense				
Credit related fees	16,834	-	16,834	-
Correspondent banking fees	435,948	508,595	391,623	409,678
On forfaiting activities	584,672	159,954	-	-
Other fees	1,433,841	1,482,504	896,120	1,020,122
	2,471,295	2,151,053	1,304,577	1,429,800
Net fee and commission income	20,698,212	18,598,960	14,238,832	13,199,602

10 net trading (expense)/income

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Net trading income from assets held for trading	2,274,722	2,180,620	-	-
Foreign exchange rate fluctuations	(7,149,901)	535,824	(7,377,031)	316,461
	(4,875,179)	2,716,444	(7,377,031)	316,461

11 net gain from other financial instruments carried at fair value

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Net income on derivatives held for risk management purposes	10,143,806	3,690,526	10,181,135	3,698,913
Investment securities designated at fair value through profit or loss	1,081,740	(1,046,139)	1,081,740	(1,113,928)
	11,225,546	2,644,387	11,262,875	2,584,985

12 dividend income

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Dividend from an available-for-sale investment	699	-	699	-
	699	-	699	-

13 other operating income

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
(Loss)/profit on disposal of equipment	(2,776)	37,347	(13,282)	11,860
Support fees receivable	18,571	20,462	18,572	20,462
	15,795	57,809	5,290	32,322

14 net impairment (loss)/reversal on financial assets

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Loans and advances to banks				
- specific impairment allowances	318,467	-	318,467	-
- collective impairment allowances	415,339	566,523	415,339	566,523
- write-offs	(1,444,860)	-	(1,444,860)	-
	(711,054)	566,523	(711,054)	566,523
Loans and advances to customers				
- specific impairment allowances	374,920	3,990,839	11,007	1,395,981
- collective impairment allowances	(731,950)	(84,863)	(593,293)	(48,738)
- write-offs	(469,904)	(4,606,352)	(469,904)	(1,587,076)
- recoveries	214,713	1,827	72,635	1,827
	(612,221)	(698,549)	(979,555)	(238,006)
Net impairment (loss)/reversal	(1,323,275)	(132,026)	(1,690,609)	328,517

15 administrative expenses

15.1 administrative expenses incurred during the year are analysed as follows:

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Personnel expenses	16,995,421	16,345,036	11,088,153	11,030,565
Operating lease rentals	1,040,999	1,314,395	1,049,865	751,110
Other administrative expenses	8,966,751	10,105,936	6,956,033	7,765,409
Recharge of services rendered by subsidiaries	-	-	636,424	1,134,564
	27,003,171	27,765,367	19,730,475	20,681,648

Included in Operating Lease Rentals for the Bank is an amount of USD487,005 (2011: Nil) payable to a subsidiary company.

Included in other administrative expenses of the Group for the financial year ended 31 December 2012 are fees charged by auditors as follows:

	Audit services	Other assurance services	Tax advisory services	Other non-audit services
	USD	USD	USD	USD
By the auditors of the parent	136,022	31,280	8,968	79,599
Other auditors	148,936	25,000	33,517	-

All fees are inclusive of indirect taxes.

15 administrative expenses - continued

15.2 personnel expenses incurred during the year

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Directors' emoluments	178,413	258,356	178,413	258,356
Staff costs				
- wages, salaries and allowances	16,103,532	15,351,451	10,540,274	10,387,756
- defined contribution costs	713,476	735,229	369,466	384,453
	16,995,421	16,345,036	11,088,153	11,030,565

15.3 average number of employees

The average number of persons employed during the year was as follows:

	Group		Bank	
	2012 No. of employees	2011 No. of employees	2012 No. of employees	2011 No. of employees
Executive and senior managerial	33	31	14	15
Other managerial, supervisory and clerical	169	172	132	130
Other staff	11	7	4	5
	213	210	150	150

15.4 The Bank has in place Executive Share Option Schemes that are approved by the shareholders by extraordinary resolutions at different General Meetings. The rules for these Schemes regulate the award of Share Options based on the Bank's performance for the year in respect of which the grant is made. Under the Executive Share Option Scheme rules, the Bank awards share options to executives for targeted performance based on the results of the preceding year at the exercise price established at grant date. When the options are exercised, equity is increased by the amount of the proceeds received based on the market price determined on grant date. As at 31 December 2012, there were four schemes under which awarded options are still unexercised.

Movements in the number of share options awarded to executives are as follows:

	Group and Bank	
	2012 No. of share options	2011 No. of share options
As at 1 January	1,733,280	1,752,080
Awarded share options	2,000,000	-
Additional share options as a result of capital restructuring	149,332	-
Forfeited due to termination of employment	(80,496)	(18,800)
Forfeited due to expiry of exercise period (2005 scheme)	(146,516)	-
As at 31 December	3,655,600	1,733,280

15 *administrative expenses - continued*

details of share options granted

	Total	2011 scheme 01/01/14 to 31/12/18	2008 scheme 01/01/11 to 31/12/15	exercise period 2007 scheme 01/01/10 to 31/12/14	2006 scheme 01/01/09 to 31/12/13	2005 scheme 01/01/08 to 31/12/12
Exercise price per USD0.50 share	USD	USD0.7788	USD1.6275	USD1.3248	USD1.4270	USD0.6213
Number of share options unexercised at 1 January 2012	1,733,280	-	474,000	556,800	561,600	140,880
Awarded share options	2,000,000	2,000,000				
Additional share options as a result of capital restruturing	149,332	80,000	18,960	22,272	22,464	5,636
Forfeited due to termination of employment	(80,496)	(31,200)	(15,600)	(14,976)	(18,720)	-
Forfeited due to expiry of exercise period	(146,516)	-	-	-	-	(146,516)
Number of share options unexercised at 31 December 2012	3,655,600	2,048,800	477,360	564,096	565,344	-

	Total	2008 scheme 01/01/11 to 31/12/15	2007 scheme 01/01/10 to 31/12/14	exercise period 2006 scheme 01/01/09 to 31/12/13	2005 scheme 01/01/08 to 31/12/12	
Exercise price per USD0.50 share	USD	USD1.6926	USD1.3778	USD1.4841	USD0.6462	
Number of share options unexercised at 1 January 2011	1,752,080	476,000	571,200	564,000	140,880	
Forfeited due to termination of employment	(18,800)	(2,000)	(14,400)	(2,400)	-	
Number of share options unexercised at 31 December 2011	1,733,280	474,000	556,800	561,600	140,880	-

15.5 During the year, the Board authorised the award of 2,000,000 options at an exercise price of USD0.7067. This award, which represents the "Maximum Award per Year" out of a "Cumulative Award Limit" of 10,000,000 options as laid down in the Executive Share Option Scheme Rules (2011 – 2015), is subject to the attainment of a Performance Target and in the case of granting of award, the options can be exercised between 1 January 2015 and 31 December 2019.

In accordance with the applicable Scheme Rules, the Board determined that for the year ended 31December 2012, no share options will be allocated to qualifying executives.

15.6 The share option scheme approved in 2005 expired during the financial year ended 31 December 2012 and all unexercised options as at the expiry date were forfeited in accordance with the applicable scheme rules.

16 taxation

16.1 Taxation, which is based on the taxable profit for the year comprises:

	Group 2012 USD	Group 2011 USD	Bank 2012 USD	Bank 2011 USD
Current tax				
- current year	(33,901)	(1,296,185)	(32,023)	(1,296,185)
Deferred tax				
- origination and reversal of temporary differences	(9,730)	2,141,461	(9,879)	2,116,657
Taxation in income statement	(43,631)	845,276	(41,902)	820,472

16.2 Taxation for the year and the result of the accounting profit multiplied by the tax rate applicable in Malta, are reconciled as follows:

	Group 2012 USD	Group 2011 USD	Bank 2012 USD	Bank 2011 USD
Profit before tax	8,842,164	8,281,503	1,570,054	1,018,762
Tax expense using the domestic income tax rate of 35%	(3,094,757)	(2,898,526)	(549,519)	(356,567)
Tax effect of:				
Non deductible expenses	(434,658)	(557,399)	(154,319)	(320,876)
Non taxable income	54,575	58,186	-	-
Temporary differences previously not recognised	2,637,549	3,245,050	682,750	1,497,915
Effect of tax rates in foreign jurisdictions	-	-	(20,814)	-
Investment tax credit	33,635	105,712	-	-
Share of loss from equity accounted investees	(486,612)	(67,185)	-	-
Different tax rates	1,246,637	959,438	-	-
Taxation	(43,631)	845,276	(41,902)	820,472

17 earnings per share

17.1 basic earnings per share

The calculation of the Group's and Bank's earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of USD8,798,533 and USD1,528,152 (2011: USD9,126,779 and USD1,839,234) for the Group and Bank respectively divided by the weighted average number of ordinary shares in issue during the year ended 31 December 2012 of 142,604,527 shares (2011: 136,383,450 shares).

17.2 diluted earnings per share

The calculation of the Group's and Bank's diluted earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of USD8,798,533 and USD1,528,152 (2011: USD9,126,779 and USD1,839,234) for the Group and Bank respectively divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2012 of 142,709,837 (2011: 136,414,541).

17 *earnings per share - continued*

Diluted profit attributable to ordinary shareholders and weighted average number of ordinary shares are calculated as follows:

Profit attributable to ordinary shareholders (diluted):

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Profit attributable to ordinary shareholders (diluted)	8,798,533	9,126,779	1,528,152	1,839,234

Weighted average number of ordinary shares (diluted):

	2012 No. of shares	2011 No. of shares
Weighted average number of ordinary shares at 31 December	142,604,527	136,383,450
Effect of share options on issue	105,310	31,091
Weighted average number of ordinary shares (diluted) at 31 December	142,709,837	136,414,541

18 balances with the central bank of malta, treasury bills and cash

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Balances with the Central Bank of Malta	7,695,604	11,194,289	7,695,604	11,194,289
Treasury bills	13,107,216	-	13,107,216	-
Cash	28,727	26,176	15,837	7,843
	20,831,547	11,220,465	20,818,657	11,202,132

Balances with the Central Bank of Malta include a reserve deposit in terms of Regulation (EC) No: 1745/2003 of the European Central Bank.

19 trading assets

Trading assets represent forfaiting assets held by London Forfaiting Company Limited (a subsidiary) and comprise bills of exchange, promissory notes and transferable trade related loans. These assets are held for short-term trading.

20 derivatives held for risk management

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Derivative assets held for risk management				
- interest rate	-	-	45,960	8,187
- foreign exchange	893,552	1,844,035	893,552	1,844,035
	893,552	1,844,035	939,512	1,852,222
Derivative liabilities held for risk management				
- foreign exchange	791,622	4,722,154	791,622	4,722,154
	791,622	4,722,154	791,622	4,722,154

21 financial assets designated at fair value through profit or loss

	Group 2012 USD	Group 2011 USD	Bank 2012 USD	Bank 2011 USD
Designated at fair value through profit or loss				
- foreign listed debt securities	13,187,393	-	13,187,393	-
- unlisted debt securities	42,402,000	41,320,260	42,402,000	41,320,260
	55,589,393	41,320,260	55,589,393	41,320,260

21.1 Unlisted debt securities consist of credit linked notes, whereby the Group is funding the risk of default with respect to specified borrowers. The notes have an embedded instrument linked to the credit risk of a reference basket. In view that the embedded derivative modifies significantly the cash flows of the underlying host contract, the credit linked note is measured at fair value with changes in fair value recognised in the income statement. As a result, the embedded credit derivative is not required to be separated from the host contract represented by the debt instrument. The financial asset was therefore not bifurcated but accounted for as one contract.

These financial assets are not exchange traded and therefore management estimated the fair value at the amount that the Group would receive or pay to terminate the contract at the financial reporting date taking into account current market conditions and the current credit worthiness of the counter parties by reference to dealer price quotations.

Changes in fair value of unlisted debt securities designated at fair value through profit or loss is presented within “net gain from other financial instruments carried at fair value”.

21.2 Financial assets designated at fair value through profit or loss include assets amounting to USD38,152,000 (2011: USD38,800,000) pledged in favour of third parties.

22 loans and advances to banks

	Group 2012 USD	Group 2011 USD	Bank 2012 USD	Bank 2011 USD
Repayable on call and at short notice	158,814,641	53,559,587	153,544,658	46,446,943
Term loans and advances	242,441,884	369,994,521	243,607,378	369,558,746
Total loans and advances	401,256,525	423,554,108	397,152,036	416,005,689
Specific impairment	(2,827,060)	(3,145,528)	(2,827,060)	(3,145,528)
Collective impairment	(2,109,045)	(2,524,383)	(2,109,045)	(2,524,383)
Net loans and advances	396,320,420	417,884,197	392,215,931	410,335,778

Loans and advances to banks include blocked funds amounting to USD113,096 (2011: USD113,096) pursuant to US Sanctions. The balances also include pledged funds amounting to USD46,336,849 (2011: USD46,264,634), of which an amount of USD421,444 (2011: USD276,252) represents pledged funds in favour of the Depositor Compensation Scheme Reserve.

The aggregate amount of impaired loans to banks amounted to USD13,178,407 (2011: USD4,875,904), gross of collaterals. Specific impairment is exclusive of USD1,841,389 (2011: USD1,654,626) in respect of suspended interest not recognised in interest receivable.

23 loans and advances to customers

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Repayable on call and at short notice	190,007,479	95,297,430	190,581,020	95,446,563
Term loans and advances	150,235,934	160,445,073	102,519,673	122,799,474
	340,243,413	255,742,503	293,100,693	218,246,037
Amounts owed by subsidiary companies	-	-	193,221,846	208,896,452
Total loans and advances	340,243,413	255,742,503	486,322,539	427,142,489
Specific impairment	(8,506,027)	(8,880,947)	(7,665,449)	(7,676,455)
Collective impairment	(2,407,096)	(1,675,145)	(2,232,313)	(1,639,020)
Net loans and advances	329,330,290	245,186,411	476,424,777	417,827,014

Loans and advances to customers include assets with a nominal value of USD16,165,235 (2011: USD22,415,235) pledged in favour of third parties.

For the Group, the aggregate amount of impaired loans and advances to customers amounted to USD27,272,938 (2011: USD26,178,427), gross of collaterals. Specific impairment is exclusive of USD10,195,639 (2011: USD9,325,461) in respect of suspended interest not recognised in interest receivable.

For the Bank, the aggregate amount of impaired loans and advances to customers amounted to USD20,561,958 (2011: USD18,857,533), gross of collaterals. Specific impairment is exclusive of USD9,937,627 (2011: USD9,176,328) in respect of suspended interest not recognised in interest receivable.

24 investments available-for-sale

Investments available-for-sale consist of equity instruments in foreign entities.

Whilst there is no active market for these investments, fair value has been determined by reference to broker prices, with fair value movement recognised, net of deferred tax, in fair value reserve.

25 investments in equity accounted investees

25.1 the group's investment in associates is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Equity interest 2012	Equity interest 2011	Group 2012	Group 2011
				%	%	USD	USD
BRASILFACTORS S.A. ("BRASILFACTORS")	Brazil	Factoring	Ordinary Shares	40	40	2,956,515	3,716,715
CIS Factors Holdings B.V. ("CIS Factors")	The Netherland	Holding Company	Ordinary Shares	40	40	2,711,980	3,078,708
India Factoring and Finance Solutions Private Limited ("India Factoring")	India	Factoring	Ordinary Shares	49	49	18,261,457	14,323,156
Levant Factors S.A.L. ("Levant Factors")	Lebanon	Factoring	Ordinary Shares	50	50	664,455	628,088
The Egyptian Company for Factoring S.A.E. ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	40	40	3,215,847	754,929
						27,810,254	22,501,596
At 1 January						22,501,596	15,292,913
Investment in India Factoring						4,752,941	4,705,205
Investment in Egypt Factors						2,800,000	-
Investment in BRASILFACTORS						-	4,000,755
Investment in Levant Factors						-	626,667
Transaction costs						-	541,089
Net share of losses						(1,390,319)	(191,956)
Currency translation difference						(853,964)	(2,473,077)
At 31 December						27,810,254	22,501,596

25.2 the bank's investment in associate entities is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Equity interest 2012	Equity interest 2011	Bank 2012	Bank 2011
				%	%	USD	USD
The Egyptian Company for Factoring S.A.E. ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	40	40	6,013,425	3,213,425
						6,013,425	3,213,425
At 1 January						3,213,425	3,213,425
Investment in Egypt Factors						2,800,000	-
At 31 December						6,013,425	3,213,425

25 investments in equity accounted investees - continued

25.3 BRASILFACTORS S.A. ("BRASILFACTORS")

In September 2011, the Group, through its wholly owned subsidiary FIMFactors B.V., incorporated BRASILFACTORS S.A. ("BRASILFACTORS"), a factoring company incorporated in São Paolo, Brazil. BRASILFACTORS' core business focuses on factoring services and forfaiting, with small and medium-sized companies being its target market. The Group has a 40% holding in the company, with the other shareholders being Banco Industrial e Comercial S.A. ("BICBANCO") and the International Finance Corporation ("IFC"), each holding 40% and 20% respectively.

In addition, as part of the above transaction, a Put Option Agreement has been entered between FIMFactors, BICBANCO and the IFC (the "Put Option Agreement"). Through this agreement, BICBANCO and FIMFactors (together the "Sponsors") have granted an option to IFC for the latter to sell to the Sponsors, on one or more occasions, all or part of the shares owned by IFC in BRASILFACTORS subject to such terms and conditions specified in Shareholders' Agreement. The exercise of the option by IFC creates a corresponding joint and several obligation on the Sponsors to purchase such shares in BRASILFACTORS.

The "Put Period" is defined as the period beginning on the third anniversary of the date on which IFC first subscribes for shares of BRASILFACTORS, and ending on the date in which a firmly underwritten public offering of common shares of BRASILFACTORS has been consummated upon condition that:

a. such offering is on a Relevant Market and undertaken by a reputable underwriter;
b. at least twenty five per cent (25%) of the issued and outstanding shares of BRASILFACTORS are held by Persons other than IFC, the Sponsors and their respective Affiliates;
c. all common shares of BRASILFACTORS may be traded without restriction (other than customary restrictions contained in lock-up agreements with the managing underwriter or required by any applicable regulation) in the Relevant Market; and
d. the price per share of the common shares of BRASILFACTORS shall be at least two times the Book Value per Share (calculated as of the date of settlement of such offering).

The "Put Price" is defined, in relation to any given exercise of the Put Option, the amount obtained by multiplying:

a. the higher of (í) the Dollar Amount of the Per Share Subscription Price paid by IFC under the Subscription Agreement; and (ii) the Book Value Put Price Per Share, by;
b. the number of Put Shares set out in the relevant Put Notice.

In the opinion of the Directors, the fair value of the Put Option at the financial reporting date (and on initial recognition) is close to zero.

25.4 CIS Factors Holdings B.V. ("CIS Factors")

In November 2009, the Group, through its wholly owned subsidiary FIMFactors B.V., incorporated CIS Factors Holdings B.V. ("CIS Factors"), a company set-up under the laws of the Netherlands with the aim to serve as an investment vehicle for a factoring company incorporated under the laws of the Russian Federation and provides factoring services in Russia. The Group has a 40% holding in CIS Factors, with the other shareholders being Joint Stock Bank Transcapitalbank ("Transcapital Bank") and the International Finance Corporation ("IFC"), each holding 40% and 20% respectively.

In addition, as part of the above transaction, a Put Option Agreement has been entered between FIMFactors, Transcapitalbank and the IFC (the "Put Option Agreement"). By virtue of this Put Option Agreement, FIMFactors and Transcapitalbank (together the "Sponsors") have granted an option to IFC for the latter to sell to both Sponsors, on one or more occasions, all or a part of the shares owned by IFC in CIS Factors, subject to such terms and conditions as are specified in the Put Option Agreement. The exercise of the option by IFC creates a corresponding joint and several obligations on the Sponsors to purchase such shares in CIS Factors.

The "Put Period" is defined as the period beginning on the fifth anniversary of the date on which IFC first subscribes for shares in CIS Factors under the Subscription Agreement, and ending on the date on which IFC shall have delivered to the Sponsors and CIS Factors a notice stating that all of the requirements set out below have been met:

25 *investments in equity accounted investees - continued*

a. a Listing has occurred on a Relevant Market;
b. at least twenty five percent (25%) of the issued and outstanding ordinary shares of CIS Factors are held by Persons other than Affiliates (including IFC) and are tradable without restriction on such Relevant Market;
c. the average trading volume of the ordinary shares of CIS Factors (excluding direct or indirect trading by the Sponsors, CIS Factors or their respective Affiliates) on such Relevant Market, during any period of six consecutive months is not less than two times the total number of the ordinary shares of CIS Factors owned by IFC at that date;
d. the average price per share of the ordinary shares of CIS Factors traded on such Relevant Market during any period of six consecutive months is not lower than the price per share as of the date of the Listing;
e. IFC has received a certificate executed by the Sponsors and CIS Factors certifying that the conditions stated in sub-sections (c) and (d) have been met; and
f. all shares of CIS Factors and all Share Equivalents held by IFC are immediately convertible, exercisable or exchangeable into ordinary shares of the CIS Factors and can be traded without restriction on such Relevant Market;

The "Put Price" is defined, in relation to any given exercise of the Put Option, the higher of:

a. the Investment Cost of those Put Shares; and
b. the aggregate of the Book Value Put Price Per Share multiplied by the number of Put Shares, provided that in the event that the Put Price would be less than zero, the Put Price shall be zero.

In the opinion of the Directors, the fair value of the Put Option at the financial reporting date (and on initial recognition) is close to zero.

25.5 India Factoring and Finance Solutions Private Limited ("India Factoring")

In 2010, the Group, through its wholly owned subsidiary FIMFactors B.V., incorporated India Factoring and Finance Solutions Private Limited ("India Factoring"), a company incorporated under Indian law and with its registered office in Mumbai, India. The Group holds a 49% shareholding with Punjab National Bank (30% ownership), Banca IFIS (10% ownership) and Blend Financial Services Limited (1% ownership). Key management personnel have been incentivised by giving them a stake of 10%. India Factoring was granted an operating license in December 2010 and is regulated by the Reserve Bank of India. India Factoring provides factoring, forfaiting and trade finance related activities in India.

25.6 Levant Factors S.A.L. ("Levant Factors")

In March 2009, the Group, through its wholly owned subsidiary Menafactors, acquired 25% of Levant Factors S.A.L., a factoring company incorporated in Beirut, Lebanon. A further investment in the company was made in April 2011, bringing the total investment in the company to 50%. The Group is not deemed to have a controlling interest in the company and kept measuring its investment using the Equity Method. The other major shareholder (49.25%) in Levant Factors is The Lebanese Credit Insurer S.A.L, a joint venture between ATRADIUS Re and a group of local and regional insurance companies and investors.

25.7 The Egyptian Company for Factoring S.A.E. ("Egypt Factors")

In November 2006, the Bank incorporated Egypt Factors, a company which provides factoring services in Egypt. The Bank has a 40% investment in Egypt Factors with the other shareholders being Commercial International Bank ("CIB") and International Finance Corporation ("IFC") (holding 40% and 20% equity respectively).

On the same day of incorporating Egypt Factors, the Bank entered into a Put Option Agreement (the "Put Option Agreement") with CIB and IFC. The Put Option Agreement gives the right to IFC, by sending a notice of exercise to CIB and/or FIMBank, at any time during the exercise period, to sell to CIB and/or FIMBank, jointly and severally, all or part of IFC's shareholding in Egypt Factors at the exercise price.

The "Exercise Period" is defined as the period commencing on the fifth anniversary from the receipt of the licence by Egypt Factors from the local regulators (i.e. 26 April 2007) and terminating on the tenth anniversary of such date, unless an event of default (as defined in the Put Option Agreement) has occurred before such fifth anniversary, in which case the exercise period commences on the date of that event of default.

The "Exercise Price" has been fixed at the higher of:
(a) The coefficient multiplied by the number of shares subject to the put option; and
(b) The investment costs per share (i.e. the total investment by IFC from time to time in Egypt Factors until the date of notice of exercise divided by the total number of shares subject to the put option).

In the opinion of the Directors, the fair value of the put option at the financial reporting date (and on initial recognition) is close to zero.

25.8 Summary of financial information for equity accounted investees not adjusted for the percentage ownership of the Group:

	Total assets	Total liabilities	Total revenue	Total expenses	(Loss)/profit for the year
	USD	USD	USD	USD	USD
31 December 2012					
BRASILFACTORS	8,089,840	698,556	1,047,605	(2,049,552)	(1,001,947)
CIS Factors	37,594,526	31,866,877	2,111,895	(3,306,939)	(1,195,044)
India Factoring[1]	132,547,611	131,979,625	16,387,002	(16,246,586)	140,416
Levant Factors	9,480,035	8,188,857	923,332	(844,042)	79,290
Egypt Factors	47,822,149	39,816,090	4,243,696	(5,091,792)	(848,096)
31 December 2011					
CIS Factors	31,525,519	24,861,307	2,087,048	(2,908,779)	(821,731)
India Factoring[1]	119,853,479	96,440,432	9,658,352	(8,053,206)	1,605,146
Levant Factors	6,983,256	5,766,050	278,101	(314,729)	(36,628)
Egypt Factors	29,242,350	27,388,585	4,041,915	(5,716,675)	(1,674,760)

As at 31 December 2011, BRASILFACTORS was still in the process of commencing its economic activities.

[1]Revenue, expenses and results for the year are for the period 1st April to 31st December of the respective period

26 investments in subsidiaries

26.1 capital subscribed

	Bank 2012 USD	Bank 2011 USD
At 1 January	73,481,359	64,234,312
Additional investment in FIMFactors B.V.	4,752,942	9,247,047
At 31 December	78,234,301	73,481,359

26.2 investments in subsidiaries

Name of Company	Country of incorporation	Nature of business	Equity interest 2012 %	Equity interest 2011 %	Bank 2012 USD	Bank 2011 USD
London Forfaiting Company Limited	UK	Forfaiting	100	100	37,366,435	37,366,435
FIMFactors B.V.	Netherlands	Holding company	100	100	40,860,866	36,107,924
FIM Business Solutions Limited	Malta	IT Services Provider	100	100	5,000	5,000
FIM Property Investment Limited	Malta	Property Management	100	100	2,000	2,000
					78,234,301	73,481,359

26.3 The Bank, indirectly through London Forfaiting Company Limited, controls the following subsidiaries:

Name of Company	Country of incorporation	Nature of business	Current equity interest 2012 %	Current equity interest 2011 %
London Forfaiting International Limited	UK	Holding company	100	100
London Forfaiting Americas Inc. *	United States of America	Marketing	100	100
London Forfaiting do Brasil Ltda. *	Brazil	Marketing	100	100

* A wholly-owned subsidiary of London Forfaiting International Limited.

26.4 The Bank, indirectly through FIMFactors B.V., controls the following subsidiaries:

Name of Company	Country of incorporation	Nature of business	Current equity interest 2012 %	Current equity interest 2011 %
Menafactors Limited	United Arab Emirates	Factoring Company	100	100

27 property and equipment

Group

	Freehold land	Freehold premises	Computer system	Improvement to premises	Computer equipment	Others	Total
	USD	USD	USD	USD	USD	USD	USD
Cost							
At 1 January 2011	6,892,057	221,708	1,955,011	946,556	2,462,841	9,268,239	21,746,412
Acquisitions during the year	-	2,595	-	14,068	305,695	10,520,902	10,843,260
Disposals during the year	-	-	-	-	-	(139,430)	(139,430)
At 31 December 2011	6,892,057	224,303	1,955,011	960,624	2,768,536	19,649,711	32,450,242
At 1 January 2012	6,892,057	224,303	1,955,011	960,624	2,768,536	19,649,711	32,450,242
Acquisitions during the year	-	3,572,455	-	318,123	80,631	5,862,630	9,833,839
Reclassification of assets brought into use	29,532	22,164,271	-	-	-	(22,193,803)	-
Disposals during the year	-	-	-	(562,655)	(884,399)	(670,864)	(2,117,918)
At 31 December 2012	6,921,589	25,961,029	1,955,011	716,092	1,964,768	2,647,674	40,166,163
Depreciation							
At 1 January 2011	-	37,321	1,055,417	658,970	2,086,481	2,011,917	5,850,106
Charge for the year	-	4,434	176,982	86,480	210,581	216,428	694,905
Disposals during the year	-	-	-	-	(495)	(127,947)	(128,442)
At 31 December 2011	-	41,755	1,232,399	745,450	2,296,567	2,100,398	6,416,569
At 1 January 2012	-	41,755	1,232,399	745,450	2,296,567	2,100,398	6,416,569
Charge for the year	-	365,846	163,620	67,653	173,464	224,036	994,619
Disposals during the year	-	-	-	(543,773)	(884,767)	(606,952)	(2,035,492)
At 31 December 2012	-	407,601	1,396,019	269,330	1,585,264	1,717,482	5,375,696
Carrying amounts							
At 1 January 2011	6,892,057	184,387	899,594	287,586	376,360	7,256,322	15,896,306
At 31 December 2011	6,892,057	182,548	722,612	215,174	471,969	17,549,313	26,033,673
At 1 January 2012	6,892,057	182,548	722,612	215,174	471,969	17,549,313	26,033,673
At 31 December 2012	6,921,589	25,553,428	558,992	446,762	379,504	930,192	34,790,467

Property and equipment include assets amounting to USD30,444,191 hypothecated in favour of third party banks up to USD8,813,000.

As at 31 December 2011, in "Others" were amounts of USD16,889,850 held by a wholly-owned subsidiary "FIM Property Investment Limited", representing the cost of developing the Group's Head Office at Pendergardens, St. Julian's Malta. This asset was brought into use during the year ended 31 December 2012 and was reclassified to its respective classification accordingly.

27 property and equipment - continued

Bank

	Freehold premises	Computer system	Improvement to leasehold premises	Computer equipment	Others	Total
	USD	USD	USD	USD	USD	USD
Cost						
At 1 January 2011	221,708	1,955,011	701,218	1,896,829	1,657,414	6,432,180
Acquisitions during the year	-	-	14,068	282,428	251,779	548,275
Disposals during the year	-	-	-	-	(49,529)	(49,529)
At 31 December 2011	221,708	1,955,011	715,286	2,179,257	1,859,664	6,930,926
At 1 January 2012	221,708	1,955,011	715,286	2,179,257	1,859,664	6,930,926
Acquisitions during the year	-	-	318,123	52,086	406,031	776,240
Disposals during the year	-	-	(560,566)	(808,875)	(532,347)	(1,901,788)
At 31 December 2012	221,708	1,955,011	472,843	1,422,468	1,733,348	5,805,378
Depreciation						
At 1 January 2011	37,323	1,055,417	531,616	1,663,334	1,330,001	4,617,691
Charge for the year	4,434	176,982	52,858	137,415	108,496	480,185
Disposals during the year	-	-	-	-	(49,063)	(49,063)
At 31 December 2011	41,757	1,232,399	584,474	1,800,749	1,389,434	5,048,813
At 1 January 2012	41,757	1,232,399	584,474	1,800,749	1,389,434	5,048,813
Charge for the year	4,433	163,620	35,765	106,126	148,076	458,020
Disposals during the year	-	-	(541,684)	(808,875)	(531,141)	(1,881,700)
At 31 December 2012	46,190	1,396,019	78,555	1,098,000	1,006,369	3,625,133
Carrying amounts						
At 1 January 2011	184,385	899,594	169,602	233,495	327,413	1,814,489
At 31 December 2011	179,951	722,612	130,812	378,508	470,230	1,882,113
At 1 January 2012	179,951	722,612	130,812	378,508	470,230	1,882,113
At 31 December 2012	175,518	558,992	394,288	324,468	726,979	2,180,245

28 intangible assets

Group

	Software licences USD
Cost	
At 1 January 2011	2,834,828
Additions during the year	513,935
At 31 December 2011	3,348,763
At 1 January 2012	3,348,763
Additions during the year	249,818
At 31 December 2012	3,598,581
Amortisation	
At 1 January 2011	1,312,141
Charge for the year	463,597
At 31 December 2011	1,775,738
At 1 January 2012	1,775,738
Charge for the year	487,284
At 31 December 2012	2,263,022
Carrying Amount	
At 1 January 2011	1,522,687
At 31 December 2011	1,573,025
At 1 January 2012	1,573,025
At 31 December 2012	1,335,559

Bank

	Software licences USD
Cost	
At 1 January 2011	1,265,895
Additions during the year	104,554
At 31 December 2011	1,370,449
At 1 January 2012	1,370,449
Additions during the year	176,799
At 31 December 2012	1,547,248
Amortisation	
At 1 January 2011	525,244
Charge for the year	191,559
At 31 December 2011	716,803
At 1 January 2012	716,803
Charge for the year	208,444
At 31 December 2012	925,247
Carrying Amount	
At 1 January 2011	740,651
At 31 December 2011	653,646
At 1 January 2011	653,646
At 31 December 2012	622,001

29 deferred taxation

29.1 deferred taxation is analysed as follows:

	Group		Bank	
	2012	2011	2012	2011
	USD	USD	USD	USD
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	(542,517)	(457,878)	(379,009)	(291,507)
- allowances for uncollectibility	3,800,742	2,830,647	3,800,742	2,830,647
- changes in fair value of financial instruments	506,084	1,927,880	506,108	1,927,735
- investment tax credits	331,017	333,562	-	-
- unabsorbed capital allowances	315,767	-	315,767	-
- unabsorbed tax losses	6,785,068	6,571,680	213,388	-
	11,196,161	11,205,891	4,456,996	4,466,875

29.2 unrecognised deferred taxation

At the financial reporting date the Bank had unrecognised temporary differences amounting to USD17.5 million (2011: USD19.5 million). In addition Group subsidiaries had unrecognised and unutilised tax losses and tax credits amounting to USD38.9 million (2011: USD48.9 million) and USD0.6 million (2011: USD0.7 million) respectively available against future taxable profits. A deferred tax asset amounting to USD2,021,998 (2011: USD1,781,404) was utilised during the year to absorb taxable income. An equivalent amount was recognised in the financial statements as a deferred tax asset on the basis of three-year profit forecasts and the results for the current year.

29.3 movements in temporary differences during the year:

Group

	Opening balance	Recognised in other comprehensive income	Recognised in profit or loss	Closing balance
	USD	USD	USD	USD
2011				
Excess of capital allowances over depreciation	(395,538)	-	(62,340)	(457,878)
Allowances for uncollectibility	2,551,553	-	279,094	2,830,647
Changes in fair values of financial instruments	15,151	24,665	1,888,064	1,927,880
Investment tax credits	296,919	-	36,643	333,562
Unabsorbed tax losses	6,571,680	-	-	6,571,680
	9,039,765	24,665	2,141,461	11,205,891
2012				
Excess of capital allowances over depreciation	(457,878)	-	(84,639)	(542,515)
Allowances for uncollectibility	2,830,647	-	970,095	3,800,728
Changes in fair values of financial instruments	1,927,880	-	(1,421,796)	506,080
Investment tax credits	333,562	-	313,222	646,800
Unabsorbed tax losses	6,571,680	-	213,388	6,785,068
	11,205,891	-	(9,730)	11,196,161

29 *deferred taxation - continued*

Bank

	Opening balance	Recognised in other comprehensive income	Recognised in profit or loss	Closing balance
	USD	USD	USD	USD
2011				
Excess of capital allowances over depreciation	(241,151)	-	(50,356)	(291,507)
Allowances for uncollectibility	2,551,553	-	279,094	2,830,647
Changes in fair values of financial instruments	15,151	24,665	1,887,919	1,927,735
	2,325,553	24,665	2,116,657	4,466,875
2012				
Excess of capital allowances over depreciation	(291,507)	-	(87,502)	(379,009)
Allowances for uncollectibility	2,830,647	-	970,095	3,800,742
Changes in fair values of financial instruments	1,927,735	-	(1,421,627)	506,108
Unabsorbed capital allowances	-	-	315,767	315,767
Unabsorbed tax losses	-	-	213,388	213,388
	4,466,875	-	(9,879)	4,456,996

30 other assets

	Group		Bank	
	2012	2011	2012	2011
	USD	USD	USD	USD
Operational debtors and other recoverable amounts	3,088,990	2,128,626	2,383,417	2,307,509
Indirect taxation	836,274	1,378,521	197,882	466,104
	3,925,264	3,507,147	2,581,299	2,773,613

Other assets include an amount of USD526,009 (2011: USD432,023) pledged in favour of the Depositor Compensation Scheme.

31 prepayments and accrued income

	Group		Bank	
	2012	2011	2012	2011
	USD	USD	USD	USD
Accrued income	446,334	3,195,485	425,883	3,286,265
Prepayments	1,368,890	1,472,637	979,241	1,126,208
	1,815,224	4,668,122	1,405,124	4,412,473

32 amounts owed to banks

	Group		Bank	
	2012	2011	2012	2011
	USD	USD	USD	USD
Term deposits	337,809,390	254,443,692	318,775,962	247,515,822
Repayable on demand	94,032,532	110,758,496	94,032,532	110,758,496
	431,841,922	365,202,188	412,808,494	358,274,318

33 amounts owed to customers

	Group 2012 USD	Group 2011 USD	Bank 2012 USD	Bank 2011 USD
Term deposits	209,306,855	187,544,092	186,806,855	187,544,092
Repayable on demand	245,550,625	224,021,277	239,949,936	219,987,534
	454,857,480	411,565,369	426,756,791	407,531,626
Amounts owed to subsidiaries	-	-	630,620	591,974
	454,857,480	411,565,369	427,387,411	408,123,600

Included in the Group customer accounts are deposits amounting to USD94,435,232 (2011: USD91,208,440) held as collateral for irrevocable commitments. Included in the Bank customer accounts are deposits amounting to USD89,085,578 (2011: USD87,348,288) held as collateral for irrevocable commitments.

34 debt securities in issue

	Group 2012 USD	Group 2011 USD	Bank 2012 USD	Bank 2011 USD
Unsecured promissory notes (note 34.1)	8,814,930	8,208,394	-	-
Bonds (note 34.2)	43,141,189	42,346,073	43,141,189	42,346,073
	51,956,119	50,554,467	43,141,189	42,346,073

34.1 unsecured promissory notes

Unsecured promissory notes are issued by a subsidiary company. At 31 December 2012, notes issued by the subsidiary company have a tenor of up to one year. The Group's effective interest rate for 2012 is 2.09% (2011: 2.95%).

34.2 bonds

The Bank has in issue an aggregate of EUR35 million Bonds 2013 in a combination of 4.25% EUR Bonds of a nominal value of EUR100 per bond and 4.25% USD Bonds of a nominal value of USD100 per bond. The Bonds were issued as follows:

	Group and Bank 2012 USD	Group and Bank 2011 USD
4.25% EUR Bonds 2013	25,403,665	24,927,018
4.25% USD Bonds 2013	18,047,700	18,047,700
Principal outstanding balance	43,451,365	42,974,718
Unamortised issue costs	(310,176)	(628,645)
Carrying amount as at 31 December	43,141,189	42,346,073

The Bonds are redeemable at par on 30 November 2013, are listed on the Malta Stock Exchange and trade on its Official List. The Bonds, which are unsecured, rank before the subordinated debt of the Bank and have a general claim on the assets of the Bank except where assets are pledged in favour of specific creditors.

The movement between 2011 and 2012 in principal outstanding balance represents unrealised foreign exchange fluctuations recognised in profit or loss.

35 subordinated debt

	Group and Bank	
	2012	2011
	USD	USD
Subordinated convertible loan (note 35.1)	1,714,286	3,428,572
Subordinated bonds (note 35.2)	38,408,527	37,734,366
	40,122,813	41,162,938

35.1 subordinated convertible loan

	Group and Bank	
	2012	2011
	USD	USD
Initial recognition:		
Face value of subordinated convertible loan on 23 June 2005	10,000,000	10,000,000
Amounts classified as equity on exercise of option on 27 October 2005 (refer to note below)	(4,000,000)	(4,000,000)
Repayment	(4,285,714)	(2,571,428)
Carrying amount as at 31 December	1,714,286	3,428,572

At 31 December 2012, the loan carried interest at 2.73% per annum (2011: 2.41%) and is repayable in full by 15 July 2013.

35.2 subordinated bonds

The Bank has in issue an aggregate of EUR30 million Subordinated Bonds 2012-2019 in a combination of 7% EUR Bonds of a nominal value of EUR100 per bond and 7% USD Bonds of a nominal value of USD100 per bond. The Subordinated Bonds are redeemable at par on 30 April 2019 or earlier, at the Bank's option, starting from 1 May 2012 up to maturity date. The Subordinated Bonds are listed on the Malta Stock Exchange and trade on its Official List.

	Group and Bank	
	2012	2011
	USD	USD
7% EUR Subordinated Bonds 2012-2019	31,095,213	30,511,774
7% USD Subordinated Bonds 2012-2019	8,107,800	8,107,800
Principal outstanding balance	39,203,013	38,619,574
Unamortised issue costs	(794,486)	(885,208)
Carrying amount as at 31 December	38,408,527	37,734,366

The movement between 2011 and 2012 in principal outstanding balance represents unrealised foreign exchange fluctuations recognized in profit or loss.

35.3 The above liabilities are unsecured and subordinated to other outstanding unsubordinated and unsecured obligations of the Bank and the Group. The Group did not have any defaults of interest or other breaches with respect to the subordinated liabilities during the current and comparative periods.

36 provisions

	Group USD	Bank USD
Balance at 1 January 2011	3,052,184	1,733,104
Exchange difference	(41,818)	-
Balance at 31 December 2011	3,010,366	1,733,104
Balance at 1 January 2012	3,010,366	1,733,104
Exchange difference	24,423	-
Balance at 31 December 2012	3,034,789	1,733,104
Non-current balance at 31 December 2011	3,010,366	1,733,104
Non-current balance at 31 December 2012	3,034,789	1,733,104

Provisions represent the best estimate of future economic cash flows which may be required as a result of pending court cases. Management believes that adequate provisions have been made against these pending court cases on the basis of legal advice as to the timing and amount of the expected future economic outflows.

37 accruals and deferred income

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Accrued interest	3,325,259	3,450,113	3,240,818	3,404,200
Other accruals	13,428,559	13,281,298	2,617,457	2,861,396
	16,753,818	16,731,411	5,858,275	6,265,596

Other accruals include an amount payable to a subsidiary company amounting to USD141,676 (2011: USD285,420).

38 equity

38.1 share capital

	2012 Shares of 50 cents		2011 Shares of 50 cents	
	Shares	USD	Shares	USD
Authorised Ordinary shares at 31 December	400,000,000	200,000,000	400,000,000	200,000,000
Issued and fully paid up Ordinary shares at 31 December	142,943,602	71,471,801	136,636,319	68,318,160

At an Extraordinary General Meeting held on 31 January 2013, the Authorised Share Capital of the Bank was increased to 1,000,000,000 Ordinary Shares of 50 US cents each.

	Ordinary Shares	
	2012 No of shares	2011 No of shares
On issue at 1 January	136,636,319	135,952,634
Scrip dividend	841,386	683,685
Bonus issue of shares	5,465,897	-
On issue at 31 December	142,943,602	136,636,319

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

scrip dividend and bonus issue

In May 2012, the Annual General Meeting approved the payment of a scrip dividend amounting to USD2,738,034, representing a net dividend per Ordinary Share of US cents 2.003884. Shareholders were given the option to receive the dividend either in the form of Cash or new Ordinary Shares at the attribution price of USD0.842. Consequent to the Scrip Issue, the Bank's capital was increased by a further USD420,693.

The same Annual General Meeting also approved the issue of bonus shares by capitalising USD2,732,948 from the share premium account. Consequent to this bonus issue, the Bank's capital was increased by a further USD2,732,948.

38.2 share premium

The share premium represents proceeds from rights issues, net of share issue costs, together with the premium arising on the exercise of executive share option schemes, the option granted on the subordinated convertible loan and premium from scrip dividends paid. This reserve is non-distributable.

38.3 currency translation reserve

The currency translation reserve consists of exchange differences arising on the translation of the net investment in foreign operations.

38.4 fair value reserve

This reserve consists of changes in the fair value of available-for-sale financial instruments, net of deferred tax.

38 *equity - continued*

38.5 other reserve

The reserve includes an amount of USD2,681,041 (2011: USD2,681,041) representing the difference between the net proceeds received on the sale of own shares net of the relative acquisition costs. In addition USD7,782,214 (2011: USD9,760,981) represents the appropriation from Retained Earnings for any unforeseen future risks which may affect the Group's financial assets held-for-trading.

38.6 dividends

The following dividends were declared and paid by the Group:

	2012 USD	2011 USD
Dividends declared and paid during the year	2,738,034	3,371,955

After the financial reporting date the following dividends were proposed by the Directors. The dividends have not been provided for in these financial statements.

	2012 USD	2011 USD
US cents 3.693149 per qualifying ordinary share (2011: 2.003884, diluted to 1.926812 due to 1:25 Bonus Issue in May 2012)	5,279,120	2,738,034

38.7 availability of reserves for distribution

The Bank's retained earnings as at the financial reporting date include an amount of USD28,653,355 (2011: USD29,863,237) that is available for distribution.

39 contingent liabilities

39.1

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Guarantee obligations incurred on behalf of third parties	73,271,995	66,848,581	82,152,480	72,685,336

39.2 Global Trade Finance Limited

During 2008, the Bank disposed of an equity investment in Global Trade Finance Limited ("GTF"). As a result of the disposal of shares, the Bank provided State Bank of India with an indemnity for any future tax claims against GTF pertaining to the period prior to the disposal of the investment. The Bank's indemnity, which is given severally with that of the other seller EXIMBank as well as GTF, is capped at 10% of the sale consideration, that is INR216,810,000 and with the first INR50,000,000 of any future claims to be met separately by GTF. The indemnity specifically covers any claim/s which are made to State Bank of India within six years from 28 March 2008, representing the disposal date.

The probability that this claim may arise was assessed on 31 December 2012 in the light of a likelihood that such a claim may arise under a future assessment. The Bank deems that, albeit it is still possible that a claim may arise in the future, the probability of this occurring is remote. However, this event still represents a contingent liability since the indemnity constitutes a present obligation that does not however meet the criteria to be recognised as a provision. The maximum amount of this contingent liability remains INR216,810,000 (USD3,961,809) at 31 December 2012 (31 December 2011: USD4,070,000).

39 contingent liabilities - continued

39.3 other contingencies

39.3.1 On 9 January 2006 a judicial letter was filed against the Bank and a customer for the principal amount of USD841,582, plus legal interest. The party is claiming this amount by way of refund of a performance bond issued by a third party bank in his name and which performance bond was called upon by the Bank on behalf of its customer. The Bank is contesting this claim and the Directors do not expect the outcome of the action to have a material effect on the Group's and the Bank's financial statements. Up to the date of issue of these financial statements, no judicial proceedings have commenced against the Bank.

39.3.2 On 9 March 2011 FIMBank was informed that a client had filed a law case against it claiming damages of EUR20.5 million (USD26.5 million) arising from a non-payment of a documentary credit confirmed by the Bank in favour of the client.

During the financial year ended 31 December 2012 such client has irrevocably and unconditionally withdrawn the judicial case. The client has also bound itself not to institute whether now or in the future any other judicial proceedings against FIMBank with respect to the same documentary credit, the facility agreement entered into between the client and FIMBank, or any matter connected to or otherwise related to either the documentary credit or the facility agreement.

This development is a result of an agreement entered between the client and FIMBank, which agreement does not contemplate any payment or compensation in favour of the client.

As a result of the above the Bank is discontinuing the classification of this event as a Contingent Liability.

40 commitments

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Undrawn credit facilities	94,386,362	28,045,071	94,386,362	28,045,071
Commitment to purchase assets	13,261,676	43,793,823	-	-
Factoring commitments	3,697	10,090	3,697	10,090
Documentary credits	23,172,410	22,833,035	23,172,410	22,833,035
Confirmed letters of credit	74,519,930	64,453,848	55,558,470	61,283,156
Risk participations	-	4,575,694	-	4,575,694
	205,344,075	163,711,561	173,120,939	116,747,046

The Bank has total sanctioned limits to customers amounting to USD 560,948,418 (2011: USD406,343,059).

In addition, as at the financial reporting date the Bank had open back-to-back documentary credits amounting to USD2,115,040 (2011: USD8,469,626).

41 cash and cash equivalents

Balances of cash and cash equivalents as shown on the statement of financial position are analysed as follows:

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Balances with the Central Bank of Malta, Treasury Bills and cash	20,831,548	11,220,465	20,818,657	11,202,132
Loans and advances to banks	262,725,716	317,791,766	257,455,660	310,679,125
Amounts owed to banks	(155,797,240)	(266,530,241)	(155,797,240)	(266,530,241)
Cash and cash equivalents at end of year	127,760,024	62,481,990	122,477,077	55,351,016
Adjustment to reflect balances with contractual maturity of more than three months	(142,449,979)	1,420,484	(122,250,983)	7,912,576
Per statement of financial position	(14,689,955)	63,902,474	226,094	63,263,592
Analysed as follows:				
Balances with the Central Bank of Malta, Treasury Bills and cash	20,831,547	11,220,465	20,818,657	11,202,132
Loans and advances to banks	396,320,420	417,884,197	392,215,931	410,335,778
Amounts owed to banks	(431,841,922)	(365,202,188)	(412,808,494)	(358,274,318)
	(14,689,955)	63,902,474	226,094	63,263,592

42 operating leases

leases as lessee

The Group leases motor vehicles and office premises under operating lease arrangements. During the year ended 31 December 2012, operating lease charges amounting to USD1,040,999 (2011: USD1,314,395) were recognised as an expense in the income statement of the Group, while operating lease charges amounting to USD1,049,865 (2011: USD751,110) were recognised as an expense in the income statement of the Bank.

Non-cancellable operating lease rentals are payable as follows:

	Group		Bank	
	2012 USD	2011 USD	2012 USD	2011 USD
Less than one year	605,849	1,303,124	1,060,027	1,316,018
Between one and five years	240,802	598,021	1,474,754	86,990
	846,651	1,901,145	2,534,781	1,403,008

43 related parties

43.1 identity of related parties

The Bank has a related party relationship with its subsidiaries, associates and jointly-controlled entities, directors and executive officers. For the purpose of this note, executive officers include the Group President who served as an Executive Director during the year under review.

43.2 transactions with key management personnel

Directors of the Group control 7 per cent of the voting shares of the Bank and the Group respectively. There were no loans and advances to Directors as at 31 December 2012 and as at 31 December 2011.

43 related parties - continued

On 31 December 2012, an amount of USD311,734 (2011: USD301,675) was receivable from executive officers. Interest earned from facilities granted to executive officers during the financial year ended 31 December 2012 amounted to USD300 (2011: USD197).

Deposits by Directors as at 31 December 2012 amounted to USD148,825 (2011: USD128,570) and are included in “amounts owed to customers”. No Interest was paid to Directors for the year ended 31 December 2012 (2011: NIL).

Deposits by Executive Officers as at 31 December 2012 amounted to USD305,719 (2011: USD304,831) and are included in “amounts owed to customers”. Interest paid to Executive Officers during the financial year ended 31 December 2012 amounted to USD9,374 (2011: USD8,964). Furthermore, guarantees issued by the Bank in favour of Executive Officers as at 31 December 2012 amounted to USD3,072 (2011: USD3,014).

Directors of the Group hold a nominal value of 69,300 (2011: 69,300) bonds issued by the Bank. Gross interest paid to Directors on these bonds during the financial year ending 31 December 2012 amounted to the equivalent of USD4,514 (2011: USD4,345). Executive Officers hold a nominal value of 46,000 (2011: 46,000) bonds issued by the Bank. Gross interest paid to Executive Officers on these bonds during the financial year ended 31 December 2012 amounted to the equivalent of USD2,680 (2011: USD2,596).

In addition to their salaries, the Group also provides non-cash benefits to Directors and Executive Officers. Directors’ compensations are disclosed in note 15.2 to these financial statements. Total remuneration payable to executive officers amounting to USD1,784,941 (2011: USD1,685,665) is included in “personnel expenses” (see note 15.2).

As at 31 December 2012, executive officers had a total of 1,029,808 (2011: 533,000) unexercised share options.

43.3 other related party transactions

Amounts equivalent to USD53,096 (2011: USD90,936) and USD156,388 (2011: USD80,732) were charged by a shareholding company and Directors respectively for travelling and accommodation expenses in connection with the Board and Board Committee meetings of the Bank. Consultancy and professional fees amounting to USD664,602 (2011: USD764,997) were charged by companies owned, directly and indirectly by the Bank’s Directors, former Directors and key management personnel.

Moreover, the Group has in place a consultancy agreement with a company in which a Bank’s former Director has a beneficial interest, with an outstanding committed value of EUR52,000 (USD68,574) as at financial reporting date.

43.4 related party balances

On 31 December 2012 shareholders having significant influence did not have any deposits with the Bank (2011: Nil).

Information on amounts due to/by subsidiary companies, associated companies and jointly-controlled entities are set out in notes 23, 25, 26, 33 and 35 to these financial statements. Amounts due to/by Key Management Personnel are disclosed in note 43.2 above.

44 financial commitments

For 2013, the Board approved capital injections of up to USD2.5 million to be invested in new factoring joint ventures as well as to provide additional support to existing entities by way of additional capital.

45 capital commitments

At financial reporting date the Group had the following capital commitments:

	Group	
	2012	2011
	USD	USD
Authorised and contracted for	1,215,723	3,591,484
Authorised but not contracted for	-	1,211,562
	1,215,723	4,803,046

Group capital commitments relate to the final completion costs related to the Group's head office in St Julian's, Malta.

46 subsequent events

On 31 January 2013 the Bank held an extraordinary general meeting of shareholders which approved an offer made by Burgan Bank S.A.K. ("Burgan") of Kuwait, and United Gulf Bank B.S.C. ("UGB") of Bahrain, providing for the following:

a) The acquisition by Burgan of 35,000,000 listed ordinary shares in the Bank currently pledged by Massaleh Investments K.S.C.C. ("Massaleh") in favour of Burgan. On or about the date of the said acquisition, UGB shall acquire approximately an additional 17,950,000 listed ordinary shares in the Bank from Massaleh pursuant to a share transfer between the parties. On completion of this step of the transaction, UGB and Burgan shall have a combined shareholding interest in the Bank of approximately 37.04% (the "Share Transfers");
b) UGB will grant a USD60,000,000 convertible loan to the Bank, divided into two tranches of USD30,000,000 each. Subject to drawdown, UGB will be given the option to convert, in full or in part, the first tranche of the loan into new ordinary shares of USD0.50c each to be issued by the Bank at a conversion price of USD0.83c per share. Also subject to drawdown, UGB will be given the option to convert, in full or in part, the second tranche of the loan into new ordinary shares of USD0.50c each to be issued by the Bank at a conversion price equivalent to the book value of the ordinary shares of the Bank as at the date of the latest audited financial statements, capped at USD0.90c per share;
c) As part of this process, UGB and Burgan will also seek to increase their combined shareholding in the Bank through a bid to all the shareholders of the Company for all of their shares; and
d) UGB and Burgan will participate in and support a USD100,000,000 rights issue of shares to be made by the Bank at a price and with the timing yet to be determined.

At date of approval of these financial statements this offer was pending formal regulatory approval.

47 comparative information

Certain comparative amounts have been reclassified to conform with the current year's presentation.

statement of the directors pursuant to listing rule 5.68

For the year ended 31 December 2012

We, the undersigned, declare that to the best of our knowledge, the financial statements set out on pages 36 to 112 prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries included in the consolidation taken as a whole and that this report includes a fair review of the development and performance of the business and the position of the Bank and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board of Directors on 6 March 2013 by:

John C. Grech
Chairman

Margrith Lütschg-Emmenegger
Vice Chairman

report of the independent auditors

to the members of FIMBank p.l.c.

report on the financial statements

We have audited the financial statements of FIMBank p.l.c. (the "Bank") and of the Group of which the Bank is the parent, as set out on pages 36 to 112, which comprise the statements of financial position as at 31 December 2012 and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

directors' responsibility for the financial statements

As explained more fully in the Directors' Responsibility Statement set out on page 35, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), and the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

auditors' responsibility

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

In addition, we read the other information contained in the Annual Report 2012 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

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

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

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

opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the Group's and the Bank's financial position as at 31 December 2012, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation.

report on other legal and regulatory requirements

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

In our opinion:

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

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

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

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

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

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

Our responsibility as independent auditors of the Bank, is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages 24 to 32.

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

In our opinion, the Directors' Statement of Compliance set out on pages 24 to 32 provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

H Galea Lauri

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG
Registered Auditors

6 March 2013

schedule I

income statement

Five Year Summary

Bank

	2012 USD	2011 USD	2010 USD	2009 USD	2008 USD
Interest income	21,815,348	20,990,805	14,300,606	13,321,974	26,111,791
Interest expense	(16,288,411)	(15,080,538)	(9,183,774)	(9,047,203)	(17,606,671)
Net interest income	5,526,937	5,910,267	5,116,832	4,274,771	8,505,120
Fee and commission income	15,543,409	14,629,402	15,237,631	14,925,150	16,128,175
Fee and commission expense	(1,304,577)	(1,429,800)	(1,387,338)	(1,556,711)	(1,288,088)
Net fee and commission income	14,238,832	13,199,602	13,850,293	13,368,439	14,840,087
Net trading income/(expense)	3,885,844	2,901,446	2,290,793	5,513,626	(4,858,802)
Dividend income	699	-	320	604	1,530,101
Profit on disposal of available-for-sale investment	-	-	-	46,956	-
Profit on disposal of associate	-	-	-	-	43,085,785
Other operating income	5,290	32,322	31,572	18,013	69,788
Operating income before net impairment losses	23,657,602	22,043,637	21,289,810	23,222,409	63,172,079
Net impairment reversal/(loss) on financial assets	(1,690,609)	328,517	(1,493,233)	(4,712,221)	(1,079,697)
Operating income	21,966,993	22,372,154	19,796,577	18,510,188	62,092,382
Administrative expenses	(19,730,475)	(20,681,648)	(16,900,731)	(16,761,113)	(19,324,672)
Depreciation and amortisation	(666,464)	(671,744)	(731,585)	(707,771)	(534,636)
Provision for liabilities and charges	-	-	-	-	(1,733,104)
Total operating expenses	(20,396,939)	(21,353,392)	(17,632,316)	(17,468,884)	(21,592,412)
Profit before tax	1,570,054	1,018,762	2,164,261	1,041,304	40,499,970
Taxation	(41,902)	820,472	465,082	31,181	(9,963,462)
Profit for the year	1,528,152	1,839,234	2,629,343	1,072,485	30,536,508

schedule I I

statement of financial position

Five Year Summary

Bank

	2012 USD	2011 USD	2010 USD	2009 USD	2008 USD
ASSETS					
Balances with the Central Bank of Malta, Treasury Bills and cash	20,818,657	11,202,132	9,813,667	8,833,204	8,811,029
Financial assets at fair value through profit or loss	56,528,905	43,172,482	44,727,571	24,280,356	26,349,315
Loans and advances to banks	392,215,931	410,335,778	322,642,839	315,235,568	264,614,667
Loans and advances to customers	476,424,777	417,827,014	367,218,263	255,714,115	229,640,248
Investments available-for-sale	92,040	92,040	161,791	39,595	61,789
Investments in equity accounted investees	6,013,425	3,213,425	3,213,425	2,013,425	2,013,425
Investments in subsidiaries	78,234,301	73,481,359	64,234,312	53,412,291	49,394,666
Property and equipment	2,180,246	1,882,113	1,814,489	2,241,239	1,631,305
Intangible assets	622,001	653,646	740,651	549,270	589,825
Current tax assets	1,416,224	448,583	1,558,921	508,275	210,811
Deferred tax	4,456,996	4,466,875	2,325,553	1,683,183	1,285,255
Other assets	2,581,299	2,773,613	2,411,528	1,870,871	2,359,199
Prepayments and accrued income	1,405,124	4,412,473	2,540,034	2,110,959	2,044,412
Total assets	1,042,989,926	973,961,533	823,403,044	668,492,351	589,005,946
LIABILITIES AND EQUITY					
Liabilities					
Financial liabilities at fair value through profit or loss	791,622	4,722,154	2,425,331	1,152,782	1,159,079
Amounts owed to banks	412,808,494	358,274,318	329,976,491	227,151,376	211,163,939
Amounts owed to customers	427,387,411	408,123,600	285,048,980	271,532,067	252,147,811
Debt securities in issue	43,141,189	42,346,073	42,853,818	4,931,904	-
Subordinated debt	40,122,813	41,162,938	43,789,227	47,062,828	6,000,000
Provisions	1,733,104	1,733,104	1,733,104	1,733,104	1,733,104
Other liabilities	409,346	94,392	182,135	113,806	2,280
Accruals and deferred income	5,858,275	6,265,596	5,156,968	4,101,948	4,737,313
	932,252,254	862,722,175	711,166,054	557,779,815	476,943,526
Equity					
Share capital	71,471,801	68,318,160	67,976,317	67,713,477	67,428,196
Share premium	8,028,945	10,474,390	10,235,339	9,986,355	9,658,098
Fair value reserve	(97,470)	(97,470)	(51,665)	-	-
Other reserve	2,681,041	2,681,041	2,681,041	2,681,041	2,681,041
Retained earnings	28,653,355	29,863,237	31,395,958	30,331,663	32,295,085
	110,737,672	111,239,358	112,236,990	110,712,536	112,062,420
Total liabilities and equity	1,042,989,926	973,961,533	823,403,044	668,492,351	589,005,946
MEMORANDUM ITEMS					
Contingent liabilities	82,152,480	72,685,336	43,362,797	27,021,667	74,548,490
Commitments	173,120,939	116,747,046	170,860,031	167,848,294	197,444,877

schedule I I I

cash flow statement

Five Year Summary

Bank

	2012 USD	2011 USD	2010 USD	2009 USD	2008 USD
Net cash flows from operating activities	79,368,658	44,432,606	(102,960,640)	(18,242,129)	56,618,404
Cash flows from investing activities					
Net payments to acquire property and equipment	(776,241)	(548,275)	(153,597)	(1,189,397)	(616,906)
Payments to acquire intangible assets	(176,797)	(104,554)	(342,619)	(87,759)	(226,765)
Proceeds from disposal of property and equipment	6,806	12,326	-	-	-
Purchase of shares in equity accounted investees	(2,800,000)	-	(1,200,000)	-	(8,300,000)
Purchase of shares in subsidiary companies	(4,752,941)	(8,705,959)	(10,822,021)	(4,017,625)	(2,000)
Proceeds from disposal of shares in equity accounted investees	-	-	-	-	41,173,634
Purchase of other investment	-	(719)	-	-	-
Proceeds from other investments	-	-	-	69,151	87,239
Receipt of dividend	699	-	320	604	1,530,101
Cash flows (used in)/generated from investing activities	(8,498,474)	(9,347,181)	(12,517,917)	(5,225,026)	33,645,303
Cash flows from financing activities					
Proceeds from issue of share capital	-	-	23,853	19,462	551,112
Debt securities in issue	-	-	(4,931,905)	4,931,904	(1,000,000)
Proceeds from issue of 4.25% bonds	-	-	43,396,399	-	-
Proceeds from issue of Subordinated debt	-	-	-	39,061,687	-
Repayment of Subordinated Convertible Loan	(1,714,285)	(1,714,285)	(857,143)	-	-
Dividends paid	(2,029,838)	(2,791,061)	(1,077,077)	(2,441,831)	(5,131,200)
Net cash flows (used in)/from financing activities	(3,744,123)	(4,505,346)	36,554,127	41,571,222	(5,580,088)
Increase/(decrease) in cash and cash equivalents	67,126,061	30,580,079	(78,924,430)	18,104,067	84,683,619
Cash and cash equivalents at beginning of year	55,351,016	24,770,937	103,695,367	85,591,300	907,681
Cash and cash equivalents at end of year	122,477,077	55,351,016	24,770,937	103,695,367	85,591,300

schedule I V

accounting ratios

Five Year Summary

Bank	2012 %	2011 %	2010 %	2009 %	2008 %
Net interest income and other operating income to total assets	2.39	2.41	2.75	3.71	10.94
Operating expenses to total assets	1.96	2.19	2.14	2.61	3.67
Profit before tax to total assets	0.15	0.10	0.26	0.16	6.88
Pre-tax return on capital employed	1.42	0.92	1.93	0.94	36.14
Profit after tax to equity	1.38	1.65	2.34	0.97	27.25

	2012	2011	2010	2009	2008
Weighted average number of shares in issue (000's)	142,605	136,383	135,753	135,231	133,235
Net assets per share (cents)*	77.65	78.58	79.49	78.70	81.00
Basic earnings per share (cents) *					
Basic	1.07	1.30	1.86	0.76	22.07
Diluted	1.07	1.30	1.86	0.90	21.94

* Ratios for 2008 to 2011 have been restated to reflect the number of shares in issue.

additional regulatory disclosures (pillar 3)

in terms of Banking Rule (BR/07) "Publication of annual report and audited financial statements of credit institutions authorised under the Banking Act, 1994"

For the year ended 31 December 2012

1. introduction

1.1 background

This document comprises the Basel II Pillar 3 Regulatory Disclosures required by BR/07 as at 31 December 2012 for FIMBank p.l.c. (the "Bank") and its subsidiary undertakings (the "Group").

The Basel II framework was implemented in the European Union through the Capital Requirement Directive ("CRD"). The framework is based around three Pillars;

i. Pillar 1 which caters for the minimum capital requirements which define the rules for calculation of credit, market and operational risk;

ii. Pillar 2 requires banks to undertake an Internal Capital Adequacy Assessment Process (ICAAP) for risks not covered under Pillar 1; and

iii. Pillar 3 complements the minimum capital requirements under Pillar 1 and the ICAAP under Pillar 2 by providing key information on the Group's risk exposures, the risk management process to mitigate these risks and the Group's capital adequacy calculation. The disclosure requirements under Pillar 3 are of both quantitative and qualitative nature and are provided at a consolidated level.

1.2 basis and frequency of disclosures

These disclosures are based on 31 December 2012 year-end data

Given the size and complexity of the Group's operations, the Pillar 3 disclosures are updated on an annual basis. However, any material change in the approaches or permissions used to calculate capital requirements will be disclosed as it arises.

1.3 publication and verification

The Pillar 3 disclosures have been reviewed by the Bank's senior management and have been subject to the review of KPMG so as to ensure compliance with the requirements laid out in BR/07.

The Pillar 3 disclosure document is also published on the Bank's corporate website. This can be found at www.fimbank.com.

2. risk governance

2.1 FIMBank risk management function

The Board is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group, and for ensuring that proper systems of internal control are in place. The Board has delegated to Management the task of creating an effective control environment to the highest possible standards and in line with the Bank's Articles of Association also established the following committees in order to assist Directors in the oversight of its functions:

- Executive Committee
- Audit Committee
- Risk Committees
- Asset-Liability Committee
- Compensation Committee

2.2 Board and senior management committees responsibilities

Risk, capital and liquidity management strategies are the responsibilities of the Board Risk Committee, the Management Risk Committee and the ALCO. Details of the composition and responsibilities of these Committees are laid out in the Statement of Compliance with the Principles of Good Governance Section in pages 24 and 32 of the Annual Report.

3. scope of application of applicable consolidated requirements

3.1 overall scoping

As disclosed in the Directors' Report in page 17 of the Annual Report, the FIMBank Group (the "Group") is composed of FIMBank p.l.c. (the "Bank"), a credit institution licensed under the Banking Act, 1994, and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI") and FIMFactors B.V. ("FIMFactors"). LFC is itself a parent of a number of subsidiaries as set out in note 26.3 to the Financial Statements whilst FIMFactors is the parent of a wholly owned subsidiary Menafactors Limited ("Menafactors"). The Group also holds a significant interest in the associated entities, namely, The Egyptian Company for Factoring S.A.E. ("Egypt Factors" - 40% holding), CIS Factors Holdings B.V. ("CIS Factors" – 40% holding), India Factoring and Finance Solutions Private Limited ("India Factoring" - 49% holding) and Levant Factors S.A.L. ("Levant Factors" - 50% holding) and BRASILFACTORS S.A. ("BRASILFACTORS" – 40% holding).

Both FIMBank p.l.c. and the Group are supervised on a "solo" and "consolidated" basis in terms of Banking Rule 10 "Supervision on a Consolidated Basis of Credit Institutions authorised under the Banking Act 1994".

3.2 basis of consolidation

At 31 December 2012, all Group entities were consolidated as outlined below.

London Forfaiting Company Limited ("LFC")

LFC, a wholly owned subsidiary, is registered in the United Kingdom as a private limited liability company. It was founded in 1984 and provides international trade finance services (with particular focus on forfaiting business) through an international network of offices. Some of these offices have distinct corporate status in the various jurisdictions where they are providing the service. LFC's main activities are the purchasing of bills of exchange, promissory notes, deferred payment letters of credit and transferable financial loans from exporters or their banks and subsequently selling these instruments to customers or other institutions.

LFC is consolidated within the Group on a line-by-line basis.

FIMFactors B.V. ("FIMFactors")

FIMFactors B.V., a wholly owned subsidiary registered in the Netherlands, is the corporate vehicle for FIMBank's holdings in factoring joint ventures and associated companies. At 31 December 2012, FIMFactors holds the Group's investments in Menafactors, CIS Factors, India Factoring and BRASILFACTORS.

FIMFactors is consolidated within the Group on a line-by-line basis.

Menafactors Limited ("Menafactors")

Menafactors, a wholly owned subsidiary, is incorporated in the United Arab Emirates and is licensed by the Dubai Financial Services Authority to provide international factoring and forfaiting services in the Gulf and MENA region. Menafactors also holds the Group's investment in Levant Factors as set out in the Directors Report of the Annual Report and note 25 to the Financial Statements.

Menafactors is consolidated within the Group on a line-by-line basis while the results of its associate, Levant Factors – a factoring company incorporated in Beirut, Lebanon, are included in Menafactors and in the Group, using the "equity method" of accounting. This investment is not deducted from the Group's own funds.

FIM Business Solutions Limited ("FBS") and FIM Property Investment Limited ("FPI")

FBS and FPI are two entities specifically set-up to provide ancillary services to other Group entities and/or third parties.

FBS, a wholly owned subsidiary registered in Malta, has as its primary purpose the provision of information technology and support services to the Group and its associated companies, to correspondent banks as well as to third party factoring services providers.

FPI, a wholly owned subsidiary registered in Malta owns and manages the FIMBank's head office in Malta. FIM Property Investment Limited is responsible for the day-to-day management of the building and leasing, if any, of space for commercial purposes.

Both FBS and FPI are consolidated to the Group on a line-by-line basis.

BRASILFACTORS S.A. ("BRASILFACTORS")

BRASILFACTORS is a company incorporated in São Paolo, Brazil, focusing on factoring services and forfaiting, with small and medium-sized companies being its target market. The Group has a 40% holding in the company, with the other shareholders being Banco Industrial e Comercial S.A. ("BICBANCO") and the International Finance Corporation ("IFC"), each holding 40% and 20% respectively.

BRASILFACTORS is included to the Group using the "equity method" of accounting and the investment is not deducted from the Group's Own Funds.

CIS Factors Holdings B.V. ("CIS Factors")

CIS Factors is a company set-up under the laws of the Netherlands and serves as an investment vehicle for a factoring company incorporated under the laws of the Russian Federation and which provides factoring services in Russia. The Group has a 40% holding in CIS Factors, with the other shareholders being Joint Stock Bank Transcapitalbank ("Transcapitalbank") and the International Finance Corporation ("IFC"), holding 40% and 20% respectively.

CIS Factors is included to the Group using the "equity method" of accounting and the investment is not deducted from the Group's Own Funds.

India Factoring and Finance Solutions Private Limited ("India Factoring")

India Factoring is a company incorporated under Indian law and provides factoring, forfaiting and trade finance related activities in India. The Group holds 49% of the Company's shareholding. The other shareholders are Punjab National Bank (30%), Banca IFIS (10%), Blend Financial Services Limited (1%) and India Factoring Employee Welfare Trust (10%). India Factoring is regulated by the Reserve Bank of India.

India Factoring is included to the Group using the "equity method" of accounting and the investment is deducted from the Group's Own Funds.

The Egyptian Company for Factoring S.A.E. (“Egypt Factors”)

The Bank also holds a 40% equity investment in Egypt Factors, a company incorporated in Egypt, where the other shareholders are Commercial International Bank (Egypt) holding 40% and International Finance Corporation (“IFC”) holding 20% of the shares. Egypt Factors is active in providing international factoring and forfaiting services to Egyptian and other Middle Eastern exporting companies.

Egypt Factors is included to the Group using the “equity method” of accounting and the investment is deducted from the Group’s Own Funds.

4. identification of risks

The Group identified the following Pillar 1 and Pillar 2 risks as being significant and manages such risks as detailed below;

a. Credit risk and Concentration risk
b. Operational risk – incorporating legal, compliance and insurance risk
c. Market risk – incorporating foreign currency risk, interest rate risk and other price risk
d. Liquidity risk
e. Reputational risk
f. Information Technology risk
g. Settlement risk and
h. Strategic and business risk

In the following sections we lay out the manner in which the Group manages and mitigates the above mentioned risks and we also indicate whether such risks are allocated a capital charge under Pillar 1 and Pillar 2.

4.1 pillar 1 risks for which a capital allocation is made

4.1.1 *credit risk*

Credit risk is the risk that one party to a financial transaction might fail to discharge an obligation and cause the other party to incur a financial loss. The Group finances international trade in many countries worldwide, especially emerging markets, which in turn entails an exposure to sovereign, bank and corporate credit risk respectively. Credit risk is not only akin to loans but also to other on- and off-balance sheet exposures such as letters of credit, guarantees, acceptances and money market operations.

4.1.1.1 *minimum capital requirements under pillar 1: credit risk*

The Group calculates the overall minimum capital requirement for credit risk using the Standardised Approach to credit risk as defined in BR/04 “Capital Requirements of Credit Institutions Authorised under the Banking Act 1994” expressed as 8% of the risk weighted exposure amounts for each of the Standardised Credit Risk Exposure Classes. The table below illustrates the capital requirement for credit risk for 2012.

	Notional Risk Weight	Minimum Capital Requirement (8%)
	2012	2012
	USD	USD
Type of exposure:		
Sovereign	36,986,090	2,958,887
Institutions (Banks)	259,542,782	20,763,423
Corporates	448,295,697	35,863,656
Retail	790,082	63,207
Retail secured by real estate	3,548,409	283,873
Other items	60,462,581	4,837,006
	809,625,641	64,770,052

4.1.1.2. *credit risk management principles and strategy*

Strict credit assessment and control procedures are in place in order to monitor credit exposures. The Board Risk Committee is responsible for overseeing the Group's credit policy and risk, for approving individual limits for banks and corporates within its delegated parameters of authority and also for recommending country limits for approval by the Executive Committee. The Board Risk Committee is also responsible for the oversight of operational, legal and reputational risk related to credit activity. Certain powers of the Board Risk Committee have been delegated to the Management Risk Committee as set out in the Statement of Compliance with the Principles of Good Corporate Governance in page 24 of the Annual Report. Additional limits of authority based on specific criteria and up to a maximum of USD3 million have been delegated to Management.

All on- and off- balance sheet exposures are approved after a thorough review of the counterparties' credit worthiness. This is done by primarily evaluating the risk rating of the counterparty by reference to established Rating Agencies. In the absence of this and when it is deemed appropriate to do so, review is also done by means of other assessment criteria, including but not limited to, financial statement review.

The Group also ensures that it has a reasonable mix of loans to customers. This diversification of credit among different economic sectors is a policy adopted by the Group to control such risks. The Group also monitors its risk on balances held with other banks by establishing bank and country limits. The risks associated with off-balance sheet assets and liabilities arise from the normal course of banking operations. In the case of such risks the Group exercises the same credit controls as those applied to on-balance sheet risks.

The Group maintains a prudent provisioning policy in accordance with the applicable laws and regulations to ensure that losses are immediately recognised in the income statements. Efforts at recovering losses incurred in past financial periods are continuous.

4.1.1.3 *credit risk limit setting and monitoring*

Over the years, the Group has established policies requiring limits on counterparties, countries as well as specific sectors, and industries, thus ensuring a more diversified on- and off-balance sheet lending portfolios.

Single-name counterparty limits follow the prudential rules adopted throughout European banking legislation (in Malta BR/02), which apply maximum limits for large exposures. A large exposure is defined as a consolidated exposure to a single entity or an economic group that exceeds 10% of a bank's regulatory capital (Tier 1 plus Tier 2). The maximum limit for non-institutions is 25% of regulatory capital. The maximum limit for institutions is determined by the Group and shall not exceed 100% of regulatory capital. It must also be noted that a further prudential rule-of-thumb followed by the Group on large exposures is that initial lending limits for new counterparties are usually set at a much lower level than the group's legal lending limit. These limits might either remain at the original level, based on ongoing credit research on the name, or build up towards the legal lending limit in a gradual manner, as the knowledge of the counterparty by the bank consolidates through time.

Concentration risk by geographical region/country is monitored by the Executive Committee, which set up a specific policy for country risk concentration. This policy defines a ceiling – in terms of percentage of the Group's Own Funds - for each individual country exposure, which is linked to the rating granted to each country by international rating agencies. The ceiling increases (up to a maximum of 100% of the Bank's Own Funds for investment grade countries) with the rating of the country. As for single-name limits, country limits do not automatically increase to the pre-defined ceiling, as the initial assessment is based on the country's specific economic, financial and political risk conditions.

Concentration risk by sector is mitigated by the particular nature of the Group's business, i.e. a specialised trade finance institution with a focus on Emerging Markets. Most of the bank's exposure relates to banks' risk, located in a number of geographies and hence diversified by virtue of the country limit policy specified in the above paragraph, which usually guarantee/confirm the payment risk of the importers under international trade finance operations. Exposure to particular sectors is monitored indirectly through monitoring of the trends of the underlying commodities. Exposure to corporate entities in many cases consists of bridge financing towards a sale of goods/commodities eventually covered by a bank guarantee (provided by the bank of the ultimate buyer of the goods). Other specialised sectors of exposure, in particular shipping pre-demolition finance, which are collateralised through a mortgage on each vessel financed, are assigned an overall sector limit by the Bank's Risk Committee, which is reviewed regularly. Committee, which is reviewed regularly.

4.1.1.4 collateral and credit risk mitigation

In addition, the Group also makes use of different types of collaterals, all aimed at mitigating credit risk within- on and off- balance sheet credit facilities

main types of collateral and concentrations in credit risk mitigations

Exposures to both financial institutions and corporate clients are typically secured either by property (including shipping vessels), cash collateral, credit insurance cover, personal or bank guarantees or by pledged goods. With regards to Loans and Advances to Banks and Customers, ships and insurance policies held with unrated insurers are not considered to be eligible collateral for regulatory purposes.

The collateral is reviewed periodically by Management both in terms of exposure to the Bank and the Group and to ensure the validity and enforceability of the security taken. Investment securities are not usually held as collateral, and no such collateral was held at 31 December 2012. The table below provides an estimate of the fair value of collateral eligible for regulatory purposes and other security enhancements held against the Group's Lending portfolio:

	Loans and Advances to Banks	Loans and Advances to Customers	Commitments and Contingent Liabilities
	2012 USD	2012 USD	2012 USD
Against neither past due nor impaired			
Cash or quasi cash	28,153,828	24,358,954	59,040,401
Property	-	853,473	-
Other	-	11,085,064	3,803,265
Against impaired			
Cash or quasi cash	7,326,391	388,425	-
Property	-	1,222,190	-
Other	-	-	-
	35,480,219	37,908,106	62,843,666

As FIMBank is mainly engaged in structured trade finance related to basic commodities (oil, steel, sugar, rice, etc.), the value of goods representing collateral for such facilities can be easily determined by monitoring the market prices of such commodities. Screen prices are readily available on several commodities exchanges and monitored on a daily basis by Risk Management. Collateral management is performed on FIMBank's behalf by specialised companies (SGS, Bureau Veritas, Control Union, etc.) appointed ad hoc for a particular transaction. Collateral management agreements are usually tri-partite agreements (between FIMBank, the borrower and the collateral manager) and give FIMBank title to the goods held as collateral.

4.1.1.5 exposure to credit risk

The table below illustrates the total amount of net exposures as at 31 December 2012 prior to taking into account the effects of credit risk mitigation and the average for the financial year ending 31 December 2012:

Type of exposure	Total at 31 December 2012	Average for the year ended 31 December 2012
	USD	USD
Loans and advances to banks	396,320,420	459,911,740
Loans and advances to customers	329,330,290	266,723,767
Trading assets and Financial assets designated at fair value through profit or loss	300,650,470	267,105,138
Investments available-for-sale	92,742	92,742
Investments in equity accounted investees	27,810,254	24,454,473

credit risk exposure by region

The geographic distribution of the Group exposures as at 31 December 2012, broken down in significant areas by the same exposure classes shown in the previous table is set out in note 4 to the Financial Statements.

credit risk exposure by sector

Note 4.2 to the Financial Statements also sets out the distribution of the Group's exposures as at 31 December 2012 by sector.

credit risk exposures by maturity

The residual maturity breakdown of the Group's exposures as at 31 December 2012, broken down by exposure classes is set out in note 4.3 to the Financial Statements.

4.1.1.6 credit risk weights and ECAIs

The Group classifies its on and off balance sheet exposures under the following "exposure classes" (as defined in BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994"):

a. Central governments or central banks;
b. Institutions;
c. Corporates;
d. Retail;
e. Retail secured by real estate;
f. Other items.

When calculating the risk-weighted exposure amounts for each of the above exposure classes in accordance with the Standardised Approach to credit risk as detailed in BR/04, the Group applies the ratings of the following External Credit Assessment Institutions (ECAIs) in determining the appropriate credit quality step:

a. Fitch Ratings;
b. Moody's; or
c. Standard & Poor's.

Fitch Ratings is used as the primary reference agency and if a particular exposure is not rated by Fitch Ratings reference would be made to the lower rating between Moody's or Standard & Poor's.

additional regulatory disclosures (Pillar 3) - continued

The Group complies with the standard association of exposure ratings to credit quality steps as detailed in BR/04.

At 31 December 2012, the Group carried the following exposures:

Exposure class	Credit quality step	Exposure values	Credit risk mitigation	Net exposure
		USD	USD	USD
Central governments or central banks	0%	28,892,746	7,121,193	21,771,553
	20%	2,606	-	2,606
	50%	30,200,000	-	30,200,000
	100%	20,628,159	-	20,628,159
	150%	4,250,000	-	4,250,000
		83,973,511	7,121,193	76,852,318
Institutions	0%	34,215,839	34,215,839	-
	20%	266,653,400	-	266,653,400
	50%	118,227,996	1,978,109	116,249,887
	100%	164,331,698	-	164,331,698
	150%	801,860	-	801,860
		584,230,793	36,193,948	548,036,845
Corporates	0%	76,275,308	72,629,796	3,645,512
	20%	7,670,784	-	7,670,784
	50%	34,698,997	12,910,221	21,788,776
	100%	491,337,870	-	491,337,870
	150%	18,370,877	-	18,370,877
		628,353,836	85,540,017	542,813,819
Retail	0%	5,126,111	5,126,111	-
	75%	1,053,443	-	1,053,443
		6,179,554	5,126,111	1,053,443
Retail secured by real estate	0%	175,064	175,064	-
	35%	595,022	595,022	-
	50%	1,480,641	1,480,641	-
	100%	2,599,830	-	2,599,830
		4,850,557	2,250,727	2,599,830
Other items	0%	28,727	-	28,727
	100%	60,462,584	-	60,462,584
		60,491,311	-	60,491,311

4.1.1.7 *asset quality*

past due and impaired facilities

"Impaired" facilities are exposures for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s).

On the other hand, "past due but not impaired" facilities are exposures where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

The following table provides details of the Group's gross impaired exposures (excluding related "interest in suspense", "fee income in suspense" and any collateral held or other credit enhancement):

	Loans and advances to Banks 2012 USD	Loans and advances to Customers 2012 USD
Impaired exposures	13,178,407	27,272,938
Past due exposures	-	-
Total	13,178,407	27,272,938

The geographic and industry sector distribution of gross impaired exposures as at 31 December 2012 are as follows:

	Loans and advances to Banks 2012 USD	Loans and advances to Customers 2012 USD
Europe	-	7,085,311
Sub-Sahara Africa	7,993,411	-
North Africa & Middle East	-	7,565,589
Commonwealth of Independent States	3,625,498	12,039,232
Others	1,559,498	582,806
Total	13,178,407	27,272,938

	Loans and advances to Banks 2012 USD	Loans and advances to Customers 2012 USD
Industrial raw materials	-	5,805,994
Ship pre-demolition	-	-
Wholesale and retail trade	-	3,499,323
Financial Intermediation	13,178,407	
Others	-	17,967,621
Total	13,178,407	27,272,938

credit reserves

The Group has in place credit reserves that represent its estimate of incurred losses in its loan portfolio. The main components of these reserves are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. Both specific and collective reserves are based on the models laid down in Banking Rules and International Financial Reporting Standards.

specific impairments

Review of all Group exposures is made on an on-going basis and an identification of a facility which encroaches its terms and conditions would trigger a specific impairment process and a possible charge to the credit reserve.

The basis of allocating amounts to the specific credit reserve is generally dependant on the grading of the exposure assigned to it in accordance with BR/09 “Credit and Country Risk Provisioning of Credit Institutions Licensed under the Banking Act 1994”. Specific provisions are calculated as a percentage (%) of the unsecured exposure as follows:

Grading	% provision
Regular	0
Watch	5
Sub-standard	20
Doubtful	50 to 100
Loss	100

collective impairments

For those exposures where no individual impairment is identified, the Group takes a charge to a collective credit reserve based on an incurred loss model approach for potential losses. The reserve is calculated as a percentage (%) of unsecured on- and off-balance sheet assets which percentage would be based on the average credit rating of the same assets. Excluded from the model are assets with very low risk potential, including cash assets, deposits with investment grade counterparties and assets carried at fair value (as opposed to amortised cost). Moreover, a reduced charge of 50% is taken on assets covered by a "strong" security, that is to say assets having Immovable Property or Shipping Vessels as collateral.

value adjustments and provisions

The Group's business portfolio comprises assets which are measured at either "fair value" or "amortised cost".

a. Instruments measured at fair value and amortised cost

The accounting measurement of these instruments are set out and explained in detail in note 5 to the Financial Statements for 2012.

b. Changes in the fair value and provisions for impaired exposures

The following table reconciles the total fair value mark downs and provisions for impaired exposures (specific provisions) together with a reconciliation for the financial year ending 31 December 2012:

	Measured at fair value		Measured at amortised cost
	Trading assets	Financial assets designated at fair value through profit or loss	Loans and advances to banks and customers
	USD	USD	USD
Accumulated fair value/provisions at 1 January 2012	4,724,787	2,479,740	12,026,474
Increase in provisions	600,807	1,287,660	1,944,960
Reversal of provisions	(1,898,583)	(2,369,400)	(2,532,839)
Foreign exchange differences	-	-	(131,641)
Accumulated fair value/provisions at 31 December 2012	3,427,011	1,398,000	11,306,954

4.1.1.8 *Credit derivatives*

The Group does not enter into credit derivative contracts and no such hedges were carried as at 31 December 2012.

4.1.2 *Operational Risk*

Operational risk arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses.

The factors that may contribute to Operational Risk are set out in detail in note 4.5 to the Financial Statements.

4.1.2.1 minimum capital requirement: operational risk

The following table shows the Group's overall minimum capital charges for operational risk in accordance with the Basic Indicator Approach as defined in BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994":

	2012 USD
Gross income:	
Financial year ending 31/12/2011	37,529,354
Financial year ending 31/12/2010	38,370,275
Financial year ending 31/12/2009	34,568,136
Average gross income	36,822,588
Capital requirement (15%)	5,523,388
Notional Risk Weight	69,042,353

4.1.2.2 management and mitigation of operational risk

In calculating the capital requirement for Operational Risk, the Group has adopted the Basic Indicator Approach as detailed in paragraph 5 of Section 1.1 of Appendix 4 of BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994". Under this approach, the capital requirement for Operational Risk is equal to 15% of the relevant indicator, being the average over three years of the sum of net interest income and net non-interest income.

In addition to this, and in line with the Basel II framework, the Group assesses whether this resulting capital charge is enough in meeting potential losses arising from Operational Risks. This is done through the use of a number of risk indicators. Key risk indicators are statistics/metrics, often financial, intended to provide insight on the exposure to the effectiveness of operational risk management or controls. These indicators tend to be reviewed on a periodic basis to alert the Group to changes that may be indicative of risk concerns and may include the number and severity of failed (due to fraud, errors, omissions, etc) transactions, staff turnover rates, systems' down-time, type and materiality of losses, etc. The Group has invested heavily in information technology and disaster recovery and contingency systems to assist its Management to control this risk.

At 31 December 2012, the Group took an Operational Risk capital charge as disclosed in Section 4.1.2.1 to this Schedule and note 4.6 to the Financial Statements.

4.1.3 market risk

Market risk for the Group is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

4.1.3.1 management and mitigation of market risk

The Group has implemented policies, established limits as well as maintains currency and interest derivative contracts, aimed at mitigating market risks.

4.1.3.2 foreign exchange risk

Currency risk is mitigated by a closely monitored currency position policy and is managed through matching within the foreign currency portfolio. However mismatches could arise where the Group enters into foreign exchange transactions (say "foreign currency swaps") which could result in an on-balance sheet mismatch mitigated by an off-balance sheet hedging contract. Other mismatches are allowed up to an established threshold, and any excesses are regularised immediately. The Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies spot or forward rates when considered appropriate.

4.1.3.3 *minimum capital requirement: market risk*

When calculating its capital requirements, the Group also considers its Net Open Foreign Currency Position (Basic Method) in terms of BR/08. Through this approach, each net currency position is analysed and a capital charge is taken on the net short or long currency exposure.

At 31 December 2012, the Group took a Foreign Exchange capital charge as follows:

Foreign Currency	Long position USD equivalent	Short position USD equivalent
Australian Dollar (AUD)	13,448	-
Canadian Dollar (CAD)	10,950	-
Swiss Franc (CHF)	147,464	-
Danish Kroner (DKK)	563	-
Euro (EUR)	-	4,994,895
British Pound (GBP)	-	463,486
Japanese Yen (JPY)	12,916	-
Norwegian Kroner (NOK)	6,684	-
Swedish Krona (SEK)	2,797	-
Other Foreign Currencies	-	182,374
Total position	194,822	5,640,755
Notional Risk Weight		5,640,755
8% Capital requirement		451,260

4.2 pillar 1 risks for which no capital allocation is made

4.2.1 *liquidity risk*

Liquidity risk is the risk that the Group may be unable to meet its obligations as they become due because of an inability to liquidate assets or obtain adequate funding (“funding liquidity risk”) or that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (“market liquidity risk”).

management and mitigation of liquidity risk

Liquidity risk is managed by maintaining significant levels of liquid funds, and identifying and monitoring changes in funding required to meet business goals driven by management. The Group’s ALCO is responsible for establishing appropriate asset and liability management policies, monitoring their application and reviewing financial information on the basis of which investment and funding decisions are taken. The daily application of the asset and liability management policies rests with the Treasury Unit of the Group. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

Liquidity Risk Management is described in detail in note 4.3 to the financial statements.

Notwithstanding no capital charge is taken under the Pillar 1 Framework, an additional capital charge is taken under Pillar 2 as disclosed in note 4.3.5 to this Schedule.

4.2.2 *exposures to interest rate risk in the non-trading book*

Interest rate risk refers to the exposure of the Group and the Group’s financial instruments to movements in interest rates. The risk impacts the earnings of the Group as a result of changes in the economic value of its assets, liabilities and off-balance sheet instruments. The Group’s operations are subject to interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or at different amounts.

Accordingly, interest rate risk in the non-trading book is managed through the use of maturity/repricing schedules that distribute interest-bearing assets and liabilities into different time bands. The determination of each instrument into the appropriate time period is dependent on the contractual maturity (if fixed rate) or time remaining to their next repricing date (if floating rate). This method also referred to as "gap analysis", will eventually portray the Group's sensitivity of earnings and capital to changing interest rates.

A positive, or asset-sensitive, gap arises when assets (both on and off balance sheet) exceed liabilities in the corresponding time band, and this implies that the Group's net interest income (and therefore capital) could decline as a result of a decrease in the level of interest. To the contrary, a negative, or liability-sensitive, gap implies that net interest income could decrease as a result of an increase in interest rates. Note 4.4 to the Financial Statements details the effect to the Group's assets and liabilities as at 31 December 2012 due to a +/- 100 basis point change in interest rates.

Notwithstanding that no capital charge is taken under the Pillar 1 Framework, an additional capital charge is taken under Pillar 2 as disclosed in note 4.3.2 to this Schedule.

4.2.3 *non-trading book exposures in equities*

The only Group's exposure to equities is in its non-trading book and such equities are in unlisted entities.

The accounting and valuation methodologies differ depending on the percentage holding and marketability of the instruments.

equity investments less than 10%

Equity investments comprising less than 10% of the investee company's capital are classified as "available-for-sale". All equity securities carried by the group are not listed on an exchange and there is no readily available active market. As such these unquoted securities are carried at cost less impairment losses.

At 31 December 2012, the Group had USD92,742 in equity investments. Whilst there is no active market for these investments, fair value has been determined by reference to broker prices, with fair value movement recognised net of deferred tax in fair value reserve.

equity investments between 10% and 50%

Equity investments comprising between 10% and 50% of the investee company's capital are classified as "associates" and are accounted for using the equity method (equity accounted investees) and are recognised at cost less impairment allowances.

The Consolidated Financial Statements include the Group's share of the income and expenses and equity movement of equity accounted investees, after adjustments to align the accounting policies with those of the Group. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

This accounting treatment is also applied on those investments where the Group has joint control (50%) over the strategic, financial and operational decisions of the investee.

All investments in associates and jointly-controlled entities are made in line with the Group's strategic objectives of investing in trade-finance related companies.

equity investments exceeding 50%

Equity investments exceeding 50% of the investee company's capital are classified as "subsidiaries" and are fully consolidated in the Group results and financial position. The equity investment in the Group's Financial Statements is therefore replaced by the financial result and position of the subsidiary, net of any minority interests.

4.3 pillar 2 risks for which capital allocation is made

4.3.1 *market risk: foreign exchange derivative contracts*

As part of its day-to-day foreign exchange management, the Group enters into foreign exchange derivative contracts to hedge its foreign currency position. These derivative contracts, generally in the form of forward and swap contracts do not form part of a "trading book" and are therefore excluded from Pillar 1 calculations. However, an additional capital charge is taken under the Pillar 2 framework.

The calculation is based on the "marked-to-market" approach as laid down in Annex IV of BR/04 "Capital Requirements of Credit Institutions Authorised under Banking Act, 1994". The percentage capital charge would be dependent on the residual maturity of the contract as at the point of calculating the capital charge as follows:

Residual maturity	Notional risk weight (%)
Less than 1 year	1%
1 year to 5 years	5%
More than 5 years	7.5%

The Group allocated an additional capital charge for foreign exchange derivative contracts under the Pillar 2 framework as at 31 December 2012.

4.3.2 *market risk: interest rate risk*

The Group assesses the need of allocating capital against interest rate risk, under the Basel II Pillar 2 framework. To evaluate capital exposure, the "repricing gap" resulting from the subtraction of interest rate-bearing liabilities in each time band from the corresponding interest rate-bearing assets is weighted by a factor that is designed to reflect the sensitivity of the positions in the different time bands to an assumed change in interest rates. These weights are based on estimates of the duration of the assets and liabilities that fall into each time band. In its simplest form, duration measures changes in economic value resulting from a percentage change in interest rates under the assumptions that changes in value are proportional to changes in the level of interest rates and that the timing of payments is fixed. For the purpose of this exercise, the Group uses the modified duration model which takes into account the elasticity in interest rates and reflects the percentage change in the economic value of the instrument for a given percentage change in interest rates. A +/- 200 basis point shock is used in the model. As at 31 December 2012, the Group allocated capital for interest rate risk.

4.3.3 *market risk: other price risk*

Other price risk arises out of changes in market values not related to changes in interest rates or foreign currency. Generally, these would be factors directly related to the issuer's or exposure's financial stability and performance.

As set out in note 4.4 to the Financial Statements, the Group's exposure to price risk is considered relevant in the case of bonds and credit linked notes portfolios which are both measured by reference to their quoted market values in active markets. Price risk is deemed to be less relevant for the forfaiting portfolio. These assets do not have observable market prices and their fair value is determined through the use of valuation techniques, including net present value and discounted cash flow models, which require varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instruments. Notwithstanding this, the Group endeavours to mitigate any price risk by building a diversified forfaiting portfolio with different geographical exposures.

For marketable securities, price risk is mainly mitigated by investing in a diversified portfolio of instruments in industries and regions where the Group has specialised knowledge and expertise. The marketable securities portfolio is monitored on a daily basis and decisions to sell assets prior to or to hold until maturity depends on the Group's outlook of the underlying assets as well as liquidity requirements and profit opportunity arising out of the disposal of an instrument.

As disclosed in note 4.4 to the Financial Statements, changes in the market value of marketable securities are recorded in the Group's income statement, directly impacting equity. An increase in the price of instruments would increase the value of the underlying asset and would therefore result in an increase in equity. A decrease in prices would have an opposite effect on both value of instruments and equity.

The Group assess the requirement for a capital allocation against other price risk under the Pillar 2 framework and a capital charge has been allocated against such risks as at 31 December 2012.

4.3.4 *credit risk: concentration risk*

In addition to policies aimed at managing credit risk and concentrations within credit portfolios as set out in note 4.2 to the Financial Statements and Section 4.1.1 to this Schedule, the Group assesses the requirement for an additional capital charge against undesired concentrations across various portfolios. The Group uses the Herfindhal-Hirschmann index (HHI) in assessing concentrations within single/connected counterparties, countries and industries/sectors. A capital charge was allocated against concentrations in industries as at 31 December 2012.

4.3.5 *liquidity risk: concentration risk*

Note 4.3 to the Financial Statements and Section 4.2.1 to this Schedule set out the Group's policies, tools and other mitigants used in managing liquidity risk. The Group also uses the Herfindhal-Hirschmann index (HHI) at assessing the need of capital allocation against concentrations in terms of single/connected counterparties, countries and industries within its funding liabilities. Capital charges against detected concentrations in liabilities help in having the Group's business units more vigilant against concentrations in funding sources. A capital charge was allocated against funding concentrations within industries as at 31 December 2012.

4.3.6 *reputational risk*

Reputational risk is the risk that negative publicity on the Group's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. Reputational risk could be particularly damaging for the Group since the nature of its business requires maintaining the confidence of depositors, creditors, regulatory authorities and of the general marketplace.

Reputational risk arises from operational failures, failure to comply with relevant laws and regulations - especially Anti–Money Laundering ("AML") and Anti-Terrorism Financing ("ATF") - regulations or from other sources, including acts or omissions of misconduct on the part of its Directors and/or officers and/or representatives overseas, even in matters which are unrelated to their mandate or position within the Group. The impact to the Group for non-compliance with the applicable regulations can be substantial and can include formal enforcement actions, monetary penalties, informal enforcement actions, and enhanced supervisory monitoring.

To this purpose, detailed AML, ATF and fraud documentation policies and procedures, a robust Customer Acceptance Policy as well as a strong and capillary oversight by the Group's Board and Management have been devised. The Group uses qualitative research tools to assess the adequacy of prospective clients and transactions and implemented Anti-Money Laundering software for the screening of incoming and outgoing messages and payments as well as rating of corporate and business relationships. Through such rigid procedures, the Group would be able to identify transactions and clients which pose a higher risk compared to others. These include Politically Exposed Persons ("PEPs"), clients and transactions deriving from a non-compliant jurisdiction and correspondent banking. In addition, reputational risk is also indirectly mitigated through the setting of Country Limits. Some of the criteria used in setting up a transaction limit for particular countries are closely related to reputational risk, including issues relating to the political environment such as the fairness and frequency of election process and access to power and effectiveness in reforming political systems and implementing economic agendas.

The Group has also installed adequate internal monitoring systems to discover any such irregularities on the part of persons who may cause such risk, thus ensuring that persons not maintaining the highest standards of integrity in their activities, even if such activities are unrelated to their position, are not allowed to retain their positions of responsibility within the Group. Moreover, Regulatory authorities require a formalised review process for senior management personnel which results are submitted to the same authorities and also published to the market.

In addition to these mitigants, the Group assesses the need for capital allocation against reputation risk under Pillar 2 framework. Capital was allocated against reputational risk at 31 December 2012.

4.3.7 *operational risk: legal, insurance and information technology risk*

The Group believes that the rigor applied to the more business oriented risk, should also be applied to the management of Operational Risks. It seeks to continuously develop an appropriate risk management environment which identifies, assesses, monitors and mitigates Operational Risks inherent in its products, activities, processes, systems and working environment. This is being achieved by establishing policies, processes and procedures which control or far better mitigate Operational Risks, identified as material, and at the same time setting up proper internal and external control systems which regularly review and monitors compliance with the established policies and procedures, as set out in note 4.5 to the Financial Statements and section 4.1.2 of this schedule.

Legal, Insurance and Information Technology Risks form part of Operational Risk but their importance within the Group's functions and operations merit a separate discussion and capital allocation assessment under the Pillar 2 analysis. The Group allocated capital against Legal, Insurance and Information Technology Risks as at 31 December 2012.

4.4 pillar 2 risks for which no capital allocation is made

4.4.1 *settlement risk*

The Group faces settlement risk due to the fact that few financial transactions are settled simultaneously or on a same day basis. Consequently, the Group could suffer a loss if the counter-party fails to deliver on settlement date.

The Group controls the deals performed on a recorded line by the dealer and further ensures that the receipt of the deal and the confirmation received from the counter-party are reconciled and matched. This ensures that any settlement risk is identified immediately and that real-time action is taken to rectify any problematic situation.

4.4.2 *strategic and business risk*

Strategic risk is the risk associated with the future business plans and strategies. Improper strategic choices or the actual implementation of strategic decisions, as well as lack of responsiveness to changes in the economic environment, can have a serious and significant impact on prospective profit and capital results. As the Group is mainly engaged in trade finance business, this risk category is intimately connected with the overall performance of international trade in the global economy, and in particular to the level of cross-border trade between countries and in markets that are typically in the developing stages of their economic development and political stability.

Closely linked with the above, Business Risk is the risk associated with the particular business and operating circumstances of the Group, and is more within the control of decisions taken by Management but which nevertheless can have a significant impact on operating and business results.

The Group adopts various ways to mitigate strategic and business risks. Primarily, the Group has in place a "corporate governance" structure composed of both executive and non-executive officials as detailed in the Statement of Compliance with the Principles of Good Corporate Governance, included in the Annual Report for 2012. Based on their remit and charters, the various corporate committees provide advice to the Board in taking ultimate strategic and business decisions. The size of the Group enables its corporate structures to have a more "on the ground" approach and positions and decisions can be formulated and taken in a sufficient timely manner. The Board and Committees are assisted by a team of Executive and Senior Management, who have focused on-the ground expertise in their various areas of responsibilities. Executive and Senior Management hold periodical meetings in order to discuss major business decisions, business and economical trends, as well as implement decisions taken by the Board or any of its Committees. Through these meetings, the collective expertise of the management team is brought together and is a determinant factor in the success of identifying and exploiting business opportunities.

The Group also has a strategic investment policy aimed at providing direction with respect to long-term investments in other entities. This policy is flexible enough to support situations arising in different markets and environments but at the same time provides clear objectives in what constitutes ideal target companies and markets based on the overall risk appetite. This policy also reflects the Group's diversification policy both in terms of products as well as geographical markets.

5 capital and capital adequacy

5.1 regulatory capital

Details on Regulatory Capital are disclosed in note 4.6 to the Financial Statements.

5.2 pillar 1 minimum capital requirements and regulatory ratios

Under the Basel II framework, overall capital requirements have to be calculated and compared with the Own Funds described above. The overall capital requirements are expressed in terms of Risk Weighted Assets ("RWA") whereby capital requirements need to be 8% of RWA.

The Group's minimum capital requirement under Pillar 1 is calculated by adding the credit risk charge to that required for Operational Risk and the Net Foreign Exchange Position Requirement element of Market Risk. The FX requirement charge is the amount of regulatory capital required to cover the risk of losses on open foreign currency positions arising from movements in the foreign exchange rate and is calculated in accordance with the Appendix I (BR/08).

The following table shows both the Group's overall minimum capital requirement and capital adequacy position under Pillar 1:

	Risk weighted assets 2012 USD	Capital required 2012 USD
Capital Requirements		
Credit Risk (Section 4.1.1.1)	809,625,641	64,770,052
Operational Risk (Section 4.1.2.1)	69,042,354	5,523,388
Market Risk (Section 4.1.3.3)	5,640,755	451,260
Total Capital Requirements Pillar 1	884,308,750	70,744,700
Total Own Funds	144,687,062	
Capital Ratios		
Tier 1 capital	12.7	
Total capital	16.4	

Tier 1 capital is 1.6 times the minimum capital requirement in terms of BR/04. The Group's total capital exceeds this minimum threshold by 2.1 times.

5.3 internal capital adequacy assessment process ('ICAAP')

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

The Group implemented BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994", thereby becoming compliant with respect to Pillar 1 capital requirements under the Basel II framework, adopting the standardised approach to allocate capital against credit risk. Basel II also introduces capital requirements for market risk and operational risk calculated under the basic indicator approach.

The second pillar of Basel II (Supervisory Review and Evaluation Process) involves both banks and regulators taking a view on whether a bank should hold additional capital against risks not covered in Pillar 1. Part of the Pillar 2 process is the Internal Capital Adequacy Assessment Process ("ICAAP") which is the bank's self assessment of risks not captured by Pillar 1.

The ICAAP process is managed by the Group's Finance Department which is responsible for the preparation, formulation and overall coordination of this document. Inputs are received as appropriate by other relevant departments, including but not limited to the Risk Management, Legal, Treasury, IT, Administration, Human Resources and Operations departments. Each of these departments has a direct connection with one or more risks, policies and procedures analysed and assessed in this ICAAP.

Throughout this process, senior officers from each department provide their input and guidance on how risks are being mitigated and how these risks can be analysed and assessed both in a qualitative as well as quantitative manner. The final document is subjected to a review by the Group's Internal Audit department, and the findings arising from this review are documented in an "Auditors' report".

The final version of the ICAAP is eventually discussed by both Risk Committee and Audit Committee (Board Committees) before being presented to the Board of Directors, and following its recommendation, it is ultimately approved.

directors and senior management

board of directors

John C. Grech (Chairman)
Margrith Lütschg-Emmenegger (Vice Chairman)
Hamad Musaed Bader Mohammed Al-Sayer
Fouad M.T. Alghanim
Faisal Y. Al-Awadi
John D. Freeman
Tarik Kaoukji
John W. Kiefer
Rogers David LeBaron
Mehdi R. Malaki
Mohammed Ibrahim Husain Marafie
Islam Zughayer

company secretary

Andrea Batelli (with effect from 1 February 2013)
Marcel Cassar (up to 31 January 2013)

registered address and contact numbers

Mercury Tower
The Exchange Financial and Business Centre
Elia Zammit Street
St. Julian's STJ 3155
MALTA
Tel: 00 356 2132 2100

senior management - fimbank p.l.c.

president	Margrith Lütschg-Emmenegger	
senior executive vice president	Armin Eckermann	Head of Banking, Deputy to the President
first executive vice president	Marcel Cassar	Chief Financial Officer
executive vice presidents	Ivan Fsadni	Chief Risk Officer
	Silvio Mifsud	Head of Information & Administration
	Renald Theuma	Head of Trade Finance
	Christian Bless	Consultant, Switzerland
senior vice presidents	Giovanni Bartolotta	Head of Risk Management
	Bruno Cassar	Head of Human Resources
	Michael Davis	Head of Compliance
	Richard Scerri	Head of Internal Audit
	Nigel Harris	Head of FIMBank DIFC Branch
	Carmelo Occhipinti	Head of Corporate Finance
	Aly Siby	Head of Financial Institutions and Deposits
	Charles Wallbank	Head of Banking Operations
	Toufic Yafaoui	Head of Treasury & Capital Markets
	Raoul Notheisen	Consultant, Switzerland
first vice presidents	Andrea Batelli	Head of Legal
	Ronald Mizzi	Head of Finance
	Antonio Salgueiro	Head of Mediterranean Factoring
	Jason Zammit	Administration & Head of Public and Media Relations
	Dennis Camilleri	Trade Finance
	Martin Chetcuti	Financial Institutions and Deposits
	Gilbert Coleiro	I.T. Infrastructure
	Vincent Farrugia	Trade Finance
	Noel Galea	Compliance
	Corinne Lanfranco	Financial Institutions and Deposits
	Olivia Mercieca	Trade Finance
	Loranne Pace	Business Systems
	Joe Rodgers	Trade Finance

senior management - london forfaiting company limited

first executive vice president and managing director	Simon Lay	
directors	Ian Lucas	Head of UK Marketing
	Tony Knight	Head of Trading
company secretary	William Ramzan	Head of Finance
senior managers	Sandro Valladares	Trading and Marketing
subsidiaries and offices	Sean Aston	Representative, LFC Singapore
	Irina Babenko	Representative, LFC Moscow
	Greg Bernardi	President, London Forfaiting Americas Inc.
	Alex Ozzetti	Managing Director, London Forfaiting do Brasil Ltda.
	Lorna Pillow	Head of Administration and Documentation, LFC Malta
	Yonca Sarp	Representative, LFC Istanbul

senior management - menafactors limited

executive vice president and chief executive officer	Anand Padmanaban	
first vice presidents	Naushirwan Commissariat	Head of Finance
	Venkatesh Krishnamurthy	Head of Risk Management and Credit Administration
	Bassam Azab	Head of Business Development (GCC)
	Savio Pereira	Head of Business Development (UAE)
	Shweta Obhrol	Head of Compliance

fimbank group contact details

MALTA

FIMBANK p.l.c.
Mercury Tower
The Exchange Financial & Business Centre, Elia Zammit Street,
St. Julian's STJ 3155. MALTA
Tel: +356 2132 2100
Fax: + 356 2132 2122
S.W.I.F.T.: FIMB MT M3
www.fimbank.com
E-Mail: info@fimbank.com

LONDON FORFAITING COMPANY LIMITED
Mercury Tower
The Exchange Financial & Business Centre, Elia Zammit Street,
St. Julian's STJ 3155. MALTA
Tel: +356 2347 700
Fax: +356 2347 777
E-Mail: lfc.malta@forfaiting.com
Contact: Lorna Pillow

FIM BUSINESS SOLUTIONS LIMITED
Mercury Tower
The Exchange Financial & Business Centre, Elia Zammit Street,
St. Julian's STJ 3155. MALTA
Tel: +356 2132 2100
Fax: + 356 2133 0804
E-Mail: info@fimbs.net
Contact: Gilbert Coleiro

FIM PROPERTY INVESTMENT LIMITED
Mercury Tower
The Exchange Financial & Business Centre, Elia Zammit Street,
St. Julian's STJ 3155. MALTA
Tel: +356 2132 2100
Fax: + 356 2328 0127
E-Mail: info@fimproperty.com
Contact: Silvio Mifsud

BRAZIL

LONDON FORFAITING DO BRASIL LTDA
World Trade Centre
Av. das Nacoes Unidas 12551,
27th Floor, São Paulo,
SP, 04578-903, Brasil
Tel: +55 11 3043 7400
Fax: +55 11 3043 7249
E-Mail: lfc.brasil@forfaiting.com
Contact: Alexandre Ozzetti

BRASILFACTORS S.A.
(Associated Company)
Av. Engº Luis Carlos Berrini
1681, 8º Andar Brooklin,
São Paulo, SP, 04578-011, Brasil
Tel: +55 11 3043 7401
Fax: +55 11 3043 7249
E-Mail: joao.costapereira.@brasilfactors.com
Contact: Joao Costa Pereira

EGYPT

THE EGYPTIAN COMPANY FOR FACTORING S.A.E.
(Associated Company)
Nasr City, Public Free Trade Zone,
Block H/11, Cairo, Egypt
Tel: +22 267 20787
Fax: +22 267 20986
www.egyptfactors.com
E-Mail: info@egyptfactors.com
Contact: Hisham Haikal

INDIA

INDIA FACTORING FINANCE & SOLUTIONS PRIVATE LIMITED
(Associated Company)
6th Floor, Vaibhav Chambers,
Bandra- Kurla Complex,
Bandra (East),
Mumbai- 400051, India
Tel: + 91 224 412 5555
Fax: + 91 224 412 5556
E-Mail: info@indiafactors.in
Contact: Sudeb Sarbadikhary

LEBANON

LEVANT FACTORS S.A.L.
(Associated Company)
Sodeco Square,
Block B, 15th Floor,
Damascus Street,
Beirut, Lebanon
Tel: +961 1 615616
Fax: +961 1 611044
E-Mail: karim.nasrallah@lcifactors.com
Contact: Karim Nasrallah

NETHERLANDS

FIMFACTORS B.V.
Telestone 8 - Teleport, Naritaweg
165 1043 BW Amsterdam,
The Netherlands P.O. Box 7241 - 1007 JE

RUSSIA

LONDON FORFAITING COMPANY LIMITED
Representative Office
14th Floor,
Smolensy Passage,
3 Smolenskaya Square, Moscow 121099,
Russian Federation
Tel: +749 5771 7142
Fax: +749 5771 7140
E-Mail: lfc.russia@forfaiting.com
Contact: Irina Babenko

FACTORRUS
(Associated Company)
1st Kolobovsky per. 6/3,
Moscow, 127051,Russian Federation
Tel: +71 6512 9367
E-Mail: info@factorrus.com

SINGAPORE

LONDON FORFAITING COMPANY LIMITED
Singapore Branch, 3 Temasek Avenue,
34-00 Centennial Tower,
Singapore 039190
Tel: +65 6549 7778
Fax: +65 6549 7011
E-Mail: lfc.singapore@forfaiting.com
Contact: Sean Aston

TURKEY

LONDON FORFAITING COMPANY LTD
Representative Office Barbaros
Mahallesi, Dereboyu Caddesi,
Feslegen Sokak, UPHILL Court Towers
A1-B, Kat:11, Daire:62, 34746 Atasehir,
Istanbul, TURKEY
Tel: +90 216 688 9160 (3 lines)
Fax: +90 216 688 9163
E-mMail: lfc.turkey@forfaiting.com
Contact: Yonca Sarp

UNITED ARAB EMIRATES

FIMBANK p.l.c. (DIFC) BRANCH
1001 & 1002,
Level 10,
South Tower,
Emirates Financial Towers,
Dubai International Financial Centre,
Dubai,
United Arab Emirates
Tel: +971 4424 2680
Fax: +971 4425 5741
E-Mail: nigel.harris@fimbank.com
Contact: Nigel Harris

MENAFACTORS LIMITED
1001 & 1002,
Level 10,
South Tower,
Emirates Financial Towers,
Dubai International Financial Centre,
Dubai,
United Arab Emirates
Tel: +971 4424 2660
Fax: +971 4425 5740
E-Mail: info@menafactors.com
Contact: Anand Padmanaban

UNITED KINGDOM

FIMBANK p.l.c.
Representative Office - London,
3rd Floor, 11 Ironmonger Lane,
London EC2V 8EY
Tel: +442 0 7710 0030
Fax: +442 0 7710 0039

LONDON FORFAITING COMPANY LIMITED
3rd Floor, 11 Ironmonger Lane,
London EC2V 8EY
Tel: +442 0 7397 1510
Fax: +442 0 7397 1511
www.forfaiting.com
E-Mail: lfc@forfaiting.com
Contact: Simon Lay

UNITED STATES OF AMERICA

LONDON FORFAITING AMERICAS INC.
1, East 52nd Street,
Suite 602,
New York, NY 10022
Fax: +1 212 377 2018
E-Mail: lfa@forfaiting.com
Contact: Gregory Bernardi

FIMBANK p.l.c.
Mercury Tower, The Exchange Financial & Business Centre,
Elia Zammit Street, St. Julian's STJ 3155 Malta.
Tel: +356 2132 2100 E-Mail: info@fimbank.com
www.fimbank.com