

# statement of compliance with the principles of good corporate governance

## introduction

The Board of Directors (the “Board” or “Directors”) of FIMBank p.l.c. (the “Bank”) as of 31 December 2014 decided to have their governance arrangements revisited with the intention of having the Bank’s corporate governance aligned with that of its parent.

Pursuant to the requirements of Listing Rules 5.94 et seq of the Malta Financial Services Authority (the “MFSA”), the Board of the Bank hereby detail 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 are an ongoing process.

### principle 1: roles and responsibilities of the board

The Board of Directors’ terms of reference are included in relevant Charter and can be summarized as follows.

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/CEO who is entrusted with day-to-day management of the Group and its operations, together with members of Management.



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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 assessed by the newly reconstituted Nomination and Remuneration Committee. As part of its work, this committee is tasked with performing an annual evaluation of the Board's overall performance in addition to an evaluation on the performance of each individual member. This includes an evaluation of the knowledge and experience of each member while also assessing their authorities and leaderships skills. As a result, this committee screens individuals for the position of director against the Bank's requirements at the time. 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/CEO.

The end of 2014 also marks the retirement of Ms Margrith Lütschg-Emmenegger as President of the Bank and the appointment of Mr Simon Lay, from 1st January 2015, as Acting CEO of the Bank ad interim. Following his appointment Mr Simon Lay automatically took over the duties of the President at the Bank in order to ensure continuity and stability within the Bank. The Bank is constantly striving to improve and implement the latter's Corporate Governance structure and further changes in addition to the ones reported in this Statement are likely to take place during 2015.

## principle 2: roles and responsibilities of the chairman and of the chief executive officer

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

The Chairman is a non-executive officer 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 CEO is the most senior executive of the Group. He 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:

	<b>Year when first appointed</b>
John C. Grech (Chairman)	2004
Hamad Musaed Bader M. Al-Sayer	2002 (ceased to be a Director on 8 May 2014)
Rogers David LeBaron	2006
Masaud M. J. Hayat	2013
Fakih Ahmed Mohamed	2013
Adrian Alejandro Gostuski	2013
Eduardo Eguren Linsen	2013
Majed Essa Al-Ajeel	2013
Rabih Soukarieh	2013
Osama Talat Al-Ghoussein	2014

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

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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 the Bank or associated with entities having a shareholding in the Bank or have served on the Board for more than twelve consecutive years, which does not in any way impair these directors' ability to consider appropriately the issues which are brought before the Board. This notwithstanding, Mr Rogers David LeBaron is as at 31 December 2014 the only independent director in terms of the Listing Rules. In terms of Principle 3.4, each non-executive Director has confirmed in writing to the Board that he/she undertook:

- a) to maintain in all circumstances his/her independence of analysis, decision and action;
- b) not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and
- c) to clearly express his/her opposition in the event that he/she finds that a decision of the Board may harm the Bank.

A written declaration of independence was signed by the non-executive directors in March 2013 and March 2014 and another written declaration of independence will be signed by the non-executive directors in March 2015. Some of the directors have served on the board for more than 12 years. This notwithstanding, the Board considers such directors to 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 the Bank 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 issuance 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, they are invited to complete and send to the Company Secretary prior to the meeting.

The Board held 7 meetings in 2014. 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, Credit Committee,) or include the participation of Management (Audit Committee, Nomination and Remuneration Committee, Board Risk 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/CEO 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/CEO 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.



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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. Training sessions have been held in 2014 in order to procure Directors with necessary knowledge on their duties and responsibilities.

Moreover, the Board ensures that the President/CEO 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 continue developing the 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 Governance 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. This exercise has been repeated in 2013 and 2014. The last self-assessment from Directors was requested in the last quarter of 2014, with the formal evaluation taking place, and expected to be concluded in March 2015.

## 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.

Accordingly, the Board has established the following committees:

- Executive Committee
- Audit Committee
- Board Risk Committee
- Asset-Liability Committee
- Nomination and Remuneration Committee – this committee was renamed this year to Nomination and Remuneration Committee to cater for the newly set-up nomination committee that will be in charge of nominating the directors. (refer to Remuneration Report on page 29)
- Credit Committee – set-up in 2013
- Governance Committee – set-up in 2013

## executive committee

The Executive Committee acts as the 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 as at 31 December 2014 are the following:

John C. Grech  
Rabih Soukariéh  
Armin Eckermann  
Marcel Cassar  
Simon Lay  
Ivan Fsadni  
Michael Davis

The Executive Committee met on 4 occasions during 2014, however communication with and between Management and the Committee's members is regular and ongoing. The Company Secretary also attends these meetings.

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## 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. In addition, the new composition of the members of the Audit Committee includes an individual who is also a member of the Board Risk Committee.

The members of the Audit Committee as at 31 December 2014 are the following:

Rogers David LeBaron (Chairman)  
 Eduardo Eguren Linsen (Vice Chairman)  
 Osama Talat Al-Ghoussein (appointed in 2014)  
 Majed Essa Al-Ajeel

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 Mr Rogers David LeBaron. Mr LeBaron, was appointed as Audit Committee Chairman from 2 May 2013 and to date is the designated independent and competent member in auditing. Mr Rogers David LeBaron was a Director of Financial Institutions in the European Bank for Reconstruction and Development in London from 1996 until 2004 and subsequently held the position of Principal Financial Advisor, Global Financial Markets Department within the IFC.

The Audit Committee normally requests members of Management to attend its meetings.

The Audit Committee held 4 meetings during 2014. The External Auditors were invited to two of the Audit Committee meetings (March 2014 and August 2014). The External Auditors were only present for the Agenda Item which considered and discussed the 2013 Annual Report (March 2014) and 2014 Interim Report (August 2014).

## board risk committee

The Board Risk Committee is responsible for overseeing the Group's risk management strategy, systems and policies, and for recommending country limits for approval by the Board of Directors. The Board Risk Committee is also responsible for the oversight of operational and legal risk matters.

The Board Risk Committee members as at 31 December 2014 are the following:

Adrian Alejandro Gostuski (Chairman)  
 Rabih Soukarieh (Vice Chairman)  
 Fakhri Ahmed Mohamed  
 Osama Talat Al-Ghoussein (appointed in 2014)

During 2014, the Board Risk Committee met on 6 occasions.



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## 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 is mainly made up of members forming part of the management team and the members as at 31 December 2014 are the following:

Simon Lay  
Armin Eckermann  
Marcel Cassar  
Carmelo Occhipinti

In addition, Aly Siby, Executive Vice President, Head of Centre of Excellence & Group Coordination, Ivan Fsadni, Chief Risk Officer, Toufic Yafaoui, Head of Treasury and Ronald Mizzi, Head of Finance, are non-voting members of the ALCO and attend all meetings.

During 2014, the ALCO met on 4 occasions.

## credit committee

The Credit Committee (“CC”) is a Committee appointed by the Board of Directors of FIMBank. The CC is directly responsible and accountable to the Board. The Board may delegate any of its authorities and powers in relation to the CC to the Board Risk Committee (BRC). The CC’s main powers and duties are to:

- a. review credit applications and approve credit limits and specific transactions, up to the legal lending limit of the Bank and within the guidelines specified in the Group’s credit policy procedures;
- b. recommend credit limits to the BRC or the Board for approval, as the case may be, when this is required according to the Bank’s credit policy procedures; in particular, the CC will analyse and recommend country limits for approval by the Board;
- c. inform and recommend about other risk (including but not limited to market, liquidity, operational and reputational risk) when this is deemed relevant for the credit decisions to be taken by the CC.

The Credit Committee members as at 31 December 2014 are the following:

John C. Grech (Chairman)  
Rabih Soukarieh (Vice-Chairman)  
Fakih Ahmed Mohamed  
Armin Eckermann  
Marcel Cassar  
Simon Lay  
Michael Davis

In addition, Ivan Fsadni, Chief Risk Officer, is a non-voting member of the CC.

During 2014, the CC met on 40 occasions.

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## governance committee

The Governance Committee was set-up in May 2013. The purpose of such Committee is to review the Bank's internal delegations, policies and procedures to ensure compliance with legislative and regulatory requirements and alignment to industry best practice.

The Governance Committee also serves as the Evaluation Committee, a Committee created to evaluate the performance of Directors.

The Governance Committee members as at 31 December 2014 are the following:

Majed Essa Al-Ajeel (Chairman)  
John C. Grech (Vice-Chairman)

During 2014, the GC met on 2 occasions.

## nomination and remuneration committee

As of 2015, the Board of the Bank have decided to set-up a Nomination Committee to be merged with the already existing Compensation Committee. During 2015, the Compensation Committee will amend its Charter to reconstitute the Committee into a Nomination and Remuneration Committee granting the power to this committee to lead the process for Board and Board committee appointments.

Whilst the duties of the Compensation Committee shall remain the same, the Nomination Committee which shall be formed by members from the board of directors and include three non-executive members including the committee's head, shall carry out the following tasks:

- a. Present recommendations to the Board regarding nomination to the board's membership in accordance with approved policies, standards, and instructions on nomination regulations for the board of director's membership.
- b. Perform an annual review of the needs required in regards to suitable skills for board membership and prepare a description of the skills and qualifications required for board membership. Perform an annual review of the board of director's structure and present recommendations on the changes which can be performed in accordance with the Bank's interest.
- c. Perform an annual evaluation of the Board's overall performance and the performance of each member. This evaluation should include the knowledge and experience of the members and assess their authorities and their leadership skills.

In addition to the above, the new Nomination and Remuneration Committee shall provide information and summaries on the background of some important issues of the Bank and present the reports and information to the board members. It shall ensure that board members are continuously updated on the latest issues related to the banking profession. In this regard, the Board undertakes to have in place a system to encourage its members to attend seminars as well as other occasions that give them the opportunity to meet with local and global companies and institutions in order to develop their skills in the financial banking and business fields.

The Nomination and Remuneration Committee members as at 31 December 2014 are the following:

Masaud M.J. Hayat (Chairman)  
Majed Essa Al-Ajeel  
Rogers LeBaron  
John C. Grech

## changes to committee membership during 2014

Margrith Lütshg-Emmenegger was the Chairperson of the Executive Committee and the Asset-Liability Committee, member of the Credit Committee and Governance Committee until her retirement from the Bank on 31 December 2014 when she ceased to be a member.

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

The Chairman should arrange for all directors including the chairmen of all the Committees to be available to answer questions at the Annual General Meeting. 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



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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 2014 the Bank issued twenty-eight announcements. More specifically, in accordance with Listing Rules 5.86 et seq., two announcements were made regarding the Interim Directors' Statements, on 16 May 2014 and 17 November 2014 respectively.

The Board also complies with the provisions of the Bank's Articles of Association insofar as minority rights are concerned. In accordance with the Bank's Articles of Association minority shareholders may convene an extraordinary general meeting, in the same manner, as nearly as possible, as that in which meetings may be convened by the directors.

The Bank also maintains a presence on the web through [www.fimbank.com](http://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 upon 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 2014 is as follows:

John C. Grech * (Chairman)	880,473
Masaud M. J. Hayat * (Vice Chairman)	Nil
Majed Essa Al-Ajeel *	Nil
Eduardo Eguren Linsen*	Nil
Adrian Alejandro Gostuski *	Nil
Rogers David LeBaron	Nil
Fakih Ahmed Mohamed*	Nil
Rabih Soukarieh*	Nil
Osama Talat Al-Ghoussein	Nil



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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. 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.

## 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 2014 are explained in other parts of the Annual Report.

## part 2: non-compliance with the principles

### principle 4: succession policy for directors

Whereas Listing Rule 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 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 7 meetings during 2014, of which 5 were held with Directors being asked to attend in person while 2 were held via long-distance conferencing facilities. The five physical meetings were attended by all the directors with the exception of Mr Majed Essa Al-Ajeel who did not attend the meetings held on 8 May 2014 and 29 October 2014 respectively and Mr Masaud M.J. Hayat who did not attend the meeting held on 5 August 2014. The two meetings held by conference and which took place on 29 January 2014 and 22 May 2014 respectively, were not attended on 22 January 2014 by Mr Fouad M.T. Al-Ghanim, Mr Masaud M.J. Hayat, Mr Mohamed Marafie, Mr Majed Essa Al-Ajeel and Mr Rogers David LeBaron and on 22 May 2014 by Mr Eduardo Eguren Linsen, Mr Majed Essa Al-Ajeel and Mr Rogers David LeBaron.

### 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.

The Bank has as of 2015 decided to set up a Nomination Committee which committee shall be merged with the Compensation Committee and designated as the Nomination and Remuneration Committee.

### principle 8: nomination and remuneration committee

The existing Chairman of the Compensation Committee (to be reconstituted as Nomination and Remuneration Committee in 2015) is not an independent member in terms of the Listing Rules, as required in terms of Principle 8.A.1 of the Code of Principles of Good Corporate Governance. This notwithstanding, the Bank considers the non-compliance with this principle not to be of concern in view of the fact that Mr Masaud M.J. Hayat has signed a written declaration whereby he has declared that he undertakes to maintain in all circumstances his independence of analysis, decision and action, not to seek or accept any unreasonable advantages that could be considered as compromising his independence and to clearly express his opposition in the event that he finds that a decision of the Board may harm the Bank.



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## 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 10 March 2015 and signed on its behalf by:

John C. Grech  
Chairman

Masaud M. J. Hayat  
Vice Chairman