# ANNUAL REPORT & FINANCIAL STATEMENTS

# 2007

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# CHAIRMAN'S STATEMENT TO THE MEMBERS

For many banks and financial institutions 2007 has not been an easy year. As a Maltese bank operating in many parts of the world we can learn many lessons from events that affected the financial markets. Probably the two most significant lessons are the following: (a) being active in emerging markets does not automatically entail a higher risk profile than being exposed to developed markets; and (b) being a highly rated institution does not necessarily mean being fenced off from high risks. In recent years FIMBank has grown substantially, adjusted its business model and diversified its operations with minimal losses, a situation which, in the Board's opinion, merits to be better reflected in the credit rating of the Group.

It is a great pleasure for me to report another record year for FIMBank. The Group posted a profit after tax of USD10.5 million for the financial year ended 31 December 2007 (2006 - USD7.6 million), representing Earnings per Share of 11.8 US cents (2006 - 8.8 US cents). This is the result of all-round robust growth in business activity and overall operating performance for the various units and components of the Group.

We have seen consistent growth in interest and fee-based business and strong improvements in credit quality where, despite a growing book and more stringent allowance policies, Group Net Operating Income after impairment allowances grew by 18%. Group Operating Expenses (before goodwill adjustment) increased by 22%. Our wholly-owned subsidiary London Forfaiting Company Limited (LFC) further expanded its portfolio; it also strengthened its profitability and its position as an important component of the FIMBank Group. Due to LFC's progress and improved forecasts for its future operating performance, a further deferred tax asset was recognised in the subsidiary thus eliminating the residual goodwill to the amounts that would have been recorded if the deferred tax asset had been recognised as an identifiable asset when LFC was acquired. For the first time in 2007, LFC's tax losses have now also started to contribute positively to the Group bottom line.

FIMBank's factoring strategy has also started to pay off. Our developed expertise in factoring is enabling us to shorten the time for a factoring joint venture to mature from its formation. FIM Business Solutions Limited, our IT services company, has acquired the necessary expertise to support the Group joint-ventures. Global Trade Finance Limited, our joint venture in India, contributed USD5.2 million to this year's results, twice its contribution of 2006, as our other factoring joint ventures in Egypt and the MENA region incurred start-up costs. 2007 was the first full year of operations for Egypt Factors whilst Menafactors opened for business in Dubai in September 2007. FIMBank is committed to support these new ventures and to accelerate its international factoring activities by expanding in new locations in cooperation with strong local institutions

In November we called on our shareholders to support the growth of our Group through a Rights Issue. It was a big success by all standards and the Intermediaries Offer which followed for the lapsed rights attracted bids for almost 4 times what was available. The success of the Rights Issue not only resulted in new equity of over USD25 million being injected but was also an overwhelming expression of confidence in the management of the FIMBank Group. We are grateful for the continued support. FIMBank equity now stands at USD98 million, while Total Assets increased by 23% to reach USD571 million. Returns on average Equity and Assets also strengthened while our Cost/Income ratio improved. The Rights Issue injection also strengthened considerably our capital adequacy ratios which, even by Basle II measurements, were quite robust at year-end. Our traditional trade finance business also delivered strong results. Africa, in particular, continued to provide a steady source of business and funding while the scope and diversity of opportunities has widened to other markets. Another core area of the FIMBank Group, ship pre-demolition finance, remained solid and consistent in 2007. Business prospects at year-end were also promising, with commitments outstanding - mainly under documentary credits and confirmed letters of credit - of USD 308 million (2006 - USD244 million).

At the forthcoming Annual General Meeting, the Board shall be pleased to recommend for the shareholders' approval a scrip dividend of US cents 3.8 per ordinary share (2006 - US cents 3.5). As in recent years, such proposal is aimed at striking a balance between an attractive dividend policy and a prudent retention incentive, at the same time supporting the long term value of the Group. Another resolution will be for a 1 for 5 Bonus Issue by capitalisation of the share premium reserve. Our aim remains one: that of maximizing shareholder values driven by strong Group fundamentals, which in turn result from a strategy of planned diversification coupled with an eye for opportunity, while keeping focus on trade finance.

In 2007, Mr. Mehdi Ouazzani, one of the founding shareholders and former vice-chairman of FIMBank, retired after 13 years in office. On behalf of the Board I would like to convey my thanks to Mr Ouazzani for his support and contribution throughout the years. I also extend a warm welcome to Pierre-Olivier Fragnière who joined the Board at the last Annual General Meeting. This is also an appropriate time to pay tribute to Claude L Roy who passed away in October. Claude was President of FIMBank between 1997 and 2004 and contributed to the development of the organisation in those formative years.

I reserve my last words to our growing family of Shareholders and Customers for their enduring confidence in the Group. During 2007 the number of shareholders continued to increase and exceeded the 700 mark. We thank you all for entrusting us with your money and business. I also thank my fellow Board members for their consistency and commitment and last, but not least, the Management and Staff whose commitment, dedication and work made 2007 such an excellent year, and who will endeavour to make the following years even better.

Najeeb Al-Saleh

**Najeeb H.M. Al-Saleh**
*Chairman*

## كلمة رئيس مجلس الادارة إلى الاعضاء

لقد كان العام 2007 عاما عسيرا لعدة مصارف ومؤسسات مالية. باستطاعتنا أن نستنتج كمصرف مالطي يعمل في عدة أسواق، عبر دروس متعددة من الأحداث التي لحقت بالاسواق المالية، أهمها: النشاط في أسواق ناشئة لا يعني التعرض لمخاطر أكبر من الاسواق المتقدمة وأن التصنيف العالي لمؤسسة لا يعني إحالة المخاطر عنها. لقد شهد فيم بنك FIMBank في السنوات الماضية نموا قويا، قام بموجبه بتعديل وتنويع مصادر نشاطه ودخله، بمخاطرأقل والاستمرار دون مواجهة أي خسائر، مما يتجوب في رأي مجلس الادارة تصنيف مالي أفضل للمجموعة .

إنه لفخر لي ان أبلغكم مجددا بالنتائج المالية القياسية لمجموعة فيم بنك FIMBank Group. المجموعة حققت ربح بعد خصم الضرائب بقيمة 10.5 مليون دولار أمريكي للسنة المالية المنتهية في 31 كانون الاول 2007. (7.6 مليون دولار أمريكي للعام 2006)، ممثلة أرباح مكتسبة للسهم بقيمة 11.8 سنت أمريكي (8.8 سنت أمريكي للعام 2006). هذه نتيجة النمو الصلب لكافة وحدات وعناصر المجموعة في مجال الاعمال التجارية وأداء العمليات.

لقد شاهدنا نمو مستمر للفوائد والرسوم التجارية، وتحسن ملحوظ لنوعية الائتمان، بالرغم من نمو دفترنا التجاري وتشدد في سياسة المخصصات، صافي الدخل العامل للمجموعة بعد مخصصات النقص ارتفع بنسبة 18 %. ولقد لاحظنا نموا مقداره 22% من نسبة نفقات التشغيل للمجموعة ما قبل تعديل شهرة المحال. لقد استطاعت شركة لندن فورفاتينغ المحدودة ( London Forfaiting Company Ltd) – شركتنا التابعة، توسيع محفظتهم، تقوية ارباحهم وتعزيز موقعهم في مجموعة فيم بنك. نتيجة لتعزيز أداء وتوقعات الربح لشركة لندن فورفيتنغ ( London Forfaiting Company Ltd)، قام تعزيز ضريبة الاصول المؤجلة في الشركة، مما يعني مراجعة شهرة المحال المتوفرة الى تلك التي كانت ستدون لو أن ضريبة الاصول المؤجلة تم التعرف عليها كأصول عند شراء شركة لندن فورفيتنغ (London Forfaiting Company Ltd) . لاول مرة خسائر الضرائب الغير مستعملة لشركة لندن فورفيتنغ ستساهم مباشرة للنتائج المالية للمجموعة.

لقد بدأت تظهر النتائج الاجابية لاستراتيجية فيم بنك في مجال خصم المستندات والفواتير. خبرتنا في هذا المجال أتاحت لنا قدرة تنفيذ مشاريع مشتركة (Joint Ventures) في أسرع وقت ممكن، أما فيم بيزنيس سولوشن FIM Business Solutions شركتنا في مجال المعلوماتية اكتسبت الكفائات اللازمة لدعم الشركات المشتركة للمجموعة. غلوبل للتجارة المالية المحدودة (Global Trade Finance Limited)، شركائنا في الهند، ساهموا بقيمة 5.2 مليون دولار أمريكي لنتائج المجموعة- بما يوازي ضعفي مساهمتهم في العام 2006. أما شركاتنا لخصم السندات المؤجلة في مصر ودبي فلقد واجهت مصاريف بدء العمل. 2007 كان العام الأول لبدء العمليات الكاملة لشركة اجييت فاكتورز(Egypt (Factors أما مينا فاكتورز MENA Factors فتحت أبوابها للعمل بدبي في شهر أيلول 2007. إن فيم بنك ملتزم التزاما كاملا بدعم هذه المساهمات الجديدة وتوسيع النشاط الدولي لخصم المستندات وتمويل الفواتير المؤجلة الدفع بمشاركتنا مع مؤسسات مؤهلة محلية في بلدان عدة.

لقد طلبنا من السادة المساهمين في تشرين الثاني دعم نمو المجموعة من خلال اصدار حقوق الاكتتاب والتي حققت نجاحا كبيرا. فالحقوق المتبقية عند اغلاق فترة عرض الحقوق استطاعت جذب أربع اضعاف العطائات. إن النجاح الهائل لاصدارالحقوق كان دليلا لافتا للثقة الممنوحة للمجموعة وساهم مساهمة مباشرة برفع رأس المال المجموعة بما يزيد عن 25 مليون دولار أمريكي. حقوق المساهمين تبلغ حاليا 98 مليون دولار أمريكي فلقد ازدادت اجمالي الاصول بنسبة 23% لتصل إلى 571 مليون دولار أمريكي، كما أن عوائد الاصول ، متوسط رأس المال، ومعدل الدخل للنفقة ازدادوا تحسنا. بالاضافه إلى ذالك، اصدار الحقوق قوى كفائة رأس المال بالمقارنة بقياسات بازل المعتمدة.

إن خدماتنا المصرفية التقليدية في القطاع التجاري قدمت نتائج قوية. أفريقيا بوجهة الخصوص مازالت توفر مصدر منتظم للتجارة والتمويل، بالاضافة إلى تنويع مصادر الدخل لتشمل مناطق ومصادر أخرى. العام 2007 شاهد نموا متواصلا لعملنا الأساسي في مجال تمويل عمليات ما قبل تصريف السفن، ففي نهاية العام وصلت التزاماتنا من خلال الاعتمادات المستندية والاعتمادات المعززة إلى 308 مليون دولار أمريكي ( 2006- 244 مليون دولار أمريكي).

خلال لقاء الجمعية العمومية لعام 2008 ، سيعلن مجلس رئاستنا دفع أرباح أسهم توزيع على شكل سندات اذنية قصيرة الأجل بواقع 3.8 سنت أمريكي لكل سهم عادي (2006- 3.5 سنت أمريكي). إن تلك السياسات تهدف إلى التوصل إلى توازن ما بين توزيع أرباح وسياسة حذرة لاحتفاظ قيم المساهمين. لقد قام مجلس الادارة باصدار اسهم اضافية للمساهمين بمعدل سهم 1 لكل 5 أسهم من خلال رسملة حساب علاوة السهم. إن مجلس الادارة يعي أهمية تقوية قاعدة المساهمين في المجموعة، ولكن هدفنا يبقى أن نعزز ونقوي مكانت المساهمين من خلال أعمالنا القوية، الناتجة عن استراتيجية التنوع، وحصد الفرص المواتية .

بالنيابة عن مجلس الادارة اود عن أعبر عن كامل شكرنا وامتناننا للدعم والعمل الذي قدمه السيد مهدى وزاني، أحد أعضائنا المؤسسين ونائب مجلس ادارتنا السابق الذي تقاعد في 2007. كذلك ارحب بالسيد بير أليفيير فرانجيير Pierre Olivier Fragnière الذي انضم إلى مجلس إدارتنا في الجمعية العمومية الأخيرة. هذا أيضا الوقت المناسب لاثني على الجهود التي قام بها المرحوم كلود روى Claude L. Roy والتي وافته المنية في شهر تشرين الأول. لقد شغل كلود منصب رئاسة المصرف ما بين 1997-2004 وساهم في نمو المؤسسة في السنين البدائية.

وفي الختام، أشكر جميع مساهمينا وزبائننا على ثقتهم ودعمهم المستمر للمجموعة. ففي 2007 زاد عدد المساهمين ليتعدى 700 مساهم. وأعبر عن امتنان خاص لأعضاء مجلس الادارة على توجيهاتهم ونصائحهم. وكما أوجه عبارات شكري الأخيرة إلى الإدارة وفريق العمل الذين أظهروا مرة أخرى إخلاصهم بجعل العام 2007 عاما مميزا والتزامهم الدائم بدفع المجموعة إلى الامام.

**نجيب حمد مساعد الصالح**

رئيس مجلس الادارة

# DÉCLARATION DU PRÉSIDENT AUX ACTIONNAIRES

Pour beaucoup de banques et d'institutions financières 2007 n'a pas été une année facile. En tant que banque maltaise opérant sur divers continents, nous pouvons tirer plusieurs leçons des événements qui ont affecté les marchés financiers. Probablement deux des leçons les plus significatives sont les suivantes : (a) être actif dans les marchés émergents n'entraine pas automatiquement un plus grand risque que celui encouru sur les marchés dits développés ; et (b) être une institution bien cotée ne rend pas celle-ci nécessairement à l'abri de risques importants. Durant ces dernières années, FIMBank s'est considérablement renforcée, ajustant son plan de développement et diversifiant ses opérations, sans pour autant subir de pertes, une situation qui, selon le Conseil, mérite d'être mieux reflétée dans la notation du Groupe.

J'ai le plaisir de vous annoncer à nouveau un excellent résultat financier pour FIMBank.

Le Groupe a enregistré pour l'année financière clôturée au 31 Décembre 2007 un résultat après impôts de USD10.5 millions (2006 - USD7.6 millions), représentant un Résultat par Action de 11.8 cents US (2006 - 8.8 cents US). Ceci est le résultat d'une forte croissance des activités du Groupe ainsi que de la performance d'exploitation d'ensemble de ses différents éléments et composantes.

Nous relevons également une croissance soutenue des revenus découlant d'intérêts et de frais perçus ainsi qu'une forte amélioration de la qualité de nos créances. Ainsi, malgré une augmentation de notre portefeuille et des règles de provisions plus rigoureuses, le Revenu d'Exploitation Net du Groupe après dotation aux risques, a augmenté de 18%. Les Charges Générales d'Exploitation du Groupe avant ajustement de l'actif non tangible (goodwill) ont augmenté de 22%. Notre filiale London Forfaiting Company (LFC) a poursuivi le développement de son portefeuille renforçant sa profitabilité et sa position comme contributeur important du Groupe FIMBank. Grace à l'évolution positive de LFC et à des prévisions en hausse, des avantages fiscaux différés ont été à nouveau reconnus. Ceci a réduit le reliquat de l'actif non tangible aux montants qui auraient été constatés si la récupération d'avantages fiscaux différés avait été reconnue comme un actif identifiable quand LFC a été acquise. Pour la première fois en 2007, les pertes fiscales non utilisées de LFC ont également commencé à contribuer directement aux résultats du Groupe.

La stratégie d'affacturage de FIMBank a également commencé à porter ses fruits. Notre expertise grandissante dans ce domaine nous permet d'accélérer le processus de développement de nos joint-ventures. FIM Business Solutions Limited, notre société de services d'information et de technologie, a l'expertise nécessaire pour contribuer au développement des joint-ventures du Groupe. Global Trade Finance Limited, notre joint-venture basée en Inde, a contribué en 2007 pour USD5.2 millions aux résultats du Groupe, doublant sa contribution de 2006 ; nos autres joint-ventures en Egypte et à Dubai ont encouru quant à elles des frais de démarrage. 2007 a été la première année proprement opérationnelle pour Egypt Factors, alors que Menafactors a commencé ses activités à Dubai en Septembre 2007. FIMBank s'engage à soutenir ces deux nouveaux projets et à accélérer les activités internationales d'affacturage en développant sa présence géographique dans de nouveaux pays en partenariat avec d'importantes institutions locales.

En Novembre, nous avons réunis nos actionnaires afin de soutenir le développement de notre Groupe à travers une souscription de nouvelles actions. Cette émission fut un franc succès ; les offres intermédiaires qui s'en sont suivies pour les actions non souscrites ont fait l'objet d'une demande supérieure à 4 fois le montant disponible. Le succès de l'émission d'actions a non seulement abouti à un apport en capital de USD25 millions, mais a également cristallisé la grande confiance accordée à la Direction du Groupe FIMBank. Nous sommes reconnaissants pour leur soutien continu. Les Capitaux propres de FIMBank s'élèvent à USD98 millions avec un total de bilan en hausse de 23% pour atteindre USD571 millions. Les rendements des Capitaux Propres et Actif Moyens se sont également renforcés alors que le coefficient d'exploitation s'est amélioré. L'émission d'Actions a aussi renforcé considérablement nos ratios de fonds propres, lesquels, même sous les critères de Bâle II, étaient assez solides en fin d'année.

Notre activité traditionnelle de commerce international a également enregistré de très bons résultats. L'Afrique, en particulier, demeure toujours un important vecteur de revenus et de ressources ; de plus, l'étendue et la variété des opportunités se sont également répandues à d'autres marchés. Une autre activité majeure du Groupe FIMBank, le financement du démantèlement de navires, demeure fort et conséquent en 2007. Les perspectives d'avenir en fin d'année étaient également prometteuses, avec des engagements hors bilan - principalement sous des crédits documentaires - de USD308 millions (2006 - USD244 millions).

A la prochaine Assemblée Générale Annuelle de 2008, le Conseil aura le plaisir de recommander pour votre accord le paiement de promesses écrites de dividendes de US cents 3.8 par action ordinaire (2006 - US cents 3.5). Comme dans le passé, cette proposition vise à établir un équilibre entre une politique avantageuse de dividendes et une incitation prudente de conservation d'actions, soutenant en même temps la valeur des actions.

Une autre résolution sera relative à une attribution gratuite aux actionnaires d'une action pour cinq détenues, par la capitalisation d'une réserve de prime d'émission. Notre but est le suivant : développer la valeur des actions et s'aligner avec les fondements du Groupe, résultant d'une stratégie de diversification et une ouverture sur d'autres opportunités, tout en se focalisant sur le Trade Finance.

En 2007, M. Mehdi Ouazzani, l'un des membres fondateurs et précédent Vice-président du Conseil d'Administration de FIMBank s'est retiré des affaires après 13 ans de fonction. Au nom du Conseil, je voudrais présenter mes remerciements à M. Ouazzani pour son support et sa contribution tout au long de ses années de service. J'aimerais également souhaiter la bienvenue à Pierre-Olivier Fragnière qui s'est joint au Conseil durant l'Assemblée Générale Annuelle. Je saisis cette opportunité pour rendre hommage à Claude L Roy décédé en Octobre dernier. Claude était le Directeur Général de FIMBank de 1997 à 2004 et a grandement contribué au développement de notre institution.

Je dédie mon dernier mot à la famille grandissante des Actionnaires et Clients pour leur confiance continue. L'actionnariat s'est développé en 2007, dépassant les 700 actionnaires. Merci pour votre confiance. Je remercie également mes collègues, membres du Conseil d'Administration pour leurs recommandations et conseils précieux, et surtout l'Administration et le Personnel dont le dévouement et le travail assidu a rendu cette année 2007 excellente. Nous nous efforcerons à poursuivre l'amélioration de notre performance pour les années à venir.

**Najeeb H.M. Al-Saleh**
*Président du Conseil d'Administration*

# REVIEW OF OPERATIONS

*For the Year ended 31 December 2007*

The Annual Financial Statements covered by this review refer to the consolidated accounts of FIMBank Group ("the Group"), which includes FIMBank p.l.c (the "Bank") and its fully owned subsidiaries, London Forfaiting Company Limited ("LFC") together with its subsidiary companies, FIMFactors B.V. ("FIMFactors"), FIM Business Solutions Limited ("FBS"), the associated undertakings, Global Trade Finance Limited ("GTF") and The Egyptian Company for Factoring SAE ("Egypt Factors") and the jointly-controlled entity, Menafactors Limited ("Menafactors").

**Economic Trends in Emerging Markets in 2007**

The global economy has been experiencing its strongest sustained period of growth since the early 1970s, growing at 4.9% in 2007 (3.9% in 2006 and 3.5% in 2005). Notwithstanding recent financial market turbulence this expansion is projected to remain above the long-term trend, with emerging market and developing countries leading the way. Inflation generally remained at low levels in 2007. World trade growth (both in volume and price terms) continued unabated, albeit at a slower pace than in 2006.

In the context of this positive growth trend in the global economy, emerging markets grew 7.8% on aggregate in the last year. China's economy gained momentum in 2007, growing 11% and, for the first time, making the largest contribution to global growth evaluated at market as well as purchasing-power-parity (PPP) exchange rates. India continued to grow at more than 9% and Russia at almost 8%. These three countries alone accounted for one-half of global growth over the past year, but other emerging market and developing countries also maintained robust expansions. Rapid growth in these countries counterbalanced continued moderate growth in the United States, which grew at about 2%, suffering from a severe housing market correction.

Global credit market conditions have deteriorated sharply since late July as a re-pricing of credit risk sparked increased volatility and a broad loss of market liquidity. Initially, rising delinquencies on U.S. sub-prime mortgages led to a spike in yields on securities collateralized with such loans and to a sharp widening in spreads on structured credits, particularly in the United States and the Euro area. From mid-August, rising uncertainty about the amount and distribution of associated valuation losses and concerns about the off-balance-sheet exposures of financial institutions have added to the global concerns.

The result has been a drying up of high-yield corporate bond issues, a sharp contraction in the asset-backed commercial paper market, a dramatic disruption of liquidity in the inter-bank market and stress on institutions funded through short-term money markets.

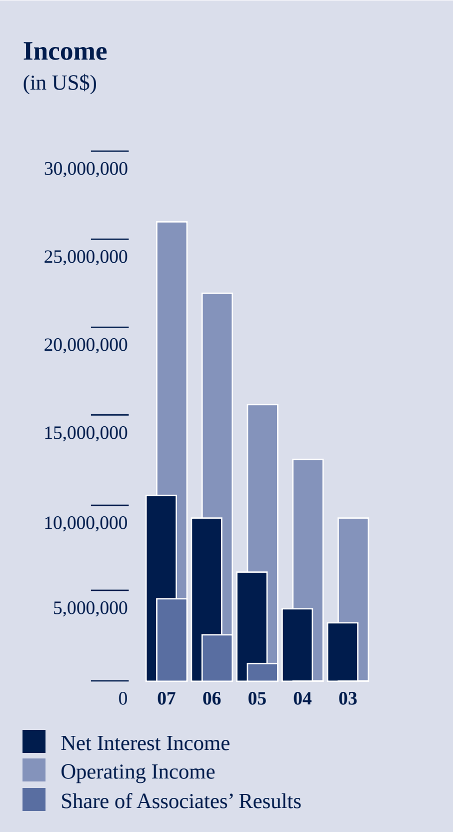
Emerging financial markets have also been affected by these developments, with sovereign spreads widening, stock markets falling, and capital flows being scaled back. Overall, however, the impact has so far been less than in previous episodes of global financial turbulence, and emerging market equity prices are again reaching record highs.

This resilience reflects two sets of factors. First, the turbulence has been related to setbacks in markets for innovative credit instruments and in institutional structures that are less prevalent in emerging markets. Second, most emerging market countries have reduced external vulnerabilities by strengthening their public balance sheets and policy frameworks.

That said, certain countries that have received heavy short-term capital inflows experienced pressures in inter-bank markets as these flows started to reverse.

Commodity markets have generally been tight since the beginning of 2007, notwithstanding the recent financial turmoil. The IMF commodities and energy price index rose by 20% in 2007, dominated by resurgence in oil prices and supported by rising metals and food prices. Oil prices rose to all-time highs in September, largely resulting from solid demand growth in the face of tight supply. Metals prices have remained strong, despite some losses amid sell-offs during the recent financial

# REVIEW OF OPERATIONS




turmoil, and food prices have been boosted by strong demand - particularly for biofuel production - and supply shortfalls.

Growth in emerging Asia remained exceptionally rapid in 2007. As indicated above, the regional expansion was led by China, where real GDP grew by 11% (year on year) in 2007 as exports and investment accelerated, and by India, where gains in domestic demand, particularly investment, underpinned 9% (year on year) growth in the first half. Growth also accelerated in Singapore (where consumption and investment both strengthened), the Philippines (where record remittance inflows boosted consumption and government spending grew strongly), Korea (where the industrial sector rebounded), and Indonesia (where lower interest rates boosted domestic demand).

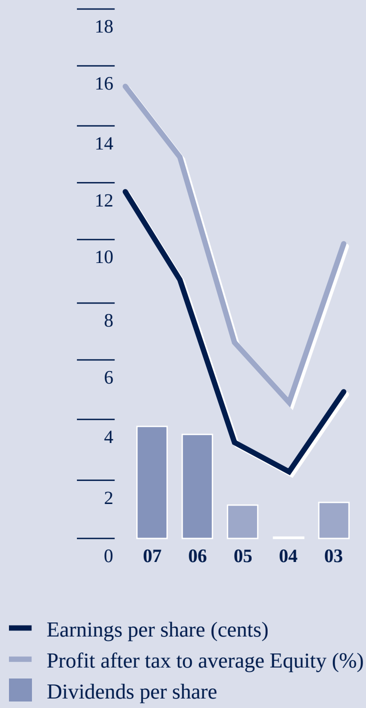
Following 5% growth in 2006, the pace of expansion in Latin American countries was projected to moderate to 5% in 2007 as a whole. This easing would reflect in part spillovers from the slowdown of activity in the United States on Mexico and Central America, mainly through trade linkages as well as somewhat slower growth of remittances from migrant workers, and the end of a hotel construction boom in the Caribbean. In a number of commodity-exporting countries in South America - including Argentina, Colombia, Peru, Uruguay, and Venezuela - growth is expected to come down from very high rates in 2006, in part because of increasing supply constraints. Growth picked up in Brazil during 2007, responding to monetary policy easing after inflation was brought on track with central bank objectives.

Growth in emerging Europe moderated to 6% in 2007. Spending on new productive capacity and construction activity bolstered investment, while rising disposable incomes, improving labour markets, and easy access to credit, financed mainly through cross-border inter-bank loans, continued to buttress consumer spending and investment, especially in the Baltics and in southern and south-eastern Europe. The CIS region has not been immune to the recent financial turmoil, but this has come against the backdrop of the longest economic expansion since the 1970s.

Although easing slightly, growth in the region remained strong in 2007. The Russian economy expanded by about 8%, and economic activity in other CIS countries has also remained buoyant. The robust expansion in the region has been underpinned by high commodity prices and strong capital inflows, as well as continuing productivity gains. Consumption has remained the main driver of growth, supported by rising real incomes and easy access to credit, but there are also incipient signs of rebalancing in the composition of demand, with investment picking up recently. Credit to the private sector has been expanding rapidly across the region, fuelled by capital inflows, ample domestic liquidity, and structural improvements in the financial sector. Against the backdrop of the global disruption to liquidity and pullback from risky assets, exchange rates in Kazakhstan and Russia came under some downward pressure in late August. In Kazakhstan, concerns that domestic banks could be vulnerable to global credit retrenchment contributed to depreciation pressures, while in Russia the repatriation of liquid rouble assets by non-resident investors was the primary factor behind the depreciation.

Sub-Saharan Africa (SSA) has enjoyed another strong year, with overall growth in the region reaching 6.1 % in 2007. The growth acceleration reflects largely the coming on-stream of new production facilities in oil-exporting countries, such as Angola and Nigeria. Taking a longer-term perspective, SSA is clearly enjoying its best period of sustained growth since independence. While the oil-exporting countries are achieving the most rapid growth, most other countries are also growing strongly and outperforming historic trends. Moreover, faster-growing countries in the region are making substantial progress in reducing poverty rates. This growth success reflects a powerful combination of a favourable external environment (particularly, improving terms of trade), sound policy implementation, and the rising openness of SSA economies, achieved not only by oil and commodity exporters, but also by coastal and landlocked countries. Similar to other oil producers, the oil-exporting countries in Africa have made large terms-of-trade gains from recent fuel price increases, and international reserves have risen rapidly. These countries must be careful to spend oil windfall

**Profitability**




# REVIEW OF OPERATIONS

gains in a prudent manner, without straining domestic absorptive capacity, and saving appropriately for future generations.

The long spell of strong growth in the Middle East continues to be supported by high oil prices and robust domestic demand. Regional growth has been maintained at over 5% a year in the past four years. Although investment in the oil sector stagnated in real terms because of increasing investment costs, GDP growth in oil-exporting countries was sustained by expansion in the non-oil sectors, pushed by rising government spending out of oil revenues, foreign capital inflows, and rapidly growing domestic private credit. A buildup of government spending on infrastructure and social projects, as well as investment programs to expand oil production and refining capacity, narrowed fiscal surpluses and external weakness of the U.S. dollar added to inflationary pressures in the Gulf Cooperation Council (GCC) countries. Most of these countries peg their currencies to the U.S. dollar, although in a surprise move in May 2007, Kuwait (one of the GCC members) abandoned the peg to the U.S. dollar in favour of pegging to an undisclosed currency basket and allowed its currency to adjust in line with movements in the basket.

## Group Activities and Operations

In 2007, the FIMBank Group continued with its strategy of developing the mix of trade-finance products across new markets and geographies. The Group's scale and scope of activities expanded in various forms, with new offices, investments in associated undertakings, partnerships, correspondent relationships with banks and innovative business transactions in various markets, as well as consistent Group activity in international payments. On the financing side the Group diversified its funding sources while increasing its business such that it was possible for it to repay the USD60 million international syndicated loan before its June 2007 renewal date. In December, the Bank successfully completed a Rights Issue which increased the equity base by over USD25 million.

The Bank also continued with its focus on expanding correspondent banking services to financial institutions in the Sub-Sahara African Region, by increasing activity with existing and new relationships. This is shown by the consistent flow of letter of credit transactions, international payments and other financial settlements, institutional deposits, post-export financing and foreign exchange turnover.

In the traditional trade finance area, turnover in FIMBank core products, namely structured trade finance and documentary credits, continued to increase. New transactions were also sourced from contacts established through the overseas network of offices, and this is reflected in the positive improvement in fee and commission income generated.

Demand for FIMBank London-based specialist services in shipping and pre-demolition financing also remained strong. Moreover, the Bank's Dubai office - which also targets this area of business, amongst others - was fully operational throughout 2007 and made its own contribution to target and develop existing and new corporate-relationships. For the second half of the year new management took over the running of LFC's Singapore office, with a renewed marketing mandate for the Group.

LFC, FIMBank Group's specialized forfaiting subsidiary, continued to expand its activities and contributed substantially to Group profitability. Turnover in 2007 increased by 4% to USD361 million. This performance must be seen against a background of tightened spreads for more than the first half of the year, with volatility then setting in and emerging market spreads only widening towards the last months of the year, providing opportunities for increased business and turnover.

In 2007 the Group stepped up its investment and drive to develop international factoring ventures and projects. The factoring department in FIMBank, geared at the domestic and nearby Mediterranean market, grew its business book and also enhanced its IT infrastructure and systems. With the help of FIM Business Solutions Limited, the department set itself up

to support the operational requirements of the Factoring associated ventures in different regions and time-zones, and started to promote third party back-office services to international factoring firms.

During the year under review, the Mumbai-based Global Trade Finance Limited (GTF) delivered another strong performance in terms of overall growth and profitability, which contribution shows up significantly in the Group's income statement. Subsequent to the Balance Sheet date, it was announced that State Bank of India intended to purchase the aggregate 91% shareholdings in GTF of Export-Import Bank of India (EXIMBank), IFC and FIMBank's own.

In Cairo, Egypt Factors, an entity incorporated towards the end of 2006 and owned by FIMBank (40%), Commercial International Bank (40%) and IFC (20%), started commercial operations in January 2007 and thus carried out a first full year of operations. The Bank is committed to continue supporting this entity both operationally as well as financially and in fact injected fresh equity into it after the year-end.

On 10 May 2007, Menafactors Limited was incorporated in the Dubai International Financial Centre. The company, which has been established to provide international factoring and forfaiting services in the MENA and Gulf Regions, was authorized to start business in September and was fully operational by then. Menafactors is a jointly-controlled entity, the other 50% shareholder being National Bank of Dubai. Also in this case, the Bank is committed to support this entity beyond the initial equity investment of USD5 million and further equity was extended after the year-end. During the year under review the FIMBank Board also approved the commencement of negotiations with selected strategic partners for the acquisition of equity stakes in established factoring and leasing companies in South America.

On the operational side, the consolidation of Group internal policies, procedures and processes continued. Human resources in a number of the Bank's departments were strengthened, while skills were enhanced through hiring and training. As in previous years the aim has been to provide capillary support to business units across the whole Group, as well as to subsidiaries and associates.

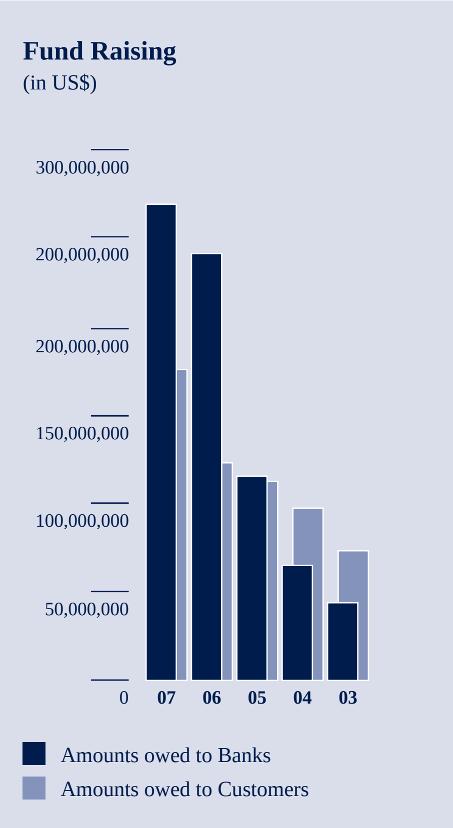
In this regard, the responsibilities and reporting lines of Group functions were reviewed and better defined during the year under review. Investment in IT, particularly factoring, banking and reporting systems, continued while new projects in document management and retrieval were embarked upon. Efforts to identify suitable office premises for the future location of the Group's Head office were also stepped up, with the Board approving a capital budget for the acquisition and development of new purpose-built office premises.

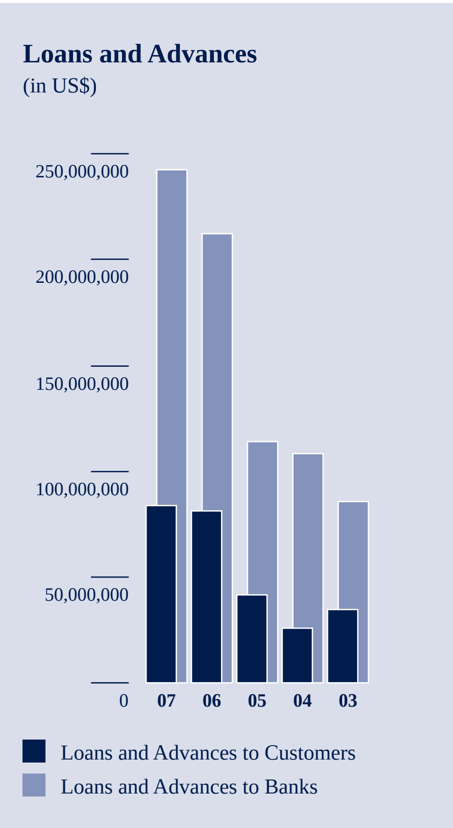
On the marketing side, more emphasis was laid on efforts to reap better synergies between the various units, members and offices of the Group network. Contacts with clients, banks and business intermediaries were actively maintained through regular visits, while new products and transactions were studied and, in many instances, executed. Officers of the Bank and the Group were regular participants at various international business events where the FIMBank Group was actively marketed. The Group's Annual Conference was held in June, in Malta, this time attracting a high calibre group of speakers and participants from various countries to discuss 'International Trade and the new UCP-600 Rules'.

**Income Statement**

During the year under review the Bank increased its Net Interest Income by 19%, from USD5.1 million to USD6.0 million. Both interest income and expense increased in absolute terms, in line with the increase in Bank's activity through availability of more bank lines, customer and bank deposits and longer term funding sources. Interest Income increased from higher activity in the funding line to LFC, increased money market and bank exposures and a growth in the trading bond book. FIMBank continued to focus primarily on its core activities, including

# REVIEW OF OPERATIONS




trade services to banks and companies, ship pre-demolition finance and lending in connection with trade transactions. Net fee and commission income grew by 23%, from USD9.3 million in 2006 to USD11.5 million in 2007. The turbulence in financial markets corrected the Bank's bond portfolio during the second half of the financial year, however the realized/unrealized losses incurred on financial assets designated at fair value through profit or loss have been more than offset by realized and unrealized profits resulting from foreign exchange activities. FIMBank also received a dividend of USD0.6 million from its Indian associated company GTF. Net impairment losses decreased from USD0.9 million to USD0.7 million, a drop of 17%. This movement is composed of an increase in collective impairment charges, being prudently taken on bank and corporate on- and off-Balance Sheet exposures, against a drop in specific impairment losses, from USD0.3 million in 2006 to USD0.1 million in 2007. Net operating income amounted to USD18.5 million, an increase of 16% over 2006. Operating costs, largely made up of staff and administrative overheads, also grew by 23%, which compares favourably with the growth of 46% in the cost base experienced in 2006. Once again, the growth in costs in large part mirrors the increased business activity but also includes a significant absorption of the support given to subsidiary and associated companies as well as start-up activities. FIMBank registered a pre-tax profit of USD3.5 million, down by 8% on the USD3.8 million of 2006.

At the Group level, Net Interest Income increased by 14% from USD9.2 million to USD10.5 million, while Net Fee Income increased by 31%. This was largely the result of improved performance at both Bank level (as above) and LFC, so much that fee income booked by LFC in 2007 doubled over 2006 to USD3.5 million. On the other hand Group net trading income dropped by 37%. Apart from the adverse impact of the financial markets correction on the Bank's holding of the bond portfolio, realized/unrealized gains on forfaiting assets decreased from USD1.8 million to USD0.8 million. Group net impairment losses decreased by 58% to USD0.8 million, mirroring the trend in specific and collective impairment charges at the Bank. Group net operating income increased by 18% to USD25.9 million. Group operating expenses (before the adjustment to Goodwill) increased by 22%, which compares favourably and efficiently with the 27% growth in 2006.

During the year under review LFC recognised a further deferred tax asset of USD1.42 million, with the result that this asset is now at USD6.6 million in the books of LFC. Of this amount USD1.13 million is adjusting the carrying amount of goodwill thus eliminating completely this Intangible Asset from the Group's Consolidated Balance Sheet. This reduction in the carrying amount of Goodwill is being recognized in the Group Income Statement with USD0.29 million remaining as tax credits in the same Income Statement. During 2007, the Group accounted for USD4.6 million in Share of Profits from associated companies and jointly-controlled entities, an increase of 82% over the same period last year. The main contributor was again GTF with USD5.2 million (2006: USD2.5 million) which was partly offset by the share of deficit resulting from the start-up ventures - Egypt Factors and Menafactors. Group pre-tax profit increased to USD9.7 million, while post-tax profit increased by 38% from USD7.6 million to USD10.5 million.

Group basic earnings per share for 2007 amount to US11.82 cents (2006 - US8.83 cents) while for the Bank basic earnings per share work out at US3.51 cents (2006 - US4.04 cents).

**Balance Sheet Developments**

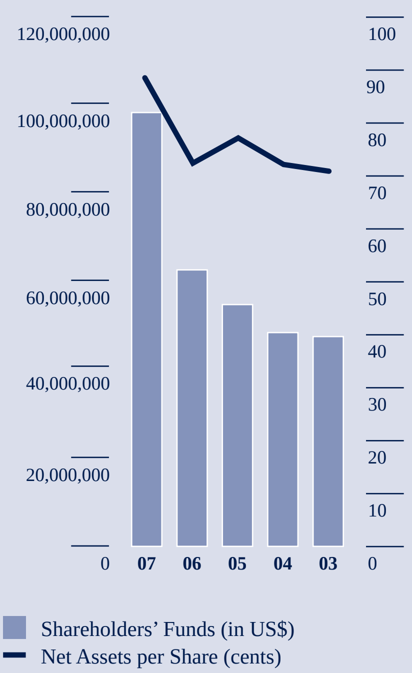
At the Bank level, amounts owed to Banks increased by 11% to USD272 million at Balance Sheet date. During the first half of 2007, the Bank repaid the USD60 million Syndicated Trade Finance facility while drawings under new and existing bank lines as well as bank deposits from existing and new bank relationships in emerging markets increased by 41%. Amounts owed to Customers also increased by 48%, from USD122 million in 2006 to USD180 million, with time deposits increasing by 78%, collateral balances increasing 65% and current/call deposits increasing 20% when compared to 2006, respectively.

All this complemented efforts directed at increasing and diversifying the Bank's deposit base, particularly term deposits with medium to long term maturities. There were no changes in the amount of the IFC Subordinated Convertible Term Loan outstanding.

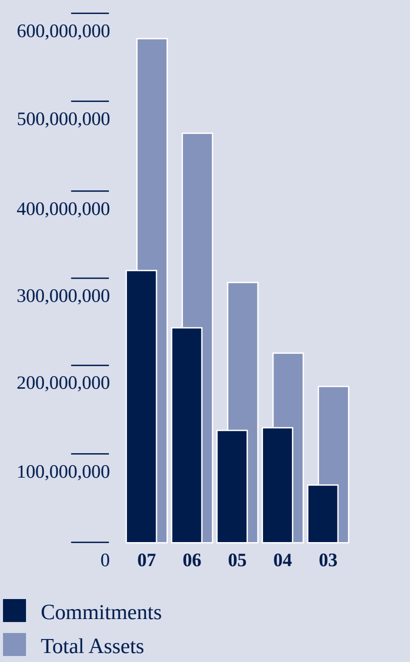
In view of Malta joining the EURO Zone as from 1 January 2008, the Bank became subject to Reserve Deposit Requirements as from mid-November 2007; this reserve deposit stood at USD15.0 million at year-end. Loans and advances to banks increased by 17% to USD235 million, with a wider distribution of risk among money market and bank exposures in emerging markets. Loans and advances to customers increased by 24%, reflecting in large part the increased funding support provided to the subsidiary LFC. During 2007, the Bank invested new equity of USD5 million in Menafactors, a jointly-controlled entity with National Bank of Dubai, established in the DIFC for the provision of international factoring and forfaiting services in the MENA and Gulf Regions. Total Bank assets increased by 25%, from USD438 million to USD550 million.

At the Group level, funding trends largely mirror those of the Bank. During 2007, LFC continued to tap its own independent funding sources through the issue of promissory notes guaranteed by the Bank. Holdings of such instruments, mainly by LFC, stood at USD11.6 million (2006 - USD19.5 million).

**Shareholders' Funds**




**Assets & Commitments**
(in US$)



# REVIEW OF OPERATIONS

While loans and advances to banks increased by 15%, a trend which mirrors that of the Bank, loans and advances to customers increased marginally to USD84 million (2006 - USD82 million). These refer mainly to corporate relationships outside the Group since intra-group lending activity is eliminated on consolidation. Trading assets comprising forfaiting assets increased from USD125 million in 2006 to USD157 million in 2007. Financial assets designated at fair value through profit or loss, comprising bonds and credit-linked notes, increased from USD20 million in 2006 to USD36 million, a growth of 78%. The Consolidated Balance Sheet shows that investments in equity accounted investees increased by 95%, attributed to the new investment in Menafactors and the consolidation of share of profits earned from GTF earned during 2007.

The increase in Deferred Tax Asset is largely the result of the recognition of further deferred tax asset at LFC, bringing the balance to USD7.8 million. In turn this has resulted in adjustment to the gross carrying amount of Goodwill, eliminating completely the balance of this intangible asset from the Consolidated Balance Sheet. The remaining balance reflects the Bank's and its IT subsidiary's investment in software licenses of USD1.04 million.

Group Equity as at Balance Sheet date stood at USD98 million, up by 56% on 2006, the result of scrip dividend retention from the April distribution, an increase of USD25 million from the Rights Offer in December as well as the increased profitability of the Group. Group Solvency Ratio (calculated in accordance with the requirements of the Banking Act) at year-end stood at 34.38% for Tier 1, and 36.93% for Tier 2.

Commitments outstanding largely mirror the levels reported by the Bank, with an increase in documentary credits and confirmed letters of credit of 32% and an increase in commitments to purchase forfaiting assets of 10%. Contingent Liabilities, mainly guarantees, stood at USD9 million as at year-end, a growth of 29% on the level reported at the end of 2006.

**Outlook for 2008**

Looking forward, with continued geopolitical and supply risks coupled with stronger demand - especially from China, the Middle East, and the United States - oil prices are likely to remain high in the absence of further change in OPEC's quota policies or a major global slowdown. Metals prices are expected to soften further from recent highs, although rising production costs will limit the decline. Food prices should also moderate over the medium term, although demand for biofuels and from emerging markets could provide continued support. Growth in Latin America is expected to be at 4.3% in 2008 but is likely to slow down in Brazil. Sub-Saharan Africa is expected to grow by 6.8% in 2008. But most other countries in the region are projected to maintain relatively high rates of growth, while inflation would generally moderate (excluding Zimbabwe, which is expected to remain an outlier).

Global growth is projected at 4.1% in 2008, down from 4.9% in 2007. Growth in emerging market and developing economies is also expected to ease, moderating from 7.8% (on an annual basis) in 2007 to 6.9% in 2008. In China, growth is projected to decelerate from 11% to 10%, which should help alleviate overheating concerns.

The direct macroeconomic fallout from the global credit crunch is likely to be felt less severely in Emerging Markets, reflecting the fact that Emerging Markets banks are less exposed to US sub-prime borrowers and disruptions in asset-backed securities markets, implying a smaller impact on domestic credit conditions through changes in banks' lending behaviour. Lower levels of household leverage should also limit the impact of housing market and interest rate dynamics on consumer spending. There are, however, notable exceptions to this, including Kazakhstan and Russia - where banks have a large volume of international wholesale funding leaving them exposed to the tightening of conditions in global money markets - and a number of overheated property markets, including in the Baltics.

Emerging Markets economic performance will, however, undoubtedly be affected by the slowdown in the advanced countries through trade linkages, which have intensified in the last decade. World trade has grown nearly twice as fast as world GDP on average since the early 1990s and the share of current external receipts in GDP for Emerging Markets has increased by around 16 percentage points on average in the last 10 years to 60%, increasing the "multiplier" effect of trade shocks. Admittedly this partly reflects rising intra-Emerging Markets trade - according to IMF data 51% of Emerging Markets exports of goods in 2007 went to other Emerging Markets, up from 44% in 1996. But this understates Emerging Markets' trade exposure to advanced economies to the extent that many exports to other Emerging Markets are in the form of intermediate goods which are then processed into final consumer goods and exported to the US, Japan or Europe.

Growth momentum in the ex-CIS is expected to ease to 7% in 2008, largely owing to tightening credit conditions and a weakening external environment. High commodity prices and rising fiscal spending would continue to support activity in the net-energy-exporting countries (Azerbaijan, Kazakhstan, Russia, Turkmenistan, and Uzbekistan). In the net energy-importing countries (as a group), growth is expected to slow more rapidly, partly owing to rising oil prices, although growth in these countries will continue to be supported by the ongoing global commodity boom and buoyant regional conditions, as manifested in strong external demand and large inflows of foreign funds. Portfolio and other investment inflows have also been increasing over the years, including in the net-energy-exporting countries. This trend has been particularly pronounced in Russia and Kazakhstan, where external bank borrowing soared prior to the onset of the financial market turmoil.

For the FIMBank Group the outlook continues to be determined by its strategic mix of mature and emerging products, services and markets. While increasing competition and tightened prices in some of the more traditional business areas are expected to make revenue streams from those markets more challenging, at the same time new and structured products and services are being launched to enhance the offering in these markets. As the new associated and jointly-controlled undertakings mature their operations these will be expected to start making meaningful contributions to Group results in 2008. The future of Group entities will depend significantly on the level and depth of equity support and the Board will look at developments in 2008 which should improve the quality and mix of the shareholdings in its investees.

2008 has taken off with indications of recessionary tendencies in the US; on the other hand the continued expansion of major developing economies is expected to sustain emerging market growth and high commodity prices. While the Group's risks remain that emerging economies can still present unforeseeable reversals, and sustained oil prices may accentuate the risks, improving fundamentals in these markets have made them more robust to withstand the risk of downside.

# DIRECTORS AND SENIOR MANAGEMENT

## BOARD OF DIRECTORS

Najeeb H.M. Al-Saleh *(Chairman)*
John C. Grech *(Vice Chairman)*
Mehdi Ouazzani Hassani *(resigned on 12 April 2007)*
Fouad M.T. Alghanim
Mohammed I.H. Marafie
Duco Reinout Hooft Graafland
Hamad Musaed Bader Mohammed Al-Sayer
Francis J. Vassallo
Tareq M. Al-Saleh
Jacques Leblanc
Rogers David LeBaron
Pierre Olivier Fragnière *(appointed on 12 April 2007)*

## COMPANY SECRETARY

Raffaella Bonadies

## SENIOR MANAGEMENT

**PRESIDENT**

Margrith Lütschg-Emmenegger

**EXECUTIVE VICE PRESIDENTS**

| | |
|---|---|
| Marcel Cassar | *Chief Financial Officer* |
| Raymond Busuttil | *Head of Business Development & Marketing (resigned on 16 January 2008)* |
| Andrew T.M. Freeman | *Managing Director, Menafactors Limited (resigned on 31 August 2007)* |
| Simon Lay | *Managing Director, London Forfaiting Company Limited* |

**SENIOR VICE PRESIDENTS**

| | |
|---|---|
| Raffaella Bonadies | *Head of Legal & Compliance* |
| Nassif A. Chehab | *Head of Financial Institutions* |
| Ivan Fsadni | *Head of Internal Audit* |
| Nigel Harris | *Head of FIMBank DIFC Branch* |
| Silvio Mifsud | *Head of Information & Administration* |
| Carmelo Occhipinti | *Head of Risk Management* |
| Renald Theuma | *Head of Corporate Clients* |
| Charles Wallbank | *Head of Operations* |
| Sean Aston | *General Manager, LFC Singapore* |

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# DIRECTORS' REPORT

*For the Year Ended 31 December 2007*

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 2007. This report is prepared in terms of the Companies Act, 1995 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 USD3,108,400 and USD10,462,050 respectively for the year under review.

Further information about the results is provided in the "Income Statement" on page 31 and in the "Review of Operations" on pages 5 to 13.

**Principal Activities**

The FIMBank Group of Companies (the "Group") includes FIMBank p.l.c. (the "Bank"), and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), together with its subsidiary companies, FIMFactors B.V. ("FIMFactors"), and FIM Business Solutions Limited ("FBS").

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's principal activity is providing short-term international trade finance to corporate traders and to act as an intermediary to other financial institutions for international settlements, forfaiting, factoring and loan syndications. The Bank also maintains accounts in various currencies and provides credit card facilities to its customers. The Bank acquired full control of LFC in 2003 and incorporated FIMFactors and FBS during the year 2005. The Group is supervised on a consolidated basis by the Malta Financial Services Authority.

LFC 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.

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.

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

The Bank also holds equity investments in the following associates and joint-venture companies:

(a) 38.5% in Global Trade Finance Limited ("GTF"), a company incorporated in Mumbai, India which is predominantly engaged in factoring business. The other shareholders in this associated company are Export-Import Bank of India ("EXIMBank"), Bank of Maharashtra and International Finance Corporation ("IFC"), the latter a member of the World Bank Group and also a shareholder of the Bank.

    Subsequent to the Balance Sheet date and in accordance with the regulatory requirements of both India and Malta, the Bank made a company announcement to the effect that State Bank of India ("SBI") intends to purchase the 38.5% shareholding held by the Bank in Global Trade Finance Limited - reference is made to note 46 to the Financial Statements.

(b) 40% in The Egyptian Company for Factoring S.A.E. ("Egypt Factors"), a company incorporated in Egypt, where the other shareholders are Commercial International Bank (Egypt) holding 40% and 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.

# DIRECTORS'REPORT

*For the Year Ended 31 December 2007*

(c) 50% in Menafactors Limited, a joint venture company incorporated in the United Arab Emirates, with National Bank of Dubai P.J.S.C. Menafactors Limited was licensed by the Dubai Financial Services Authority in September 2007 to provide international factoring and forfaiting services in the Gulf and MENA countries.

**Business Review and Future Developments**

A review of the business of the Group during the current year and an indication of likely future developments are given in the "Review of Operations" on pages 5 to 13.

**Dividends and Reserves**

The Directors will be recommending to the Annual General Meeting of shareholders the payment of a scrip dividend amounting to USD4,184,820 (2006: USD3,036,929), representing a net dividend per ordinary share of US cents 3.80232493 (2006: US cents 3.5244).

**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 12 April 2007. Along with the statutory Ordinary Resolutions, the Meeting approved Resolutions presented as special business to the shareholders. The members approved an Ordinary Resolution by which the Shareholders gave their consent for the disclosure of unpublished price-sensitive information. Furthermore, four Extraordinary Resolutions were approved, namely the amendments to the Executive Share Option Scheme Rules (2006-2009), Applicable Years 2007 - 2009 and the renewal of the Directors' authority (a) to issue new shares and (b) to restrict or withdraw statutory pre-emption rights and (c) for the Bank to acquire its own shares. All such authorisations will remain valid until the 2008 Annual General Meeting.

**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.

**Disclosure in terms of the Listing Rules**

The Directors refer to the following disclosures in terms of Listing Rule 8.14:

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.

# DIRECTORS' REPORT

*For the Year Ended 31 December 2007*

c. Direct and indirect shareholdings in excess of 5% of the share capital are disclosed in Schedule V "Other Relevant Company Information" appended to the Financial Statements.

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 ("IFC"). 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 reorganisation 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. 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 2007 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 2008. 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 on the basis of a range of up to 50% below and above the trade weighted average price of the shares for the period of seven months up to and including 28 February 2007, with discretion being given to the Directors in the use of such range. This basis was consistent with that used in the preceding two Annual General Meetings.

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.

# DIRECTORS'REPORT

*For the Year Ended 31 December 2007*

**Events after the Balance Sheet date**

Subsequent to the Balance Sheet date, an announcement was made to the effect that State Bank of India intends to purchase the 38.5% shareholding held by the Bank in Global Trade Finance Limited.

Moreover, additional investments of USD1,300,000 and USD275,000 were made in The Egyptian Company for Factoring SAE and Menafactors Limited respectively.

Further information is found in note 46 to the Financial Statements.

**Directors**

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

Najeeb H.M. Al-Saleh *(Chairman)*
John C. Grech *(Vice Chairman)*
Mehdi Ouazzani Hassani *(resigned on 12 April 2007)*
Fouad M.T. Alghanim
Mohammed I.H. Marafie
Duco Reinout Hooft Graafland
Hamad Musaed Bader Mohammed Al-Sayer
Francis J. Vassallo
Tareq M. Al-Saleh
Jacques Leblanc
Rogers David LeBaron
Pierre Olivier Fragnière *(appointed on 12 April 2007)*

**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 2 March 2008 and signed on its behalf by:

**Najeeb H.M. Al-Saleh**
*Chairman*

**John C. Grech**
*Vice Chairman*

**Registered Address**
7th Floor
The Plaza Commercial Centre
Bisazza Street
Sliema, SLM 1640
Malta

# STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

## Introduction

Pursuant to the requirements of the Listing Authority of Malta [Malta Financial Services Authority (the "Authority")] and of Listing Rules 8.36 to 8.39, the Board of Directors (the "Board" or "Directors") of FIMBank p.l.c. (the "Bank") hereby details the principles of its Statement of Compliance which illustrates the extent to which the Code of Principles of Good Corporate Governance ("the Principles"), published as Appendix 8.1 to the Listing Rules, has been adopted together with the effective measures taken to ensure compliance with such Principles.

## Compliance with the Principles

Although the Principles have not been made mandatory by the Authority up to the date of this Statement, the Authority recommends Listed Companies to endeavour to adopt these Principles.

The Board strongly believes that the practices contained in the Principles are in the best interests of the shareholders because they evidence the Directors' and the Bank's commitment to high standards of corporate governance. Ultimate responsibility for good corporate governance is of the Directors who therefore decide to adopt the Principles and endorse them accordingly, except for those instances where there exist particular circumstances that warrant non-adherence thereto, or at least postponement for the time being.

## Roles and Responsibilities

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

a) agreeing business objectives, financial plans and general parameters within which the Board, the Board Committees and Management are to function;
b) ensuring that systems and procedures are in place for significant business risks and exposures to be identified and properly managed;
c) ensuring that adequate systems of internal control are in place, and appropriately reviewed for effectiveness and monitored for compliance on a regular basis;
d) setting appropriate business standards and codes of corporate governance and ethical behaviour for all Directors and employees, and monitoring their performance;
e) appointing the President who is entrusted with day-to-day management of the Group and its operations, together with members of Management.

The Board has over the years 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' meetings.

The Members of the Board of Directors of the Bank are professionals with a balanced mix of capabilities ranging from business to financial services which ensures a good blend of collective expertise. Moreover, the suitability of any individual to become a Director or an Officer of the Bank is, in the first place, assessed by the Authority, which reviews, *inter alia*, the individual's competence to serve as Director or Officer against established 'fit and proper' criteria. In this connection, the individual provides any information, including detailed personal and career questionnaires, as the competent regulatory authority may require.

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. In last year's statement it was reported that the Board would be implementing a comprehensive Charter which would formally address, amongst other things, issues such as preparation, training and personal development of directors. A draft charter was prepared and discussions were initiated during 2007, however further consideration of the charter  was postponed to a future date. A brief outline of training and professional development provided to officers and staff of the Group is given in the 'Review of Operations'.

# STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

**Going Concern**

As required by Listing Rule 9.40.19, upon due consideration of the Bank's profitability and balance sheet, capital adequacy and solvency, the Directors confirm the Bank's ability to continue operating as a going concern for the foreseeable future.

**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 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.

Along with the Articles' detailed provisions regulating the appointment and election of Directors as described above, the draft Board Charter contains specific provisions addressing matters such as a succession policy for Board members in the context of a formal evaluation of Board and Committees members' performance, as well as attendance and participation at meetings. However, the Board believes that, for the time being, a formal evaluation procedure for the Board of Directors and the Board Committees is not required.

The participation of Directors on Board Committees, as provided for by the Articles, is decided upon by the Board. All such Board Committees include at least one Director.

As at the date of this Statement, the members of the Board and their respective interest in the Bank are as follows:

| | Year when first appointed | No. of shares held in the Bank directly in his name |
|---|---|---|
| Najeeb H.M. Al- Saleh (Chairman) | 1994 | 656,574 |
| John C. Grech (Vice-Chairman) | 2004 | 403,107 |
| Mohamed I.H. Marafie | 1994 | 5,483,673 |
| Fouad M. T. Alghanim | 1997 | 3,720,109 |
| Duco Reinout Hooft Graafland | 2000 | Nil |
| Hamad Musaed Bader Mohammed Al-Sayer | 2002 | Nil |
| Francis J. Vassallo | 2003 | Nil |
| Tareq M Al-Saleh | 2004 | Nil |
| Jacques Leblanc | 2004 | Nil |
| Rogers David LeBaron | 2006 | Nil |
| Pierre Olivier Fragnière | 2007 | Nil |

Except for their involvement in any Board Committee as described later in this Statement of Compliance, all Directors hold office in a non-executive capacity.

Apart from these direct interests in the shareholding of the Bank, directors had beneficial interests in shareholding of the Bank as shown in Schedule VII. 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

**Proceedings of Directors**

The proceedings of Directors are regulated by the Bank's Articles. Meetings of the Board are held as frequently as necessary and are notified by the Company Secretary at least seven days before the meeting with the issue of the agenda for the forthcoming meeting. 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 the decisions they are expected to take. Meetings also include presentations by Management, whilst other information and documentation is made available for perusal by the Directors, at their request. Members of senior management, who invariably include the President, attend all Board meetings. The Board also might request that the meetings be attended by other employees or by professional advisors, as and when necessary.

All Board members have access to the services of the Company Secretary and supporting legal advice and are entitled, as members of the Board, to take independent professional advice on any matter relating to their duties, at the Bank's expense.

In terms of the Articles, 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 or 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. In all other circumstances, the Directors are expected to play a full and constructive role in the Group's affairs.

The Board held five meetings during 2007.

**Board Committees**

The Bank's Articles establish that the Directors may delegate certain powers, authorities and discretions to any person and/or Committee appointed by them. Accordingly, the Board has established the following committees:

Executive Committee
Audit Committee
Risk Committee
Asset-Liability Committee

***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 members of the Executive Committee are as follows:
Jacques Leblanc *(Chairman)*
Najeeb H M Al-Saleh
Francis J. Vassallo
Tareq Al-Saleh
Pierre Olivier Fragnière *(appointed on 23 August 2007)*
Margrith Lütschg Emmenegger
Marcel Cassar
Raymond Busuttil *(resigned on 16 January 2008)*
Simon Lay *(appointed on 14 June 2007)*

The Executive Committee met on six occasions during 2007, however communication with and between Management and the Committee's members is regular and ongoing.

# STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

*Compensation Sub-Committee*

In February 2007 the Board resolved to start the process of appointing a remuneration committee for the Group and at its June 2007 meeting the Executive Committee formally constituted a Compensation Sub-Committee from amongst its members. The review, approval and monitoring of the overall Group remuneration policy is delegated by the Executive Committee to this Sub-Committee which determines the remuneration, bonuses and share options allocation to staff, within the parameters set by the Board.

The members of the Compensation Sub-Committee are as follows:
Najeeb H.M. Al-Saleh *(Chairman)*
Jacques Leblanc
Francis J. Vassallo
Tareq M. Al-Saleh
Pierre Olivier Fragnière *(appointed on 15 October 2007)*
Margrith Lütschg-Emmenegger

During 2007, the Compensation Sub-Committee met on one occasion.

***Audit Committee***

The Audit Committee assists the Board in fulfilling its supervisory and monitoring responsibilities by reviewing the systems and procedures of internal control implemented by Management, the financial statements and disclosures and the external and internal audit processes. The Committee also considers the arm's length nature of related party transactions that the Bank carries out. The Committee's terms of reference are included in the Audit Charter and reflect the requirements of the Listing Rules as well as current best recommendations and practices of good corporate governance. Both the Audit Committee's and the Internal Auditor's terms of reference clearly stipulate their independence from other Board Committees and Management. The Internal Auditor has direct access to the Committee Chairman at all times.

In terms of the Listing Rules, the composition of the Audit Committee and its Charter have been notified to the Listing Authority. The Listing Authority confirmed that it deemed the Audit Committee to be independent.

The Audit Committee members are:
Duco Reinout Hooft Graafland *(Chairman)*
Hamad Musaed Bader Mohammed Al-Sayer
Tareq M. Al-Saleh

The Internal Auditor attends all meetings and acts as Secretary of the Audit Committee.

The Audit Committee may require members of Management to attend any of the Committee meetings.

The Audit Committee held six meetings during 2007, at two of which the independent auditors were present. However, communication with and between the Secretary/Internal Auditor and the Committee's members is ongoing, and considerations that required the Committee's attention were acted upon and decided by the Members when necessary.

***Risk Committee***

The 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 Risk Committee is also responsible for the oversight of operational and legal risk matters related to credit activity.

# STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

In June 2007, the Executive Committee decided to split the delegated powers of the (then named) Risk Management Committee into two, and to establish a Sub-Committee for that purpose. The new structure provides for a Risk Committee and a Risk Sub-Committee.

The Risk Sub-Committee decides on credit applications up to and including USD5 million. Credit applications exceeding USD5 million up to the Bank's legal lending limit will be decided by the Risk Committee. The Risk Committee charter was accordingly revised to reflect the limits and procedures for approval of applications.

The Risk Committee members are as follows:
Francis J. Vassallo *(Chairman)*
John C. Grech
Margrith Lütschg-Emmenegger
Marcel Cassar
Raymond Busuttil *(resigned on 16 January 2008)*

The Risk Sub-Committee members are:
Margrith Lütschg-Emmenegger *(Chairman)*
Marcel Cassar
Simon Lay
Renald Theuma
Carmelo Occhipinti

Additionally, the Head of Legal & Compliance has right of attendance at Committee meetings. The Head of Risk Management acts as secretary to the Risk Committee.

Up to June 2007, the Risk Management Committee met on 17 occasions, and, after that date and in view of the new structure, the Risk Committee met on 11 occasions and the Risk Sub-Committee met on 10 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:
Francis J. Vassallo *(Chairman)*
Margrith Lütschg Emmenegger
Marcel Cassar
Nassif Chehab
Carmelo Occhipinti
Raymond Busuttil *(resigned on 16 January 2008)*

The ALCO met on three occasions during 2007.

**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 monitors 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 Internal Auditor 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.

# STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

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.

**Terms and Remuneration**

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 12 April 2007, the shareholders established USD250,000 as the maximum aggregate amount to which Directors would be entitled in 2007. Further details about the aggregate remuneration received by Directors in 2007 are provided in the Notes to the Financial Statements. The Board decides and approves how individual remuneration is to be allocated amongst Directors for the roles that they carry out, such as participation at Committees, and acting as Chairman of the Board and of Committees. None of the Directors is on a contract of service with the Bank. No Director is entitled to profit sharing, share options or pension benefits from the Bank or other member of the Group.

The Board considers that the terms and remuneration of the Executives should reflect their responsibilities whilst taking account of industry and market benchmarks and reflecting internationally established criteria. The review, approval and monitoring of the overall Group remuneration policy, as well as the implementation of the Executive Share Option Schemes, is delegated by the Board to the Executive Committee which in 2007 in turn established a Compensation Sub-Committee from amongst its members to oversee this responsibility. The Sub-Committee determines the remuneration, bonuses as well as the allocation of share options of all other members of staff, within the parameters approved by the Board.

**Commitment to Shareholders and an Informed Market**

The Board complies with the rules prescribed by the Bank's Memorandum and Articles, as well as all legislation, rules and regulations that oblige 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. These procedures are incorporated in a 'Code of Conduct for Dealing in Securities by Directors, Executives and Employees' which is drawn up in accordance with the requirements of the Listing Rules, and which applies to all Directors and employees of the Group.

Directors and employees are also notified and reminded by the Company Secretary to observe the 'time-windows' accompanying the publication of half yearly and annual financial results during which no dealings in the Bank's equity securities are allowed.

Regular contact with shareholders and the general market is also maintained through company announcements, which are issued in conformity with the obligations arising from the Listing Rules. During 2007 the Bank issued twenty two announcements.

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.

# STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

During 2007, the Bank also issued a Prospectus for a 5 for 19 Rights Issue of Ordinary Shares, and also made various announcements to its shareholders and the market in accordance with the provisions of the Companies Act and the Listing Rules thus ensuring that both shareholders and the market continued to be fully informed on the Group, its risks, major shareholders and related parties, as well as information related to the new Issue of shares.

In accordance with Listing Rules 9.51 *et seq.*, two announcements were made regarding the Interim Directors' Statements respectively on 18th May 2007 and 8th November 2007 respectively.

**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. FIMBank Group is also progressive in promoting health and safety and family-friendly work arrangements for its staff, as well as ethical and environmentally-responsible practices in all its business dealings.

Approved by the Board of Directors on 2 March 2008 and signed on its behalf by:

| | |
|---|---|
| **Najeeb H.M. Al-Saleh**<br>*Chairman* | **John C. Grech**<br>*Vice Chairman* |

# DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Companies Act, 1995 (the "Act") 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.

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 Act.

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 Act 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:

**Najeeb H.M. Al-Saleh**
*Chairman*

**John C. Grech**
*Vice Chairman*

# BALANCE SHEETS

*At 31 December 2007*

| | | GROUP | | BANK | |
|---|---|---|---|---|---|
| | Note | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| **ASSETS** | | | | | |
| Balances with the Central Bank of Malta and cash | 18 | **15,149,627** | 112,626 | **15,137,885** | 93,322 |
| Trading assets | 19 | **157,181,282** | 125,256,467 | **-** | - |
| Derivative assets held for risk management | 20 | **1,057,929** | 142,926 | **1,057,929** | 353,749 |
| Financial assets designated at fair value through profit or loss | 21 | **36,278,285** | 20,385,362 | **36,278,285** | 20,385,362 |
| Loans and advances to banks | 22 | **242,680,313** | 211,660,418 | **234,875,967** | 200,848,606 |
| Loans and advances to customers | 23 | **83,689,609** | 81,708,042 | **205,566,411** | 166,021,629 |
| Investments available-for-sale | 24 | **149,029** | 149,029 | **149,029** | 149,029 |
| Investments in equity accounted investees | 25 | **21,646,962** | 11,115,152 | **13,567,359** | 8,553,934 |
| Investments in subsidiaries | 26 | **-** | - | **37,392,666** | 37,392,666 |
| Property and equipment | 27 | **1,743,871** | 2,483,517 | **1,441,827** | 1,261,650 |
| Intangible assets | 28 | **1,041,451** | 2,212,879 | **463,678** | 397,782 |
| Current tax recoverable | | **-** | 159,324 | **-** | 159,324 |
| Deferred tax asset | 29 | **7,812,096** | 5,890,139 | **1,206,759** | 734,945 |
| Other assets | 30 | **1,466,659** | 1,020,420 | **1,134,150** | 806,120 |
| Prepayments and accrued income | 31 | **1,424,467** | 1,200,308 | **1,503,348** | 1,203,991 |
| **Total assets** | | **571,321,580** | 463,496,609 | **549,775,293** | 438,362,109 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Liabilities** | | | | | |
| Derivative liabilities held for risk management | 20 | **45,834** | - | **255,540** | 263,248 |
| Amounts owed to banks | 32 | **270,259,724** | 243,124,011 | **272,381,082** | 246,296,826 |
| Amounts owed to customers | 33 | **176,468,204** | 122,683,664 | **180,034,363** | 121,995,315 |
| Debt securities in issue | 34 | **11,554,888** | 19,514,000 | **1,000,000** | - |
| Subordinated convertible loan | 35 | **6,000,000** | 6,000,000 | **6,000,000** | 6,000,000 |
| Provisions | 36 | **1,155,072** | 809,371 | **-** | - |
| Current tax payable | | **637,144** | - | **637,144** | - |
| Other liabilities | | **1,768** | 44,727 | **1,769** | 44,727 |
| Accruals and deferred income | 37 | **7,263,839** | 8,669,275 | **3,359,395** | 4,072,521 |
| **Total liabilities** | | **473,386,473** | 400,845,048 | **463,669,293** | 378,672,637 |
| **Equity** | | | | | |
| Called up share capital | 38 | **54,946,953** | 43,084,340 | **54,946,953** | 43,084,340 |
| Share premium | 38 | **18,136,923** | 3,654,479 | **18,136,923** | 3,654,479 |
| Currency translation reserve | 38 | **1,501,139** | (12,229) | **-** | - |
| Other reserve | 38 | **8,988,067** | 2,681,041 | **2,681,041** | 2,681,041 |
| Retained earnings | 38 | **14,362,025** | 13,243,930 | **10,341,083** | 10,269,612 |
| **Total equity** | | **97,935,107** | 62,651,561 | **86,106,000** | 59,689,472 |
| **Total liabilities and equity** | | **571,321,580** | 463,496,609 | **549,775,293** | 438,362,109 |

# BALANCE SHEETS

*At 31 December 2007*

| | | GROUP | | BANK | |
|---|---|---|---|---|---|
| | Note | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| **MEMORANDUM ITEMS** | | | | | |
| Contingent liabilities | 39 | **8,804,574** | 6,825,473 | **19,804,574** | 26,339,473 |
| Commitments | 40 | **308,451,886** | 244,471,666 | **239,187,505** | 214,271,759 |

The official closing middle rate of exchange between the US Dollar and the Maltese Lira issued by the Central Bank of Malta for 31 December 2007 stood at 3.4214.

The notes on pages 35 to 105 are an integral part of these financial statements.

The financial statements on pages 28 to 105 were approved by the Board of Directors on 2 March 2008 and were signed on its behalf by:

**Najeeb H.M. Al-Saleh**
*Chairman*

**John C. Grech**
*Vice Chairman*

# STATEMENTS OF CHANGES IN EQUITY

*For the Year Ended 31 December 2007*

| GROUP | Called up Issued Share Capital USD | Share Premium USD | Currency Translation Reserve USD | Other Reserve USD | Retained Earnings USD | Total USD |
|---|---|---|---|---|---|---|
| At 1 January 2006 | 35,586,870 | 10,231,432 | (176,774) | 2,681,041 | 6,463,467 | 54,786,036 |
| Exercised share options | 134,804 | 106,826 | - | - | - | 241,630 |
| Bonus issue | 7,136,298 | (7,136,298) | - | - | - | - |
| Currency translation difference | - | - | 164,545 | - | - | 164,545 |
| Profit for the year | - | - | - | - | 7,592,341 | 7,592,341 |
| Dividend paid | - | - | - | - | (811,878) | (811,878) |
| Scrip issue of ordinary shares | 226,368 | 452,519 | - | - | - | 678,887 |
| At 31 December 2006 | 43,084,340 | 3,654,479 | (12,229) | 2,681,041 | 13,243,930 | 62,651,561 |
| At 1 January 2007 | 43,084,340 | 3,654,479 | (12,229) | 2,681,041 | 13,243,930 | 62,651,561 |
| Issue of share capital | 11,447,350 | 13,756,486 | - | - | - | 25,203,836 |
| Share issue costs | - | (86,096) | - | - | - | (86,096) |
| Currency translation difference | - | - | 1,513,368 | - | - | 1,513,368 |
| Transfer to other reserves | - | - | - | 6,307,026 | (6,307,026) | - |
| Exercised share options | 47,658 | 40,355 | - | - | - | 88,013 |
| Profit for the year | - | - | - | - | 10,462,050 | 10,462,050 |
| Dividend paid | - | - | - | - | (3,036,929) | (3,036,929) |
| Scrip issue of ordinary shares | 367,605 | 771,699 | - | - | - | 1,139,304 |
| **At 31 December 2007** | **54,946,953** | **18,136,923** | **1,501,139** | **8,988,067** | **14,362,025** | **97,935,107** |

| BANK | Called up Issued Share Capital USD | Share Premium USD | Other Reserve USD | Retained Earnings USD | Total USD |
|---|---|---|---|---|---|
| At 1 January 2006 | 35,586,870 | 10,231,432 | 2,681,041 | 7,603,930 | 56,103,273 |
| Exercised share options | 134,804 | 106,826 | - | - | 241,630 |
| Bonus issue | 7,136,298 | (7,136,298) | - | - | - |
| Profit for the year | - | - | - | 3,477,560 | 3,477,560 |
| Dividend paid | - | - | - | (811,878) | (811,878) |
| Scrip issue of ordinary shares | 226,368 | 452,519 | - | - | 678,887 |
| At 31 December 2006 | 43,084,340 | 3,654,479 | 2,681,041 | 10,269,612 | 59,689,472 |
| At 1 January 2007 | 43,084,340 | 3,654,479 | 2,681,041 | 10,269,612 | 59,689,472 |
| Issue of share capital | 11,447,350 | 13,756,486 | - | - | 25,203,836 |
| Share issue costs | - | (86,096) | - | - | (86,096) |
| Exercised share options | 47,658 | 40,355 | - | - | 88,013 |
| Profit for the year | - | - | - | 3,108,400 | 3,108,400 |
| Dividend paid | - | - | - | (3,036,929) | (3,036,929) |
| Scrip issue of ordinary shares | 367,605 | 771,699 | - | - | 1,139,304 |
| **At 31 December 2007** | **54,946,953** | **18,136,923** | **2,681,041** | **10,341,083** | **86,106,000** |

The notes on pages 35 to 105 are an integral part of these financial statements.

# INCOME STATEMENTS

*For the Year Ended 31 December 2007*

| | | GROUP | | BANK | |
|---|---|---|---|---|---|
| | Note | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Interest income | 8 | **28,418,274** | 22,339,437 | **22,870,430** | 17,800,866 |
| Interest expense | 8 | **(17,936,912)** | (13,156,003) | **(16,858,192)** | (12,728,467) |
| **Net interest income** | 8 | **10,481,362** | 9,183,434 | **6,012,238** | 5,072,399 |
| Fee and commission income | 9 | **16,156,674** | 12,055,540 | **12,420,609** | 10,326,421 |
| Fee and commission expense | 9 | **(1,945,941)** | (1,202,509) | **(946,703)** | (1,011,842) |
| **Net fee and commission income** | 9 | **14,210,733** | 10,853,031 | **11,473,906** | 9,314,579 |
| Net trading income | 10 | **1,972,316** | 3,107,887 | **1,158,310** | 1,383,919 |
| Net (loss)/income from other financial instruments carried at fair value | 11 | **(68,468)** | 48,685 | **(14,926)** | (46,996) |
| Dividend income | 12 | **371** | 581,956 | **600,123** | 1,167,161 |
| Other operating income | 13 | **165,738** | 103,431 | **51,537** | 22,122 |
| **Operating income before net impairment losses** | | **26,762,052** | 23,878,424 | **19,281,188** | 16,913,184 |
| Net impairment losses | 14 | **(820,782)** | (1,939,894) | **(732,089)** | (884,565) |
| **Operating income** | | **25,941,270** | 21,938,530 | **18,549,099** | 16,028,619 |
| Administrative expenses | 15 | **(18,980,268)** | (15,611,680) | **(14,528,885)** | (11,826,533) |
| Depreciation and amortisation | 27/28 | **(807,318)** | (636,113) | **(517,125)** | (388,855) |
| Impairment loss on property and equipment | 27/28 | **-** | (142,000) | **-** | - |
| Adjustment to goodwill | 28 | **(1,129,726)** | (3,423,789) | **-** | - |
| **Total operating expenses** | | **(20,917,312)** | (19,813,582) | **(15,046,010)** | (12,215,388) |
| **Operating profit** | | **5,023,958** | 2,124,948 | **3,503,089** | 3,813,231 |
| Share of profit of equity accounted investees (net of tax) | 25 | **4,632,878** | 2,550,770 | **-** | - |
| **Profit before income tax** | | **9,656,836** | 4,675,718 | **3,503,089** | 3,813,231 |
| Taxation | 16 | **805,214** | 2,916,623 | **(394,689)** | (335,671) |
| **Profit for the year** | | **10,462,050** | 7,592,341 | **3,108,400** | 3,477,560 |
| **Basic earnings per share** | 17 | **11.82c** | 8.83c | **3.51c** | 4.04c |
| **Diluted earnings per share** | 17 | **11.49c** | 8.60c | **3.75c** | 4.19c |

The notes on pages 35 to 105 are an integral part of these financial statements.

# CASH FLOW STATEMENTS

*For the Year Ended 31 December 2007*

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| **Cash flows from operating activities** | | | | |
| Interest and commission receipts | **43,174,272** | 36,959,175 | **34,857,650** | 27,949,402 |
| Exchange received | **1,293,800** | 1,224,518 | **813,113** | 1,125,511 |
| Interest and commission payments | **(19,428,567)** | (13,292,877) | **(17,270,325)** | (12,963,649) |
| Payments to employees and suppliers | **(19,226,020)** | (14,127,489) | **(14,899,108)** | (11,683,045) |
| Operating profit before changes in operating assets/liabilities | **5,813,485** | 10,763,327 | **3,501,330** | 4,428,219 |
| Decrease/(increase) in operating assets: | | | | |
| - Financial assets at fair value through profit or loss | **(48,374,816)** | (25,824,478) | **(16,611,897)** | (10,255,362) |
| - Loans and advances to customers and banks | **(348,529)** | (63,904,516) | **(559,353)** | (63,466,471) |
| - Other assets | **(446,243)** | 136,138 | **(328,020)** | 441,657 |
| (Decrease)/increase in operating liabilities: | | | | |
| - Amounts owed to customers and banks | **4,898,814** | 63,460,289 | **5,628,236** | 84,465,775 |
| - Other liabilities | **(42,956)** | 36,991 | **(42,956)** | 42,276 |
| Net cash (outflows)/inflows from operating activities before income tax | **(38,500,245)** | (15,332,249) | **(8,412,660)** | 15,656,094 |
| Income tax paid | **(70,525)** | (243,463) | **(70,035)** | (243,466) |
| **Net cash (outflows)/inflows from operating activities** | **(38,570,770)** | (15,575,712) | **(8,482,695)** | 15,412,628 |
| **Cash flows from investing activities** | | | | |
| - Payments to acquire property and equipment | **(626,931)** | (696,768) | **(597,122)** | (253,983) |
| - Payments to acquire intangible assets | **(166,076)** | (565,862) | **(166,076)** | (442,674) |
| - Proceeds on disposal of property and equipment | **828,644** | 31,208 | **5,940** | - |
| - Net advance to subsidiary companies | **-** | - | **(34,743,686)** | (23,173,879) |
| - Purchase of shares in equity accounted investees | **(5,013,425)** | (2,257,303) | **(5,013,425)** | (2,294,746) |
| - Purchase of other investment | **-** | (15,429) | **-** | (15,429) |
| - Receipt of dividend | **600,123** | 1,036,375 | **600,123** | 1,167,161 |
| **Net cash flows used in investing activities** | **(4,377,665)** | (2,467,779) | **(39,914,246)** | (25,013,550) |
| **Cash flows from financing activities** | | | | |
| - Proceeds from issue of share capital | **25,291,849** | 241,630 | **25,291,849** | 241,630 |
| - Share issue costs | **(86,096)** | - | **(86,096)** | - |
| - Debt securities in issue | **(7,959,112)** | 18,569,898 | **1,000,000** | (944,102) |
| - Dividends paid | **(1,897,625)** | (132,991) | **(1,897,625)** | (132,991) |
| **Net cash flows from/(used in) financing activities** | **15,349,016** | 18,678,537 | **24,308,128** | (835,463) |
| **(Decrease)/increase in cash and cash equivalents c/f** | **(27,599,419)** | 635,046 | **(24,088,813)** | (10,436,385) |

# CASH FLOW STATEMENTS

*For the Year Ended 31 December 2007*

| | | GROUP | | BANK | |
|---|---|---|---|---|---|
| | Note | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| **(Decrease)/increase in cash and cash equivalents b/f** | | **(27,599,419)** | 635,046 | **(24,088,813)** | (10,436,385) |
| - Effect of exchange rate changes on cash and cash equivalents | | **385,217** | 1,407,472 | **217,847** | 1,292,419 |
| - Net decrease in cash and cash equivalents | | **(27,984,636)** | (772,426) | **(24,306,660)** | (11,728,804) |
| **(Decrease)/increase in cash and cash equivalents** | | **(27,599,419)** | 635,046 | **(24,088,813)** | (10,436,385) |
| Cash and cash equivalents at beginning of year | | **38,444,546** | 37,809,500 | **24,996,494** | 35,432,879 |
| **Cash and cash equivalents at end of year** | 41 | **10,845,127** | 38,444,546 | **907,681** | 24,996,494 |

The notes on pages 35 to 105 are an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 1 REPORTING ENTITY

FIMBank p.l.c. ("the Bank") is a limited liability company domiciled and incorporated in Malta. The consolidated financial statements of the Bank for the year ended 31 December 2007 comprise the Bank and its subsidiary undertakings (together referred to as "the Group") as disclosed in note 26.

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

The consolidated and separate financial statements ("the financial statements") have been prepared and presented in accordance with the provisions of the Banking Act, 1994 and the Companies Act, 1995 enacted in Malta (the "Act") which requires adherence to International Financial Reporting Standards. In the case of the Group, Article 4 of Regulation 1606/2002/EC ("the Regulation") requires that, for each financial year, companies that at balance sheet date have their securities trading on a regulated market of any EU Member State shall prepare consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU ("EU-endorsed IFRSs"). The Regulation prevails over the relevant provisions of the Companies Act, 1995 to the extent that the said provisions are incompatible with the requirements of the Regulation.

EU-endorsed IFRSs may differ from IFRSs as published by the International Accounting Standards Board (IASB) if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2007, there were no unendorsed standards effective for the year ended 31 December 2007 affecting these consolidated and separate financial statements, and there is no difference between IFRSs as endorsed by the EU and IFRSs as issued by the IASB in terms of their application to the Group.

The financial statements were approved by the Board of Directors on 2 March 2008.

### 2.2 Basis of measurement

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

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

The methods used to measure fair values are discussed further in note 4.

### 2.3 Functional and presentation currency

These consolidated 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 financial statements in conformity with IFRS 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.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**2 BASIS OF PREPARATION** *(continued)*

**2.4 Use of estimates and judgements** *(continued)*

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount 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.

### 3.1 Basis of consolidation

*3.1.1 Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

*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 Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. 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 any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. 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 to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.2 Foreign currency** *(continued)*

*3.2.1 Foreign currency transactions (continued)*

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.

*3.2.2 Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to US Dollar at exchange rates at the reporting date. The income and expenses of foreign operations, excluding any foreign operations in hyperinflationary economies, are translated to US Dollar at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity. Such differences are recognised in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

**3.3 Interest**

Interest income and expense are recognised in the income statement 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. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes fees and point paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and
- interest on available-for-sale investment securities on an effective interest basis.

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 income on other financial instruments carried at fair value in the income statement.

**3.4 Fees and commissions**

Fees and commission income and expenses 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, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.5 Net trading income**

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

**3.6 Net income from other financial instruments at fair value**

Net income from other financial instruments at fair value relates to non-qualifying 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, interest, dividends and foreign exchange differences.

**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 Operating 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. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for 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 the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the 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 and 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 only to the extent that it is probable that future taxable profits will be available against which the asset 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 that these are originated. 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.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.10 Financial assets and liabilities** *(continued)*

*3.10.2 Derecognition*

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all 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 from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

*3.10.3 Offsetting*

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and 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 by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

*3.10.4 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.

*3.10.5 Fair value measurement*

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments. For these financial instruments, inputs into models are market observable.

*3.10.6 Identification and measurement of impairment*

At each balance sheet 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 on the asset that can be estimated reliably.

The Group considers evidence of impairment at both an individual asset and collective level. All individually significant financial assets are assessed for specific impairment. All 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 then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.10 Financial assets and liabilities** *(continued)*

Objective evidence that financial assets (including equity securities) are impaired can include 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 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 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 assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

*3.10.7 Designation at fair value through profit or loss*

The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- 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; or
- 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, unrestricted balances held with the Central Bank of Malta 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.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**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 balance sheet with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

**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 fair value in the balance sheet.

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income on other financial instruments carried at fair value.

**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 the case of 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 carries investments available-for-sale and at fair value through profit or loss.

*3.15.1 Designated at fair value through profit or loss*

The Group carries some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy 3.10.7.

*3.15.2 Available-for-sale*

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably 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.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.15 Investment securities** *(continued)*

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

**3.16 Investments in subsidiaries, associates and jointly-controlled entities**

Investments in subsidiaries, associates and joint ventures are shown in the separate balance sheet at cost less 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 impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. 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.

*3.17.2 Subsequent costs*

The cost of replacing 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 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 part of an item of property and equipment. Improvements to leasehold premises are depreciated over the shorter of the lease term and their useful lives.

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 | 5 - 14 years |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

**3.18 Intangible assets**

*3.18.1 Goodwill*

Goodwill (negative goodwill) arises on the acquisition of subsidiaries.

Goodwill represents the excess of the cost of the acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*
**3.18 Intangible assets** *(continued)*

*3.18.2 Software*

Software acquired by the Group is stated at cost less accumulated amortisation and 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 are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

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. The estimate useful life of software is seven years.

**3.19 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 goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit 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 in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**3.20 Deposits, debt securities issued and subordinated liabilities**

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

If the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, 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 instrument.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.20 Deposits, debt securities issued and subordinated liabilities** *(continued)*

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

**3.21 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 restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has commenced or has been announced publicly. Future operating costs are not provided for.

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.

**3.22 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 initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The 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). Financial guarantees are included within other liabilities.

**3.23 Employee benefits**

*3.23.1 Defined contribution plans*

The Bank contributes towards a defined contribution state pension plan in accordance with Maltese legislation. 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 expense during the year in which these are incurred.

*3.23.2 Share-based payment transactions*

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

**3.24 Share capital**

*3.24.1 Share issue costs*

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

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.24 Share capital** *(continued)*

*3.24.2 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.

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.

**3.25 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, which comprise convertible loan notes and share options granted to employees.

**3.26 Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from other segments. The Group's primary format for segment reporting is based on business segments.

**3.27 New standards adopted and new standards and interpretations not yet adopted**

In preparing these consolidated financial statements, the Bank and the Group have adopted IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements - Capital Disclosures. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the transitional requirements of the standards, the Bank and the Group have provided full comparative information.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- IFRS 8 Operating Segments is effective for annual periods beginning on or after 1 January 2009. This standard specifies how an entity should report information about its operating segments, based on information about the components of the entity that management uses to make operating decisions. The Group currently presents segment information based on business lines, which reflect the way the business of the Group is managed. The Group expects to adopt IFRS 8 with effect from 1 January 2009, and will accordingly present segmental information which reflects the operating segments used to make operating decisions at the time.

- IFRIC 11 IFRS 2 - Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods and services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the group's 2008 financial statements, with retrospective application required.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.27 New standards adopted and new standards and interpretations not yet adopted** *(continued)*

- IAS 1 Presentation of Financial Statements, (as revised in 2007), requires all owner changes in equity to be presented in a statement of changes in equity and all non-owner changes in equity to be presented either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires the presentation of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when an equity applies an accounting policy retrospectively or makes a retrospective restatement, or when an entity reclassifies items in the financials statements. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements, also requires the disclosure of reclassification adjustments and income tax relating to each component of other comprehensive income and the presentation of dividends recognized as distributions to owners and related amounts per share in the statement of changes in equity or in the notes.

**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.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.2 Credit risk** *(continued)*

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 MFSA and a limit of 25% of Own Funds applies to any particular customer or group of connected customers. The Risk Committee (a Board 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 (another Board Committee). The Risk Committee is 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 Committee 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 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 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.

***Maximum exposure***

Amounts that best represent the Bank and the Group's maximum exposure to credit risk at the balance sheet 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** | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Individually impaired | **46,960** | 46,960 | **767,052** | 1,305,150 |
| Neither past due nor impaired | **242,633,353** | 211,613,458 | **82,922,557** | 80,402,892 |
| Total carrying amount | **242,680,313** | 211,660,418 | **83,689,609** | 81,708,042 |

**BANK**

| | **Loans and advances to banks** | | **Loans and advances to customers** | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Individually impaired | **46,960** | 46,960 | **767,052** | 1,305,150 |
| Neither past due nor impaired | **234,829,007** | 200,801,646 | **204,799,359** | 164,716,479 |
| Total carrying amount | **234,875,967** | 200,848,606 | **205,566,411** | 166,021,629 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.2 Credit risk** *(continued)*

***Maximum exposure*** *(continued)*

Amounts of USD149,029 (2006: USD149,029) representing "investments available-for-use", USD37,392,666 (2006: USD37,392,666) representing "investments in subsidiaries", USD13,567,359 (2006: USD8,553,934) representing "investments in equity accounted investees" are classified as Neither past due nor impaired.

***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** | | **Financial assets at fair value through profit or loss** | |
|---|---|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| AAA/AA | **61,735,082** | 102,264,649 | **-** | - | **18,086,221** | 5,690,875 |
| A/BBB | **17,485,667** | 25,199,122 | **-** | - | **24,135,727** | 13,970,140 |
| BB/C | **57,846,300** | 35,371,715 | **-** | - | **110,918,111** | 102,526,497 |
| Unrated | **105,566,304** | 48,777,972 | **82,922,557** | 80,402,892 | **40,319,508** | 23,454,318 |
| | **242,633,353** | 211,613,458 | **82,922,557** | 80,402,892 | **193,459,567** | 145,641,830 |

**BANK**

| | **Loans and advances to banks** | | **Loans and advances to customers** | | **Financial assets at fair value through profit or loss** | |
|---|---|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| AAA/AA | **51,809,378** | 88,280,022 | **-** | - | **10,000,000** | 5,125,000 |
| A/BBB | **17,485,667** | 25,199,122 | **-** | - | **-** | 7,005,000 |
| BB/C | **57,846,300** | 35,371,715 | **-** | - | **25,726,089** | 8,255,362 |
| Unrated | **107,687,662** | 51,950,787 | **204,799,359** | 164,716,479 | **552,196** | - |
| | **234,829,007** | 200,801,646 | **204,799,359** | 164,716,479 | **36,278,285** | 20,385,362 |

***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).

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.2 Credit risk** *(continued)*

***Past due but not impaired loans***

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.

***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. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. No renegotiated term loans were carried by the Group and the Bank at 31 December 2007 and 2006.

***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 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. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

***Collaterals***

Loans are typically secured either by property (including shipping vessels), pledged goods, cash collateral 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 2007 and 2006.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.2 Credit risk** *(continued)*

***Collaterals*** *(continued)*

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

| | **Loans and advances to banks** | | **Loans and advances to customers** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| **Against neither past due nor impaired** | | | | |
| Cash or quasi cash | **21,797,275** | 8,528,970 | **8,084,149** | 2,546,156 |
| Property | **-** | - | **36,848,366** | 36,292,500 |
| Other | **-** | - | **27,370,712** | 7,410,794 |
| **Against impaired** | | | | |
| Cash or quasi cash | **46,960** | 46,960 | **349,310** | 974,310 |
| Property | **-** | - | **655,979** | 350,000 |
| | **21,844,235** | 8,575,930 | **73,308,516** | 47,573,760 |

During the year ended 31 December 2007, the Bank has taken possession of USD325,000 AAA/AA bank guarantees against an impaired facility to customer.

***Concentration of credit risk by sector***

The following industry concentrations of loans and advances to banks and to customers (before impairment) are considered significant:

| | **GROUP** | | **BANK** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Industrial raw materials | **6,059,300** | 8,596,873 | **6,059,300** | 8,596,873 |
| Ship pre-demolition | **37,233,423** | 34,969,949 | **37,233,423** | 34,969,949 |
| Wholesale and retail trade | **46,948,527** | 44,614,268 | **46,948,527** | 44,614,268 |
| Financial intermediation | **246,300,147** | 215,108,930 | **360,372,603** | 288,610,705 |
| Other services | **3,657,121** | 3,205,396 | **3,657,121** | 3,205,396 |
| | **340,198,518** | 306,495,416 | **454,270,974** | 379,997,191 |

***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 his local currency. The currency of the obligation may become unavailable to the borrower regardless of its particular condition.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.2 Credit risk** *(continued)*

***Concentration of credit risk by region*** *(continued)*

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 may be 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 country 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.

The following concentrations by region of exposure are considered significant:

**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** | |
|---|---|---|---|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Europe | **86,160,897** | 106,781,224 | **54,246,906** | 56,706,361 | **62,506,458** | 28,435,062 | **39,342** | 39,342 |
| Sub-sahara Africa (SSA) | **117,991,390** | 52,527,693 | **1,506,989** | - | **18,831,875** | 5,287,220 | **-** | - |
| Middle East and North Africa (MENA) | **14,879,913** | 11,296,821 | **24,027,163** | 18,398,892 | **5,214,434** | 12,404,660 | **-** | - |
| Commonwealth of Independent States (CIS) | **1,380,440** | 6,380,294 | **-** | 455 | **83,780,863** | 91,052,500 | **109,687** | 109,687 |
| Others | **23,072,108** | 34,990,933 | **4,353,629** | 6,908,878 | **23,125,937** | 8,462,387 | **-** | - |
| | **243,484,748** | 211,976,965 | **84,134,687** | 82,014,586 | **193,459,567** | 145,641,829 | **149,029** | 149,029 |
| Collective impairment | **(804,435)** | (316,547) | **(445,078)** | (306,544) | **-** | - | **-** | - |
| | **242,680,313** | 211,660,418 | **83,689,609** | 81,708,042 | **193,459,567** | 145,641,829 | **149,029** | 149,029 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.2 Credit risk** *(continued)*

***Concentration of credit risk by region*** *(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 | |
|---|---|---|---|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Europe | **85,729,536** | 107,253,354 | **176,123,709** | 141,019,948 | **10,552,196** | 5,125,000 | **39,342** | 39,342 |
| Sub-sahara Africa (SSA) | **117,991,390** | 52,527,693 | **1,506,989** | - | **5,050,000** | 5,000,000 | **-** | - |
| Middle East and North Africa (MENA) | **14,879,913** | 11,296,821 | **24,027,163** | 18,398,892 | **5,050,000** | - | **-** | - |
| Commonwealth of Independent States (CIS) | **1,380,440** | 6,380,294 | **-** | 455 | **10,404,166** | 8,003,604 | **109,687** | 109,687 |
| Others | **15,699,123** | 23,706,991 | **4,353,628** | 6,908,878 | **5,221,923** | 2,256,758 | **-** | - |
| | **235,680,402** | 201,165,153 | **206,011,489** | 166,328,173 | **36,278,285** | 20,385,362 | **149,029** | 149,029 |
| Collective impairment | **(804,435)** | (316,547) | **(445,078)** | (306,544) | **-** | - | **-** | - |
| | **234,875,967** | 200,848,606 | **205,566,411** | 166,021,629 | **36,278,285** | 20,385,362 | **149,029** | 149,029 |

For region exposure on "Investments in equity accounted investees" and "Investments in subsidiaries" please refer to note 25 and note 26 respectively.

***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 will encounter difficulty in meeting obligations from its financial liabilities.

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

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.3 Liquidity risk** *(continued)*

***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 (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.

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:

| | **2007** | **2006** |
|---|---|---|
| At 31 December | 54.17% | 72.05% |
| Average for the period | 59.72% | 58.76% |
| Maximum for the period | 75.49% | 72.63% |
| Minimum for the period | 45.88% | 43.19% |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.3 Liquidity risk** *(continued)*

***Residual contractual maturities of financial assets and liabilities***

**GROUP**

**31 December 2007**

| | Carrying amount USD | Gross nominal inflow / (outflow) USD | Less than 1 month USD | Between 1 and 3 months USD | Between 3 months and 1 year USD | Between 1 and 5 years USD | More than 5 years USD |
|---|---|---|---|---|---|---|---|
| Balances with the Central Bank of Malta and cash | 15,149,627 | 15,149,627 | 15,149,627 | - | - | - | - |
| Trading assets | 157,181,282 | 157,181,282 | 157,181,282 | - | - | - | - |
| Derivative assets held for risk management | 1,057,929 | 1,057,929 | 1,000,272 | 8,467 | 49,190 | - | - |
| Financial assets designated at fair value through profit or loss | 36,278,285 | 36,278,285 | 36,278,285 | - | - | - | - |
| Loans and advances to banks | 242,680,313 | 247,653,118 | 201,465,539 | 26,311,196 | 19,763,287 | 113,096 | - |
| Loans and advances to customers | 83,689,609 | 102,295,349 | 51,535,567 | 11,229,230 | 22,826,729 | 16,703,823 | - |
| Derivative liabilities held for risk management | (45,834) | (45,834) | - | (45,834) | - | - | - |
| Amounts owed to banks | (270,259,724) | (271,779,718) | (172,556,299) | (58,794,534) | (37,219,971) | (3,208,914) | - |
| Amounts owed to customers | (176,468,204) | (177,642,491) | (130,922,287) | (33,060,209) | (13,437,168) | (222,827) | - |
| Debt securities in issue | (11,554,888) | (11,888,462) | (1,032,447) | - | (10,856,015) | - | - |
| Subordinated convertible loan | (6,000,000) | (8,668,808) | (225,273) | - | (225,273) | (1,802,184) | (6,416,078) |

**31 December 2006**

| | Carrying amount USD | Gross nominal inflow / (outflow) USD | Less than 1 month USD | Between 1 and 3 months USD | Between 3 months and 1 year USD | Between 1 and 5 years USD | More than 5 years USD |
|---|---|---|---|---|---|---|---|
| Balances with the Central Bank of Malta and cash | 112,626 | 112,626 | 112,626 | - | - | - | - |
| Trading assets | 125,256,467 | 125,256,467 | 125,256,467 | - | - | - | - |
| Derivative assets held for risk management | 142,926 | 142,926 | 142,926 | - | - | - | - |
| Financial assets designated at fair value through profit or loss | 20,385,362 | 20,385,362 | 20,385,362 | - | - | - | - |
| Loans and advances to banks | 211,660,418 | 215,200,514 | 176,667,205 | 22,951,237 | 15,468,976 | 113,096 | - |
| Loans and advances to customers | 81,708,042 | 93,213,761 | 51,114,463 | 15,851,181 | 23,538,300 | 2,709,817 | - |
| Amounts owed to banks | (243,124,011) | (246,125,356) | (103,837,451) | (73,721,647) | (68,566,258) | - | - |
| Amounts owed to customers | (122,683,664) | (123,380,511) | (86,587,926) | (31,481,913) | (5,310,672) | - | - |
| Debt securities in issue | (19,514,000) | (20,177,307) | (1,242,376) | (4,119,331) | (14,815,600) | - | - |
| Subordinated convertible loan | (6,000,000) | (9,211,420) | (232,105) | - | (232,105) | (1,856,840) | (6,890,370) |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.3 Liquidity risk** *(continued)*

***Residual contractual maturities of financial assets and liabilities*** *(continued)*

**BANK**

**31 December 2007**

| | Carrying amount USD | Gross nominal inflow / (outflow) USD | Less than 1 month USD | Between 1 and 3 months USD | Between 3 months and 1 year USD | Between 1 and 5 years USD | More than 5 years USD |
|---|---|---|---|---|---|---|---|
| Balances with the Central Bank of Malta and cash | 15,137,885 | 15,137,885 | 15,137,885 | - | - | - | - |
| Derivative assets held for risk management | 1,057,929 | 1,057,929 | 1,000,272 | 8,467 | 49,190 | - | - |
| Financial assets designated at fair value through profit or loss | 36,278,285 | 36,278,285 | 36,278,285 | - | - | - | - |
| Loans and advances to banks | 234,875,967 | 239,848,771 | 192,478,375 | 26,311,196 | 20,946,104 | 113,096 | - |
| Loans and advances to customers | 205,566,411 | 224,172,152 | 51,535,567 | 11,229,230 | 143,808,642 | 17,598,713 | - |
| Derivative liabilities held for risk management | (255,540) | (255,540) | - | (255,540) | - | - | - |
| Amounts owed to banks | (272,381,082) | (273,901,075) | (173,494,839) | (58,794,534) | (38,402,788) | (3,208,914) | - |
| Amounts owed to customers | (180,034,363) | (181,208,651) | (134,488,448) | (33,060,209) | (13,437,168) | (222,826) | - |
| Debt securities in issue | (1,000,000) | (1,032,447) | (1,032,447) | - | - | - | - |
| Subordinated convertible loan | (6,000,000) | (8,668,808) | (225,273) | - | (225,273) | (1,802,184) | (6,416,078) |

**31 December 2006**

| | Carrying amount USD | Gross nominal inflow / (outflow) USD | Less than 1 month USD | Between 1 and 3 months USD | Between 3 months and 1 year USD | Between 1 and 5 years USD | More than 5 years USD |
|---|---|---|---|---|---|---|---|
| Balances with the Central Bank of Malta and cash | 93,322 | 93,322 | 93,322 | - | - | - | - |
| Derivative assets held for risk management | 353,749 | 353,749 | 353,749 | - | - | - | - |
| Financial assets designated at fair value through profit or loss | 20,385,362 | 20,385,362 | 20,385,362 | - | - | - | - |
| Loans and advances to banks | 200,848,606 | 204,388,700 | 162,893,401 | 22,740,412 | 18,641,791 | 113,096 | - |
| Loans and advances to customers | 166,021,629 | 177,527,349 | 51,114,463 | 15,851,181 | 106,973,539 | 3,588,166 | - |
| Derivative liabilities held for risk management | (263,248) | (263,248) | (263,248) | - | - | - | - |
| Amounts owed to banks | (246,296,826) | (249,298,171) | (103,837,451) | (73,721,647) | (71,739,073) | - | - |
| Amounts owed to customers | (121,995,315) | (122,692,162) | (86,636,709) | (30,744,781) | (5,310,672) | - | - |
| Subordinated convertible loan | (6,000,000) | (9,211,420) | (232,105) | - | (232,105) | (1,856,840) | (6,890,370) |

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

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**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 rates when considered appropriate.

**GROUP**

**31 December 2007**
*All amounts are expressed in USD*

| | USD | EUR | GBP | Other Currencies | Total |
|---|---|---|---|---|---|
| Balances with the Central Bank of Malta and cash | 45,520 | 15,075,867 | 16,554 | 11,686 | **15,149,627** |
| Trading assets | 124,316,274 | 26,396,579 | 1,329,378 | 5,139,051 | **157,181,282** |
| Derivative assets held for risk management | 1,057,929 | - | - | - | **1,057,929** |
| Financial assets at fair value through profit or loss | 34,410,153 | - | 1,868,132 | - | **36,278,285** |
| Loans and advances to banks | 98,944,663 | 114,576,676 | 4,652,713 | 24,506,261 | **242,680,313** |
| Loans and advances to customers | 53,836,145 | 25,153,018 | 3,204,174 | 1,496,272 | **83,689,609** |
| Other assets | 8,790,314 | 144,306 | 466,613 | 666,041 | **10,067,274** |
| Derivative liabilities held for risk management | (45,834) | - | - | - | **(45,834)** |
| Amounts owed to banks | (111,997,955) | (140,218,080) | (2,560,120) | (15,483,569) | **(270,259,724)** |
| Amounts owed to customers | (88,861,055) | (62,018,169) | (12,384,653) | (13,204,327) | **(176,468,204)** |
| Debt securities in issue | (11,554,888) | - | - | - | **(11,554,888)** |
| Subordinated convertible loan | (6,000,000) | - | - | - | **(6,000,000)** |
| Other liabilities | (2,833,060) | (2,324,266) | (752,437) | (246,385) | **(6,156,148)** |
| Equity | (97,735,107) | - | - | - | **(97,735,107)** |
| Net on balance sheet financial position | 2,373,099 | (23,214,069) | (4,159,646) | 2,885,030 | **(22,115,586)** |
| Derivative instruments held for risk management | (36,868,770) | 35,225,669 | 5,968,329 | (4,325,228) | - |
| % Change in Exchange rates to USD | | | | | |
| • 7% increase | - | 840,812 | 126,608 | (100,814) | **866,606** |
| • 7% decrease | - | (840,812) | (126,608) | 100,814 | **(866,606)** |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*
**4.4 Market risk** *(continued)*
***Foreign exchange risk*** *(continued)*

**GROUP**

**31 December 2006**
*All amounts are expressed in USD*

| | USD | EUR | GBP | Other Currencies | Total |
|---|---|---|---|---|---|
| Balances with the Central Bank of Malta and cash | 69,148 | 28,026 | 10,425 | 5,027 | **112,626** |
| Trading assets | 104,700,281 | 19,069,418 | 170,231 | 1,316,537 | **125,256,467** |
| Derivative assets held for risk management | 142,926 | - | - | - | **142,926** |
| Financial assets at fair value through profit or loss | 20,385,362 | - | - | - | **20,385,362** |
| Loans and advances to banks | 94,317,491 | 97,852,984 | 8,710,391 | 10,779,552 | **211,660,418** |
| Loans and advances to customers | 60,249,405 | 10,337,980 | 2,358,768 | 8,761,889 | **81,708,042** |
| Other assets | 6,792,635 | 135,736 | 59,842 | 640,755 | **7,628,968** |
| Amounts owed to banks | (141,093,487) | (91,434,712) | (562,667) | (10,033,145) | **(243,124,011)** |
| Amounts owed to customers | (66,765,569) | (44,252,239) | (10,871,323) | (794,533) | **(122,683,664)** |
| Debt securities in issue | (19,514,000) | - | - | - | **(19,514,000)** |
| Subordinated convertible loan | (6,000,000) | - | - | - | **(6,000,000)** |
| Other liabilities | (5,106,366) | (1,330,662) | (54,158) | (44,637) | **(6,535,823)** |
| Equity | (62,651,561) | - | - | - | **(62,651,561)** |
| Net on balance sheet financial position | (14,473,735) | (9,593,469) | (178,491) | 10,631,445 | **(13,614,250)** |
| Derivative instruments held for risk management | - | - | - | - | - |
| % Change in Exchange rates to USD | | | | | |
| • 7% increase | - | (671,543) | (12,494) | 744,201 | **60,164** |
| • 7% decrease | - | 671,543 | 12,494 | (744,201) | **(60,164)** |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.4 Market risk** *(continued)*

***Foreign exchange risk*** *(continued)*

**BANK**

**31 December 2007**

*All amounts are expressed in USD*

| | USD | EUR | GBP | Other Currencies | Total |
|---|---|---|---|---|---|
| Balances with the Central Bank of Malta and cash | 38,681 | 15,074,177 | 13,884 | 11,143 | **15,137,885** |
| Derivative assets held for risk management | 1,057,929 | - | - | - | **1,057,929** |
| Financial assets at fair value through profit or loss | 34,410,153 | - | 1,868,132 | - | **36,278,285** |
| Loans and advances to banks | 92,290,329 | 112,731,237 | 5,348,179 | 24,506,222 | **234,875,967** |
| Loans and advances to customers | 139,973,549 | 54,588,486 | 4,480,057 | 6,524,319 | **205,566,411** |
| Other assets | 2,242,530 | 156,570 | 292,585 | 717,212 | **3,408,897** |
| Derivative liabilities held for risk management | (255,540) | - | - | - | **(255,540)** |
| Amounts owed to banks | (112,936,545) | (140,218,079) | (3,742,937) | (15,483,521) | **(272,381,082)** |
| Amounts owed to customers | (89,376,296) | (65,005,003) | (12,384,653) | (13,268,411) | **(180,034,363)** |
| Debt securities in issue | (1,000,000) | - | - | - | **(1,000,000)** |
| Subordinated convertible loan | (6,000,000) | - | - | - | **(6,000,000)** |
| Other liabilities | (1,272,991) | (955,732) | (197,838) | (221,140) | **(2,647,701)** |
| Equity | (86,106,000) | - | - | - | **(86,106,000)** |
| Net on balance sheet financial position | (26,934,201) | (23,628,344) | (4,322,591) | 2,785,824 | **(52,099,312)** |
| Derivative instruments held for risk management | (36,868,770) | 35,225,669 | 5,968,329 | (4,325,228) | **-** |
| % Change in Exchange rates to USD | | | | | |
| • 7% increase | - | 811,813 | 115,202 | (107,758) | **819,257** |
| • 7% decrease | - | (811,813) | (115,202) | 107,758 | **(819,257)** |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.4 Market risk** *(continued)*

***Foreign exchange risk*** *(continued)*

**BANK**

**31 December 2006**

*All amounts are expressed in USD*

| | USD | EUR | GBP | Other Currencies | Total |
|---|---|---|---|---|---|
| Balances with the Central Bank of Malta and cash | 53,458 | 27,255 | 8,709 | 3,900 | **93,322** |
| Derivative assets held for risk management | 353,749 | - | - | - | **353,749** |
| Financial assets at fair value through profit or loss | 20,385,362 | - | - | - | **20,385,362** |
| Loans and advances to banks | 85,802,917 | 96,122,965 | 8,078,956 | 10,843,768 | **200,848,606** |
| Loans and advances to customers | 122,332,221 | 30,278,432 | 3,371,888 | 10,039,088 | **166,021,629** |
| Other assets | 1,589,059 | 142,881 | 44,459 | 642,681 | **2,419,080** |
| Derivative liabilities held for risk management | (263,248) | - | - | - | **(263,248)** |
| Amounts owed to banks | (144,222,775) | (91,478,238) | (562,667) | (10,033,146) | **(246,296,826)** |
| Amounts owed to customers | (66,074,011) | (44,252,239) | (10,871,323) | (797,742) | **(121,995,315)** |
| Subordinated loan | (6,000,000) | - | - | - | **(6,000,000)** |
| Other liabilities | (2,148,141) | (521,291) | (53,038) | (44,112) | **(2,766,582)** |
| Equity | (59,689,472) | - | - | - | **(59,689,472)** |
| Net on balance sheet financial position | (47,880,881) | (9,680,235) | 16,984 | 10,654,437 | **(46,889,695)** |
| Derivative instruments held for risk management | - | - | - | - | **-** |
| % Change in Exchange rates to USD | | | | | |
| • 7% increase | - | (677,616) | (1,189) | 745,812 | **67,007** |
| • 7% decrease | - | 677,616 | 1,189 | (745,812) | **(67,007)** |

The following exchange rates applied during the year:

| | Average rate | | Reporting date mid-spot rate | |
|---|---|---|---|---|
| **USD** | **2007** | **2006** | **2007** | **2006** |
| 1 EUR | 1.3703 | 1.2550 | 1.4745 | 1.3182 |
| 1 GBP | 2.0022 | 1.8401 | 1.9980 | 1.9666 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.4 Market risk** *(continued)*

***Foreign exchange risk*** *(continued)*

A 7 percent strengthening of the US Dollar against the following currencies 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 2007** | | | | |
| EUR | 840,812 | 840,812 | 811,813 | 811,813 |
| GBP | 126,608 | 126,608 | 115,202 | 115,202 |
| Other | (100,814) | (100,814) | (107,758) | (107,758) |
| **31 December 2006** | | | | |
| EUR | (671,543) | (671,543) | (677,616) | (677,616) |
| GBP | (12,494) | (12,494) | (1,189) | (1,189) |
| Other | 744,201 | 744,201 | 745,812 | 745,812 |

A 7 percent weakening of the US Dollar against the above currencies 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.

***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 re-price 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.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.4 Market risk** *(continued)*

***Interest rate risk*** *(continued)*

**GROUP**

**31 December 2007**

| | Less than 1 month | Between 1 and 3 months | Between 3 and 6 months | Between 6 months and 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 | 14,970,343 | - | - | - | - | 179,284 | **15,149,627** |
| Trading assets | 4,953,357 | 16,328,664 | 93,687,499 | 29,352,008 | 12,236,464 | 623,290 | **157,181,282** |
| Derivative assets held for risk management | - | - | - | - | - | 1,057,929 | **1,057,929** |
| Financial assets designated at fair value through profit or loss | - | - | 29,030,545 | - | 7,247,740 | - | **36,278,285** |
| Loans and advances to banks | 151,800,020 | 26,484,604 | 24,838,660 | 3,703,201 | - | 35,853,828 | **242,680,313** |
| Loans and advances to customers | 77,544,840 | 567,993 | 1,129,742 | - | - | 4,447,034 | **83,689,609** |
| Other assets | - | - | - | - | - | 35,284,535 | **35,284,535** |
| **Total assets** | 249,268,560 | 43,381,261 | 148,686,446 | 33,055,209 | 19,484,204 | 77,445,900 | **571,321,580** |
| **Liabilities and equity** | | | | | | | |
| Derivative liabilities held for risk management | - | - | - | - | - | 45,834 | **45,834** |
| Amounts owed to banks | 175,240,796 | 7,948,983 | 40,348,048 | 8,765,600 | - | 37,956,297 | **270,259,724** |
| Amounts owed to customers | 112,224,007 | 25,930,465 | 27,953,696 | 4,165,673 | 2,625,073 | 3,569,290 | **176,468,204** |
| Debt securities in issue | - | - | 1,000,000 | 3,000,000 | 7,554,888 | - | **11,554,888** |
| Subordinated convertible loan | - | - | 6,000,000 | - | - | - | **6,000,000** |
| Other liabilities | - | - | - | - | - | 9,057,823 | **9,057,823** |
| Equity | - | - | - | - | - | 97,935,107 | **97,935,107** |
| **Total liabilities and equity** | 287,464,803 | 33,879,448 | 75,301,744 | 15,931,273 | 10,179,961 | 148,564,351 | **571,321,580** |

| | Less than 3 months | Between 3 and 6 months | Between 6 months and 1 year | More than 1 year | Non-Interest bearing | Total |
|---|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD | USD |
| Assets | 292,649,821 | 148,686,446 | 33,055,209 | 19,484,204 | 77,445,900 | 571,321,580 |
| Liabilities | (321,344,251) | (75,301,744) | (15,931,273) | (10,179,961) | (148,564,351) | (571,321,580) |
| **Interest sensitivity gap** | (28,694,430) | 73,384,702 | 17,123,936 | 9,304,243 | (71,118,451) | - |
| **Cumulative Gap** | (28,694,430) | 44,690,272 | 61,814,208 | 71,118,451 | - | - |
| **% change in interest rate for the period** | | | | | | |
| • 100bps increase | (215,208) | 366,924 | 14,270 | | | |
| • 100bps decrease | 215,208 | (366,924) | (14,270) | | | |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.4 Market risk** *(continued)*

***Interest rate risk*** *(continued)*

**GROUP**

**31 December 2006**

| | Less than 1 month | Between 1 and 3 months | Between 3 and 6 months | Between 6 months and 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 | 300 | - | - | - | - | 112,326 | **112,626** |
| Trading assets | - | 3,537,192 | 7,184,316 | 93,862,301 | 20,033,908 | 638,750 | **125,256,467** |
| Derivative assets held for risk management | - | - | - | - | - | 142,926 | **142,926** |
| Financial assets designated at fair value through profit or loss | - | - | 10,125,000 | - | 10,260,362 | - | **20,385,362** |
| Loans and advances to banks | 148,158,237 | 25,912,469 | 19,735,477 | 6,793,142 | 35,619 | 11,025,474 | **211,660,418** |
| Loans and advances to customers | 74,019,490 | - | - | - | - | 7,688,552 | **81,708,042** |
| Other assets | - | - | - | - | - | 24,230,768 | **24,230,768** |
| **Total assets** | 222,178,027 | 29,449,661 | 37,044,793 | 100,655,443 | 30,329,889 | 43,838,796 | **463,496,609** |
| **Liabilities and equity** | | | | | | | |
| Amounts owed to banks | 91,433,850 | 32,111,707 | 94,364,355 | - | 6,500,000 | 18,714,099 | **243,124,011** |
| Amounts owed to customers | 84,433,846 | 16,096,806 | 17,844,818 | - | 3,200,974 | 1,107,220 | **122,683,664** |
| Debt securities in issue | - | - | 17,514,000 | 2,000,000 | - | - | **19,514,000** |
| Subordinated convertible loan | - | - | 6,000,000 | - | - | - | **6,000,000** |
| Other liabilities | - | - | - | - | - | 9,523,373 | **9,523,373** |
| Equity | - | - | - | - | - | 62,651,561 | **62,651,561** |
| **Total liabilities and equity** | 175,867,696 | 48,208,513 | 135,723,173 | 2,000,000 | 9,700,974 | 91,996,253 | **463,496,609** |

| | Less than 3 months | Between 3 and 6 months | Between 6 months and 1 year | More than 1 year | Non-Interest bearing | Total |
|---|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD | USD |
| Assets | 251,627,688 | 37,044,793 | 100,655,443 | 30,329,889 | 43,838,796 | **463,496,609** |
| Liabilities | (224,076,209) | (135,723,173) | (2,000,000) | (9,700,974) | (91,996,253) | **(463,496,609)** |
| **Interest sensitivity gap** | 27,551,479 | (98,678,380) | 98,655,443 | 20,628,915 | (48,157,457) | - |
| **Cumulative Gap** | 27,551,479 | (71,126,901) | 27,528,542 | 48,157,457 | - | - |
| **% change in interest rate for the period** | | | | | | |
| • 100bps increase | 206,636 | (493,392) | 82,213 | | | |
| • 100bps decrease | (206,636) | 493,392 | (82,213) | | | |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.4 Market risk** *(continued)*

***Interest rate risk*** *(continued)*

**BANK**

**31 December 2007**

| | Less than 1 month | Between 1 and 3 months | Between 3 and 6 months | Between 6 months and 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 | 14,970,343 | - | - | - | - | 167,542 | **15,137,885** |
| Derivative assets held for risk management | - | - | - | - | - | 1,057,929 | **1,057,929** |
| Financial assets designated at fair value through profit or loss | - | - | 29,030,545 | - | 7,247,740 | - | **36,278,285** |
| Loans and advances to banks | 141,874,316 | 26,484,604 | 24,838,660 | 3,703,201 | - | 37,975,186 | **234,875,967** |
| Loans and advances to customers | 199,421,643 | 567,993 | 1,129,742 | - | - | 4,447,033 | **205,566,411** |
| Other assets | - | - | - | -- | - | 56,858,816 | **56,858,816** |
| **Total assets** | 356,266,302 | 27,052,597 | 54,998,947 | 3,703,201 | 7,247,740 | 100,506,506 | **549,775,293** |
| **Liabilities and equity** | | | | | | | |
| Derivative liabilities held for risk management | - | - | - | - | - | 255,540 | **255,540** |
| Amounts owed to banks | 175,240,796 | 7,948,983 | 40,348,048 | 8,765,600 | - | 40,077,655 | **272,381,082** |
| Amounts owed to customers | 115,790,167 | 25,930,465 | 27,953,696 | 4,165,673 | 2,625,073 | 3,569,289 | **180,034,363** |
| Debt securities in issue | - | - | 1,000,000 | - | - | - | **1,000,000** |
| Subordinated convertible loan | - | - | 6,000,000 | - | - | - | **6,000,000** |
| Other liabilities | - | - | - | - | - | 3,998,308 | **3,998,308** |
| Equity | - | - | - | - | - | 86,106,000 | **86,106,000** |
| **Total liabilities and equity** | 291,030,963 | 33,879,448 | 75,301,744 | 12,931,273 | 2,625,073 | 134,006,792 | **549,775,293** |

| | Less than 3 months | Between 3 and 6 months | Between 6 months and 1 year | More than 1 year | Non-Interest bearing | Total |
|---|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD | USD |
| Assets | 383,318,899 | 54,998,947 | 3,703,201 | 7,247,740 | 100,506,506 | **549,775,293** |
| Liabilities | (324,910,411) | (75,301,744) | (12,931,273) | (2,625,073) | (134,006,792) | **(549,775,293)** |
| **Interest sensitivity gap** | 58,408,488 | (20,302,797) | (9,228,072) | 4,622,667 | (33,500,286) | - |
| **Cumulative Gap** | 58,408,488 | 38,105,691 | 28,877,619 | 33,500,286 | - | - |
| **% change in interest rate for the period** | | | | | | |
| • 100bps increase | 438,064 | (101,514) | (7,690) | | | |
| • 100bps decrease | (438,064) | 101,514 | 7,690 | | | |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.4 Market risk** *(continued)*

***Interest rate risk*** *(continued)*

**BANK**

**31 December 2006**

| | Less than 1 month | Between 1 and 3 months | Between 3 and 6 months | Between 6 months and 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 | 300 | - | - | - | - | 93,022 | **93,322** |
| Derivative assets held for risk management | - | - | - | - | - | 353,749 | **353,749** |
| Financial assets designated at fair value through profit or loss | - | - | 10,125,000 | - | 10,260,362 | - | **20,385,362** |
| Loans and advances to banks | 134,173,546 | 25,912,469 | 19,735,477 | 6,793,142 | 35,619 | 14,198,353 | **200,848,606** |
| Loans and advances to customers | 158,333,077 | - | - | - | - | 7,688,552 | **166,021,629** |
| Other assets | - | - | - | - | - | 50,659,441 | **50,659,441** |
| **Total assets** | 292,506,923 | 25,912,469 | 29,860,477 | 6,793,142 | 10,295,981 | 72,993,117 | **438,362,109** |
| **Liabilities and equity** | | | | | | | |
| Derivative liabilities held for risk management | 263,248 | - | - | - | - | - | **263,248** |
| Amounts owed to banks | 91,433,851 | 32,111,707 | 94,364,355 | - | 6,500,000 | 21,886,913 | **246,296,826** |
| Amounts owed to customers | 84,482,629 | 16,096,806 | 17,844,818 | - | 3,200,974 | 370,088 | **121,995,315** |
| Subordinated convertible loan | - | - | 6,000,000 | - | - | - | **6,000,000** |
| Other liabilities | - | - | - | - | - | 4,117,248 | **4,117,248** |
| Equity | - | - | - | - | - | 59,689,472 | **59,689,472** |
| **Total liabilities and equity** | 176,179,728 | 48,208,513 | 118,209,173 | - | 9,700,974 | 86,063,721 | **438,362,109** |

| | Less than 3 months | Between 3 and 6 months | Between 6 months and 1 year | More than 1 year | Non-Interest bearing | Total |
|---|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD | USD |
| Assets | 318,419,392 | 29,860,477 | 6,793,142 | 10,295,981 | 72,993,117 | **438,362,109** |
| Liabilities | (224,388,241) | (118,209,173) | - | (9,700,974) | (86,063,721) | **(438,362,109)** |
| **Interest sensitivity gap** | 94,031,151 | (88,348,696) | 6,793,142 | 595,007 | (13,070,604) | - |
| **Cumulative Gap** | 94,031,151 | 5,682,455 | 12,475,597 | 13,070,604 | - | - |
| **% change in interest rate for the period** | | | | | | |
| • 100bps increase | 705,234 | (441,743) | 5,661 | | | |
| • 100bps decrease | (705,234) | 441,743 | (5,661) | | | |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.4 Market risk** *(continued)*

***Interest Rate risk*** *(continued)*

***Cash flow sensitivity analysis for repricing instruments***

An increase of 100 basis points at the reporting date would have increased/(decreased) 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 2007** | | | | |
| Repricing instruments | 165,986 | 165,986 | 328,860 | 328,860 |
| **31 December 2006** | | | | |
| Repricing instruments | (204,543) | (204,543) | 269,152 | 269,152 |

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** | **2007** | 2006 |
|---|---|---|
| | **USD** | USD |
| Non-derivative financial assets at fair value | | |
| Bonds | **8,098,285** | 10,260,362 |
| Credit linked notes | **28,180,000** | 10,125,000 |
| | **36,278,285** | 20,385,362 |

As against bonds and credit linked notes, price risk is considered to be a less relevant variable in relation to forfaiting assets. Notwithstanding this, the Group endeavours to mitigate any price risk by building a diversified forfaiting portfolio with an ultimately different geographical exposure.

| **BANK** | **2007** | 2006 |
|---|---|---|
| | **USD** | USD |
| Non-derivative financial assets at fair value | | |
| Bonds | **8,098,285** | 10,260,362 |
| Credit linked notes | **28,180,000** | 10,125,000 |
| | **36,278,285** | 20,385,362 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.4 Market risk** *(continued)*

***Other Price risk*** *(continued)*

***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 | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| 10% increase in price for Bonds | **809,828** | 1,026,036 | **809,828** | 1,026,036 |
| 1% increase in price for CLNs | **281,800** | 101,250 | **281,800** | 101,250 |

A decrease in the price of bonds and credit linked notes at the reporting date would have equal but opposite effect to the percentage change 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.

The Group's activities are subject to operational risk, including but not limited to breakdowns in internal controls and corporate governance. 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 and 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 Bank's capital requirements.

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

The Group's regulatory capital is analysed into two tiers:

- *Tier 1 capital*, which includes ordinary share capital, share premium, other revenue reserves and retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- *Tier 2 capital*, which includes qualifying subordinated liabilities with an original maturity of at least five years, collective impairment allowances and the element of the fair value arising from the revaluation of financial assets as defined in terms of Banking Directive BD/03/2002. A deduction is made for the Group's holdings in other credit and financial institutions, which are regulated by other Financial Services Authorities.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.6 Capital management** *(continued)*

***Regulatory capital*** *(continued)*

Various limits are applied to elements of the capital base. The amount of Tier 2 Capital shall not exceed Tier 1 Capital; the value of any “fixed term preference shares” and “subordinated loan capital” shall not exceed 50% of Tier 1 Capital; the total of Tier 2 Capital and any “subordinated loan capital” used to meet the trading book capital requirements must not in total exceed 200% of Tier 1 Capital left to meet trading book activities and foreign exchange risk.

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.

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

There have been no material changes in the Group’s management of capital during the period.

**GROUP**

| | **Face Value** | **Weighted amount** | **Face value** | **Weighted amount** |
|---|---|---|---|---|
| | **2007** | **2007** | 2006 | 2006 |
| | **USD ‘000** | **USD ’000** | USD ‘000 | USD ‘000 |
| **On-balance sheet assets** | | | | |
| Balances with Central Bank of Malta and cash | **15,150** | **-** | 112 | - |
| Loans and advances to banks | **243,485** | **13,337** | 211,977 | 12,664 |
| Loans and advances to customers | **84,135** | **75,906** | 82,015 | 75,437 |
| Debt securities and equities | **211,390** | **139,056** | 157,049 | 85,155 |
| Property and equipment | **1,744** | **1,744** | 2,484 | 2,484 |
| Other assets | **9,279** | **1,856** | 7,070 | 1,414 |
| Prepayments and accrued income | **1,424** | **712** | 1,200 | 600 |
| | **566,607** | **232,611** | 461,907 | 177,754 |
| **Off-balance sheet items** | | | | |
| Contingent liabilities and commitments | **317,256** | **36,062** | 251,297 | 49,821 |
| **Total adjusted assets and off-balance sheet items c/f** | | **268,673** | | 227,575 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.6 Capital management** *(continued)*

***Regulatory capital*** *(continued)*

**GROUP** *(continued)*

| | Face Value 2007 USD '000 | Weighted amount 2007 USD '000 | Face value 2006 USD '000 | Weighted amount 2006 USD '000 |
|---|---|---|---|---|
| **Total adjusted assets and off-balance sheet items b/f** | | **268,673** | | 227,575 |
| **Own funds** | | | | |
| **Original own funds** | | | | |
| Ordinary shares | **54,947** | | 43,084 | |
| Share premium | **18,137** | | 3,654 | |
| Other reserves | **10,489** | | 2,669 | |
| Profit and loss account | **14,362** | | 13,244 | |
| Intangible assets | **(1,041)** | | (2,213) | |
| | **96,894** | | 60,438 | |
| **Additional own funds** | | | | |
| Collective impairment allowances | **1,250** | | 623 | |
| Subordinated loan capital | **6,000** | | 6,000 | |
| | **7,250** | | 6,623 | |
| **Deductions on own funds** | | | | |
| Holdings in other credit/financial institutions | **(4,924)** | | - | |
| **Total own funds** | | **99,220** | | 67,061 |
| **Capital solvency ratio** | | **36.93%** | | 29.47% |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**4.6 Capital management** *(continued)*

***Regulatory capital*** *(continued)*

**BANK**

| | **Face Value** | **Weighted amount** | **Face value** | **Weighted amount** |
|---|---|---|---|---|
| | **2007** | **2007** | 2006 | 2006 |
| | **USD '000** | **USD '000** | USD '000 | USD '000 |
| **On-balance sheet assets** | | | | |
| Balances with Central Bank of Malta and cash | **15,138** | **-** | 93 | - |
| Loans and advances to banks | **235,680** | **13,761** | 201,165 | 66,304 |
| Loans and advances to customers | **206,011** | **197,783** | 166,328 | 148,384 |
| Debt securities and equities | **46,052** | **46,052** | 29,442 | 29,442 |
| Share in subsidiaries | **37,393** | **37,393** | 37,393 | 37,393 |
| Property and equipment | **1,442** | **1,442** | 1,262 | 1,262 |
| Other assets | **2,341** | **468** | 1,700 | 340 |
| Prepayments and accrued income | **1,503** | **752** | 1,204 | 602 |
| | **545,560** | **297,651** | 438,587 | 283,727 |
| **Off-balance sheet items** | | | | |
| Contingent liabilities and commitments | **258,992** | **42,628** | 438,390 | 36,968 |
| **Total adjusted assets and off-balance sheet items** | | **340,279** | | 320,695 |
| **Own funds** | | | | |
| **Original own funds** | | | | |
| Ordinary shares | **54,947** | | 43,084 | |
| Share premium | **18,137** | | 3,654 | |
| Other reserves | **2,681** | | 2,681 | |
| Profit and loss account | **10,341** | | 10,270 | |
| Intangible assets | **(464)** | | (398) | |
| | **85,642** | | 59,291 | |
| **Additional own funds** | | | | |
| Collective impairment allowances | **1,250** | | 623 | |
| Subordinated loan capital | **6,000** | | 6,000 | |
| | **7,250** | | 6,623 | |
| **Deductions on own funds** | | | | |
| Holdings in other credit/financial institutions | **(5,000)** | | - | |
| **Total own funds** | | **87,892** | | 65,914 |
| **Capital solvency ratio** | | **25.83%** | | 20.55% |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 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 3.10.6.

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 estimate 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 3.10.5. 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.

### 5.2 Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

#### *5.2.1 Financial asset and liability classification*

The Group's accounting policies provide scope for assets to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets as "trading", the Group determines that it meets the description of trading assets set out in accounting policy 3.12. No liabilities were classified as trading.

- In designating financial assets or liabilities at fair value through profit or loss, the Group determines that it has met one of the criteria for this designation set out in accounting policy 3.10.7.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 5 USE OF ESTIMATES AND JUDGEMENTS *(continued)*

### 5.3 Accounting estimates and judgements

#### *5.3.1 Critical accounting judgement in applying the Group's accounting policies*

***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.

***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 group considers if there are additional factors that indicate an impairment has 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.

***Forfaiting assets***

Forfaiting assets are stated at fair value. Fair value is calculated using the credit worthiness and interest rates on each asset at the balance sheet date and determining whether or not it is higher or lower than the book value with the resulting profit or loss taken to the income statement.

## 6 SEGMENTAL INFORMATION

**6.1** The Group's identifiable business segments are forfaiting, trade finance services, IT activities and factoring. The Group business and geographical segments are analysed as follows:

**GROUP**

| **Geographical/Business segments** | **Malta** | | **Other Countries** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD | **USD** | USD |
| **Interest receivable and similar income originated from:** | | | | | | |
| Trade finance | 1,003,970 | 465,183 | 15,339,242 | 12,092,277 | **16,343,212** | 12,557,460 |
| Forfaiting activities | - | - | 11,930,919 | 9,781,977 | **11,930,919** | 9,781,977 |
| Factoring activities | 17,845 | - | 126,298 | - | **144,143** | - |
| **Fees and commissions receivable originated from:** | | | | | | |
| Trade finance | 1,797,628 | 1,171,038 | 10,530,610 | 9,155,383 | **12,328,238** | 10,326,421 |
| Forfaiting activities | - | - | 3,455,508 | 1,729,119 | **3,455,508** | 1,729,119 |
| Factoring activities | 8,988 | - | 83,383 | - | **92,371** | - |
| IT activities | 35,000 | - | 245,557 | - | **280,557** | - |
| **Total interest, fees and commissions receivable c/f** | 2,863,431 | 1,636,221 | 41,711,517 | 32,758,756 | **44,574,948** | 34,394,977 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 6 SEGMENTAL INFORMATION *(continued)*

**GROUP** *(continued)*

| Geographical/Business segments | Malta | | Other Countries | | Total | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD | **USD** | USD |
| **Total interest, fees and commissions receivable b/f** | 2,863,431 | 1,636,221 | 41,711,517 | 32,758,756 | **44,574,948** | 34,394,977 |
| **Trading income originated from:** | | | | | | |
| Trade finance | - | - | 1,099,184 | 1,221,289 | **1,099,184** | 1,221,289 |
| Forfaiting activities | - | - | 804,664 | 1,935,283 | **804,664** | 1,935,283 |
| Gross income | 2,863,431 | 1,636,221 | 43,615,365 | 35,915,328 | **46,478,796** | 37,551,549 |
| **Interest payable originated from:** | | | | | | |
| Trade finance | (1,876,134) | (880,257) | (14,978,793) | (7,604,188) | **(16,854,927)** | (8,484,445) |
| Forfaiting activities | - | - | (1,081,985) | (5,874,066) | **(1,081,985)** | (5,874,066) |
| **Fees and commissions payable originated from:** | | | | | | |
| Trade finance | (52,434) | - | (592,016) | - | **(644,450)** | - |
| Forfaiting activities | - | - | (1,204,165) | - | **(1,204,165)** | - |
| Factoring activities | - | - | (57,143) | - | **(57,143)** | - |
| IT activities | (66) | - | (40,117) | - | **(40,183)** | - |
| | (1,928,634) | (880,257) | (17,954,219) | (13,478,254) | **(19,882,853)** | (14,358,511) |
| **Segmental profit:** | | | | | | |
| Trade finance | 873,030 | 755,964 | 11,398,227 | 14,864,761 | **12,271,257** | 15,620,725 |
| Forfaiting activities | - | - | 13,904,941 | 7,572,313 | **13,904,941** | 7,572,313 |
| Factoring activities | 26,833 | - | 152,538 | - | **179,371** | - |
| IT activities | 34,934 | - | 205,440 | - | **240,374** | - |
| | 934,797 | 755,964 | 25,661,146 | 22,437,074 | **26,595,943** | 23,193,038 |
| **Share of profits from equity accounted investees (net of tax):** | | | | | | |
| Factoring activities | | | | | **4,632,878** | 2,550,770 |
| Other operating income | | | | | **166,109** | 685,387 |
| **Common costs:** | | | | | | |
| Trade finance | | | | | **(13,246,738)** | (11,310,410) |
| Forfaiting activities | | | | | **(5,525,159)** | (4,774,586) |
| Factoring activities | | | | | **(778,643)** | (29,655) |
| IT activities | | | | | **(237,046)** | (133,143) |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 6 SEGMENTAL INFORMATION *(continued)*

**GROUP** *(continued)*

| Geographical/Business segments | Malta | | Other Countries | | Total | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD | **USD** | USD |
| Impairment allowance on property and equipment | | | | | **-** | (142,000) |
| Adjustment to goodwill | | | | | **(1,129,726)** | (3,423,789) |
| Profit on ordinary activities before tax and net impairment losses | | | | | **10,477,618** | 6,615,612 |
| **Segmental assets:** | | | | | | |
| Trade finance | 51,264,162 | 21,295,421 | 323,119,426 | 296,807,159 | **374,383,588** | 318,102,580 |
| Forfaiting activities | 13,411,852 | - | 160,956,187 | 131,987,285 | **174,368,039** | 131,987,285 |
| Factoring activities | - | - | 21,811,962 | 11,487,086 | **21,811,962** | 11,487,086 |
| IT activities | 684,539 | 751,573 | 73,452 | 38,359 | **757,991** | 789,932 |
| | 65,360,553 | 22,046,994 | 505,961,027 | 440,319,889 | **571,321,580** | 462,366,883 |
| Unallocated assets | | | | | **-** | 1,129,726 |
| | | | | | **571,321,580** | 463,496,609 |

6.2 The Bank's main activity is providing trade finance related services and there are no identifiable business segments. Trade finance activities are originated as follows:

**BANK**

| Geographical segments | Malta | | Other Countries | | Total | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD | **USD** | USD |
| Interest receivable and similar income | 1,078,039 | 504,653 | 21,792,391 | 17,296,213 | **22,870,430** | 17,800,866 |
| Fees and commissions receivable | 1,806,616 | 1,171,038 | 10,613,993 | 9,155,383 | **12,420,609** | 10,326,421 |
| Gross income | 2,884,655 | 1,675,691 | 32,406,384 | 26,451,596 | **35,291,039** | 28,127,287 |
| Interest payable and commission payable | (1,931,834) | (880,258) | (15,873,061) | (12,860,051) | **(17,804,895)** | (13,740,309) |
| Segment profit | 952,821 | 795,433 | 16,533,323 | 13,591,545 | **17,486,144** | 14,386,978 |
| Other operating income | | | | | **1,795,044** | 2,526,206 |
| Common costs | | | | | **(15,046,010)** | (12,215,388) |
| Profit on ordinary activities before tax and net impairment | | | | | **4,235,178** | 4,697,796 |
| **Segment assets** | 52,472,906 | 21,682,668 | 497,302,387 | 416,679,441 | **549,775,293** | 438,362,109 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 7 FINANCIAL ASSETS AND LIABILITIES

***Accounting classification and fair value***

**GROUP**

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

**31 December 2007**

| | Trading | Designated at fair value | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD | USD | USD |
| Balances with the Central Bank of Malta and cash | - | - | 15,149,627 | - | - | 15,149,627 | 15,149,627 |
| Trading assets | 157,181,282 | - | - | - | - | 157,181,282 | 157,181,282 |
| Derivative assets held for risk management | 1,057,929 | - | - | - | - | 1,057,929 | 1,057,929 |
| Financial assets designated at fair value through profit or loss | - | 36,278,285 | - | - | - | 36,278,285 | 36,278,285 |
| Loans and advances to banks | - | - | 193,873,834 | - | 48,806,479 | 242,680,313 | 242,680,313 |
| Loans and advances to customers | - | - | 81,991,875 | - | 1,697,734 | 83,689,609 | 83,689,609 |
| Investments available-for-sale | - | - | - | 149,029 | - | 149,029 | 149,029 |
| Derivative liabilities held for risk management | 45,834 | - | - | - | - | 45,834 | 45,834 |
| Amounts owed to banks | - | - | - | - | 270,259,724 | 270,259,724 | 270,259,724 |
| Amounts owed to customers | - | - | - | - | 176,468,204 | 176,468,204 | 176,468,204 |
| Debt securities in issue | - | - | - | - | 11,554,888 | 11,554,888 | 11,554,888 |
| Subordinated convertible loan | - | - | - | - | 6,000,000 | 6,000,000 | 6,000,000 |

Financial assets not at fair value through profit or loss 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 balance sheet date. In the case of loans and advances which are repriceable in the short term, the carrying value approximates to fair value. 95% of the Group's (97% of the Bank's) loans and advances to customers are repriceable within six months. 84% of the Group's (82% of the Bank's) loans and advances to banks are repriceable within six months. The remaining loans and advances to banks represent funds held on nostro accounts.

Financial liabilities at amortised cost comprise debt securities in issue, subordinated loan, and amounts owed to banks and customers. 90% of the Group's (90% of the Bank's) amounts owed to banks and customers are repriceable within 6 months. 8% of the other balances of the Group (9% in the case of the Bank) are held on vostro accounts. The Group's debt securities in issue and subordinated loan are subject to variable interest rates.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**7 FINANCIAL ASSETS AND LIABILITIES** *(continued)*
***Accounting classification and fair value** (continued)*

**GROUP** *(continued)*

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

**31 December 2006**

| | Trading | Designated at fair value | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD | USD | USD |
| Balances with the Central Bank of Malta and cash | - | - | 112,626 | - | - | 112,626 | 112,626 |
| Trading assets | 125,256,467 | - | - | - | - | 125,256,467 | 125,256,467 |
| Derivative assets held for risk management | 142,926 | - | - | - | - | 142,926 | 142,926 |
| Financial assets designated at fair value through profit or loss | - | 20,385,362 | - | - | - | 20,385,362 | 20,385,362 |
| Loans and advances to banks | - | - | 159,601,595 | - | 52,058,823 | 211,660,418 | 211,660,418 |
| Loans and advances to customers | - | - | 81,621,505 | - | 86,537 | 81,708,042 | 81,708,042 |
| Investments available-for-sale | - | - | - | 149,029 | - | 149,029 | 149,029 |
| Amounts owed to banks | - | - | - | - | 243,124,011 | 243,124,011 | 243,124,011 |
| Amounts owed to customers | - | - | - | - | 122,683,664 | 122,683,664 | 122,683,664 |
| Debt securities in issue | - | - | - | - | 19,514,000 | 19,514,000 | 19,514,000 |
| Subordinated convertible loan | - | - | - | - | 6,000,000 | 6,000,000 | 6,000,000 |

**BANK**

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

**31 December 2007**

| | Trading | Designated at fair value | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD | USD | USD |
| Balances with the Central Bank of Malta and cash | - | - | 15,137,885 | - | - | 15,137,885 | 15,137,885 |
| Derivative assets held for risk management | 1,057,929 | - | - | - | - | 1,057,929 | 1,057,929 |
| Financial assets designated at fair value through profit or loss | - | 36,278,285 | - | - | - | 36,278,285 | 36,278,285 |
| Loans and advances to banks | - | - | 186,069,488 | - | 48,806,479 | 234,875,967 | 234,875,967 |
| Loans and advances to customers | - | - | 203,868,677 | - | 1,697,734 | 205,566,411 | 205,566,411 |
| Investments available-for-sale | - | - | - | 149,029 | - | 149,029 | 149,029 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**7 FINANCIAL ASSETS AND LIABILITIES** *(continued)*
***Accounting classification and fair value*** *(continued)*

**BANK** *(continued)*

**31 December 2007**

| | Trading | Designated at fair value | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD | USD | USD |
| Derivative liabilities held for risk management | 255,540 | - | - | - | - | 255,540 | 255,540 |
| Amounts owed to banks | - | - | - | - | 272,381,082 | 272,381,082 | 272,381,082 |
| Amounts owed to customers | - | - | - | - | 180,034,363 | 180,034,363 | 180,034,363 |
| Debt securities in issue | - | - | - | - | 1,000,000 | 1,000,000 | 1,000,000 |
| Subordinated convertible loan | - | - | - | - | 6,000,000 | 6,000,000 | 6,000,000 |

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

| | Trading | Designated at fair value | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| **31 December 2006** | **USD** | **USD** | **USD** | **USD** | **USD** | **USD** | **USD** |
| Balances with the Central Bank of Malta and cash | - | - | 93,322 | - | - | 93,322 | 93,322 |
| Derivative assets held for risk management | 353,749 | - | - | - | - | 353,749 | 353,749 |
| Financial assets designated at fair value through profit or loss | - | 20,385,362 | - | - | - | 20,385,362 | 20,385,362 |
| Loans and advances to banks | - | - | 148,789,783 | - | 52,058,823 | 200,848,606 | 200,848,606 |
| Loans and advances to customers | - | - | 165,935,092 | - | 86,537 | 166,021,629 | 166,021,629 |
| Investments available-for-sale | - | - | - | 149,029 | - | 149,029 | 149,029 |
| Derivative liabilities held for risk management | 263,248 | - | - | - | - | 263,248 | 263,248 |
| Amounts owed to banks | - | - | - | - | 246,296,826 | 246,296,826 | 246,296,826 |
| Amounts owed to customers | - | - | - | - | 121,995,315 | 121,995,315 | 121,995,315 |
| Subordinated convertible loan | - | - | - | - | 6,000,000 | 6,000,000 | 6,000,000 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 8 NET INTEREST INCOME

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| **Interest income** | | | | |
| On loans and advances to banks | **6,986,132** | 4,795,269 | **6,982,162** | 4,785,520 |
| On loans and advances to customers | **4,659,478** | 4,219,624 | **4,659,478** | 4,219,624 |
| On loans and advances to subsidiary companies | **-** | - | **6,383,076** | 5,243,406 |
| On balances with the Central Bank of Malta | **78,178** | - | **78,178** | - |
| | **11,723,788** | 9,014,893 | **18,102,894** | 14,248,550 |
| On debt securities | **1,932,948** | 1,321,393 | **1,932,948** | 1,321,393 |
| On forfaiting assets | **11,926,950** | 9,772,228 | **-** | - |
| On other trade finance activities | **2,834,588** | 2,230,923 | **2,834,588** | 2,230,923 |
| | **28,418,274** | 22,339,437 | **22,870,430** | 17,800,866 |
| **Interest expense** | | | | |
| On amounts owed to banks | **10,583,522** | 8,578,214 | **10,583,522** | 8,578,214 |
| On amounts owed to customers | **5,311,701** | 3,717,974 | **5,764,782** | 3,666,977 |
| On debt securities in issue | **1,591,874** | 427,536 | **60,073** | 50,997 |
| On subordinated convertible loan | **449,815** | 432,279 | **449,815** | 432,279 |
| | **17,936,912** | 13,156,003 | **16,858,192** | 12,728,467 |
| **Net interest income** | **10,481,362** | 9,183,434 | **6,012,238** | 5,072,399 |

## 9 NET FEE AND COMMISSION INCOME

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| **Fee and commission income** | | | | |
| Credit related fees and commission | **2,271,329** | 1,934,374 | **2,271,329** | 1,934,374 |
| Fees and commissions on letters of credit | **8,191,000** | 7,002,123 | **8,191,000** | 7,002,123 |
| Fees and commissions on forfaiting activities | **3,455,508** | 1,729,119 | **-** | - |
| Fees and commissions on IT solutions | **280,557** | - | **-** | - |
| Other fees | **1,958,280** | 1,389,924 | **1,958,280** | 1,389,924 |
| | **16,156,674** | 12,055,540 | **12,420,609** | 10,326,421 |
| **Fee and commission expense** | | | | |
| Credit related fees | **274,746** | 391,685 | **274,746** | 391,685 |
| Correspondent banking fees | **294,826** | 279,035 | **279,285** | 255,195 |
| Fees and commissions on forfaiting activities | **1,188,771** | 216,561 | **-** | - |
| Other fees | **187,598** | 315,228 | **392,672** | 364,962 |
| | **1,945,941** | 1,202,509 | **946,703** | 1,011,842 |
| **Net fee and commission income** | **14,210,733** | 10,853,031 | **11,473,906** | 9,314,579 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 10 NET TRADING INCOME

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Net trading income from assets held for trading | **840,905** | 1,789,418 | **-** | - |
| Foreign exchange rate fluctuations | **1,131,411** | 1,318,469 | **1,158,310** | 1,383,919 |
| | **1,972,316** | 3,107,887 | **1,158,310** | 1,383,919 |

## 11 NET (LOSS)/INCOME FROM OTHER FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Net income on derivatives held for risk management purposes | **686,932** | 155,469 | **740,474** | 59,788 |
| Investment securities designated at fair value through profit or loss | **(755,400)** | (106,784) | **(755,400)** | (106,784) |
| | **(68,468)** | 48,685 | **(14,926)** | (46,996) |

## 12 DIVIDEND INCOME

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Dividend from equity accounted investee | **-** | - | **599,752** | 585,205 |
| Dividends from available-for-sale equity instruments | **371** | 581,956 | **371** | 581,956 |
| | **371** | 581,956 | **600,123** | 1,167,161 |

## 13 OTHER OPERATING INCOME

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Profit on disposal of property and equipment | **61,607** | 11,082 | **5,940** | - |
| Support fees receivable | **25,551** | 57,122 | **25,551** | 22,122 |
| Other non-trading income | **78,580** | 35,227 | **20,046** | - |
| | **165,738** | 103,431 | **51,537** | 22,122 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 14 NET IMPAIRMENT LOSSES

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| **Write downs:** | | | | |
| Loans and advances to banks | | | | |
| - specific impairment allowances | **(508)** | (2,556) | **(508)** | (2,556) |
| - collective impairment allowances | **(487,888)** | (316,547) | **(487,888)** | (316,547) |
| | **(488,396)** | (319,103) | **(488,396)** | (319,103) |
| Loans and advances to customers | | | | |
| - specific impairment allowances | **(74,710)** | (1,344,671) | **(74,710)** | (289,342) |
| - collective impairment allowances | **(138,534)** | (246,759) | **(138,534)** | (246,759) |
| - write-offs | **(119,142)** | (29,361) | **(30,449)** | (29,361) |
| | **(820,782)** | (1,939,894) | **(732,089)** | (884,565) |

## 15 ADMINISTRATIVE EXPENSES

**15.1** Administrative expenses incurred during the year are analysed as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Personnel expenses | **11,615,003** | 9,158,575 | **8,142,829** | 6,161,095 |
| Auditors' remuneration | **288,766** | 220,832 | **90,254** | 64,463 |
| Operating lease rentals | **936,453** | 743,468 | **554,395** | 425,413 |
| Other administrative expenses | **6,140,046** | 5,488,805 | **4,814,159** | 4,270,584 |
| Recharge of services by subsidiary | **-** | - | **927,248** | 904,978 |
| | **18,980,268** | 15,611,680 | **14,528,885** | 11,826,533 |

**15.2** Personnel expenses incurred during the year are analysed as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| **Directors' emoluments** | **221,792** | 184,433 | **221,792** | 184,433 |
| **Staff costs** | | | | |
| - wages, salaries and allowances | **10,750,619** | 8,486,046 | **7,595,705** | 5,720,731 |
| - defined contribution costs | **642,592** | 488,096 | **325,332** | 255,931 |
| | **11,393,211** | 8,974,142 | **7,921,037** | 5,976,662 |
| | **11,615,003** | 9,158,575 | **8,142,829** | 6,161,095 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

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

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | No. | No. | No. | No. |
| Executive and senior managerial | **12** | 20 | **11** | 10 |
| Other managerial, supervisory and clerical | **132** | 98 | **104** | 83 |
| Other staff | **5** | 3 | **4** | 3 |
| | **149** | 121 | **119** | 96 |

**15.4** The Bank has in place Executive Share Option Scheme Rules 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 2007, there are three schemes under which awarded options are still unexercised.

Movements in the number of share options are as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | No of shares | No of shares | No of shares | No of shares |
| At 1 January | **1,024,321** | 579,865 | **1,024,321** | 579,865 |
| Exercised | **(95,317)** | (269,607) | **(95,317)** | (269,607) |
| Awarded | **500,116** | 790,063 | **500,116** | 790,063 |
| Forfeited due to termination of employment | **-** | (76,000) | **-** | (76,000) |
| Forfeited due to expiry of exercise period | **(316)** | - | **(316)** | - |
| At 31 December | **1,428,804** | 1,024,321 | **1,428,804** | 1,024,321 |

**Details of share options granted:**

| | | Exercise Period | | | |
|---|---|---|---|---|---|
| | **Total** | 01.01.08 to | 01.01.06 to | 01.01.04 to | 01.01.03 to |
| | **USD** | 31.12.12 | 31.12.10 | 31.12.08 | 31.12.07 |
| Exercise price per USD0.50 share | | USD0.9534 | USD0.9425 | USD0.9508 | USD0.50 |
| Number of share options unexercised at 1 January 2006 | **579,865** | - | 385,000 | 98,753 | 96,112 |
| Exercised | **(269,607)** | - | (135,800) | (41,000) | (92,807) |
| Awarded | **790,063** | 714,400 | 60,400 | 14,051 | 1,212 |
| Forfeited due to termination of employment | **(76,000)** | (76,000) | - | - | - |
| Number of share options unexercised at 31 December 2006 | **1,024,321** | 638,400 | 309,600 | 71,804 | 4,517 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**15 ADMINISTRATIVE EXPENSES** *(continued)*

**15.4 Details of share options granted** *(continued)*

| | | Exercise Period | | | | |
|---|---|---|---|---|---|---|
| | **Total USD** | **01.01.09 to 31.12.13** | 01.01.08 to 31.12.12 | 01.01.06 to 31.12.10 | 01.01.04 to 31.12.08 | 01.01.03 to 31.12.07 |
| Exercise price per USD0.50 share | | **USD1.7818** | USD0.7763 | USD0.7654 | USD0.7737 | USD0.50 |
| Number of share options unexercised at 1 January 2007 | **1,024,321** | - | 638,400 | 309,600 | 71,804 | 4,517 |
| Exercised | **(95,317)** | - | - | (80,400) | (10,600) | (4,317) |
| Awarded | **500,116** | 500,000 | - | - | - | 116 |
| Forfeited due to expiry of exercise period | **(316)** | - | - | - | - | (316) |
| Number of share options unexercised at 31 December 2007 | **1,428,804** | 500,000 | 638,400 | 229,200 | 61,204 | - |

**15.5** During the year, the Board authorised the award of 500,000 options at an exercise price of USD1.8314. This award is subject to the attainment of a Performance Target as laid down in the Executive Share Option Scheme Rules (2006 - 2009, Applicable Year 2007), and in the case of granting of award, the options can be exercised between 1 January 2010 and 31 December 2014.

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes model with the following inputs.

Fair value of share options and assumptions:

| | **2007** |
|---|---|
| Share price at grant date | USD1.87 |
| Exercise price | USD1.83 |
| Expected volatility | 44% |
| Option life | 3 years |
| Risk free interest rate (based on Malta Government bonds) | 5.19% |

The fair value of the services received in 2007 estimated at USD35,000 was not recognised in these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 16 TAXATION

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

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| **Current tax** | | | | |
| - tax charge (including withholding taxes) | **(1,116,743)** | (450,784) | **(866,503)** | (450,784) |
| **Deferred** | | | | |
| - origination and reversal of temporary differences | **499,756** | (998,133) | **471,814** | 115,113 |
| - tax losses not previously recognised | **1,422,201** | 4,365,540 | **-** | - |
| | **1,921,957** | 3,367,407 | **471,814** | 115,113 |
| Taxation in income statement | **805,214** | 2,916,623 | **(394,689)** | (335,671) |

The foreign subsidiaries were not subject to tax in view of tax losses available for set-off against taxable income.

**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 | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Profit before tax | **9,656,836** | 4,675,718 | **3,503,089** | 3,813,231 |
| Tax expense income using the domestic income tax rate of 35% | **(3,379,893)** | (1,636,501) | **(1,226,081)** | (1,334,631) |
| Tax effect of: | | | | |
| Non deductible expenses | **(227,221)** | (369,856) | **(2,840)** | (1,331) |
| Temporary differences previously not recognised | **2,636,717** | 3,191,797 | **(576)** | (474) |
| Allowances received in terms of Income Tax Act exemption order | **772,081** | 737,482 | **772,081** | 737,482 |
| Tax effect of investment tax credit | **2,109** | - | **-** | - |
| Non deductible group losses | **-** | (59,938) | **-** | - |
| Share of profit from equity accounted investees | **994,422** | 687,948 | **-** | - |
| Different tax rates | **301,158** | 368,793 | **107,136** | 263,283 |
| Unrecognised deferred tax asset | **-** | (3,102) | **-** | - |
| Under provision of taxation in prior years | **(294,159)** | - | **(44,409)** | - |
| Taxation | **805,214** | 2,916,623 | **(394,689)** | (335,671) |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 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 2007 was based on the profit attributable to ordinary shareholders of USD10,462,050 and USD3,108,400 (2006: USD7,592,341 and USD3,477,560) for the Group and Bank respectively divided by the weighted average number of ordinary shares in issue during the year ended 31 December 2007 of 88,487,300 (2006: 85,986,377).

### 17.2 Diluted earnings per share

The calculation of the Group's and Bank's diluted earnings per share at 31 December 2007 was based on the profit attributable to ordinary shareholders of USD10,911,865 and USD3,558,215 (2006: USD8,024,620 and USD3,909,839) for the Group and Bank respectively divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2007 of 95,005,102 (2006: 93,255,536), calculated as follows:

Profit attributable to ordinary shareholders (diluted):

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Profit attributable to ordinary shareholders | **10,462,050** | 7,592,341 | **3,108,400** | 3,477,560 |
| After tax effect of interest on subordinated convertible loan | **449,815** | 432,279 | **449,815** | 432,279 |
| Profit attributable to ordinary shareholders (diluted) | **10,911,865** | 8,024,620 | **3,558,215** | 3,909,839 |

Weighted average number of ordinary shares (diluted):

| | **2007 No.** | 2006 No. |
|---|---|---|
| Weighted average number of ordinary shares at 31 December | **88,487,300** | 85,986,377 |
| Effect of conversion of subordinated convertible loan | **5,946,700** | 6,771,211 |
| Effect of share options in issue | **571,102** | 497,948 |
| Weighted average number of ordinary shares (diluted) at 31 December | **95,005,102** | 93,255,536 |

## 18 BALANCES WITH THE CENTRAL BANK OF MALTA AND CASH

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Balances with the Central Bank of Malta | **14,970,343** | 300 | **14,970,343** | 300 |
| Cash | **179,284** | 112,326 | **167,542** | 93,022 |
| | **15,149,627** | 112,626 | **15,137,885** | 93,322 |

With effect from 15 November 2007, the bank is required to maintain a reserve deposit in accordance with the Central Bank of Malta Directive No. 1.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 19 TRADING ASSETS

Trading assets represent forfaiting assets held by LFC 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 | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Derivative assets held for risk management | | | | |
| - interest rate | **123,354** | 134,241 | **123,354** | 345,064 |
| - foreign exchange | **934,575** | 8,685 | **934,575** | 8,685 |
| | **1,057,929** | 142,926 | **1,057,929** | 353,749 |
| Derivative liabilities held for risk management | | | | |
| - interest rate | **45,834** | - | **255,540** | 263,248 |
| | **45,834** | - | **255,540** | 263,248 |

## 21 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

**21.1**

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Designated at fair value through profit or loss | | | | |
| - foreign listed debt securities | **8,098,285** | 10,260,362 | **8,098,285** | 10,260,362 |
| - unlisted debt securities | **28,180,000** | 10,125,000 | **28,180,000** | 10,125,000 |
| | **36,278,285** | 20,385,362 | **36,278,285** | 20,385,362 |

**21.2** Unlisted debt securities consist of first to default credit linked notes, whereby the Group is funding the risk of first default within a basket of specified borrowers. The notes have an embedded instrument linked to the credit risk of the reference basket. In view that the embedded derivative modifies significantly the cashflows 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 balance sheet date taking into account current market conditions and the current credit worthiness of the counter parties by reference to dealer price quotations.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 22 LOANS AND ADVANCES TO BANKS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Repayable on call and at short notice | **101,429,942** | 43,053,270 | **91,504,238** | 29,279,467 |
| Term loans and advances | **145,187,280** | 172,055,661 | **147,308,638** | 175,017,652 |
| Total loans and advances | **246,617,222** | 215,108,931 | **238,812,876** | 204,297,119 |
| Individual impairment | **(3,132,474)** | (3,131,966) | **(3,132,474)** | (3,131,966) |
| Collective impairment | **(804,435)** | (316,547) | **(804,435)** | (316,547) |
| Net loans and advances | **242,680,313** | 211,660,418 | **234,875,967** | 200,848,606 |

Loans and advances to banks include blocked funds amounting to USD113,096 (2006: USD113,096) pursuant to US Sanctions and pledged funds amounting to USD74,167 (2006: USD656,238).

**Further disclosure as required by Banking Directive 7 on the publication of audited financial statements of credit institutions under the Banking Act, 1994:**

The aggregate amount of impaired loans to banks amounted to USD4,131,154 (2006: USD3,863,082). Individual impairment is exclusive of USD922,920 in respect of suspended interest not recognised in interest receivable.

## 23 LOANS AND ADVANCES TO CUSTOMERS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Repayable on call and at short notice | **51,184,624** | 47,944,374 | **51,184,624** | 47,944,374 |
| Term loans and advances | **42,396,672** | 43,442,111 | **42,396,672** | 43,442,111 |
| | **93,581,296** | 91,386,485 | **93,581,296** | 91,386,485 |
| Amounts owed by subsidiary companies | **-** | - | **121,876,802** | 84,313,587 |
| Total loans and advances | **93,581,296** | 91,386,485 | **215,458,098** | 175,700,072 |
| Individual impairment | **(9,446,609)** | (9,371,899) | **(9,446,609)** | (9,371,899) |
| Collective impairment | **(445,078)** | (306,544) | **(445,078)** | (306,544) |
| Net loans and advances | **83,689,609** | 81,708,042 | **205,566,411** | 166,021,629 |

The movement in allowances for uncollectibility for the year is detailed in note 14.

**Further disclosure as required by Banking Directive 7 on the publication of audited financial statements of credit institutions under the Banking Act, 1994:**

The aggregate amount of impaired loans and advances to customers amounted to USD16,689,596 (2006: USD15,459,944). Individual impairment is exclusive of USD6,320,148 in respect of suspended interest not recognised in interest receivable.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 24 INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale consist of equity instruments in unlisted entities as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Foreign unlisted | **126,834** | 126,834 | **126,834** | 126,834 |
| Local unlisted | **22,195** | 22,195 | **22,195** | 22,195 |
| | **149,029** | 149,029 | **149,029** | 149,029 |

Whilst there is no active market for these investments, fair value has been determined by reference to the amount recoverable which represents the notional amount of the investment. No impairment allowance was set aside against investments available-for-sale.

## 25 INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

**25.1** The Group's investment in associates and jointly-controlled entities is analysed as follows:

| Name of Company | Country of Incorporation | Nature of Business | Class of Shares | Current Equity Interest | GROUP | |
|---|---|---|---|---|---|---|
| | | | | | **2007** | **2006** |
| | | | | % | **USD** | USD |
| *Associates* | | | | | | |
| Global Trade Finance Limited ("GTF") | India | Factoring | Ordinary Shares | 38.5 | **16,502,533** | 10,415,152 |
| The Egyptian Company for Factoring SAE ("Egypt Factors") | Egypt | Factoring | Ordinary Shares | 40.0 | **220,611** | 700,000 |
| *Jointly-controlled entities* | | | | | | |
| Menafactors Limited | United Arab Emirates | Factoring | Ordinary Shares | 50.0 | **4,923,818** | - |
| | | | | | **21,646,962** | 11,115,152 |

| | 2007 | 2006 |
|---|---|---|
| At 1 January | **11,115,152** | 6,762,457 |
| Investment in Egypt Factors | **13,425** | 700,000 |
| Investment in GTF | **-** | 1,557,303 |
| Investment in Menafactors | **5,000,000** | - |
| Net share of profits | **4,632,878** | 2,550,770 |
| Dividend received | **(628,583)** | (617,428) |
| Currency translation difference | **1,514,090** | 162,050 |
| At 31 December | **21,646,962** | 11,115,152 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**25 INVESTMENTS IN EQUITY ACCOUNTED INVESTEES** *(continued)*

**25.2** The Bank's investment in associates and jointly-controlled entities is analysed as follows:

| Name of Company | Country of Incorporation | Nature of Business | Class of Shares | Current Equity Interest % | BANK 2007 USD | BANK 2006 USD |
|---|---|---|---|---|---|---|
| *Associates* | | | | | | |
| Global Trade Finance Limited ("GTF") | India | Factoring | Ordinary Shares | 38.5 | **7,853,934** | 7,853,934 |
| The Egyptian Company for Factoring SAE ("Egypt Factors") | Egypt | Factoring | Ordinary Shares | 40.0 | **713,425** | 700,000 |
| *Jointly-controlled entities* | | | | | | |
| Menafactors Limited | United Arab Emirates | Factoring | Ordinary Shares | 50.0 | **5,000,000** | - |
| | | | | | **13,567,359** | 8,553,934 |

| | 2007 USD | 2006 USD |
|---|---|---|
| At 1 January | **8,553,934** | 6,259,188 |
| Investment in Egypt Factors | **13,425** | 700,000 |
| Investment in GTF | **-** | 1,557,303 |
| Investment in Menafactors Limited | **5,000,000** | - |
| Exchange rate difference | **-** | 37,443 |
| At 31 December | **13,567,359** | 8,553,934 |

**25.3 Global Trade Finance Limited ("GTF")**

i. The ordinary shares in GTF were acquired on 24 December 2004 and on the same date, the Bank also entered into a Put Option Agreement with GTF and the other shareholders, namely Export-Import Bank of India (EXIMBank) and International Finance Corporation (IFC) (the "Put Option Agreement"). By virtue of the Put Option Agreement, IFC has the right, by sending a notice of exercise to EXIMBank and/or FIMBank, at any time and from time to time during the Exercise Period, to sell to EXIMBank and/or FIMBank, jointly and severally, all or part of IFC's shareholding in GTF at the Exercise Price.

The Exercise Period means the period beginning 31 March 2007 and ending on either of the following:
(a) the date when all the shares have been disposed of by IFC; or
(b) the date when all the shares of GTF are listed on the Bombay Stock Exchange or any other exchange acceptable to IFC; or
(c) 30 September 2010.

The Exercise Price has been fixed at one point eight five (1.85) times the Book Value per share of the Company worked out on the prorata amount of Shareholders Equity as derived from the audited financial statements of GTF for the financial year ended immediately preceding the date of delivery of the notice of exercise, multiplied by the number of shares subject to the Put Option.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**25 INVESTMENTS IN EQUITY ACCOUNTED INVESTEES** *(continued)*

**25.3 Global Trade Finance Limited ("GTF")** *(continued)*

ii. In September 2005, the Bank acquired 6,930,000, 6.25% cumulative convertible preference shares of 10 Indian Rupees each, for a purchase consideration of USD1,576,075.

In July 2006, the Bank further acquired 6,930,000, 6.25% cumulative convertible preference shares of 10 Indian Rupees each, for a purchase consideration of USD1,557,303. This brought its total preference shares investment in GTF to 13,860,000 shares.

In November 2006, the associated company converted its preference shares to ordinary shares of 10.00 Indian Rupees each at a conversion price of 11.20 Indian Rupees per share. The Bank's investment in preference shares was accordingly converted to 12,375,000 ordinary shares of 10 Indian Rupees each for a consideration of USD3,133,378.

iii. On 29 January 2008, an announcement was made to the effect that State Bank of India (SBI) intends to purchase the 38.5% shareholding held by the Bank in GTF (see note 46).

**25.4 The Egyptian Company for Factoring SAE ("Egypt Factors")**

i. In November 2006, the Bank incorporated Egypt Factors, a newly established company which provides factoring services in Egypt. On 31 December 2007 the Bank's investment stood at USD713,425 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).

ii. In February 2008, the Bank increased its investment in Egypt Factors by USD1,300,000 to USD2,000,000 (see note 46). The percentage holding in the company remained at 40%.

**25.5 Menafactors Limited**

i. In May 2007, the Bank incorporated Menafactors Limited in the Dubai International Financial Centre, as a joint venture with National Bank of Dubai (NBD). The newly established company provides international factoring and forfaiting services in the Gulf and MENA region. Each shareholder holds 50% of the issued share capital of the company, and on 31 December 2007, the Bank's investment stood at USD5,000,000.

ii. In February 2008, the Bank increased its investment in Menafactors by USD275,000 to USD5,275,000 (see note 46). The percentage holding in the company remained at 50%.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**25 INVESTMENTS IN EQUITY ACCOUNTED INVESTEES** *(continued)*

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

| In USD | Current Assets | Non current Assets | Total Assets | Current Liabilities | Non current Liabilities | Total Liabilities | Revenue | Expenses | Profit / Loss |
|---|---|---|---|---|---|---|---|---|---|
| **31 December 2007** | | | | | | | | | |
| GTF | 673,022,987 | 4,720,505 | 677,743,492 | 6,983,052 | 620,540 | 7,603,592 | 60,494,748* | 42,068,278* | 11,964,771* |
| Egypt Factors | 456,208 | 89,856 | 546,064 | 28,097 | - | 28,097 | 78,131 | 1,278,126 | 1,232,034 |
| Menafactors Limited | 11,476,000 | 21,000 | 11,497,000 | 1,674,000 | - | 1,674,000 | 198,000 | 367,000 | 177,000 |
| **31 December 2006** | | | | | | | | | |
| GTF | 332,599,628 | 3,113,365 | 335,712,993 | 9,109,838 | 300,619,191 | 309,729,029 | 21,673,439* | 14,684,975* | 4,658,628* |
| Egypt Factors | 1,750,000 | - | 1,750,000 | - | - | - | - | - | - |

At balance sheet date the Group's share of the capital commitment of Menafactors Limited amounted to USD45,000.

** Figures for the 9-month period ended 31 December*

**26 INVESTMENTS IN SUBSIDIARIES**

**26.1 Capital subscribed**

| | BANK | |
|---|---|---|
| | **2007** | 2006 |
| | **USD** | USD |
| At 1 January and 31 December | **37,392,666** | 37,392,666 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**26 INVESTMENTS IN SUBSIDIARIES** *(continued)*

**26.2** Investments in subsidiaries consist of:

| Name of Company | Registered Office | Nature of Business | Current Equity Interest % | BANK 2007 USD | BANK 2006 USD |
|---|---|---|---|---|---|
| London Forfaiting Company Limited | UK | Forfaiting | 100 | **37,366,435** | 37,366,435 |
| FIM Business Solutions Limited | Malta | IT Services Provider | 100 | **5,000** | 5,000 |
| FIMFactors B.V. | Netherlands | Holding Company | 100 | **21,231** | 21,231 |
| | | | | **37,392,666** | 37,392,666 |

**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 2007 | Current Equity Interest 2006 |
|---|---|---|---|---|
| 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% |
| London Forfaiting Asia Pacific Limited * # | Cyprus | Marketing | **100%** | 100% |
| London Forfaiting Deutschland GmbH * # | Germany | Marketing | **100%** | 100% |
| London Forfaiting a Paris S.A. * # | France | Marketing | **100%** | 100% |

* A wholly-owned subsidiary of London Forfaiting International Limited.
\# In course of liquidation at the date of this report

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 27 PROPERTY AND EQUIPMENT

### GROUP

| | Freehold Premises USD | Computer System USD | Improvement to Leasehold Premises USD | Computer Equipment USD | Others USD | Total USD |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2006 | 1,503,389 | 809,796 | 1,094,216 | 1,628,415 | 1,799,551 | 6,835,367 |
| Adjustments | (175) | - | 25 | 75 | 75 | - |
| Acquisitions during year | - | - | 36,652 | 211,970 | 72,565 | 321,187 |
| Disposals | - | - | (68,888) | (58,022) | (88,859) | (215,769) |
| At 31 December 2006 | 1,503,214 | 809,796 | 1,062,005 | 1,782,438 | 1,783,332 | 6,940,785 |
| At 1 January 2007 | 1,503,214 | 809,796 | 1,062,005 | 1,782,438 | 1,783,332 | 6,940,785 |
| Acquisitions during year | - | 78,400 | 40,379 | 250,570 | 257,748 | 627,097 |
| Disposals | (1,225,405) | - | - | - | (446,988) | (1,672,393) |
| At 31 December 2007 | 277,809 | 888,196 | 1,102,384 | 2,033,008 | 1,594,092 | 5,895,489 |
| **Depreciation and impairment** | | | | | | |
| At 1 January 2006 | 390,344 | 578,624 | 744,749 | 1,036,119 | 1,234,994 | 3,984,830 |
| Charge for the year | 1,677 | 77,120 | 68,198 | 271,327 | 105,082 | 523,404 |
| Impairment loss | 142,000 | - | - | - | - | 142,000 |
| Released on disposal | - | - | (67,091) | (54,256) | (71,619) | (192,966) |
| At 31 December 2006 | 534,021 | 655,744 | 745,856 | 1,253,190 | 1,268,457 | 4,457,268 |
| At 1 January 2007 | 534,021 | 655,744 | 745,856 | 1,253,190 | 1,268,457 | 4,457,268 |
| Charge for the year | 4,434 | 69,370 | 32,294 | 221,514 | 271,928 | 599,540 |
| Released on disposal | (458,488) | - | - | - | (446,702) | (905,190) |
| At 31 December 2007 | 79,967 | 725,114 | 778,150 | 1,474,704 | 1,093,683 | 4,151,618 |
| **Carrying amounts** | | | | | | |
| At 1 January 2006 | 1,113,045 | 231,172 | 349,467 | 592,296 | 564,557 | 2,850,537 |
| At 31 December 2006 | 969,193 | 154,052 | 316,149 | 529,248 | 514,875 | 2,483,517 |
| At 1 January 2007 | 969,193 | 154,052 | 316,149 | 529,248 | 514,875 | 2,483,517 |
| **At 31 December 2007** | **197,842** | **163,082** | **324,234** | **558,304** | **500,409** | **1,743,871** |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 27 PROPERTY AND EQUIPMENT *(continued)*

### BANK

| | Freehold Premises USD | Computer System USD | Improvement to Leasehold Premises USD | Computer Equipment USD | Others USD | Total USD |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2006 | 221,708 | 809,796 | 436,864 | 1,064,464 | 1,172,851 | 3,705,683 |
| Acquisitions during year | - | - | 10,200 | 202,184 | 41,598 | 253,982 |
| At 31 December 2006 | 221,708 | 809,796 | 447,064 | 1,266,648 | 1,214,449 | 3,959,665 |
| At 1 January 2007 | 221,708 | 809,796 | 447,064 | 1,266,648 | 1,214,449 | 3,959,665 |
| Acquisitions during year | - | 78,400 | 40,379 | 245,813 | 232,530 | 597,122 |
| Disposals during the year | - | - | - | - | (54,079) | (54,079) |
| At 31 December 2007 | 221,708 | 888,196 | 487,443 | 1,512,461 | 1,392,900 | 4,502,708 |
| **Depreciation** | | | | | | |
| At 1 January 2006 | 17,755 | 578,624 | 169,680 | 700,980 | 887,015 | 2,354,054 |
| Charge for the year | 1,677 | 77,120 | 41,072 | 193,027 | 31,065 | 343,961 |
| At 31 December 2006 | 19,432 | 655,744 | 210,752 | 894,007 | 918,080 | 2,698,015 |
| At 1 January 2007 | 19,432 | 655,744 | 210,752 | 894,007 | 918,080 | 2,698,015 |
| Charge for the year | 4,434 | 69,370 | 32,294 | 205,479 | 105,368 | 416,945 |
| Disposals during the year | - | - | - | - | (54,079) | (54,079) |
| At 31 December 2007 | 23,866 | 725,114 | 243,046 | 1,099,486 | 969,369 | 3,060,881 |
| **Carrying amounts** | | | | | | |
| At 1 January 2006 | 203,953 | 231,172 | 267,184 | 363,484 | 285,836 | 1,351,629 |
| At 31 December 2006 | 202,276 | 154,052 | 236,312 | 372,641 | 296,369 | 1,261,650 |
| At 1 January 2007 | 202,276 | 154,052 | 236,312 | 372,641 | 296,369 | 1,261,650 |
| **At 31 December 2007** | **197,842** | **163,082** | **244,397** | **412,975** | **423,531** | **1,441,827** |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 28 INTANGIBLE ASSETS

### 28.1 GROUP

| | Goodwill<br>USD | Software Licences<br>USD | Total<br>USD |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2006 | 4,553,515 | 630,000 | 5,183,515 |
| Additions | - | 565,862 | 565,862 |
| Adjustments resulting from the recognition by a subsidiary of deferred tax asset | (3,423,789) | - | (3,423,789) |
| At 31 December 2006 | 1,129,726 | 1,195,862 | 2,325,588 |
| At 1 January 2007 | 1,129,726 | 1,195,862 | 2,325,588 |
| Additions | - | 166,076 | 166,076 |
| Adjustments resulting from the recognition by a subsidiary of deferred tax asset | (1,129,726) | - | (1,129,726) |
| At 31 December 2007 | - | 1,361,938 | 1,361,938 |
| **Amortisation and impairment** | | | |
| At 1 January 2006 | - | - | - |
| Charge for the year | - | 112,709 | 112,709 |
| At 31 December 2006 | - | 112,709 | 112,709 |
| At 1 January 2007 | - | 112,709 | 112,709 |
| Charge for the year | - | 207,778 | 207,778 |
| At 31 December 2007 | - | 320,487 | 320,487 |
| **Carrying Amount** | | | |
| At 1 January 2006 | 4,553,515 | 630,000 | 5,183,515 |
| At 31 December 2006 | 1,129,726 | 1,083,153 | 2,212,879 |
| At 1 January 2007 | 1,129,726 | 1,083,153 | 2,212,879 |
| **At 31 December 2007** | **-** | **1,041,451** | **1,041,451** |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 28 INTANGIBLE ASSETS *(continued)*

**BANK**

| | **Software Licences** USD |
|---|---|
| **Cost** | |
| At 1 January 2006 | - |
| Additions | 442,676 |
| At 31 December 2006 | 442,676 |
| At 1 January 2007 | 442,676 |
| Additions | 166,076 |
| At 31 December 2007 | 608,752 |
| **Amortisation and impairment** | |
| At 1 January 2006 | - |
| Charge for the year | 44,894 |
| At 31 December 2006 | 44,894 |
| At 1 January 2007 | 44,894 |
| Charge for the year | 100,180 |
| At 31 December 2007 | 145,074 |
| **Carrying Amount** | |
| At 1 January 2006 | - |
| At 31 December 2006 | 397,782 |
| At 1 January 2007 | 397,782 |
| **At 31 December 2007** | **463,678** |

### 28.2 Subsequent changes in the carrying amount of goodwill

During the year, one of the subsidiaries recognised the benefit of income tax loss carry-forwards that did not satisfy the criteria for separate recognition when the subsidiary was acquired. This resulted in the recognition of deferred tax income amounting to USD1,422,201 (2006: USD3,423,789) (see note 16). Accordingly, the Group adjusted the remaining gross carrying amount of goodwill to the amounts that would have been recorded if the deferred tax asset had been recognised as an identifiable asset at acquisition date (see note 29). The reduction in the carrying amount of goodwill was recognised in the income statement accordingly. In view that goodwill on acquisition of subsidiaries is no longer recognised in these financial statements, impairment testing is not required.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 29 DEFERRED TAX ASSET

**29.1** The deferred tax asset is analysed as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Tax effect of temporary differences relating to: | | | | |
| - excess of capital allowances over depreciation | **(17,751)** | (5,290) | **(7,672)** | (5,290) |
| - allowances for uncollectibility | **1,186,775** | 724,996 | **1,186,775** | 724,996 |
| - unabsorbed capital allowances | **65,677** | 15,239 | **27,656** | 15,239 |
| - unabsorbed tax losses | **6,577,395** | 5,155,194 | **-** | - |
| | **7,812,096** | 5,890,139 | **1,206,759** | 734,945 |

At balance sheet date, a subsidiary had unused tax losses amounting to USD85 million available against future taxable profits. A deferred tax asset amounting to USD3,945,593 (2006: USD3,423,789) 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.

**29.2** Movements in temporary differences during the year:

**GROUP**

| | Opening balance | Recognised in profit or loss | Recognised in equity | Closing balance |
|---|---|---|---|---|
| | USD | USD | USD | USD |
| **2006** | | | | |
| Excess of capital allowances over depreciation | (3,169) | (2,121) | - | (5,290) |
| Allowances for uncollectibility | 617,028 | 107,968 | - | 724,996 |
| Unabsorbed capital allowances | 5,973 | 9,266 | - | 15,239 |
| Unabsorbed tax losses | 1,902,900 | 3,252,294 | - | 5,155,194 |
| | 2,522,732 | 3,367,407 | - | 5,890,139 |
| **2007** | | | | |
| Excess of capital allowances over depreciation | (5,290) | (12,461) | - | (17,751) |
| Allowances for uncollectibility | 724,996 | 461,779 | - | 1,186,775 |
| Unabsorbed capital allowances | 15,239 | 50,438 | - | 65,677 |
| Unabsorbed tax losses | 5,155,194 | 1,422,201 | - | 6,577,395 |
| | 5,890,139 | 1,921,957 | - | 7,812,096 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 29 DEFERRED TAX ASSET *(continued)*

**BANK**

| | Opening balance | Recognised in profit or loss | Recognised in equity | Closing balance |
|---|---|---|---|---|
| | USD | USD | USD | USD |
| **2006** | | | | |
| Excess of capital allowances over depreciation | (3,169) | (2,121) | - | (5,290) |
| Allowances for uncollectibility | 617,028 | 107,968 | - | 724,996 |
| Unabsorbed capital allowances | 5,973 | 9,266 | - | 15,239 |
| | 619,832 | 115,113 | - | 734,945 |
| **2007** | | | | |
| Excess of capital allowances over depreciation | (5,290) | (2,382) | - | (7,672) |
| Allowances for uncollectibility | 724,996 | 461,779 | - | 1,186,775 |
| Unabsorbed capital allowances | 15,239 | 12,417 | - | 27,656 |
| | 734,945 | 471,814 | - | 1,206,759 |

## 30 OTHER ASSETS

Other assets include amounts due in respect of indirect taxation, amounts due from operational debtors and work-in-progress balances related to contracts undertaken by a subsidiary.

## 31 PREPAYMENTS AND ACCRUED INCOME

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Accrued income | **788,508** | 559,082 | **1,066,891** | 718,691 |
| Prepayments | **635,959** | 641,226 | **436,457** | 485,300 |
| | **1,424,467** | 1,200,308 | **1,503,348** | 1,203,991 |

Accrued income of the Bank includes amounts receivable from subsidiary companies amounting to USD278,383 (2006: USD159,609).

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 32 AMOUNTS OWED TO BANKS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Term deposits | **174,908,360** | 177,089,551 | **177,029,718** | 180,262,366 |
| Repayable on demand | **95,351,364** | 66,034,460 | **95,351,364** | 66,034,460 |
| | **270,259,724** | 243,124,011 | **272,381,082** | 246,296,826 |

## 33 AMOUNTS OWED TO CUSTOMERS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Term deposits | **85,428,221** | 49,275,959 | **85,428,221** | 48,538,827 |
| Repayable on demand | **91,039,983** | 73,407,705 | **91,039,983** | 73,407,705 |
| | **176,468,204** | 122,683,664 | **176,468,204** | 121,946,532 |
| Amounts owed to subsidiary companies | **-** | - | **3,566,159** | 48,783 |
| | **176,468,204** | 122,683,664 | **180,034,363** | 121,995,315 |

Included in customer accounts there are deposits amounting to USD11,519,036 (2006: USD6,983,702) held as collateral for irrevocable commitments.

Amounts owed to customers include deposits by a shareholder having more than 10% of the shares in the Bank, which at balance sheet date amounted to USD3,651 (2006: USD1,751,490). Interest amounting to USD13,346 (2006: USD28,858) was paid to this shareholder during the year.

## 34 DEBT SECURITIES IN ISSUE

### 34.1 The Group

Debt securities in issue include unsecured promissory notes with a tenor of one year, issued by the subsidiary London Forfaiting Company Limited and avalised by the Bank. Interest on these promissory notes is paid semi-annually in arrears at an effective interest rate for 2007 of 5.88% (2006: 5.88%).

### 34.2 The Bank

Debt securities in issue comprise unsecured promissory notes with a tenor of one year. Interest on these promissory notes is paid semi-annually in arrears at an effective interest rate for 2007 of 6.28%.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 35 SUBORDINATED CONVERTIBLE LOAN

### 35.1

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Initial recognition: | | | | |
| Face value of subordinated convertible loan on 23 June 2005 | **10,000,000** | 10,000,000 | **10,000,000** | 10,000,000 |
| Amounts classified as equity on exercise of option on 27 October 2005 (see note 35.2 below) | **(4,000,000)** | (4,000,000) | **(4,000,000)** | (4,000,000) |
| Carrying amount as at 31 December | **6,000,000** | 6,000,000 | **6,000,000** | 6,000,000 |

**35.2** On 23 June 2005 the Bank signed a subordinated convertible loan agreement whereby International Finance Corporation (“IFC”) agreed to invest:

(a) USD10 million to be utilised by the Bank to expand its operations by establishing up to five joint-venture factoring and forfaiting companies in IFC member countries; and
(b) an additional global trade facility of up to USD5 million.

In terms of the agreement the Bank granted an irrevocable conversion option to IFC to convert up to the full amount of the loan into fully paid up shares in the Bank during the life of the loan. The conversion requires the issue of a variable number of shares determined by reference to the net asset value of the Bank multiplied by a coefficient which reflect a close approximation of the market price during the period of negotiation of the agreement. Accordingly, the subordinated long term convertible loan was determined to reflect a liability at the date of the agreement. At 31 December 2007, the loan incurred interest at 7.39% (2006: 7.61%) and is repayable in full by 22 June 2013 unless converted by 22 June 2010 into fully paid up ordinary shares as noted above.

## 36 PROVISIONS

| | **Legal and other provisions** |
|---|---|
| | USD |
| Balance at 1 January 2006 | 729,637 |
| Exchange difference | 79,734 |
| Balance at 31 December 2006 | 809,371 |
| Balance at 1 January 2007 | 809,371 |
| Additional charges during the year | 249,750 |
| Exchange difference | 95,951 |
| **Balance at 31 December 2007** | **1,155,072** |
| Non-current balance at 31 December 2006 | 809,371 |
| **Non-current balance at 31 December 2007** | **1,155,072** |

Legal and other provision represents the best estimate of an amount to settle an obligation resulting from a pending court case and a claim against an overseas subsidiary.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 37 ACCRUALS AND DEFERRED INCOME

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Accrued interest | **1,976,784** | 1,668,379 | **1,780,948** | 1,392,258 |
| Other accruals | **5,287,055** | 7,000,896 | **1,578,447** | 2,680,263 |
| | **7,263,839** | 8,669,275 | **3,359,395** | 4,072,521 |

Other accruals comprise an amount payable to a subsidiary company amounting to USD21,890 (2006: USD719,738).

## 38 EQUITY

### 38.1 Share capital

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | Shares of 50 cents | | Shares of 50 cents | |
| | Shares | USD | Shares | USD |
| **Authorised** | | | | |
| Ordinary shares at 31 December | **200,000,000** | **100,000,000** | 200,000,000 | 100,000,000 |
| **Issued and fully paid up** | | | | |
| Ordinary shares at 31 December | **109,893,905** | **54,946,953** | 86,168,679 | 43,084,340 |

| | Ordinary Shares | |
|---|---|---|
| | **2007** | 2006 |
| | **No.** | No. |
| On issue at 1 January | **86,168,679** | 71,173,739 |
| Rights issue | **22,894,699** | - |
| Share options issued for cash (see note 15.4) | **95,317** | 269,607 |
| Bonus shares issued | **-** | 14,272,596 |
| Scrip dividend | **735,210** | 452,737 |
| On issue at 31 December | **109,893,905** | 86,168,679 |

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.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**38 EQUITY** *(continued)*

**38.1 Share capital** *(continued)*

***Issue of share capital***

In November 2007, the Bank offered a 5 for 19 Rights Issue of 22,894,699 new Ordinary Shares at an offer price of USD1.10 per share. The offer was open to shareholders from 19 to 30 November 2007, and subsequent to the closure of the Offer Period, Lapsed Rights were offered for sale through an Intermediaries Offer.

All rights on offer were subscribed in full thereby increasing the Bank's equity base by USD25,117,740 (net of share issue costs).

***Scrip dividend***

In April 2007, the Annual General Meeting approved the payment of a scrip dividend amounting to USD3,036,929, representing a net dividend per Ordinary Share of US cents 3.5244. Shareholders were given the option to receive the dividend either in the form of Cash or new Ordinary Shares at the attribution price of USD1.55. Consequent to the Scrip Issue, the Bank's equity base was increased by a further USD1,139,304.

**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 the scrip dividends paid in 2006 and 2007. 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 a foreign operations.

**38.4 Other reserve**

The reserve includes an amount of 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 USD6,307,206 represents the appropriation from Retained Earnings for any unforeseen future risks which may affect the Group's financial assets held-for-trading.

**38.5 Dividends**

The following dividends were declared and paid by the Group:

| | **2007** | 2006 |
|---|---|---|
| | USD | USD |
| Dividends declared and paid | **3,036,929** | 811,878 |

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for.

| | **2007** | 2006 |
|---|---|---|
| | USD | USD |
| US cents 3.80232493 per qualifying ordinary share (2006: 3.5244) | **4,184,820** | 3,036,929 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 38 EQUITY *(continued)*

### 38.6 Availability of reserves for distribution

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Distributable | **14,362,025** | 13,243,930 | **10,341,083** | 10,269,612 |
| Non-distributable | **28,626,129** | 6,323,291 | **20,817,964** | 6,335,520 |
| | **42,988,154** | 19,567,221 | **31,159,047** | 16,605,132 |

## 39 CONTINGENT LIABILITIES

### 39.1

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Guarantee obligations incurred on behalf of third parties | **8,804,574** | 6,825,473 | **19,804,574** | 26,339,473 |

**39.2** During 2006, judicial proceedings were commenced against the Bank for the payment of USD1,717,595 (inclusive of interest) under a documentary credit. The Bank has defended the proceedings, which are still in progress, before the courts of the jurisdiction of the claimant. Based on legal advice, 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.

**39.3** 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.

## 40 COMMITMENTS

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Undrawn credit facilities | **44,317,039** | 32,306,166 | **44,422,149** | 78,553,392 |
| Commitment to purchase assets | **79,277,641** | 71,897,928 | **-** | - |
| Documentary credits | **27,195,829** | 32,853,319 | **27,195,829** | 32,853,319 |
| Confirmed letters of credit | **157,661,377** | 107,414,253 | **167,569,527** | 102,865,048 |
| | **308,451,886** | 244,471,666 | **239,187,505** | 214,271,759 |

Undrawn credit facilities amounting to USD140,000 (2006: USD46,247,226) are assigned to a subsidiary company.

The Bank has total assigned credit limits to customers amounting to USD318,419,000 (2006: USD236,430,982) of which USD209,668,552 (2006: USD187,731,474) had been sanctioned as at balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 41 CASH AND CASH EQUIVALENTS

Balances of cash and cash equivalents as shown on the balance sheet are analysed as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Balances with the Central Bank of Malta and cash | **15,149,627** | 112,626 | **15,137,885** | 93,322 |
| Loans and advances to banks | **170,936,305** | 156,793,484 | **161,010,601** | 143,364,744 |
| Amounts owed to banks | **(175,240,805)** | (118,461,564) | **(175,240,805)** | (118,461,572) |
| **Cash and cash equivalents** | **10,845,127** | 38,444,546 | **907,681** | 24,996,494 |
| Adjustment to reflect balances with contractual maturity of more than three months | **(23,274,911)** | (69,795,513) | **(23,274,911)** | (70,351,392) |
| **Per balance sheet** | **(12,429,784)** | (31,350,967) | **(22,367,230)** | (45,354,898) |
| Analysed as follows: | | | | |
| Balances with the Central Bank of Malta and cash | **15,149,627** | 112,626 | **15,137,885** | 93,322 |
| Loans and advances to banks | **242,680,313** | 211,660,418 | **234,875,967** | 200,848,606 |
| Amounts owed to banks | **(270,259,724)** | (243,124,011) | **(272,381,082)** | (246,296,826) |
| | **(12,429,784)** | (31,350,967) | **(22,367,230)** | (45,354,898) |

## 42 OPERATING LEASES

### Leases as lessee

The Group leases motor vehicles and office premises under operating lease arrangements. During the year ended 31 December 2007, operating lease charges amounting to USD987,024 (2006: USD791,887) were recognised as an expense in the income statement of the Group, while operating lease charges amounting to USD544,639 (2006: USD426,940) were recognised as an expense in the income statement of the Bank.

Non-cancellable operating lease rentals are payable as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007 USD** | 2006 USD | **2007 USD** | 2006 USD |
| Less than one year | **557,453** | 287,599 | **531,933** | 264,110 |
| Between one and five years | **5,121,876** | 860,652 | **4,965,272** | 340,349 |
| More than five years | **43,744** | - | **-** | - |
| | **5,723,073** | 1,148,251 | **5,497,205** | 604,459 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 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.

### 43.2 Transactions with key management personnel

Directors of the Group control 9 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 2007 as against USD24,046 receivable at 31 December 2006 and included in "loans and advances to customers". On 31 December 2007, an amount of USD150,593 (2006: USD92,715) was receivable from executive officers.

Deposits by Directors as at 31 December 2007 amounted to USD420,871 (2006: USD290,872) and are included in "amounts owed to customers". Interest payable to Directors as at 31 December 2007 amounted to USD13,628 (2006: USD4,420).

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 USD1,520,164 (2006: USD854,263) is included in "personnel expenses" (see note 15.2). This amount includes salary of an Executive Vice President who resigned from the position with effect from 30 August 2007. During the financial year ended 31 December 2007, executive officers were allocated a total of 121,000 share options (2006: 140,000 share options) under share option schemes. As at 31 December 2007, executive officers had a total of 342,600 unexercised share options.

### 43.3 Other related party transactions

The Group has a related party transaction with an entity in which it has neither control nor significant influence but has a right to appoint a Director. The Group charged this entity a consultancy fee of USD50,000 (2006: USD50,000) arising from a consultancy agreement entered into on its formation. This fee is included with other income. Additionally the Bank received a dividend of USD371 (2006: USD272) from this entity. Furthermore, the Bank received a dividend of USD599,752 (2006: USD585,205) from one of its associated companies. There were no further transactions with associated companies during the financial year.

On 31 December 2007 deposits by shareholders having significant influence amounted to USD3,651 (2006: USD1,751,490).

Amounts equivalent to USD154,865 (2006: USD111,035) and USD69,687 (2006: USD37,566) 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. Insurance services and consultancy and professional fees amounting to USD5,124 (2006: USD5,033) and USD374,547 (2006: USD226,942) respectively were charged by companies owned, directly and indirectly by the Bank's Directors and key management personnel.

### 43.4 Related party balances

Information on amounts due to/by subsidiary companies, associated companies and jointly-controlled entities are set out in notes 23, 25, 26, 31 and 37 to these financial statements. Amounts due to/by Directors are disclosed in note 43.2 above. Amounts due to/by shareholders are disclosed in notes 33 and 35 to these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

## 44 FINANCIAL COMMITMENTS

### 44.1 Menafactors Limited ("Menafactors")

In 2007, the Company entered into a shareholders' agreement with National Bank of Dubai (NBD) to incorporate Menafactors, a joint venture undertaking in Dubai, UAE, for the provision of international factoring and forfaiting services in the MENA and Gulf Regions. The Group's commitment amounts to USD10,000,000, out of which, USD5,000,000 have been invested during the year. Another USD275,000 were invested by the Bank in Menafactors after the balance sheet date (see note 46).

### 44.2 The Egyptian Company for Factoring SAE ("Egypt Factors")

The Board also reconfirmed the proposed investment of USD2,000,000 in Egypt Factors, an associated company engaged in providing factoring activities from Egypt and out of which USD700,000 was invested by the Bank during the financial year ended 31 December 2006. An amount of USD1,300,000 were invested by the Bank in Egypt Factors after the balance sheet date (see note 46).

### 44.3 Other

During the period ended 31 December 2007 the Board also approved the commencement of negotiations with selected strategic partners for the acquisition of equity stakes in established factoring and leasing companies in Brazil and Mexico respectively together with Banco Latinoamericano de Exportaciones, SA ("BLADEX").

## 45 CAPITAL COMMITMENTS

At balance sheet date the Group and the Bank had the following capital commitments:

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **USD** | USD | **USD** | USD |
| Authorised but not contracted for | **31,563,325** | 1,799,973 | **31,563,325** | 1,693,308 |

In December 2007, the Board authorised the initiation of final negotiations in relation to the purchase of new property to house the Group's Headquarters. An amount of around USD30 million will be invested by the Group over the next 4 years, which will include the purchase of land, the building of structure and the furnishings of the property.

## 46 EVENTS AFTER BALANCE SHEET DATE

### 46.1 Global Trade Finance Limited ("GTF")

On 29 January 2008, an announcement was made to the effect that State Bank of India (SBI) intends to purchase the 38.5% shareholding held by the Bank in GTF. SBI will also purchase 91% of the total paid up equity share capital of GTF, including other shareholding by Export-Import Bank of India and International Financial Corporation.

# NOTES TO THE FINANCIAL STATEMENTS

*For the Year Ended 31 December 2007*

**46 EVENTS AFTER BALANCE SHEET DATE** *(continued)*

**46.1 Global Trade Finance Limited** *(continued)*

The proposed sale price is 73 Indian Rupees per share, equivalent to total proceeds of 2.2 billion Indian Rupees. Approval from the Indian regulators (Reserve Bank of India) for the proposed sale and purchase by SBI of the GTF shareholding has been sought by all parties concerned.

**46.2 Menafactors Limited**

Subsequent to the balance sheet date, the Bank invested USD275,000 in Menafactors Limited. This injection kept the Bank's shareholding in the joint-venture at 50%.

**46.3 The Egyptian Company for Factoring SAE ("Egypt Factors")**

Subsequent to the balance sheet date, the Bank invested USD1,300,000 in Egypt Factors. This injection kept the Bank's shareholding in the joint-venture at 40%.

**47 COMPARATIVE FIGURES**

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

# STATEMENT OF THE DIRECTORS PURSUANT TO LISTING RULE 9.40.5

*For the Year Ended 31 December 2007*

We, the undersigned declare that to the best of our knowledge, the financial statements set out on pages 28 to 105 are 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 2 March 2008 by:

**Najeeb H.M. Al-Saleh**
*Chairman*

**John C. Grech**
*Vice Chairman*

# REPORT OF THE INDEPENDENT AUDITORS

*To the Shareholders of FIMBank p.l.c.*

**Pursuant to Listing Rule 8.39**

Listing Rules 8.37 and 8.38 issued by the Listing Authority, require the Bank's Directors to include in their Annual Report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as independent auditors of the Bank, is laid down by Listing Rule 8.39, which requires us to include a report on this Statement of Compliance.

We read the Statement of Compliance 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 misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this Statement is consistent with other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion of the effectiveness of the Bank's corporate governance procedures or its risk and control procedures, nor on the ability of the Bank to continue in operational existence.

In our opinion, the Statement of Compliance set out on pages 20 to 26 provides the disclosures required by the Listing Rules 8.37 and 8.38 issued by the Listing Authority.

Noel Mizzi (Partner) for and on behalf of

**KPMG**
Registered Auditors

2 March 2008

# INDEPENDENT AUDITORS' REPORT

*To the Members of FIMBank p.l.c.*

**Report on the Financial Statements**

We have audited the accompanying financial statements of FIMBank p.l.c. ('the Bank') and of the Group of which the Bank is the parent ('the financial statements') set out on pages 28 to 105, which comprise the balance sheets as at 31 December 2007, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Directors' Responsibility for the Financial Statements*

As described on page 27, the Directors are responsible for the preparation and fair presentation of the financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU and of the Bank in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*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 Bank's members as a body in accordance with Article 179 of the Companies Act, 1995 and Article 31 of the Banking Act, 1994 enacted in Malta and may not be appropriate for any other purpose.

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 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 judgment, 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 and fair presentation of the financial statements 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*

In our opinion the financial statements give a true and fair view:

- of the consolidated financial position of the Group as at 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- of the financial position of the Bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

# INDEPENDENT AUDITORS' REPORT *(continued)*

**Report on Other Legal and Regulatory Requirements**

The Banking Act, 1994 requires us to report:

- whether 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;
- whether in our opinion, proper books of account have been kept by the bank so far as appears from our examination thereof;
- whether the financial statements are in agreement with the books; and
- whether these give the information required by any law in force in the manner so required and give a true and fair view.

We also report to you our opinion as to whether the financial statements are properly prepared in accordance with the Companies Act, 1995 ('the Act'). In addition, we report to you if, in our opinion:

- the information given in the Report of the Directors is not consistent with the financial statements; or
- the bank has not kept proper accounting records; or
- the bank's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations for our audit, or if the information specified by Article 31(o) of the Third Schedule to the Act regarding Directors' emoluments is not disclosed, in which case we are required to include a statement in our report giving the required particulars.

We read the Report of the Directors and consider the implications for our report if we become aware of any material misstatements of fact within it.

*Opinion*

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion, proper books of account have been kept by FIMBank p.l.c. so far as appears from our examination thereof. The financial statements are in agreement with the books.

Also, in our opinion, the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994 enacted in Malta.

Noel Mizzi (Partner) for and on behalf of

**KPMG**
Registered Auditors

2 March 2008

# SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule I
## INCOME STATEMENT
*Five Year Summary*

**BANK**

| | **2007** **USD** | **2006** USD | **2005** USD | **2004** USD | **2003** USD |
|---|---|---|---|---|---|
| Interest income | **22,870,430** | 17,800,866 | 8,511,348 | 4,273,583 | 3,235,211 |
| Interest expense | **(16,858,192)** | (12,728,467) | (4,328,442) | (1,416,423) | (1,077,834) |
| **Net interest income** | **6,012,238** | 5,072,399 | 4,182,906 | 2,857,160 | 2,157,377 |
| Fee and commission income | **12,420,609** | 10,326,421 | 7,682,567 | 6,147,131 | 5,083,621 |
| Fee and commission expense | **(946,703)** | (1,011,842) | (644,204) | (307,177) | (357,688) |
| **Net fee and commission income** | **11,473,906** | 9,314,579 | 7,038,363 | 5,839,954 | 4,725,933 |
| Net trading income | **1,143,384** | 1,336,923 | 360,885 | 409,450 | 2,529,523 |
| Dividend income | **600,123** | 1,167,161 | 327,476 | - | - |
| Other operating income | **51,537** | 22,122 | 50,000 | 51,321 | 53,512 |
| **Net operating income before impairment losses** | **19,281,188** | 16,913,184 | 11,959,630 | 9,157,885 | 9,466,345 |
| Net impairment losses | **(732,089)** | (884,565) | (365,677) | (810,834) | (60,289) |
| **Net operating income** | **18,549,099** | 16,028,619 | 11,593,953 | 8,347,051 | 9,406,056 |
| Administrative expenses | **(14,528,885)** | (11,826,533) | (7,919,185) | (6,512,918) | (5,748,045) |
| Depreciation | **(517,125)** | (388,855) | (421,395) | (409,496) | (311,958) |
| **Total operating expenses** | **(15,046,010)** | (12,215,388) | (8,340,580) | (6,922,414) | (6,060,003) |
| **Profit before taxation** | **3,503,089** | 3,813,231 | 3,253,373 | 1,424,637 | 3,346,053 |
| Taxation | **(394,689)** | (335,671) | (243,520) | (34,261) | (62,319) |
| **Profit for the year** | **3,108,400** | 3,477,560 | 3,009,853 | 1,390,376 | 3,283,734 |

# SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule II

## BALANCE SHEET

*Five Year Summary*

**BANK**

| | **2007** | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | **USD** | USD | USD | USD | USD |
| **ASSETS** | | | | | |
| Balances with the Central Bank of Malta and cash | **15,137,885** | 93,322 | 215,071 | 59,834 | 4,393,757 |
| Financial assets at fair value through profit or loss | **37,336,214** | 20,739,111 | 10,239,158 | - | 11,391,282 |
| Loans and advances to banks | **234,875,967** | 200,848,606 | 111,419,004 | 106,813,271 | 83,584,730 |
| Loans and advances to customers | **205,566,411** | 166,021,629 | 101,622,616 | 85,939,813 | 64,936,427 |
| Investments available-for-sale | **149,029** | 149,029 | 133,600 | 133,600 | 133,600 |
| Investments in equity accounted investees | **13,567,359** | 8,553,934 | 6,259,188 | 4,703,330 | - |
| Investments in subsidiaries | **37,392,666** | 37,392,666 | 37,392,666 | 2 | 2 |
| Property and equipment | **1,441,827** | 1,261,650 | 1,351,629 | 1,527,189 | 1,259,859 |
| Intangible assets | **463,678** | 397,782 | - | - | - |
| Deferred tax | **1,206,759** | 734,945 | 619,840 | 742,288 | 684,407 |
| Other assets | **1,134,150** | 965,444 | 1,060,753 | 1,054,458 | 1,315,520 |
| Prepayments and accrued income | **1,503,348** | 1,203,991 | 1,406,345 | 1,886,267 | 360,998 |
| **Total assets** | **549,775,293** | 438,362,109 | 271,719,870 | 202,860,052 | 168,060,582 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Liabilities** | | | | | |
| Financial liabilities at fair value through profit or loss | **255,540** | 263,248 | 202,727 | - | - |
| Amounts owed to banks | **272,381,082** | 246,296,826 | 116,336,809 | 65,697,692 | 43,282,344 |
| Amounts owed to customers | **180,034,363** | 121,995,315 | 89,893,658 | 86,619,942 | 75,298,813 |
| Debt securities in issue | **1,000,000** | - | 944,102 | - | - |
| Subordinated convertible loan | **6,000,000** | 6,000,000 | 6,000,000 | - | - |
| Other liabilities | **638,913** | 44,727 | 7,293 | 58,101 | - |
| Accruals and deferred income | **3,359,395** | 4,072,521 | 2,232,008 | 1,341,512 | 937,006 |
| | **463,669,293** | 378,672,637 | 215,616,597 | 153,717,247 | 119,518,163 |
| **Equity** | | | | | |
| Called up share capital | **54,946,953** | 43,084,340 | 35,586,870 | 33,005,316 | 33,003,229 |
| Share premium | **18,136,923** | 3,654,479 | 10,231,432 | 8,862,371 | 8,862,371 |
| Other reserve | **2,681,041** | 2,681,041 | 2,681,041 | 2,681,041 | 2,681,041 |
| Retained earnings | **10,341,083** | 10,269,612 | 7,603,930 | 4,594,077 | 3,203,701 |
| Dividend reserve | **-** | - | - | - | 792,077 |
| | **86,106,000** | 59,689,472 | 56,103,273 | 49,142,805 | 48,542,419 |
| **Total liabilities and equity** | **549,775,293** | 438,362,109 | 271,719,870 | 202,860,052 | 168,060,582 |
| **MEMORANDUM ITEMS** | | | | | |
| Contingent liabilities | **19,804,574** | 26,339,473 | 1,720,516 | 4,221,546 | 3,829,531 |
| Commitments | **239,187,505** | 214,271,759 | 150,826,326 | 109,628,881 | 63,645,130 |

# SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule III

## CASH FLOW STATEMENT

*Five Year Summary*

**BANK**

| | **2007** | **2006** | **2005** | **2004** | **2003** |
|---|---|---|---|---|---|
| | **USD** | USD | USD | USD | USD |
| **Net cash flows from operating activities** | **(8,482,695)** | 15,412,628 | 34,923,096 | 36,877,089 | 5,828,945 |
| **Cash flows from investing activities** | | | | | |
| Net payments to acquire property and equipment | **(591,182)** | (253,983) | (251,700) | (676,760) | (404,038) |
| Payments to acquire intangible assets | **(166,076)** | (442,674) | - | - | - |
| Net advance to subsidiary companies | **(34,743,686)** | (23,173,879) | (24,508,773) | (29,723,577) | (30,667,600) |
| Purchase of equity shares | **(5,013,425)** | (2,294,746) | (1,593,301) | (4,648,205) | - |
| Payment to acquire subsidiary companies | **-** | - | (11,630,958) | - | - |
| Purchase of other investment | **-** | (15,429) | - | - | - |
| Receipt of dividend | **600,123** | 1,167,161 | 302,029 | - | - |
| **Cash flows used in investing activities** | **(39,914,246)** | (25,013,550) | (37,682,703) | (35,048,542) | (31,071,638) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of share capital | **25,205,753** | 241,630 | 44,974 | 789,617 | 14,056,495 |
| Debt securities in issue | **1,000,000** | (944,102) | 944,102 | - | - |
| Subordinated convertible loan | **-** | - | 10,000,000 | - | - |
| Dividends paid | **(1,897,625)** | (132,991) | - | (792,077) | - |
| **Net cash flows from/(used in) financing activities** | **24,308,128** | (835,463) | 10,989,076 | (2,460) | 14,056,495 |
| **(Decrease)/increase in cash and cash equivalents** | **(24,088,813)** | (10,436,385) | 8,229,469 | 1,826,087 | (11,186,198) |
| Cash and cash equivalents at beginning of year | **24,996,494** | 35,432,879 | 27,203,410 | 25,377,323 | 36,563,521 |
| **Cash and cash equivalents at end of year** | **907,681** | 24,996,494 | 35,432,879 | 27,203,410 | 25,377,323 |

# SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule IV

## ACCOUNTING RATIOS

*Five Year Summary*

**BANK**

| | 2007<br>% | 2006<br>% | 2005<br>% | 2004<br>% | 2003<br>% |
|---|---|---|---|---|---|
| Interest receivable and other operating income to total assets | **4.17** | 4.09 | 4.64 | 4.67 | 5.85 |
| Operating expenses to total assets | **3.07** | 3.22 | 3.44 | 3.96 | 3.85 |
| Profit before tax to total assets | **0.64** | 0.87 | 1.20 | 0.70 | 1.99 |
| Pre-tax return on capital employed | **4.07** | 6.39 | 5.80 | 2.90 | 6.89 |
| Profit after tax to equity | **3.61** | 5.83 | 5.36 | 2.83 | 6.76 |

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Weighted average number of shares in issue (000's) | **88,487** | 85,986 | 80,765 | 66,007 | 46,110 |
| Net assets per share (cents) | **97.31** | 69.42 | 84.38 | 74.45 | 73.54 |
| Basic earnings per share (cents) | | | | | |
| Basic | **3.51** | 4.04 | 3.73 | 2.11 | 7.12 |
| Diluted | **3.75** | 4.19 | 3.55 | 2.11 | 7.12 |

# SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule V

## OTHER RELEVANT COMPANY INFORMATION

*Shareholder Information*

The following shareholder information is being published in terms of Listing Rule 9.37 issued by the Listing Authority.

**Directors' interest in the shareholding of the Company at 31 December 2007**

| | **Number of Shares** |
|---|---|
| Najeeb H.M. Al-Saleh | 656,574 |
| John C. Grech | 403,107 |
| Fouad M.T. Alghanim | 3,720,109 |
| Mohammed I.H. Marafie | 5,483,673 |

Additionally, the following Directors had beneficial interests in shareholders of the Company, as listed below:

Najeeb H.M. Al-Saleh - in Massaleh Investments KSCC and Global Financial Holdings N.V.
Hamad Al-Sayer - in Astrolabe General Contracting Co.
John C. Grech - in Economic Management Consultancy Services Ltd. and EMCS International Services Ltd.

There were no changes in the Directors' interest in the shareholding of the Company between year-end and 12 February 2008.

**Shareholders Holding 5% or more of the Share Capital as at 31 December 2007**

| | **Ordinary Share of USD0.50 each** | |
|---|---|---|
| | **Number of Shares** | **Percentage Holding** |
| Astrolabe General Trading & Contracting Company | 6,524,486 | 5.94 |
| International Finance Corporation | 6,308,513 | 5.74 |
| Massaleh Investments KSCC | 49,738,308 | 45.26 |

Additionally, Economic Management Consultancy Services Limited and EMCS International Services Ltd held 45,760 and 12,139 shares respectively as at 31 December 2007.

The shareholders' interest as at 12 February 2008 was same as above.

**Number of shareholders**

The total number of registered shareholders as at 31 December 2007 was 749, while that as at 12 February 2008 was 753.

# SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule V *(continued)*
## OTHER RELEVANT COMPANY INFORMATION *(continued)*
*Shareholder Information (continued)*

**Shareholding details as at 31 December 2007**

All shares are of equal class and carry equal voting rights.

| Range | Total Shareholders | Shares |
|---|---|---|
| 1 - 500 | 41 | 12,954 |
| 501 - 1000 | 37 | 29,037 |
| 1001 - 5000 | 327 | 939,134 |
| 5001 and over | 344 | 108,912,780 |
| **Totals** | **749** | **109,893,905** |

**Shareholding details as at 12 February 2008**

All shares are of equal class and carry equal voting rights.

| Range | Total Shareholders | Shares |
|---|---|---|
| 1 - 500 | 41 | 12,954 |
| 501 - 1000 | 37 | 29,037 |
| 1001 - 5000 | 327 | 943,177 |
| 5001 and over | 348 | 108,968,737 |
| **Totals** | **753** | **109,953,905** |

**Company Secretary, Registered Address and Contact Number**

Raffaella Bonadies

7th Floor
The Plaza Commercial Centre
Bisazza Street
Sliema SLM 1640
MALTA

Tel: 00 356 2132 2100

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