



# annual report & financial statements 2015

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# chairman's statement to the shareholders



Dr John C. Grech, Chairman

The year under review was a very critical one for the FIMBank Group, as it saw us enter into a fundamental and dynamic process of change and progress designed to turnaround the fortunes of the Group following the announcement of our 2014 financial results.

That year had presented significant challenges for some of the FIMBank Group's international business, with a combination of economic issues, adverse market conditions and credit defaults leaving their mark. Consequently, FIMBank experienced significant impairments across various Group entities, making 2014 one of the most challenging in FIMBank's history. We knew that climbing back from such a dire financial predicament would not be an easy task. However, we did not shirk from taking the decisive and timely decisions necessary to put FIMBank back on a sound financial footing. With a plan to achieve a turnaround within 18 months, and with Simon Lay at the helm as Acting CEO, we immediately embarked upon laying the groundwork for the changes required to achieve the desired results.

Shortly after our last Annual General Meeting, we had announced a landmark development for the FIMBank Group, namely the appointment of Murali Subramanian as the Group's new Chief Executive Officer. In August 2016, true to his style, Murali hit the ground running. With the support of Simon Lay, now Deputy CEO, and the rest of our management team, he managed to infuse a sense of enthusiasm, direction and confidence throughout the Group. Along the way, we brought on board seasoned professionals of the likes of Howard Gaunt GCOO, Ronald Haverkorn, CRO, and Michael Davakis, as Head of Treasury. In the space of just under six months, Murali and his team managed to steer FIMBank well within sight of our goal of sustainable profitability.

Among others, we saw an effective streamlining of the Group's international factoring strategy, as well as a consolidation of the way trade finance transactions are structured. Reinforced management and governance frameworks meant that the Group is in a better position to maximise its resource potential, both in terms of our invaluable human resource base, as well as from a cost management perspective. In the meantime, the restructuring of the Group's risk management framework brought together a stable platform from which the organisation can start achieving its performance objectives.

The announced Group Consolidated Audited Financial Statements show that for the year ended 31 December 2015, the FIMBank Group registered a loss of USD7.1 million compared to a loss of USD45.2 million in 2014. The Group is particularly encouraged by the positive performance registered in the last two quarters of 2015 and the first quarter of this year, during which the FIMBank Group registered a positive start, a trend which we expect will be sustained throughout 2016. We are now in a position to start seeing the results of the concerted and ongoing effort by management and staff towards the implementation of a consolidation strategy, designed to bring about the planned turnaround of the Group's core business.

In this light, I would like to commend the energy, determination and sense of mission of all our members of staff, operating from our Malta head office and across the globe, in the face of challenging and complicated times. As I have often stated in the past, their dedication and expertise continues to be one of our most formidable assets, while their relentless commitment to our customers' wellbeing remains the cornerstone of FIMBank's success. I also take this opportunity to thank my fellow Directors for their constant support and counsel. I am sure that their contribution will remain key to achieving the goals we have set for the Group.

Meanwhile, the Board of Directors will not be recommending a cash dividend. However, subject to regulatory approval, the Board will be recommending a 1 for 25 Bonus Issue of Ordinary Shares by way of capitalisation of the Share Premium Account.

A factor which characterised this difficult year, and which was of comfort to us all, was the strong support we felt was forthcoming from all our shareholders. At FIMBank, we acknowledge and give particular significance to investor relations, and it was of great satisfaction to note that our shareholders once again reciprocated with a definite show of trust and confidence in our endeavours. Therefore, on behalf of the Board of Directors and the entire management team, I would like to express my gratitude to all shareholders for their show of support to FIMBank through the challenging times we have been facing.

Finally, I want to highlight the unstinting support we have received from our institutional investors within the Kipco Group, namely Burgan Bank and United Gulf Bank. We greatly appreciate their demonstration of trust and confidence in both our strategy, as well as the measures undertaken to achieve the required turnaround.

John C. Grech  
Chairman



# stqarrija taċ-chairman lill-azzjonisti

Dr John C. Grech, Chairman

Wara t-thabbir tar-riżultati finanzjarji tagħna tal-2014, is-sena taht analiżi kienet waħda kritika ħafna għall-Grupp FIMBank hekk kif dhalna fi proċess fundamentali u dinamiku ta' bidla u progress immirat sabiex ibiddel l-andament tal-Grupp.

Dik is-sena kienet ipprezentat sfidi sinifikanti għal uħud min-negozji internazzjonali tal-Grupp FIMBank, fejn kien hemm taħlita ta' kwistjonijiet ekonomiċi, kundizzjonijiet avversi fis-swieq u fallimenti ta' kreditu li ħallew il-marka tagħhom. Minħabba f'hekk, il-FIMBank esperjenza debbolimenti sinifikanti fuq il-firxa ta' entitajiet varji tal-Grupp li għamlu s-sena 2014 waħda mill-aktar snin ta' sfida fl-istorja tal-FIMBank. Konna nafu li ma kinitx ser tkun faċli biex nerġgħu nirkupraw minn sitwazzjoni finanzjarja hekk serja. Madankollu, ma ħrabniex mit-tehid ta' deċiżjonijiet ta' impatt f'waqthom li kienu meħtieġa sabiex il-FIMBank jerġa' jakkwista bażi finanzjarja soda. Bil-pjan li nakkwistaw bidla totali fi żmien 18-il xahar, u b'Simon Lay fit-tmun bħala aġent CEO, mill-ewwel bdejna nistabbilixxu l-bażi għall-bidliet meħtieġa sabiex nakkwistaw ir-riżultati mixtieqa.

Ftit wara l-aħħar Laqgħa Ġenerali Annwali tagħna, konna ħabbarna żvilupp storiku għall-Grupp FIMBank, jiġifieri l-ħatra ta' Murali Subramanian bħala l-Uffiċjal Eżekuttiv Ewlieni l-ġdid tal-Grupp. F'Awissu 2015, fl-istil tiegħu, Murali ma tilifx ħin u beda ħidmietu. Bl-appoġġ ta' Simon Lay, issa bħala Deputat CEO, u l-bqija tat-tim tagħna tal-manigment, huwa rnexxielu jdaħħal sens ta' entużjażmu, direzzjoni u kunfidenza fil-Grupp kollu. Matul il-proċess, żidna professjonisti b'esperjenza, bħalma huma Howard Gaunt, l-Uffiċjal Kap Operattiv tal-Grupp, Ronald Haverkorn, il-Kap ta' Risk Management, u Michael Davakis, il-Viċi President u Kap tat-Treasury. Fiż-żmien ta' ftit inqas minn sitt xhur, Murali u t-tim tiegħu rnexxielhom imexxu lil FIMBank ferm viċin l-għan tagħna ta' profittabbiltà sostenibbli.

Fost strategiji oħra, ksibna simplifikazzjoni effiċjenti fl-istrategija tal-factoring internazzjonali tal-Grupp, kif ukoll konsolidazzjoni fil-mod kif jiġu strutturati t-tranzazzjonijiet finanzjarji. Strutturi msaħħin mill-ġdid fl-immaniġġjar u governanza fissru li l-Grupp huwa f'pożizzjoni aħjar sabiex jimmassimizza l-potenzjal tar-riżorsi tiegħu, kemm fir-rigward tal-bażi imprezzabbli tar-riżorsi umani tagħna, kif ukoll minn perspettiva ta' mmaniġġjar tal-ispejjeż. Sadattant, l-istrutturar mill-ġdid tal-qafas tal-Grupp dwar l-immaniġġjar tar-riskji għaqqad pjattaforma stabbli li permezz tagħha l-organizzazzjoni tista' tibda tikseb l-oġettivi tal-prestazzjoni tagħha.

Ir-Rapporti Finanzjarji Konsolidati Awditjati tal-Grupp li thabbiru riċentament juru li l-Grupp irreġistra telf ta' USD7.1 miljun għas-sena li ntemmet fil-31 ta' Diċembru 2015 meta mqabbel mat-telf ta' USD45.2 miljun fl-2014. Il-Grupp huwa partikolarment inkoraġġut bil-prestazzjoni pożittiva rreġistrata fl-aħħar żewġ kwarti tal-2015 u fl-ewwel kwart ta' din is-sena li matulhom il-Grupp FIMBank irreġistra profitt, xejra li qed nistennaw li se titkompla matul l-2016. Issa qegħdin f'pożizzjoni li nibdew naraw ir-riżultati tal-isforz koordinat u kontinwu mit-tim tal-manigment u mill-impjegati lejn l-implimentazzjoni ta' strategija ta' konsolidazzjoni, iddiżinjata li ġġib il-bidla totali ppjanata tan-negozju prinċipali tal-Grupp.

F'dan ir-rigward, nixtieq infahħar l-enerġija, id-determinazzjoni u s-sens ta' missjoni fiż-żminijiet ikkumplikati u ta' sfida, tal-impjegati kollha tagħna li qed joperaw kemm mill-uffiċċju prinċipali tagħna f'Malta kif ukoll minn madwar id-dinja. Bħalma għedt ta' spiss fil-passat, id-dedikazzjoni u l-ħila tagħhom ikomplu jkun f'ostakli formidabbli tagħna, filwaqt li l-impenn bla waqfien tagħhom lejn il-benesseru tal-klijenti tagħna jibqa' l-pedament tas-suċċess ta' FIMBank. Nieħu din l-oportunità wkoll biex niringrazzja lil sħabi Diretturi għall-appoġġ u l-gwida kontinwi tagħhom. Ċert li l-kontribuzzjoni tagħhom se tibqa' essenzjali sabiex nakkwistaw l-għanijiet li stabbilixxena għall-Grupp.

Sadattant, il-Bord tad-Diretturi mhux ser ikun qed jirrakkomanda dividend. Madankollu, soġġett għall-approvazzjoni regolatorja, il-Bord ser ikun qed jirrakkomanda Bonus Issue ta' Sehem Ordinarju għal kull 25 bħala mezz ta' kapitalizzazzjoni tax-Share Premium Account.

Fattur li kkaratterizza din is-sena diffiċli, u li kien ta' sostenn għalina lkoll kien l-appoġġ qawwi li kien ġej mill-azzjonisti kollha tagħna. Fil-FIMBank nagħrfu u nagħtu sinifikat partikolari lir-relazzjonijiet mal-investituri, u kien ta' sodisfazzjoni kbir li ninnutaw li, għal darba oħra, l-azzjonisti tagħna rreċiprokaw b'turija definittiva ta' fiduċja u kunfidenza fl-isforzi tagħna. Għalhekk, f'isem il-Bord tad-Diretturi u t-tim kollu tal-manigment, nixtieq nesprimi l-gratitudni tiegħi lill-azzjonisti kollha għat-turija tagħhom ta' appoġġ lejn il-FIMBank matul iż-żminijiet ta' sfida li qed niffaċċjaw.

Fl-aħħar nett, nixtieq insemmi l-appoġġ kontinwu li rċevjuna mill-investituri istituzzjonali tagħna fi ħdan il-Kipco Group, specifikament il-Burgan Bank u l-United Gulf Bank. Napprezzaw it-turija ta' fiduċja u kunfidenza li dawn urew fl-istrategija u l-mizuri li ħadna sabiex inwettqu il-bidliet neċessarji.

John C. Grech  
Chairman



# FIMBank group performance 2015



Murali Subramanian, Chief Executive Officer

## a turnaround strategy that is bearing fruit

Following the most difficult year in the Group's history, it was clear that stability to the business, the reinforcement of governance and risk structures, and the gradual re-building of the portfolios to a sustainable level, would be our priorities. This would be achieved by pursuing a consolidation strategy aimed to turnaround the core operating business.

Since then, we have undertaken a series of measures aimed at achieving this objective. The year under review has witnessed a pronounced strengthening of the Bank's leadership structure. Meanwhile, the ongoing streamlining of the international factoring strategy means that the different factoring businesses in Malta and abroad are now aligned towards a common objective. Moreover, additional focus has been given to the structuring of transactions to ensure that this remains robust, and that it provides additional comfort beyond the recourse to the borrower's cash flows.

Aided by a strengthened leadership team and governance structures, the Group intensified its effort to maximise its resource potential, including a review of certain staff positions, enhanced cost management processes, and better utilisation of its office facilities across the different Group entities. We worked on strengthening governance across the board throughout the Group. This was done by means of the

implementation of a common risk management framework and other supporting measures that are effectively addressing issues which negatively impacted the Group's financial performance in recent years. During 2015, we also boosted recovery efforts on impaired exposures across the Group, and a team of executives was assigned with this specific task.

In this overview, I would also like to refer to the support demonstrated by the Group's controlling shareholders. This is reflected in their commitment for funding facilities, to the tune of USD 250 million, which FIMBank has received from Burgan Bank. This has proved a significant milestone which has allowed us to implement our new business strategy, permitting us to reinforce our asset base and to target higher income levels.

The financial results for 2015 indicate that the turnaround strategy is bearing fruit, and that the FIMBank Group is on the right track to profitability.

## overview of financial results

The Group Consolidated Audited Financial Statements for the year in review show that for the year ended 31 December 2015, the FIMBank Group registered a loss of USD7.1 million compared to a loss of USD45.2 million in 2014. At 31 December 2015, total Consolidated Assets stood at USD1.44 billion, a marginal increase of 2% over the USD1.41 billion reported at end 2014, while Total Consolidated Liabilities stood at USD1.27 billion, up by 3.5% from USD1.23 billion in 2014.

Net income for 2015 stood at USD34.9 million, compared to a loss of USD4.7 million in the previous year. During 2015, net interest income rose by 4%, from USD28.4 million to USD29.6 million. Similar improvements with respect to 2015 were noted in foreign currency operations and other operating income. These were offset by a significantly lower level of fee income from trading assets and documentary credits, mainly due to a change in the geographic focus and up-scaled client target base.

Significantly, net impairments changes decreased by 80%, standing at USD10.3 million, compared to USD50.7 million in 2014. As a result of controlled impairments and marked-to-market losses, the Group has improved its net income by USD39.7 million, to USD34.9 million. Operating expenses increased by USD7.2 million to USD47.0 million, primarily as a result of various one-off costs related to business reorganisation and the strategic redeployment of resources.

There is no doubt that the objectives we set ourselves last year now look to be well within our grasp. As a result of the consolidation strategy we adopted in 2015, the Group has succeeded in overcoming the substantial impairments which marred the 2014 performance, whilst at the same time creating a revenue platform to generate value going forward.





## corporate social responsibility

As a Malta-based institution, we feel we owe it to the people of Malta to help raise awareness of the Islands' rich cultural heritage. This consideration has always been a mainstay of our Corporate Social Responsibility programme. Consequently, during the year in review, the FIMBank Group focused its CSR efforts on an initiative linked with the Maltese language. Maltese is recognised as being an essential part of the Maltese DNA. Its uniqueness, derived from its eclectic mix of Semitic and Romance influences, is appreciated by linguists worldwide. It is also a reflection of Malta's long and chequered history, and the Islands' strategic location at the centre of the Mediterranean. We are proud to be in a position to highlight the beauty of this language.



For this project, FIMBank partnered with Public Broadcasting Services Ltd (PBS), the operators of Malta's public television service, in an initiative which has seen the broadcast of a series of 30-second video-spots focusing on Malta's linguistic heritage. The series of 100 videos, the production of which was also sponsored by the Bank, traces the meaning of specific words in the Maltese language. The series has proven to be very popular with Maltese viewers, and we have received very positive and encouraging feedback, particularly after the spots were posted on Facebook and Youtube, where they have been shared extensively by users.

## people

One of the mainstays of FIMBank's corporate culture is its customer-centric approach. The partnerships and long-term relationships we continue to build with our customers constitute the foundation of our global reputation. And if the extent and quality of these relationships is any indicator of our success, we owe it all to our people. We are well aware that the key to optimal performance across the Group is having engaged, committed employees. Therefore, during the year in review, we continued to invest in the training and professional development of members of staff across all levels, both at head office as well as within our subsidiaries.

As can be expected, the extraordinary circumstances of the past year have prompted changes on all fronts within the Group, and that of HR was no exception. New talent was brought on board in order to lend impetus to the challenge to achieve the stated turnaround. We have further strengthened

the Bank's leadership structure. The engagement of Howard Gaunt as GCOO was of particular significance for the Group. We also reinforced our team in other areas, with the appointment of Ronald Haverkorn overlooking CRO, an area which is critical to the success of our strategy, as well as that of Michael Davakis, as Head of Treasury, which reflected the importance we are giving to the treasury side of the business. These executives joined a team which already boasts a pedigree of experience and expertise which has proved invaluable, especially at what is an eventful time for the Group.

## outlook and way forward

Upon the announcement of my appointment as CEO of the FIMBank Group, I had expressed my confidence that FIMBank has the right credentials, capacity and motivation to produce good results in the future. I had also announced my intention to work, together with the management team, towards setting the future strategic orientation for the Group, with the aim of establishing a stable platform from which FIMBank could grow and realise its true potential.

Considering the financial results registered this year, and the point of departure of the journey we embarked upon in 2015, we can allow ourselves to look back on the past months with a degree of satisfaction. However, this is tempered by our knowledge that there is still much that needs to be done to achieve the kind of turnaround we are committed to.

We remain faced with a challenging macro-economic outlook, driven by weaknesses in commodity prices and emerging markets. Apart from posing external risks to the business, these will exert more pressure on the Group to diversify the target sectors, in order to rebalance and rebuild its different portfolios. From a strategic standpoint, we will be looking at those parts of the world which continue to represent stable islands of trade, in particular the African continent, South and South-East Asia, as well as Europe. We will also continue monitoring the alignment of trading companies, commodity traders and SMEs to changing realities, and look towards ways of working with them in exploiting existing and potential trade flows.

The key pillars of the turnaround will remain at the heart of the Group's operations - an improved origination strategy across its various product offerings, a more harmonised global factoring strategy, continued focus to asset quality and loan recovery management, as well as cost efficiencies and resource optimisation. Together with my colleagues in the management team, we intend to ensure that FIMBank will continue to respond with agility to the changes in economic cycles across its international geographical presence, and to reposition itself as a growing profitable institution, through adequate returns and value creation to all its stakeholders.

Murali Subramanian  
Chief Executive Officer

# il-prestazzjoni fl-2015 tal-grupp FIMBank

Murali Subramanian, Uffiċjal Eżekuttiv Ewlieni

## strategija ta' bidla totali li qed tendi riżultati

Wara l-iktar sena diffiċli fl-istorja tal-Grupp, deher biċ-ċar li l-prijoritajiet tagħna kienu se jkunu l-istabbiltà għan-negozju, ir-rinforz tal-governanza u tal-istrutturi ta' riskju, u l-bini gradwali mill-ġdid tal-portafoll għal livell sostenibbli. Dan seta' jinkiseb billi nimxu fuq strategija ta' konsolidazzjoni mmirata biex tbiddel kompletament in-negozju ewlieni tagħna tal-operat.

Bdejna wkoll niehdu sensiela ta' miżuri sabiex nilhqu dan il-għan. Fis-sena taht analiżi rajna tishih sostanzjali fl-istrutturi ta' tmexxija tal-Bank. Sadattant, is-simplifikazzjoni li għaddejja bħalissa fl-istrategija tal-factoring internazzjonali tisser li n-negozji differenti tal-factoring f'Malta u barra minn Malta issa qegħdin allinjati lejn objettiv komuni. Barra minn hekk, ingħatat attenzjoni addizzjonali lill-istrutturament ta' tranżazzjonijiet sabiex jiġi żgurat li dan jibqa' b'saħħtu u jipprovi kumdità addizzjonali lil hinn mir-rikors għal-flus ta' min jissellef.

Megħjun minn tim tat-tmexxija u minn strutturi ta' governanza iktar b'saħħithom, il-Grupp intensifika l-isforz tiegħu sabiex jimmassimizza l-potenzjal tar-riżorsi tiegħu, inkluż ir-reviżjoni ta' ċerti pożizzjonijiet fost l-impjegati, proċessi aħjar fl-immaniġġjar tal-ispejjeż u użu aħjar tal-facilitajiet tal-uffiċċju fuq il-firxa tal-entitajiet differenti tal-Grupp. Hdimna fuq it-tishih tal-governanza fil-firxa kollha tal-Grupp. Dan sar permezz tal-implementazzjoni ta' qafas komuni fl-immaniġġjar ta' riskji u miżuri oħra ta' appoġġ li qed jindirizzaw kwistjonijiet b'mod effettiv li fis-snin riċenti kienu hallew impatt negattiv fuq il-prestazzjoni finanzjarja tal-Grupp. Matul l-2015, tajna spinta wkoll lill-isforzi ta' rkupru ta' indebolimenti esposti fuq il-firxa tal-Grupp u tajna dan l-inkarigu speċifiku lil tim ta' eżekuttivi.

F'din il-perspettiva, nixtieq nirreferi wkoll għall-appoġġ li ntwerwa mill-azzjonisti ewlenin tal-Grupp. Dan joħroġ ċar fl-impenn tagħhom għal finanzjament ta' fondi li ammonta għal USD 250 miljun li l-FIMBank irċieva mill-Burgan Bank. Dan irriżulta f'pass sinifikanti li ppermettelnha nimplimentaw l-istrategija l-ġdida tagħna tan-negozju u b'hekk ninfurzaw mill-ġdid il-bażi tagħna tal-assi u nimmiraw għal livelli ogħla ta' introjtu.

Ir-riżultati finanzjarji għall-2015 jindikaw li l-istrategija tal-bidla totali qed tendi r-riżultati u li l-Grupp FIMBank qiegħed fit-triq it-tajba lejn il-profitabbiltà.

## ħarsa ġenerali lejn ir-riżultati finanzjarji

Ir-Rapporti Finanzjarji Konsolidati Awditjati tal-Grupp għas-sena taht analiżi juru li l-Grupp FIMBank irreġistra telf ta' USD7.1 miljun għas-sena li ntemmet fil-31 ta' Diċembru 2015 meta mqabbel mat-telf ta' USD45.2 miljun fl-2014. Fil-31 ta' Diċembru 2015, l-Assi Konsolidati totali kienu ta' USD1.44 biljun, zieda marġinali ta' 2% fuq il-USD1.41 biljun li kien irrappurtat fl-aħħar tal-2014, filwaqt li l-Obligazzjonijiet Konsolidati Totali kienu ta' USD1.27 biljun, zieda ta' 3.5% mill-USD1.23 biljun fl-2014.



L-introjt net għas-sena 2015 irreġistra profit ta' USD34.9 miljun meta mqabbel ma' telf ta' USD4.7 miljun fis-sena ta' qabel. Matul l-2015, id-dhul nett minn imghax kien ogħla b'4% minn USD28.4 miljun għal USD29.6 miljun. Fl-2015 ġie nnotat titjib simili f'operat ta' muniti barranin u f'introjt operatorju ieħor. Dawn ikkumpensaw għal introjt mill-impasti ta' livell sostanzjalment iktar baxx mill-assi ta' negozjar u dokumenti ta' krediti li kienu kkawżati l-iktar minħabba bidla fil-fokus ġeografiku u fil-mira għal klijenti ta' grad ogħla.

B'mod sinifikanti, l-indeboliment nett naqas bi 80% għal USD10.3 miljun meta mqabbel mal-USD50.7 miljun fl-2014. B'riżultat ta' indeboliment kkontrollat u b'azzjoni lejn it-telf fis-swieq, il-Grupp tejjeb l-introjt net tiegħu b'USD39.7 miljun għal USD34.9 miljun. L-ispejjeż tal-operat żdiedu b'USD7.2 miljun għal USD47.0 miljun, primarjament b'riżultat ta' spejjeż varji ta' darba relatati ma' riorganizzazzjoni tan-negozju u tqassim mill-ġdid ta' riżorsi.

Ma hemmx dubju li l-objettivi li assenajna aħna stess is-sena l-oħra issa jidhru li qegħdin fejn nistgħu nilhquhom. B'riżultat tal-istrategija ta' konsolidazzjoni li adottajna fl-2015, il-Grupp innexxielu jegħleb l-indebolimenti sostanzjali li ħassru l-prestazzjoni tal-2014, filwaqt li fl-istess ħin holoq pjattaforma ta' dhul biex jiġġenera l-valur fil-futur.

## responsabbiltà soċjali korporattiva

Bħala istituzzjoni bbażata f'Malta, inħossuna obligati lejn il-poplu Malti li ngħinu biex jitqajjem għarfien fuq il-wirt kulturali u għani tal-ġejjer. Din il-konsiderazzjoni minn dejjem kienet prinċipju fil-programm tagħna dwar ir-Responsabbiltà



Soċjali Korporattiva. Konsegwentament, waqt is-sena taht analiżi, il-Grupp FIMBank iffoka l-isforzi tar-Responsabbiltà Soċjali Korporattiva tiegħu f'inizjattiva marbuta mal-lingwa Maltija. Il-lingwa Maltija titqies bħala parti essenzjali mid-DNA Malti. L-unicità tagħha, li ġejja mit-taħlita eklettika ta' influwenzi Semitiċi u Rumanzi hija apprezzata minn lingwisti minn madwar id-dinja. Tirrifletti wkoll l-istorja twila u mżewqa ta' Malta, u l-pożizzjoni strateġika tal-gżejjer fil-qalba tal-Mediterran. Kburin li qegħdin f'pożizzjoni fejn qed nixtu dawl fuq is-sbuhija ta' din il-lingwa.

Għal dan il-proġett, FIMBank issieheb mal-Public Broadcasting Services Ltd (PBS), l-operaturi tas-servizz televiżiv pubbliku Malti, f'inizjattiva sabiex ixxandret serje ta' filmati ta' tletin sekonda 'l wieħed, li jiffukaw fuq il-wirt lingwistiku ta' Malta. Is-serje ta' mitt filmat, li l-produzzjoni tagħha wkoll giet sponsorjata mill-Bank, tittraċċa t-tifsira ta' kliem speċifiku fil-lingwa Maltija. Irriżulta li s-serje hija popolari ħafna mat-telespettaturi Maltin u rċevjuna rispons pożittiv u inkoraġġanti ħafna, speċjalment wara li l-filmati ttellgħu fuq Facebook u YouTube fejn ġew ixxerjati mill-utenti b'mod estensiv.

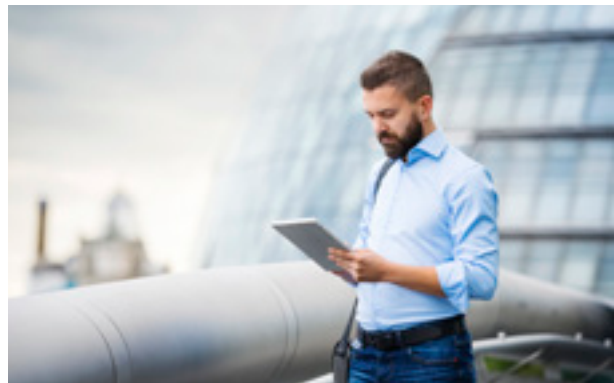
## I-impjegati

Wieħed mill-aspetti prinċipali tal-kultura korporattiva ta' FIMBank huwa l-approċċ tiegħu li huwa ffukat fuq il-klijenti. Is-sħubiji u r-relazzjonijiet fuq terminu twil li nibqgħu nibnu mal-klijenti tagħna jsawru l-bażi tar-reputazzjoni globali tagħna. U jekk l-firxa u l-kwalità ta' dawn ir-relazzjonijiet huma indikaturi tas-suċċess tagħna, dan nafuh kollu lill-impjegati tagħna. Konxji sew li l-iktar haġa importanti għall-prestazzjoni ottima fuq il-firxa tal-Grupp hija r-rabta u l-impenn min-naħa tal-impjegati. Għalhekk, matul is-sena taht analiżi, bqajna ninvestu fit-taħriġ u fl-iżvilupp professjonali tal-impjegati fil-livelli kollha, kemm fl-uffiċċju prinċipali kif ukoll fi ħdan is-sussidjarji tagħna.

Kif mistenni, iċ-ċirkustanzi straordinari tas-sena li għaddiet istigaw bidliet fl-oqsma kollha tal-Grupp, u dak tar-Riżorsi Umani ma kienx eċċezzjoni. Żidna talenti ġodda sabiex nagħtu spinta lill-isfida li nakkwistaw il-bidla totali msemmija. Komplejna nsahhu l-istruttura tat-tmexxija tal-Bank. Il-ħatra ta' Howard Gaunt bħala l-Uffiċjal Kap Operattiv tal-Grupp kienet ta' importanza partikolari għall-Grupp. Sahhaħna it-tim tagħna f'oqsma oħra wkoll, bil-ħatra ta' Ronald Haverkorn bħala l-Kap ta' Risk Management, qasam li huwa kritiku għas-suċċess tal-istrategija tagħna, kif ukoll bil-ħatra ta' Michael Davakis bħala l-Viċi President u l-Kap tat-Treasury, li rriflettiet l-importanza li qed nagħtu lill-qasam tat-treasury fin-negozju. Dawn l-eżekuttivi ngħaqdu ma' tim li diġà għandu l-ifjen grad ta' esperjenza u ħila, li kien ta' siwi imprezzabbli, speċjalment fi żmien mimli għajiet importanti għall-Grupp.

## ħarsa 'l quddiem u t-triq tal-futur

Meta thabbret il-ħatra tiegħi bħala CEO tal-Grupp FIMBank, kont għedt li kont kunfidenti li l-FIMBank għandu l-kredenzjali tajbin, il-kapaċità u l-motivazzjoni biex jipproduċi riżultati pożittivi fil-futur. Kont ħabbart ukoll l-intenzjoni tiegħi li naħdem flimkien mat-tim tal-management sabiex infasslu l-orjentazzjoni strateġika futura għall-Grupp bil-għan li



nistabbilixxu pjattaforma stabbli li minnha l-FIMBank seta' jikber u jikseb il-potenzjal veru tiegħu.

Meta nikkunsidraw ir-riżultati finanzjarji rreġistrati din is-sena, u l-punt tat-tluq tagħna fl-2015, nistgħu nippermettu lilna nfusna li nħarsu lejn ix-xhur li għaddew b'ċertu sodisfazzjon. Madankollu, dan jittaffa bl-għarfien tagħna li għad hemm ħafna xi jsir sabiex nakkwistaw it-tip ta' bidla totali li aħna impenjati lejha.

Għadna ffaċċjati bi prospettiva makroekonomika ta' sfida, xprunata minn dgħufijiet fil-prezzijiet tal-komoditajiet u s-swieg emergenti. Minbarra li qed jipprezentaw riskji esterni lin-negozju, dawn ser jagħmlu pressjoni ikbar fuq il-Grupp biex jiddiversifika s-setturi fil-mira sabiex jibbilanċja u jibni mill-ġdid il-portafolli varji tiegħu. Mill-lat strateġiku, se nkunu qed inħarsu lejn dawk il-partijiet tad-dinja li jibqgħu jirrapprezentaw żoni stabbli ta' negozju, partikolarment il-kontinent Afrikan, l-Asja tan-Nofsinhar u tax-Xlokk, kif ukoll l-Ewropa. Se nkomplu nimmonitorjaw ukoll l-allinjament ta' kumpaniji tal-kummerċ, negozjanti tal-komoditajiet u SMEs għall-bidla fir-realtajiet, u nħarsu lejn modi kif nistgħu naħdmu magħhom sabiex nisfruttaw flussi tan-negozju eżistenti u potenzjali.

Il-pilastri ewlenin tal-bidla totali ser jibqgħu fil-qalba tal-operat tal-Grupp – titjib fl-istrategija ta' kif joriġinaw il-prodotti varji li toffri, strategija globali tal-fatturament iktar armonizzata, attenzjoni kontinwa lejn il-kwalità fl-assi u l-immaniġġjar fl-irkupru tas-self, kif ukoll effiċjenzi fl-ispejjeż u l-ottimizzar ta' riżorsi. Flimkien mal-kollegi tiegħi fit-tim maniġerjali, biħsiebna niżguraw li l-FIMBank ser ikompli jagixxi b'heffa għall-bidliet fiċ-ċikli ekonomiċi fuq il-firxa tal-preżenza geografika internazzjonali tiegħu, u biex jirripożizzjona lilu nnifsu bħala istituzzjoni li kulma tmur trendi profitti ikbar permezz ta' qligħ adegwat u ħolqien tal-valur għall-partijiet kollha interessati.

Murali Subramanian  
Uffiċjal Eżekuttiv Ewleni



# directors' report

For the year ended 31 December 2015

The Directors present their report together with the audited financial statements of the Bank and the Group for the year ended 31 December 2015. This report is prepared in terms of the Companies Act, 1995 (Chapter 386, Laws of Malta, "The Companies Act") and complies with the disclosure requirements of the Sixth Schedule to the same Act.

## results for the year

The Bank and the Group reported a loss after tax of USD5,921,396 and USD7,131,942 respectively for the year under review.

Further information about the results is provided in the "Income Statements" and the "Statements of Comprehensive Income" on pages 30 to 32 and in the "Review of Performance" below.

## group structure and principal activities

The FIMBank Group of Companies (the "Group") comprises FIMBank p.l.c. (the "Bank"), and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), FIM Holdings (Chile) S.p.A. ("FHC"), FactorRus LLP ("FactorRus") and FIMFactors B.V. ("FIMFactors"). LFC, FIMFactors and FHC are themselves parents of a number of subsidiaries as set out in Note 28 to the financial statements. The Group is supervised on a consolidated basis by the Malta Financial Services Authority, whilst some of its subsidiaries and branches are subject to authorisation and regulation according to the respective jurisdictions in which they operate.

A brief description of the activities in the Group follows (% shareholding follows after the name):

- a. The Bank is a public limited company registered under the laws of Malta, and listed on the Malta Stock Exchange. It is licensed as a credit institution under the Banking Act, 1994. The Bank is principally active in providing international trade finance and to act as an intermediary to other financial institutions for international settlements, forfaiting, factoring and loan syndications.
- b. LFC (100%) is registered in the United Kingdom as a private limited liability company. It was founded in 1984 and provides international trade finance services (with particular focus on forfaiting business) through an international network of offices. Some of these offices have distinct corporate status in the various jurisdictions where they are providing the service. LFC's activities include the trading of bills of exchange, promissory notes, loans, deferred payment letters of credit and the provision of other financial facilities to companies and banks.
- c. FBS (100%), registered in Malta, has as its primary purpose the provision of information technology and support services to the Group and its associated companies.
- d. FPI (100%), registered in Malta, owns and manages FIMBank's head office in Malta. FPI is responsible for the day-to-day management of the building and leasing of space for commercial purposes.
- e. FHC (100%), registered in Chile, serves as the corporate vehicle for Latam Factors S.A. (previously First Factors S.A.) (51%), registered also under the laws of Chile, to provide all types of factoring, financial leasing and other management services. The other shareholders are Inversiones El Mayorazgo Limitada, Marín y Compañía S.A., Asesoría e Inversiones CABS S.A., Compañía de Rentas Epulafquén Ltd., Compañía de Rentas Trigal Ltd. and Compañía General de Rentas Ltd.
- f. FactorRus (100%), registered in Russia, ceased operations following a decision taken in 2014 to wind down its business.
- g. The Egyptian Company for Factoring S.A.E. ("Egypt Factors" - 50%), a company incorporated in Egypt, where the other shareholder is Commercial International Bank (Egypt) holding 50%. Egypt Factors is active in providing factoring and forfaiting services to Egyptian companies. At financial reporting date, negotiations are at an advanced stage to acquire the remaining 50% shareholding of the company which would result in Egypt Factors becoming a fully owned subsidiary of the Group.
- h. FIMFactors (100%), registered in the Netherlands, is the corporate vehicle for FIMBank's holdings in factoring subsidiaries and associated companies.



directors' report - continued

These are:

- i. Menafactors Limited (100%), incorporated in the United Arab Emirates and licensed and regulated by the Dubai Financial Services Authority to provide international factoring and forfaiting services in the Gulf and MENA region. Menafactors, in turn, holds 50% in Levant Factors S.A.L., a company registered in Lebanon.
- ii. CIS Factors Holdings B.V. (100%), incorporated in the Netherlands and served as the holding vehicle for other factoring companies. Currently the company is not carrying any investments.
- iii. India Factoring and Finance Solutions (Private) Limited (85%), incorporated in Mumbai, India, to carry out the business of factoring, forfaiting and trade finance activities in India, the other shareholders being Banca IFIS (5%), India Factoring Employee Welfare Trust (9%) and Blend Financial Services Limited (1%). India Factoring is regulated by the Reserve Bank of India.
- iv. Brasifactors S.A. (50%), a company incorporated in São Paulo, Brasil, with its core business focused on factoring services and forfaiting targeting small and medium-sized companies. The other shareholder is Banco Industrial e Comercial S.A. ("Bicbanco") with 50%.

## review of performance

The consolidation strategy adopted in 2015 has started to yield its desired results. Following the most difficult year in the Group's history, the year under review necessitated stability to the business, reinforcement of the governance and risk structures and the gradual re-building of the portfolios to a sustainable level. Through the implementation of a number of measures and initiatives, the Group succeeded in curtailing the substantial impairments which marred the 2014 performance, whilst at the same time creating a revenue platform to generate value going forward. This period was also marked by the incurrence of a number of non-recurring expenses which pushed operating expenses beyond the prior year levels. Through an ongoing streamlining of the international factoring strategy, the different factoring businesses in Malta and abroad are now aligned towards a common objective. More focus was given to the structuring of transactions to ensure it remains robust and provides additional comfort beyond the recourse to the borrower's cash flows. Aided by a strengthened leadership team and governance structures, the Group intensified its effort to maximise its resource potential, including a review of certain staff positions, enhanced cost management processes and better utilisation of its office space across the different Group entities.

## income statement

For the year ended 31 December 2015, the Group registered a loss of USD7.1 million compared to a loss of USD45.2 million in 2014. Group losses per share stood at US cents 2.21 (2014: losses per share of US cents 15.19) while on the basis of continuing operations the losses per share amount to US cents 1.45 (2014: 13.13). The Group results for the period under review are summarised in the table below which should be read in conjunction with the explanatory commentary that follows:

	2015 USD	2014 USD
Net interest income	29,597,317	28,370,349
Net fee and commission income	14,554,833	20,760,551
Net results from foreign currency operations	3,166,359	3,019,067
Other operating income	3,584,148	1,770,830
<b>Net operating results</b>	<b>50,902,657</b>	<b>53,920,797</b>
Net impairment losses	(10,331,801)	(50,724,723)
Net losses from trading assets and other financial instruments	(4,829,213)	(7,965,393)
Net fair value gain on previously held investment in associates	-	3,196,543
Share of loss of associates	(805,800)	(3,175,580)
<b>Net income</b>	<b>34,935,843</b>	<b>(4,748,356)</b>
Operating expenses	(46,984,060)	(39,771,657)
Impairment to goodwill	-	(8,910,609)
<b>Loss before income tax</b>	<b>(12,048,217)</b>	<b>(53,430,622)</b>
Taxation	7,470,653	14,501,833
<b>Loss on continuing operations</b>	<b>(4,577,564)</b>	<b>(38,928,789)</b>
Loss on discontinuing operations	(2,554,378)	(6,298,209)
<b>Loss for the year</b>	<b>(7,131,942)</b>	<b>(45,226,998)</b>

## directors' report - continued

Net income for 2015 stood at USD34.9 million compared to a loss of USD4.7 million in the prior year. During 2015, net interest income was higher by 4% from USD28.4 million to USD29.6 million. Similar improvements over 2015 were noted in foreign currency operations and other operating income which were offset by a significantly lower level of fee income from trading assets and documentary credits. Net impairments decreased by 80%, at USD10.3 million compared to USD50.7 million in 2014. The 2015 charge is mainly due to additional provisions required in the Bank, Menafactors and India – which were partly offset by release of prior year provisions as a result of recoveries on provided for accounts. Net trading losses, mainly coming from downward market value adjustments in LFC's trading portfolio, improved compared to 2014. The associates in Egypt and Brazil also returned improved results, albeit negative, improving from the USD3.2 million loss in 2015 to USD0.8 million in 2015 – the improvement resulting from lower impairments compared to last year. As a result of controlled impairments and marked to market losses, the Group is improving its net income by USD39.7 million, to USD34.9 million.

Operating expenses increased by USD7.2 million to USD47.0 million. This increase is attributed to a number of nonrecurring items related to business reorganisation, employment and consultancy terminations as well as professional advice on legal matters connected to a review of banking transactions carried out in prior years. Continuing operations were also positively impacted by a tax credit of USD7.5 million, as well as the absence of 2014 consolidation adjustments related to goodwill and connected acquisition accounting. As the winding down process at the Russia subsidiary FactorRus is close to its conclusion, the company returned net negative results of USD2.6 million compared to USD6.3 million in 2014.

## financial position

At 31 December 2015, total Consolidated Assets stood at USD1.44 billion, a marginal increase of 2% over the USD1.41 billion reported at end 2014. Increases in asset positions were noted in the trading book managed by the UK subsidiary LFC, in the short-term treasury-bill book as a result of new liquidity requirements as well as an increase in the Group's participation in an existing trade-finance fund. These increases were compensated by lower loans and advances to banks and to customers, largely reflecting the re-alignment of the various Group's portfolios to the business consolidation strategy and the conversion of short-term bank balances to higher yielding instruments in the available-for-sale portfolio.

Total Consolidated Liabilities as at 31 December 2015 stood at USD1.27 billion, up by 3.5% from USD1.23 billion in 2014. Decreases in amounts to customers were largely compensated by increases in bank loans and deposits and debt securities issued by the Bank and LFC. At 31 December 2015, the Group is carrying a new USD50 million subordinated loan from Burgan Bank, which loan qualifies as Tier 2 capital under the CRD IV regime. Total equity attributable to the equity holders of the Bank as at financial reporting date decreased by USD11 million to USD149 million reflecting the loss for the year and net adverse movements in currency translation.

Group Commitments, consisting mainly of confirmed letters of credit, documentary credits, commitments to purchase forfaiting assets and factoring commitments stood at USD150 million while contingent liabilities, principally consisting of outstanding guarantee obligations, stood at USD10 million.

## outlook for 2016

For the forthcoming year, the Group is encouraged by the positive performance registered during the second half of 2015 and is expected to maintain this trend. A challenging macro-economic outlook driven by weaknesses in commodity prices and emerging markets could pose external risks to the business and will exert more pressure on the Group to diversify the target sectors to rebalance and rebuild its different portfolios. The key pillars of the turnaround will remain at the heart of the Group's operations - an improved origination strategy across its various product offerings, a more harmonised global factoring strategy, continued focus to asset quality and loan recovery management, as well as cost efficiencies and resource optimisation. This will allow FIMBank to respond with agility to the changes in economic cycles across its different geographical presences and to reposition itself as a growing profitable institution, through adequate returns and value creation to all its stakeholders.

## dividends and reserves

The Directors will not be recommending the payment of a dividend to the Annual General Meeting of shareholders (2014: Nil) but, subject to Regulators' approval, will instead be recommending a 1 for 25 Bonus Issue of Ordinary Shares by way of capitalisation of the Share Premium Account.



## 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 7 May 2015. Along with the statutory Ordinary Resolutions, the Meeting approved an ordinary resolution, presented as special business to the shareholders, to issue bonus shares to those shareholders on the register of the Central Securities Depository of the Malta Stock Exchange as at the Record Date (7 April 2015) by means of a capitalisation of the share premium account.

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

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

## shareholder register information pursuant to Listing Rule 5.64

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

- a. details of the structure of the share capital, the class of shares and, the rights and obligations attached 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 Article 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. Certain special rights reserved for IFC under clause 6A of the Memorandum of Association were removed by approval of the 2014 Annual General Meeting and the above clause was concurrently deleted.
- c. shareholders holding 5% or more of the Share Capital as at 31 December 2015 are as follows:

	Number of Shares	Percentage Holding
United Gulf Bank B.S.C	182,711,561	61.20%
Burgan Bank S.A.K	58,876,831	19.72%

In addition to shareholders listed in the above table, at 31 December 2015, Tunis International Bank S.A. (a subsidiary of Burgan Bank S.A.K.) holds 8,461,538 shares (2.83%).

- d. there is no share scheme in place which gives employees rights to any form of control.
- e. 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.
- f. 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. The Banking Act obliges the Bank to obtain the consent of the supervisory authority (MFSA) to effect any material change in voting rights.
- g. 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.
- h. articles 115 to 122 of the Articles of Association indicate the powers and duties of Directors. More specifically, at the 2014 Annual General Meeting the Bank requested and obtained a renewal authorisation from the shareholders to i) generally

## directors' report - continued

authorise the Board of Directors (with full powers of delegation) to restrict or withdraw the statutory pre-emption rights of the Bank's equity securities holders for as long as the Board remains authorised to issue and allot equity securities in terms of Article 85 of the Companies Act; and ii) authorise the Board of Directors to issue equity securities up to the maximum value of the Authorised Share Capital limitedly for the purpose of raising equity capital through two rights issues over a period of two years.

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

## events after the financial reporting date

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

## going concern

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

## directors

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

John C. Grech (Chairman)	GC, RC, CC, EC
Masaud M.J. Hayat (Vice Chairman)	RC
Majed Essa Ahmed Al-Ajeel	AC, GC, RC
Osama Talat Al-Ghoussein	AC, BRC
Eduardo Eguren Linsen	AC
Mohamed Fekih Ahmed	BRC, CC
Adrian Alejandro Gostuski	BRC
Rogers David LeBaron	AC, GC, RC
Rabih Soukarieh	BRC, CC, EC

Denotes membership of:

- Audit Committee (AC)
- Governance Committee (GC)
- Board Risk Committee (BRC)
- Nomination and Remuneration Committee (NRC)
- Credit Committee (CC)
- Executive Committee (EC)

## statement of responsibility

The Statement of Responsibility required of the Directors in terms of Listing Rule 5.55.2 and set out in the form required by Listing Rules 5.67 to 5.69 is on page 27.





directors' report - continued

## 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 15 March 2016 and signed on its behalf by:

John C. Grech  
Chairman

Masaud M.J. Hayat  
Vice Chairman

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

# Statement of Compliance with the Principles of Good Corporate Governance

## introduction

The Board of Directors (the “Board” or “Directors”) of FIMBank p.l.c. (the “Bank”) as of 31 December 2015 continued to have their governance arrangements revisited with the intention of having the Bank’s corporate governance aligned with that of its parent.

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

## part 1: compliance with the principles

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

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

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

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

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

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

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

Over the years, the Board has created a framework through which it effectively performs its functions and discharges its liabilities.



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

The Board has also established terms of reference and charters for the various Board Committees and the conduct of their meetings.

The Members of the Board of Directors of the Bank bring to their office a mix of backgrounds and capabilities, ranging from business to financial services. This ensures a good blend of expertise and experience. Moreover, the suitability of any individual to become a Director of the Bank is, in the first place assessed by the Nomination and Remuneration Committee. As part of its work, this committee is tasked with performing an annual evaluation of the Board's overall performance in addition to an evaluation on the performance of each individual member. This includes an evaluation of the knowledge and experience of each member while also assessing their authorities and leaderships skills. As a result, this committee screens individuals for the position of Director against the Bank's requirements at the time. Subsequently, the proposal for an individual to become a Director is assessed by the MFSA, which reviews, inter alia, the individual's competence to serve as Director against established 'fit and proper' criteria. In this connection, the individual is required to provide all information, including detailed personal and career information, as the competent authorities may deem necessary. Upon appointment, new Directors receive general information about the Bank, its business and affairs, and queries in this regard are in the first instance handled by the Company Secretary and/or the CEO.

The end of 2015 also marks the appointment of Mr Murali Subramanian as CEO, effective from 6 August 2015 and Mr Simon Lay as Deputy CEO of the Bank, effective from the same date. Following his appointment Mr Murali Subramanian automatically took over the duties from the Acting CEO at the Bank in order to ensure continuity and stability within the Bank. The Bank is constantly striving to adhere to the principles of good corporate governance and will continue making changes and improvements going forward.

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

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

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

The CEO is the most senior executive of the Group. He is responsible for leading the Management in the execution of the strategy and to run the day-to-day activities of the Group.

## principle 3: board composition and appointment of directors

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

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

	Year when first appointed
John C. Grech (Chairman)	2004
Rogers David LeBaron	2006
Masaud M. J. Hayat	2013
Mohamed Fekih Ahmed	2013
Adrian Alejandro Gostuski	2013
Eduardo Eguren Linsen	2013
Majed Essa Ahmed Al-Ajeel	2013
Rabih Soukariéh	2013
Osama Talat Al-Ghoussein	2014

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

In March 2012, the Board, after noting the contents of an Internal Memorandum on the subject prepared by the Company Secretary, considered and resolved that all non-executive directors meet the requisites for them to be deemed independent. This decision was based on the representations given by the individual directors, including those with a shareholding in the Bank or associated with entities having a shareholding in the Bank or have served on the Board for more than twelve consecutive years, which does not in

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

any way impair these directors' ability to consider appropriately the issues which are brought before the Board. This notwithstanding, Mr Rogers David LeBaron is, as at 31 December 2015, the only independent director in terms of the Listing Rules. In terms of Principle 3.4, each non-executive Director has confirmed in writing to the Board that he/she undertook:

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

A written declaration of independence is signed annually by the non-executive directors, with another written declaration of independence to be signed by the non-executive directors in March 2016. Some of the directors have served on the board for more than 12 years. This notwithstanding, the Board considers such directors to bring a sufficiently balanced character and frame of mind to their duties and judgment that they are consequently deemed to be independent.

## principles 4 and 5: duties and proceedings of directors

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

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

The Board held 6 meetings in 2015. Meetings include presentations by Management, whilst other information and documentation is made available for perusal by the Directors, at their request. Members of Senior Management attend Board meetings by invitation depending on the agenda content and relevance. The Board also might request that the meetings be attended by other employees or by professional advisors, as and when necessary. In all other circumstances, the Directors are expected to play a full and constructive role in the Group's affairs. As soon as possible after a meeting, draft minutes are circulated amongst the members for their information. Minutes are then read and approved at the following meeting. Since early 2011 an intranet facility has been introduced which allows Directors to access Board documents, including all past minutes of Board and committee meetings.

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

## principle 6: information and professional development

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

The intranet facility introduced in 2011 makes it easier for documents, materials and presentations, including professional resources and access to sources of online information, to be made accessible to Directors. Training sessions have been held in 2015 in order to procure Directors with necessary knowledge on their duties and responsibilities.

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



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## principle 7: evaluation of the board's performance

Members of the Board of Directors are subject to comprehensive fit and proper tests by the supervisory authorities before they are formally cleared for appointment to the Board. During 2012 a formal evaluation procedure of the Board members was introduced, based on a self-assessment exercise which is requested from each Director and submitted on an annual basis. The self-assessment forms are then evaluated by a committee, which function has been entrusted to the Governance Committee, which then reports directly to the Board Chairman who is required to act on the results of the performance evaluation process. The outcome would be to ascertain the strengths and to address the weaknesses of the Board and to report this to the Board itself and, where appropriate, to report at the Annual General Meeting. This exercise began in 2013 and has been repeated annually ever since. The last self-assessment from Directors was requested in the last quarter of 2015, with the formal evaluation taking place, and expected to be concluded in March 2016.

## principle 8: board committees

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

Accordingly, the Board has established the following committees:

- Executive Committee
- Audit Committee
- Board Risk Committee
- Asset-Liability Committee
- Nomination and Remuneration Committee (refer to Remuneration Report on page 25)
- Credit Committee
- Governance Committee

### executive committee

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

The members of the Executive Committee as at 31 December 2015 are the following:

Murali Subramanian (Chairman)  
John C. Grech (Vice Chairman)  
Michael Davis  
Howard Gaunt  
Simon Lay  
Rabih Soukarieh

The Executive Committee met on 5 occasions during 2015, however communication with and between Management and the Committee's members is regular and ongoing. The Company Secretary also attends these meetings.

### audit committee

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



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

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

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

The members of the Audit Committee as at 31 December 2015 are the following:

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

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

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

The Audit Committee held 6 meetings during 2015. The External Auditors were invited to two of the Audit Committee meetings (March 2015 and August 2015). The External Auditors were only present for the Agenda Item which considered and discussed the 2014 Annual Report (March 2015) and 2015 Interim Report (August 2015).

## board risk committee

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

The Board Risk Committee members as at 31 December 2015 are the following:

Adrian Alejandro Gostuski (Chairman)  
 Rabih Soukarieh (Vice Chairman)  
 Osama Talat Al-Ghoussein  
 Mohamed Fekih Ahmed

During 2015, the Board Risk Committee met on 8 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.



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The Asset-Liability Committee is mainly made up of members forming part of the management team and the members as at 31 December 2015 are the following:

Aly Siby (Chairman)  
Giovanni Bartolotta  
Robert Frost  
Howard Gaunt  
Ronald Haverkorn  
Simon Lay  
Ronald Mizzi  
Murali Subramanian

Giovanni Bartolotta, Head of Risk and Toufic Yafaoui, Treasury, are non-voting members of the ALCO.

During 2015, the ALCO met on 4 occasions.

## credit committee

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

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

The Credit Committee members as at 31 December 2015 are the following:

John C. Grech (Chairman)  
Rabih Soukarieh (Vice Chairman)  
Mohamed Fekih Ahmed  
Howard Gaunt  
Simon Lay  
Aly Siby  
Murali Subramanian

In addition, Ronald Haverkorn, Chief Risk Officer and Giovanni Bartolotta, Head of Risk are non-voting members of the CC.

During 2015, the CC met on 23 occasions.

## governance committee

The purpose of the Governance Committee ("GC") is to review the Bank's internal delegations, policies and procedures to ensure compliance with legislative and regulatory requirements and alignment to industry's best practice.

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

The Governance Committee members as at 31 December 2015 are the following:

Majed Essa Ahmed Al-Ajeel (Chairman)  
John C. Grech (Vice-Chairman)  
Rogers David LeBaron

During 2015, the GC met on 4 occasions.

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## nomination and remuneration committee

The Nomination and Remuneration Committee ("NRC") was set up in 2015 and shall carry out the following tasks:

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

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

The Nomination and Remuneration Committee members as at 31 December 2015 are the following:

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

During 2015, the Nomination and Remuneration Committee met on 2 occasions.

## changes to committee membership during 2015

Howard Gaunt and Murali Subramanian became members of the Executive Committee. Marcel Cassar, Armin Eckermann and Ivan Fsadni ceased to remain members.

Aly Siby replaced Simon Lay as Chairman of the Asset Liability Committee. Armin Eckermann and Marcel Cassar ceased to remain members.

Murali Subramanian, Aly Siby, Howard Gaunt became voting members of the Credit Committee. Ronald Haverkorn and Giovanni Bartolotta became non-voting members. Armin Eckermann and Marcel Cassar ceased to remain members of the Committee.

Rogers David LeBaron replaced Simon Lay on the Corporate Governance Committee.

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

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

The Board complies with the provisions of the Bank's Memorandum and Articles of Association, as well as all legislation, rules and regulations that require it to maintain a fair and informed market in the Bank's equity securities. It discharges its obligations by



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

having in place formal procedures for dealing with potentially price-sensitive information and ensuring the proper conduct of its officers and staff in that regard. Regular contact with Shareholders and the general market is maintained through Company Announcements, which are issued in conformity with the obligations arising from the Listing Rules. During 2015 the Bank issued fourteen announcements. More specifically, in accordance with Listing Rules 5.86 et seq., two announcements were made regarding the Interim Directors' Statements, on 19 May 2015 and 5 November 2015 respectively.

The Board also complies with the provisions of the Bank's Articles of Association insofar as minority rights are concerned. In accordance with the Bank's Articles of Association Minority Shareholders may convene an Extraordinary General Meeting, in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors.

The Bank also maintains a presence on the web through [www.fimbank.com](http://www.fimbank.com), which includes an informative and comprehensive 'Investor Relations' section that contains, amongst other things, all Company Announcements, Annual General Meeting information, regulated information and press releases.

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

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

## principle 11: conflicts of interest

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

The number of shares held in the Bank by Directors directly in their name as at 31 December 2015 is as follows:

John C. Grech * (Chairman)	1,000,000
Masaud M. J. Hayat * (Vice Chairman)	Nil
Majed Essa Ahmed Al-Ajeel *	Nil
Osama Talat Al-Ghoussein*	Nil
Eduardo Eguren Linsen*	Nil
Mohamed Fekih Ahmed *	Nil
Adrian Alejandro Gostuski *	Nil
Rogers David LeBaron	Nil
Rabih Soukarieh*	Nil

Aside from these direct interests in the shareholding of the Bank, the directors marked above with an \* are considered to be associated with companies that hold a beneficial interest in the Bank's shareholding. No shareholder is entitled to any automatic right to nominate or appoint a director on the Board. Details of outstanding loans, guarantees or similar facilities made available to related parties or beneficial interests thereof, including directors, are disclosed in the Notes to the Financial Statements.

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

## principle 12: corporate social responsibility

The Board of Directors encourages that sound principles of corporate social responsibility are adhered to in the ongoing management practices of the Group. As a result, from time to time the Bank and its subsidiaries are involved in supporting initiatives at both national and community level aimed at contributing to economic and societal development. They also assist and promote small-scale projects of a charitable and humanitarian nature. Details of corporate social responsibility initiatives undertaken by the Group in 2015 are explained in other parts of the Annual Report.

## part 2: non-compliance with the principles

### principle 4: succession policy for directors

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

### principle 5: board meetings

The Board held 6 meetings during 2015, of which 5 were held with Directors being asked to attend in person while 1 meeting was held via long-distance conferencing facilities. The five physical meetings were attended by all the directors with the exception of Mr Osama Talat Al-Ghoussein who did not attend the meetings held on 10 March 2015, 7 May 2015 and 4 August 2015, and Mr Masaud M.J. Hayat who did not attend the meetings held on 16 June 2015 and 7 May 2015, and Mr Majed Essa Ahmed Al-Ajeel who did not attend the meeting on 20 October 2015 and Mr Mohamed Fekih Ahmed and Mr Rabiha Soukarieh who did not attend the meeting on 7 May 2015. The meeting that was held by conference and took place on 16 June 2015 was not attended by Mr Masaud M.J. Hayat.

### principle 8: nomination committee

The manner in which the Directors are nominated for appointment follows the procedure set out in the Articles of Association, i.e. any nomination must be seconded by a member or members who in the aggregate hold at least 20,000 shares. This process is also rendered public with an announcement in the Malta press, usually in the first quarter of the financial year and in good time before the Annual General Meeting, which allows at least 10 business days for any nomination to be made to the Company Secretary.

### principle 8: nomination and remuneration committee

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

## internal control

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





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

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

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

Approved by the Board of Directors on 15 March 2016 and signed on its behalf by:

John C. Grech  
Chairman

Masaud M. J. Hayat  
Vice Chairman

# remuneration report

For the year ended 31 December 2015

## 1. terms of reference and membership

The Nomination and Remuneration Committee (the "Committee") is responsible for ensuring that the Boards and Executive Management of the Bank and the Bank's Joint Ventures include an appropriate mix of skills, qualifications and experience necessary to fulfil its responsibilities, as well as to review the reward policy annually in line with principles of good governance of the Board of Directors' remuneration and that of the senior executives.

Prior to the Annual General Meeting ("AGM") of 7 May 2015, the Committee was composed of Masaud M.J. Hayat (Chairman), Majed Essa Ahmed Al-Ajeel, Rogers David LeBaron and John C. Grech. Simon Lay, Acting CEO, attended the Committee meeting of 9 March 2015 while Murali Subramanian, who was appointed as Group CEO in August 2015, attended the Committee meeting in October 2015.

## 2. meetings

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

Members	Attended
Masaud M.J. Hayat (Chairman)	2
Majed Essa Ahmed Al-Ajeel (Vice Chairman)	1
John C. Grech	2
Rogers David LeBaron	2

The following matters were determined and/or discussed:

- Review of Charter including the change in name of committee from Compensation Committee to Nomination and Remuneration Committee
- Salary reviews and bonuses for Group employees
- Senior management promotions
- Share option schemes of the Bank
- New senior positions relating to reorganization and new Organisation Chart
- HR budget
- Staff training
- Talent and Performance management

## 3. remuneration statement

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

The Annual General Meeting of shareholders approves the maximum annual aggregate remuneration which the Directors may receive for the holding of their office. At the Annual General Meeting of the 7 May 2015 the shareholders approved the maximum aggregate emoluments of the Directors for the financial year ending 31 December 2015 at USD350,000. No Director, in his capacity as a Director of the Bank, is entitled to profit sharing, share options or pension benefits. The Board Committee fees for the financial year ending 31 December 2015 amounted to USD277,907.



remuneration report - continued

## 4. code provision 8.A.5

For 2015, the total payments received by Directors were:

Fixed remuneration	USD 277,907
Variable remuneration	-
Executive share options	NIL
Expenses relating to meetings	USD 47,060

Apart from a fixed annual emolument, Directors are also remunerated depending upon which committee they sit on.

For Senior Executives, namely the President and the Executive Vice Presidents, the remuneration package ensures the right qualities and skills for the proper management of the Group as well as the proper execution of the strategy devised by the Board of Directors. There have been no significant changes in the Group's remuneration policy during the financial year under review, and no significant changes are envisaged for year ending 2016.

The various remuneration components for Executives are:

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

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

For 2015, the total emoluments received by Senior Executives were:

Fixed remuneration	USD 2,644,496
Variable remuneration	USD 102,183
Executive share options	NIL
Expenses/fringe benefits	USD 181,692

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

# directors' responsibility for the financial statements

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) and the Banking Act, 1994 (Chapter 371, Laws of Malta). The Directors also ensure that the financial statements of the Group are prepared in accordance with Article 4 of the IAS regulation.

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

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

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

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

Signed on behalf of the Board of Directors by:



John C. Grech  
Chairman



Masaud M. J. Hayat  
Vice Chairman

# statements of financial position

As at 31 December 2015

		Group		Bank	
	Note	2015 USD	2014 USD	2015 USD	2014 USD
<b>ASSETS</b>					
Balances with the Central Bank of Malta,					
Treasury Bills and cash	19	77,432,606	7,824,096	77,413,470	7,804,628
Trading assets	20	355,063,998	262,856,375	-	-
Derivative assets held for risk management	21	1,139,090	2,549,893	1,142,952	2,570,036
Financial assets designated at fair value					
through profit or loss	22	17,741,000	18,000,000	17,741,000	18,000,000
Loans and advances to banks	23	223,189,558	430,655,699	212,123,584	423,146,523
Loans and advances to customers	24	388,951,224	549,441,138	567,176,993	635,248,176
Investments available-for-sale	25	274,049,316	30,104,393	274,048,615	30,103,691
Investments held-to-maturity	26	7,476,940	7,116,353	7,476,940	7,116,353
Investments in associates	27	1,317,118	2,821,670	305,641	6,013,425
Investments in subsidiaries	28	-	-	84,678,486	61,278,380
Non-current assets held for sale	29	1,027,794	7,838,274	-	-
Property and equipment	30	33,134,984	38,399,474	1,749,101	2,065,906
Investment property	31	3,804,004	-	-	-
Intangible assets and goodwill	32	8,564,596	9,164,624	1,078,027	1,070,658
Current tax assets		2,554,970	428,220	-	-
Deferred taxation	33	40,568,247	33,912,048	22,535,293	15,594,796
Other assets	34	3,250,235	4,480,300	1,852,600	2,297,271
Prepayments and accrued income	35	4,639,766	4,382,860	3,993,887	3,752,521
<b>Total assets</b>		<b>1,443,905,446</b>	<b>1,409,975,417</b>	<b>1,273,316,589</b>	<b>1,216,062,364</b>
<b>LIABILITIES AND EQUITY</b>					
Liabilities					
Derivative liabilities held for risk management	21	917,114	3,606,718	921,237	1,606,718
Amounts owed to banks	36	729,941,157	670,768,692	665,277,976	580,466,522
Amounts owed to customers	37	422,077,303	523,848,225	405,611,504	496,006,520
Debt securities in issue	38	45,646,755	10,599,196	20,000,000	-
Subordinated liabilities	39	50,000,000	-	50,000,000	-
Liabilities associated with non-current					
assets held for sale	29	165,762	249,502	-	-
Current tax liabilities		-	-	-	1,456,521
Other liabilities		135,830	2,398,693	135,830	2,398,694
Accruals and deferred income	40	20,101,911	14,106,979	7,373,994	4,589,759
<b>Total liabilities</b>		<b>1,268,985,832</b>	<b>1,225,578,005</b>	<b>1,149,320,541</b>	<b>1,086,524,734</b>
Equity					
Share capital	41	149,268,322	135,698,296	149,268,322	135,698,296
Share premium	41	8,072,276	21,642,302	8,072,276	21,642,302
Reserve for general banking risks	41	1,000,027	415,293	1,000,027	415,293
Currency translation reserve	41	(5,690,377)	(1,016,084)	-	-
Fair value reserve	41	(409,528)	(789,342)	(409,528)	(789,342)
Other reserve	41	2,486,644	681,041	2,681,041	2,681,041
(Accumulated losses)/retained earnings	41	(5,644,809)	3,919,616	(36,616,090)	(30,109,960)
<b>Total equity attributable to equity holders of the bank</b>		<b>149,082,555</b>	<b>160,551,122</b>	<b>123,996,048</b>	<b>129,537,630</b>
Non-controlling interests	42	25,837,059	23,846,290	-	-
<b>Total equity</b>		<b>174,919,614</b>	<b>184,397,412</b>	<b>123,996,048</b>	<b>129,537,630</b>
<b>Total liabilities and equity</b>		<b>1,443,905,446</b>	<b>1,409,975,417</b>	<b>1,273,316,589</b>	<b>1,216,062,364</b>



# statements of financial position

As at 31 December 2015

	Note	2015 USD	Group 2014 USD	2015 USD	Bank 2014 USD
MEMORANDUM ITEMS					
Contingent liabilities	43	10,422,946	21,472,543	37,002,036	31,805,224
Commitments	44	149,958,903	171,073,506	117,122,920	157,125,360

The official middle rate of exchange issued by the European Central Bank between US Dollar and Euro as at 31 December 2015 was 1.0887.

The notes on pages 39 to 120 are an integral part of these financial statements.

The financial statements on pages 28 to 120 were approved and authorised for issue by the Board of Directors on 15 March 2016 and were signed on its behalf by:

John C. Grech  
Chairman

Masaud M. J. Hayat  
Vice Chairman

Murali Subramanian  
Chief Executive Officer

Ronald Mizzi  
Chief Financial Officer

# income statements

For the year ended 31 December 2015

		Group		Bank	
	Note	2015 USD	2014 USD	2015 USD	2014 USD
Interest income	8	52,518,625	50,754,658	25,024,359	28,392,379
Interest expense	8	(22,921,308)	(22,384,309)	(13,069,821)	(13,742,561)
Net interest income	8	29,597,317	28,370,349	11,954,538	14,649,818
Fee and commission income	9	19,719,218	25,598,298	11,657,912	15,617,702
Fee and commission expense	9	(5,164,385)	(4,837,747)	(2,515,148)	(2,022,658)
Net fee and commission income	9	14,554,833	20,760,551	9,142,764	13,595,044
Net trading results	10	1,008,618	(6,524,673)	5,186,999	1,769,718
Net gain from other financial instruments carried at fair value	11	(2,671,472)	1,578,347	(2,627,182)	1,655,071
Net fair value gains on previously-held investments in associates	12	-	3,196,543	-	-
Dividend income	13	3,324,960	1,523,364	3,324,960	1,523,364
Other operating income	14	259,188	247,466	5,201	27,441
Operating income before net impairment		46,073,444	49,151,947	26,987,280	33,220,456
Net impairment loss on financial assets	15	(10,331,801)	(50,724,723)	(11,093,560)	(63,921,856)
Operating income/(loss)		35,741,643	(1,572,776)	15,893,720	(30,701,400)
Administrative expenses	16	(43,991,588)	(37,695,755)	(28,012,370)	(25,114,822)
Depreciation and amortisation	30 to 32	(2,992,472)	(2,741,117)	(915,049)	(880,693)
Provisions		-	665,215	-	-
Impairment to goodwill	32	-	(8,910,609)	-	-
Total operating expenses		(46,984,060)	(48,682,266)	(28,927,419)	(25,995,515)
Operating loss		(11,242,417)	(50,255,042)	(13,033,699)	(56,696,915)
Share of results of associates (net of tax)	27	(805,800)	(3,175,580)	-	-
Loss before tax		(12,048,217)	(53,430,622)	(13,033,699)	(56,696,915)
Taxation	17	7,470,653	14,501,833	7,112,303	6,458,782
Loss from continuing operations		(4,577,564)	(38,928,789)	(5,921,396)	(50,238,133)
Loss on discontinued operations	29	(2,554,378)	(6,298,209)	-	-
Loss for the year		(7,131,942)	(45,226,998)	(5,921,396)	(50,238,133)

# income statements

For the year ended 31 December 2015

	Note	Group		Bank	
		2015 USD	2014 USD	2015 USD	2014 USD
Attributable to:					
Equity holders of the bank		(6,389,807)	(38,559,073)	(5,921,396)	(50,238,133)
Non-controlling interests		(742,135)	(6,667,925)	-	-
<b>Loss for the year</b>		<b>(7,131,942)</b>	<b>(45,226,998)</b>	<b>(5,921,396)</b>	<b>(50,238,133)</b>
Loss per share					
Basic loss per share (US cents)	18	(2.21)	(15.19)	(2.05)	(19.79)
Diluted loss per share (US cents)	18	(2.21)	(15.18)	(2.05)	(19.78)
Loss per share – continuing operations					
Basic loss per share (US cents)	18	(1.45)	(13.13)	(2.05)	(19.79)
Diluted loss per share (US cents)	18	(1.45)	(13.12)	(2.05)	(19.78)

The results for the year ended 31 December 2014 have been restated to take into effect the impact of the Bonus Issue of shares in May 2015 on Earnings per Share (see Note 18).

The notes on pages 39 to 120 are an integral part of these financial statements.

# statements of profit or loss and other comprehensive income

For the year ended 31 December 2015

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Loss for the year	(7,131,942)	(45,226,998)	(5,921,396)	(50,238,133)
Other comprehensive income:				
Items that are, or may be, reclassified to profit or loss				
Foreign currency translation differences for foreign operations:				
- reclassified to profit or loss	-	5,066,657	-	-
- other	(4,674,293)	315,151	-	-
Fair value reserve (available-for-sale financial assets), net of deferred tax	379,814	(948,704)	379,814	(948,704)
<b>Total comprehensive income for the year</b>	<b>(11,426,421)</b>	<b>(40,793,894)</b>	<b>(5,541,582)</b>	<b>(51,186,837)</b>
Attributable to:				
Equity holders of the bank	(10,684,286)	(34,125,969)	(5,541,582)	(51,186,837)
Non-controlling interests	(742,135)	(6,667,925)	-	-
<b>Total comprehensive income for the year</b>	<b>(11,426,421)</b>	<b>(40,793,894)</b>	<b>(5,541,582)</b>	<b>(51,186,837)</b>

The notes on pages 39 to 120 are an integral part of these financial statements.

# statements of changes in equity

For the year ended 31 December 2015

## Group

Attributable to equity shareholders of the Bank

	Share capital USD	Share premium USD	Reserve for general banking risks USD	Currency translation reserve USD	Fair value reserve USD	Other reserve USD	Retained earnings/ (accumulated losses) USD	Total USD	Non-controlling interests USD	Total equity USD
At 1 January 2015	135,698,296	21,642,302	415,293	(1,016,084)	(789,342)	681,041	3,919,616	160,551,122	23,846,290	184,397,412
<b>Total comprehensive income</b>										
<i>Comprehensive income for the year</i>										
Loss for the year	-	-	-	-	-	-	(6,389,807)	(6,389,807)	(742,135)	(7,131,942)
<i>Other comprehensive income</i>										
Change in fair value of available-for-sale assets	-	-	-	-	379,814	-	-	379,814	-	379,814
Currency translation reserve	-	-	-	(4,674,293)	-	-	-	(4,674,293)	118,998	(4,555,295)
<b>Total comprehensive income</b>	-	-	-	(4,674,293)	379,814	-	(6,389,807)	(10,684,286)	(623,137)	(11,307,423)
<b>Transactions with owners of the Bank</b>										
<i>Contributions and distributions</i>										
Bonus issue of shares	13,570,026	(13,570,026)	-	-	-	-	-	-	-	-
Share issue costs by subsidiary undertaking	-	-	-	-	-	(194,397)	-	(194,397)	-	(194,397)
<i>Changes in ownership interests</i>										
Change in non-controlling interests at subsidiaries	-	-	-	-	-	-	-	-	1,530,061	1,530,061
Acquisition of non-controlling interests	-	-	-	-	-	-	(2,589,884)	(2,589,884)	1,083,845	(1,506,039)
Put options exercised by non-controlling interests	-	-	-	-	-	2,000,000	-	2,000,000	-	2,000,000
<b>Total transactions with owners of the Bank</b>	13,570,026	(13,570,026)	-	-	-	1,805,603	(2,589,884)	(784,281)	2,613,906	1,829,625
Transfer to reserve for general banking risks	-	-	584,734	-	-	-	(584,734)	-	-	-
<b>As at 31 December 2015</b>	149,268,322	8,072,276	1,000,027	(5,690,377)	(409,528)	2,486,644	(5,644,809)	149,082,555	25,837,059	174,919,614

# statements of changes in equity

For the year ended 31 December 2015

## Group

Attributable to equity shareholders of the Bank

	Share capital USD	Share premium USD	Reserve for general banking risks USD	Currency translation reserve USD	Fair value reserve USD	Other reserve USD	Retained earnings/ (accumulated losses) USD	Total USD	Non-controlling interests USD	Total equity USD
At 1 January 2014	89,599,085	19,820,564	80,893	(6,397,892)	159,362	2,681,041	42,813,089	148,756,142	-	148,756,142
<b>Total comprehensive income</b>										
<i>Comprehensive income for the year</i>										
Loss for the year	-	-	-	-	-	-	(38,559,073)	(38,559,073)	(6,667,925)	(45,226,998)
<i>Other comprehensive income</i>										
Change in fair value of available-for-sale assets	-	-	-	-	(948,704)	-	-	(948,704)	-	(948,704)
Currency translation reserve	-	-	-	5,381,808	-	-	-	5,381,808	(162,953)	5,218,855
<b>Total comprehensive income</b>	-	-	-	5,381,808	(948,704)	-	(38,559,073)	(34,125,969)	(6,830,878)	(40,956,847)
<b>Transactions with owners of the Bank</b>										
<i>Contributions and distributions</i>										
Issue of new shares, net of transaction costs	37,030,443	10,736,615	-	-	-	-	-	47,767,058	-	47,767,058
Bonus issue of shares	8,969,968	(8,969,968)	-	-	-	-	-	-	-	-
Exercise of share options	98,800	55,091	-	-	-	-	-	153,891	-	153,891
<i>Changes in ownership interests</i>										
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	-	-	-	21,881,268	21,881,268
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	8,795,900	8,795,900
Put option exercised by non-controlling interests	-	-	-	-	-	(2,000,000)	-	(2,000,000)	-	(2,000,000)
<b>Total transactions with owners of the Bank</b>	46,099,211	1,821,738	-	-	-	(2,000,000)	-	45,920,949	30,677,168	76,598,117
Transfer to reserve for general banking risks	-	-	334,400	-	-	-	(334,400)	-	-	-
<b>As at 31 December 2014</b>	135,698,296	21,642,302	415,293	(1,016,084)	(789,342)	681,041	3,919,616	160,551,122	23,846,290	184,397,412



# statements of changes in equity

For the year ended 31 December 2015

## Bank

	Share capital USD	Share premium USD	Reserve for general banking risks USD	Fair value reserve USD	Other reserve USD	Accumulated losses USD	Total USD
At 1 January 2015	135,698,296	21,642,302	415,293	(789,342)	2,681,041	(30,109,960)	129,537,630
<b>Total comprehensive income</b>							
<i>Total comprehensive income for the year</i>							
Loss for the year	-	-	-	-	-	(5,921,396)	(5,921,396)
<i>Other comprehensive income</i>							
Change in fair value of available-for-sale assets	-	-	-	379,814	-	-	379,814
<b>Total comprehensive income</b>	-	-	-	379,814	-	(5,921,396)	(5,541,582)
<b>Transactions with owners of the Bank</b>							
<i>Contributions and distributions</i>							
Bonus issue of shares	13,570,026	(13,570,026)	-	-	-	-	-
<b>Total transactions with owners of the Bank</b>	13,570,026	(13,570,026)	-	-	-	-	-
Transfer to reserve for general banking risks	-	-	584,734	-	-	(584,734)	-
<b>As at 31 December 2015</b>	149,268,322	8,072,276	1,000,027	(409,528)	2,681,041	(36,616,090)	123,996,048

# statements of changes in equity

For the year ended 31 December 2015

Bank

	Share capital USD	Share premium USD	Reserve for general banking risks USD	Fair value reserve USD	Other reserve USD	Retained earnings/ (accumulated losses) USD	Total USD
At 1 January 2014	89,599,085	19,820,564	80,893	159,362	2,681,041	20,462,573	132,803,518
<b>Total comprehensive income</b>							
<i>Total comprehensive income for the year</i>							
Loss for the year	-	-	-	-	-	(50,238,133)	(50,238,133)
<i>Other comprehensive income</i>							
Change in fair value of available-for-sale assets	-	-	-	(948,704)	-	-	(948,704)
<b>Total comprehensive income</b>	-	-	-	(948,704)	-	(50,238,133)	(51,186,837)
<b>Transactions with owners of the Bank</b>							
<i>Contributions and distributions</i>							
Issue of new shares, net of transaction costs	37,030,443	10,736,615	-	-	-	-	47,767,058
Bonus issue of shares	8,969,968	(8,969,968)	-	-	-	-	-
Exercise of share options	98,800	55,091	-	-	-	-	153,891
<b>Total transactions with owners of the Bank</b>	46,099,211	1,821,738	-	-	-	-	47,920,949
Transfer to reserve for general banking risks	-	-	334,400	-	-	(334,400)	-
<b>As at 31 December 2014</b>	135,698,296	21,642,302	415,293	(789,342)	2,681,041	(30,109,960)	129,537,630

The notes on pages 39 to 120 are an integral part of these financial statements.

# statements of cash flows

For the year ended 31 December 2015

	Note	Group		Bank	
		2015 USD	2014 USD	2015 USD	2014 USD
Cash flows from operating activities					
Interest and commission receipts		70,769,568	73,461,216	35,796,876	42,326,377
Exchange (paid)/received		3,034,384	3,906,102	527,288	2,193,671
Interest and commission payments		(26,108,868)	(27,865,792)	(12,849,306)	(14,607,661)
Payments to employees and suppliers		(42,644,171)	(39,652,435)	(28,000,219)	(26,722,279)
Operating profit before changes in operating assets / liabilities		5,050,913	9,849,091	(4,525,361)	3,190,108
(Increase) / decrease in operating assets:					
- Trading assets and financial assets at fair value through profit or loss		(227,974,781)	1,574,838	(134,532,569)	-
- Loans and advances to customers and banks		134,779,342	17,654,242	92,066,304	8,326,125
- Other assets		1,739,012	8,056,099	444,668	1,687,493
Increase / (decrease) in operating liabilities:					
- Amounts owed to customers and banks		(51,351,784)	111,104,730	(55,238,991)	129,782,403
- Other liabilities		(2,851,886)	2,030,680	(2,262,860)	2,030,680
- Net advances from/(to) subsidiary companies		-	-	(39,475,263)	(40,756,388)
Net cash (absorbed by)/generated from operating activities before income tax		(140,609,184)	150,269,680	(143,524,072)	104,260,421
Income tax (paid)/refunded		(2,177,056)	(495,224)	(1,489,234)	1,390,172
Net cash flows (used in)/ from operating activities		(142,786,240)	149,774,456	(145,013,306)	105,650,593
Cash flows from investing activities					
- Payments to acquire property and equipment		(747,757)	(958,987)	(400,228)	(656,961)
- Payments to acquire intangible assets		(258,630)	(785,889)	(264,389)	(585,213)
- Proceeds on disposal of property and equipment		47,281	19,298	47,281	19,404
- Acquisition of further equity in subsidiaries	28	(1,039,920)	(24,388,450)	(24,906,146)	(21,065,318)
- Purchase of shares in associates		(1,504,875)	(1,000,000)	(1,504,875)	-
- Net investment in discontinued operations		4,172,363	(13,886,982)	-	-
- Acquisition of investments available-for-sale		(110,000,000)	(5,237,791)	(110,000,000)	(5,237,791)
- Receipt of dividend		3,324,960	1,523,364	3,324,960	1,523,364
Net cash flows used in investing activities		(106,006,578)	(44,715,437)	(133,703,397)	(26,002,515)
(Decrease)/increase in cash and cash equivalents c/f		(248,792,818)	105,059,019	(278,716,703)	79,648,078

# statements of cash flows

For the year ended 31 December 2015

		Group		Bank	
	Note	2015 USD	2014 USD	2015 USD	2014 USD
(Decrease)/increase in cash and cash equivalents b/f		(248,792,818)	105,059,019	(278,716,703)	79,648,078
Cash flows from financing activities					
- Proceeds from the issue of share capital		-	47,920,950	-	47,920,950
- Share issue costs		(194,397)	-	-	-
- Subordinated convertible loan		50,000,000	-	-	-
- Net movement in debt securities		35,047,559	(24,898,810)	20,000,000	-
- Repayment of subordinated debt		-	-	50,000,000	-
- Dividends paid		-	-	-	-
Net cash flows from financing activities		84,853,162	23,022,140	70,000,000	47,920,950
(Decrease)/increase in cash and cash equivalents		(163,939,656)	128,081,159	(208,716,703)	127,569,028
Analysed as follows:					
- Effect of exchange rate changes on cash and cash equivalents		(19,042,161)	(2,636,760)	(19,042,161)	(2,636,760)
- Net (decrease)/increase in cash and cash equivalents		(144,897,495)	130,717,919	(189,674,542)	130,205,788
(Decrease)/increase in cash and cash equivalents		(163,939,656)	128,081,159	(208,716,703)	127,569,028
Cash and cash equivalents at beginning of year		121,831,182	(6,249,977)	111,330,430	(16,238,598)
Cash and cash equivalents at end of year	45	(42,108,474)	121,831,182	(97,386,273)	111,330,430

The notes on pages 39 to 120 are an integral part of these financial statements.

# notes to the financial statements

1	Reporting entity	26	Investments held-to-maturity
2	Basis of preparation	27	Investments in associates
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# notes to the financial statements

## 1 reporting entity

FIMBank p.l.c. (the “Bank”) is a company domiciled in Malta. The address of the Bank’s registered office is Mercury Tower, The Exchange Financial and Business Centre, Elia Zammit Street, St. Julian’s STJ 3155, Malta. The financial statements of the Bank as at and for the year ended 31 December 2015 comprise the Bank and its subsidiaries (together referred to as the “Group” and individually as “Group entities”).

## 2 basis of preparation

### 2.1 statement of compliance

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

Article 4 of Regulation 1606/2002/EC requires that, for each financial year starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with IFRS as adopted by the EU if, at their reporting date, their securities are admitted to trading on a regulated market of any EU Member State. This Regulation prevails over the provisions of the Companies Act, 1995, (Chapter 386, Laws of Malta) to the extent that the said provisions of the Companies Act, 1995, (Chapter 386, Laws of Malta) are incompatible with the provisions of the Regulation.

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

The financial statements were authorised for issue by the Board of Directors on 15 March 2016.

### 2.2 basis of measurement

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

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

The financial statements are also prepared on the going concern basis, which takes into account the Directors’ confirmation that they have adequate assurances of continued financial support from the shareholders, in particular the significant shareholders of the ultimate parent group. This support underpins the statement made in the Directors’ Report on page 9 that the Bank is capable of continuing to operate as a going concern for the foreseeable future.

### 2.3 functional and presentation currency

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

### 2.4 use of judgements and estimates

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

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



2 *basis of preparation - continued*

## 2.4.1 *key sources of estimation uncertainties*

### *allowances for credit losses*

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

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

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

### *determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10.6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The fair value hierarchy that reflects the significance of the inputs used in measuring financial instruments is set out in Note 5.1.

## 2.4.2 *critical accounting judgements 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 the 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.

## 2.4.3 *assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

- Note 32 – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts;
- Note 33 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

### 3 significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these financial statements.

#### 3.1 basis of consolidation

##### 3.1.1 *business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

##### 3.1.2 *subsidiaries*

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

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

##### 3.1.3 *associates*

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of investment in associates, until the date on which significant influence or joint control ceases.

##### 3.1.4 *non-controlling interests*

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3 *significant accounting policies - continued*

### 3.1.5 *discontinued operations*

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic areas of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations;
- or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is represented as if the operation had been discontinued from the start of the comparative year.

### 3.1.6 *transactions eliminated on consolidation*

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

## 3.2 *foreign currency*

### 3.2.1 *foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined.

Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised directly in other comprehensive income. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

### 3.2.2 *foreign operations*

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

Foreign currency differences are recognised in other comprehensive income, and accumulated in the foreign currency translation reserve, except to the extent that the translation difference is allocated to non-controlling interest. When a foreign operation is disposed of such that control is lost, the cumulative amount in the currency translation reserve is transferred to profit or loss as part of the gain or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation whilst retaining control then the relevant proportion of the cumulative amount is re-attributed to non-controlling interest.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in other comprehensive income, and accumulated in the translation reserve within equity.

### 3.3 interest

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

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

Interest income and expense presented in the income statement include:

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

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

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

### 3.4 fees and commissions

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

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

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

### 3.5 net trading income or expense

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

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

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

### 3.7 dividends

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

### 3 significant accounting policies - continued

## 3.8 leases

### 3.8.1 lease payments

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

### 3.8.2 leased assets - lessee

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

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

### 3.8.3 leased assets - lessor

If the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances (see Accounting Policy 3.14).

## 3.9 income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. 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.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to 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.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

## 3.10 financial assets and liabilities

### 3.10.1 recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. All other financial instruments (including regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

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

3.10.2 *classification**financial assets*

The Group classifies its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at fair value through profit or loss, and within this category as:
  - held for trading; or
  - designated at fair value through profit or loss.

*financial liabilities*

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

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

3.10.3 *derecognition**financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

The derecognition criteria are also applied to the transfer of part of an asset, rather than the asset as a whole, or to a group of similar financial assets in their entirety, when applicable. If transferring a part of an asset, such part must be a specifically identified cash flow, a fully proportionate share of the asset, or a fully proportionate share of a specifically identified cash flow.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position.

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

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

*financial liabilities*

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

3.10.4 *offsetting*

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

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



3 *significant accounting policies - continued*

### 3.10.5 *amortised cost measurement*

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

### 3.10.6 *fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

### 3.10.7 *identification and measurement of impairment*

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

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

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

Impairment losses on assets carried at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

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

The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Group determines that there is no realistic prospect of recovery (see Note 4.2).

### 3.10.8 *designated at fair value through profit or loss*

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

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

### 3 significant accounting policies - continued

Note 6 sets out the amount of each class of financial asset or financial liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

#### 3.11 cash and cash equivalents

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

#### 3.12 trading assets and liabilities

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

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

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

A financial asset may be reclassified out from the fair value through profit or loss category only in rare circumstances.

#### 3.13 derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The Group did not designate any derivatives as hedging instruments in qualifying hedging relationships. As a result, all changes in fair value of derivatives are recognised immediately in profit or loss as a component of net gain or loss from other financial instruments at fair value through profit or loss.

#### 3.14 loans and advances

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

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.

Loans and advances also include finance lease receivables in which the Group is the lessor (see Accounting Policy 3.8.3).

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.

### 3.15 investment securities

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

#### 3.15.1 *fair value through profit or loss*

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

#### 3.15.2 *available-for-sale*

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses (see 3.10.7) are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

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

#### 3.15.3 *held-to-maturity*

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see Accounting Policy 3.10.7). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

### 3.16 investments in subsidiaries, associates and jointly-controlled entities

Investments in subsidiaries, associates and joint ventures are shown in the separate Statement of Financial Position at cost less any impairment losses (see Accounting Policy 3.20).

### 3.17 property and equipment

#### 3.17.1 *recognition and measurement*

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

3 *significant accounting policies - continued*

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

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

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

3.17.2 *subsequent costs*

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

3.17.3 *depreciation*

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

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

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

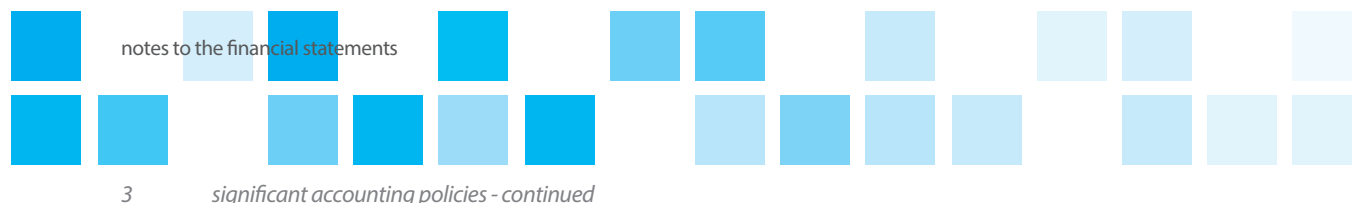
Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3.18 *investment property*

Investment property is property held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured at cost less depreciation and impairment losses if any. Depreciation is calculated by using the straight line method over its estimated useful life of 50 years.

3.19 *intangible assets and goodwill*3.19.1 *recognition and measurement*

- **Goodwill:** Goodwill that arises upon the acquisition of subsidiaries is presented in intangible assets (see Accounting Policy 3.1). Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.
- **Software:** Software acquired by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.
- **Other intangible assets:** Other intangible assets, including customer relationships and entity funding arrangements, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.



### 3.19.2 subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

### 3.19.3 amortisation

Amortisation is calculated to write-off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised. The estimated useful life for current and comparative periods are as follows:

- Software: 7 years
- Other intangible assets: 5 years

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

## 3.20 impairment of non-financial assets

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

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

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

## 3.21 deposits, debt securities issued and subordinated liabilities

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

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

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

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

## 3.22 provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can

3 *significant accounting policies - continued*

be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

3.23 **financial guarantees and loan commitments**

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.24 **employee benefits**3.24.1 **defined contribution plans**

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

3.24.2 **share-based payment transactions**

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

3.25 **share capital**3.25.1 **ordinary shares**

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

3.25.2 **repurchase of share capital**

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

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

3.26 **earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is 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 share options granted to employees.





### 3.27 segment reporting

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

Segment results that are reported to Executive Management include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Unallocated assets comprise mainly corporate assets.

### 3.28 new standards and interpretations not yet adopted

#### 3.28.1 *IFRS as adopted by the EU*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements as they are not relevant to the Group. Those which may be relevant to the Group, once endorsed by the EU, are set out in Accounting Policy 3.27.2 below. The Group does not plan to early-adopt these standards.

#### 3.28.2 *relevant standards and amendments issued by the IASB but not yet endorsed by the EU*

##### *IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments, Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9 and IFRS 15.

The Directors anticipate that the adoption of other IFRS that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements of the Group and the Bank in the period of initial application.

## 4 financial risk review

### 4.1 introduction and overview

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

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

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

## risk management framework

The risk factors associated with the banking 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 Risk Committee ("BRC"), a Board committee, has the aim of assisting the Board in fulfilling its responsibilities concerning the establishment and implementation of the Group's risk management strategy, systems and policies. The scope of the Committee's responsibility covers the Bank and all its Group entities. Management is ultimately delegated 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, liquidity and other key regulatory ratios, credit management, quality of assets and financial reporting.

### 4.2

## credit risk

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

Strict credit assessment and control procedures are in place in order to monitor such exposures. The Group also complies with regulatory requirements as defined by the European Union and the Malta Financial Services Authority ("MFSA") and a limit of 25% of Own Funds applies to any particular customer or group of connected customers. Overall responsibility for credit risk is entrusted to the Credit Committee who is responsible for overseeing the Group's credit policy and risk and for approving individual limits for banks and corporates within their delegated parameters of authority. Country limits are approved by the Board upon recommendation of the Board Risk Committee. The Credit 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 Credit Committee and Board Risk Committee is found in the "Statement of Compliance with the Principles of Good Corporate Governance".

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

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

## maximum exposure

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

Group	Loans and advances to banks		Loans and advances to customers	
	2015 USD	2014 USD	2015 USD	2014 USD
Individually impaired	18,810,017	10,185,558	27,980,291	52,657,000
Past due but not impaired	61,948	2,033,073	6,898,686	50,859,360
Neither past due nor impaired	204,317,593	418,437,068	354,072,247	445,924,778
<b>Total carrying amount</b>	<b>223,189,558</b>	<b>430,655,699</b>	<b>388,951,224</b>	<b>549,441,138</b>

Bank	Loans and advances to banks		Loans and advances to customers	
	2015 USD	2014 USD	2015 USD	2014 USD
Individually impaired	18,810,017	10,185,558	8,666,956	13,288,863
Past due but not impaired	61,948	2,033,073	6,898,686	38,860,343
Neither past due nor impaired	193,251,619	410,927,892	551,611,351	583,098,970
<b>Total carrying amount</b>	<b>212,123,584</b>	<b>423,146,523</b>	<b>567,176,993</b>	<b>635,248,176</b>

## credit quality

The table below presents an analysis of financial assets, which are neither past due nor impaired, by rating agency designation based on Fitch ratings or their equivalent, together with an analysis of the past due and impaired assets.

Group	Loans and advances to banks		Loans and advances to customers		Trading assets, financial assets designated at fair value through profit or loss, debt securities available-for-sale and held-to-maturity	
	2015 USD	2014 USD	2015 USD	2014 USD	2015 USD	2014 USD
<b>Neither past due nor impaired</b>						
AAA/AA	656,136	25,545,068	6,207,170	8,725,975	184,601,952	12,315,570
A/BBB	67,270,076	196,116,503	-	-	150,044,006	36,710,368
BB/Lower	35,793,587	78,805,351	5,219,931	24,389,152	-	90,603,274
Unrated	100,597,794	117,970,146	342,645,146	412,809,651	180,356,295	148,343,516
	<b>204,317,593</b>	<b>418,437,068</b>	<b>354,072,247</b>	<b>445,924,778</b>	<b>515,002,253</b>	<b>287,972,728</b>
<b>Past due or impaired</b>						
0 to 30 days	18,871,965	12,218,631	5,943,049	6,611,392	-	-
31 to 60 days	-	-	1,300,218	15,280,226	-	-
61 to 90 days	-	-	1,213,916	7,558,689	-	-
91 to 180 days	-	-	11,402,022	41,905,227	-	-
181 to 365 days	-	-	9,812,525	11,609,910	-	-
Over 1 year	-	-	5,207,247	20,550,916	-	-
	<b>18,871,965</b>	<b>12,218,631</b>	<b>34,878,977</b>	<b>103,516,360</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>223,189,558</b>	<b>430,655,699</b>	<b>388,951,224</b>	<b>549,441,138</b>	<b>515,002,253</b>	<b>287,972,728</b>

## 4 financial risk review - continued

## Bank

	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss, debt securities available-for-sale, and held-to-maturity	
	2015 USD	2014 USD	2015 USD	2014 USD	2015 USD	2014 USD
<b>Neither past due nor impaired</b>						
AAA/AA	656,136	25,545,068	6,207,170	8,725,975	77,685,206	-
A/BBB	56,057,068	191,232,086	-	-	59,849,871	18,000,000
BB/Lower	35,793,402	78,804,965	5,219,931	24,389,152	-	-
Unrated	100,745,013	115,345,773	540,184,250	549,983,843	22,403,178	7,116,353
	193,251,619	410,927,892	551,611,351	583,098,970	159,938,255	25,116,353
<b>Past due or impaired</b>						
0 to 30 days	18,871,965	12,218,631	5,045,996	16,870,780	-	-
31 to 60 days	-	-	-	-	-	-
61 to 90 days	-	-	293,521	978,537	-	-
91 to 180 days	-	-	3,046,925	10,157,803	-	-
181 to 365 days	-	-	4,709,500	15,906,938	-	-
Over 1 year	-	-	2,469,700	8,235,148	-	-
	18,871,965	12,218,631	15,565,642	52,149,206	-	-
<b>Total</b>	<b>212,123,584</b>	<b>423,146,523</b>	<b>567,176,993</b>	<b>635,248,176</b>	<b>159,938,255</b>	<b>25,116,353</b>

## impaired loans and securities

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

## past due but not impaired loans

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

## renegotiated loans and forbearance

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. Forbearance refers only to those loan modification or renegotiations in response to actual or perceived financial difficulties of a customer.

A range of forbearance strategies is employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures, and other forms of loan modifications and re-ageing.

Loan forbearance is only granted in situations where the customer has showed a willingness to repay the borrowing and is expected to be able to meet the revised obligations.

A concession granted to a customer as a result of financial difficulties is objective evidence of impairment and impairment losses are measured accordingly. A renegotiated loan is presented as impaired when there has been a change in contractual cash flows as a result of a concession which the Group would otherwise not consider; and it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full. Renegotiated loans are not classified as impaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation.

Loans that have been identified as renegotiated retain this designation until maturity or derecognition. When a loan is restructured as part of a forbearance strategy and the restructuring results in a derecognition of the existing loan, the new loan is disclosed as renegotiated. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

During the financial years ended 31 December 2015 and 2014 there have been no changes in the forbearance criteria applied to renegotiated facilities.

For the Group, the aggregate amount of renegotiated and forborne loans at reporting date amounted to USD23,597,991 (31 December 2014: USD54,486,179). For the Bank, the aggregate amount of renegotiated and forborne loans at reporting date amounted to USD13,784,325 (31 December 2014: USD25,341,245). For Bank and Group, USD393,943 (31 December 2014: NIL) of renegotiated and forborne loans at 31 December 2015 are performing, whilst USD23,204,048 (31 December 2014: USD54,486,179) are non-performing (individually impaired) with an extendible collateral value of USD3,054,964 (31 December 2014: USD8,064,334). Interest income recognised during 2015 in respect to renegotiated and forborne assets amounts to USD2,422,202 (31 December 2014: USD1,769,871).

Movement in forbearance activity during the year is as follows:

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
At 1 January	54,486,179	9,926,511	25,341,245	7,319,971
Additions	12,636,845	53,407,860	7,226,724	24,905,328
Recovered	(22,900,770)	(8,848,192)	(18,783,644)	(6,884,054)
Written off	(20,624,263)	-	-	-
At 31 December	23,597,991	54,486,179	13,784,325	25,341,245

## allowances for impairment

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

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

## write-off policy

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

## collaterals

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

Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2015 and 2014.

## 4 financial risk review - continued

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

Group	Loans and advances to banks		Loans and advances to customers	
	2015 USD	2014 USD	2015 USD	2014 USD
<b>Against neither past due nor impaired</b>				
Cash or quasi cash	22,887,864	38,332,670	8,410,947	12,801,934
Property	-	-	864,255	1,323,673
Other	17,929,053	43,081,481	70,889,079	96,562,309
<b>Against past but not impaired</b>				
Cash or quasi cash	-	-	-	1,317,761
Property	-	-	-	-
Other	-	311,832	-	150,117
<b>Against impaired</b>				
Cash or quasi cash	-	3,702,559	312,839	1,675,689
Property	-	-	183,586	204,106
Other	-	-	2,775,578	3,638,504
	40,816,917	85,428,542	83,436,284	117,674,093

Bank	Loans and advances to banks		Loans and advances to customers	
	2015 USD	2014 USD	2015 USD	2014 USD
<b>Against neither past due nor impaired</b>				
Cash or quasi cash	22,887,864	38,332,670	8,410,947	12,801,934
Property	-	-	864,255	1,323,673
Other	17,929,053	43,081,481	70,889,079	96,562,309
<b>Against past but not impaired</b>				
Cash or quasi cash	-	-	-	1,317,761
Property	-	-	-	-
Other	-	311,832	-	150,117
<b>Against impaired</b>				
Cash or quasi cash	-	3,702,559	312,839	1,730,044
Property	-	-	183,586	204,106
Other	-	-	2,775,578	8,251,282
	40,816,917	85,428,542	83,436,284	122,341,226

## offsetting financial assets and financial liabilities

With the exception of cash collaterals as disclosed in this note and in Notes 36 and 37, the Group and Bank do not carry financial instruments which are subject to offsetting in the statement of financial position. Group entities have a legal enforceable right to offset such collaterals against the respective facilities for which the collateral is taken. At 31 December 2015 and 2014 all financial assets and respective collaterals are disclosed separately in the financial statements without any offsetting.

## concentration of credit risk by sector

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

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Industrial raw materials	99,250,774	173,970,320	44,375,870	102,550,219
Shipping and transportation	23,605,357	17,658,543	18,517,290	16,995,336
Wholesale and retail trade	169,990,269	250,489,783	121,216,620	156,918,445
Financial intermediation	298,388,619	519,564,105	551,927,613	747,006,415
Other services	20,905,763	18,414,086	43,263,184	34,924,284
	612,140,782	980,096,837	779,300,577	1,058,394,699

## concentration of credit risk by region

The Group monitors concentrations of credit risk by geographic location based on the exposure country of the borrower ("Country risk"). Country risk refers to risks associated with the economic, social and political environment of the obligor's exposure country. A component of country risk is transfer risk which arises when a borrower's obligation is not denominated in the respective local currency. The currency of the obligation may become unavailable to the borrower regardless of its particular condition.

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

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

Group	Loans and advances to banks		Loans and advances to customers		Trading assets, financial assets designated at fair value through profit or loss, debt securities available-for-sale and held-to-maturity		Equity securities available-for-sale	
	2015 USD	2014 USD	2015 USD	2014 USD	2015 USD	2014 USD	2015 USD	2014 USD
Europe	23,441,517	186,174,627	126,554,208	215,654,768	150,918,942	74,946,133	139,305,851	30,081,243
Sub-Saharan Africa (SSA)	103,450,703	133,652,495	2,124,061	350,532	119,926,506	96,244,299	-	-
Middle East and North Africa (MENA)	16,104,018	34,141,405	131,818,482	136,432,479	61,395,646	17,958,540	-	-
Commonwealth of Independent States (CIS)	31,867,046	37,490,072	8,117,042	9,756,714	26,730,565	21,305,564	23,150	23,150
Others	48,326,274	39,197,100	120,337,431	187,246,645	156,030,594	77,518,192	-	-
	223,189,558	430,655,699	388,951,224	549,441,138	515,002,253	287,972,728	139,329,001	30,104,393

Bank	Loans and advances to to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss, debt securities available-for-sale and held to maturity		Equity securities available-for-sale	
	2015 USD	2014 USD	2015 USD	2014 USD	2015 USD	2014 USD	2015 USD	2014 USD
Europe	27,239,865	189,000,938	378,922,133	412,705,708	74,776,109	10,200,000	139,305,852	30,081,243
Sub-Sahara Africa (SSA)	103,450,703	133,652,495	2,124,061	350,532	-	-	-	-
Middle East and North Africa (MENA)	15,793,637	32,371,984	118,001,081	116,656,062	7,476,939	14,916,353	-	-
Commonwealth of Independent States (CIS)	31,835,929	37,468,131	8,117,035	14,423,847	-	-	22,448	22,448
Others	33,803,450	30,652,975	60,012,683	91,112,027	77,685,207	-	-	-
	212,123,584	423,146,523	567,176,993	635,248,176	159,938,255	25,116,353	139,328,300	30,103,691

## 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 counterparty fails to deliver on settlement date.

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

## 4.3 liquidity risk

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

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

## management of liquidity risk

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

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

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



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:

At 31 December	45.8%	38.5%
Average for the year	40.5%	40.5%
Maximum for the year	53.0%	61.8%
Minimum for the year	33.2%	30.3%

## 4 financial risk review - continued

## residual contractual maturities of financial assets and liabilities

## Group – 31 December 2015

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Balances with the Central Bank of Malta, Treasury Bills and cash	77,432,606	77,466,745	24,151,967	47,317,646	-	5,997,132	-	-
Trading assets	355,063,998	373,495,724	23,431,147	47,374,837	70,669,369	126,685,788	67,504,282	37,830,301
Derivative assets held for risk management	1,139,090	1,139,090	752,043	230,207	-	156,840	-	-
Financial assets designated at fair value through profit or loss	17,741,000	20,090,934	186,662	70,458	514,239	657,205	8,129,662	10,532,708
Loans and advances to banks	223,189,558	228,222,560	122,343,855	18,368,661	15,901,788	32,007,893	32,749,360	6,851,003
Loans and advances to customers	388,951,224	396,715,322	267,107,311	37,830,851	25,247,230	17,433,103	6,036,277	43,060,550
Investments available-for-sale	274,049,316	304,164,917	139,516,748	-	-	-	39,473,410	125,174,759
Investments held-to-maturity	7,476,940	9,061,101	746,440	-	-	8,314,661	-	-
Derivative liabilities held for risk management	917,114	917,114	674,200	97,229	-	145,685	-	-
Amounts owed to banks	729,941,157	742,066,544	299,885,712	94,287,200	62,574,145	126,323,135	158,894,609	101,743
Amounts owed to customers	422,077,303	425,644,802	331,197,432	25,287,276	20,987,619	24,956,220	10,337,422	12,878,833
Debt securities in issue	45,646,755	45,825,562	23,694,964	2,016,409	20,114,189	-	-	-
Subordinated liabilities	50,000,000	59,389,731	-	901,728	-	1,803,456	3,606,911	53,077,636

## Group – 31 December 2014

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Balances with the Central Bank of Malta, Treasury Bills and cash	7,824,096	7,824,096	7,824,096	-	-	-	-	-
Trading assets	262,856,375	262,856,375	262,856,375	-	-	-	-	-
Derivative assets held for risk management	2,549,893	2,549,893	1,778,982	29,716	190,568	274,376	276,251	-
Financial assets designated at fair value through profit or loss	18,000,000	19,788,772	-	-	131,027	262,055	524,109	18,871,581
Loans and advances to banks	430,655,699	435,429,326	363,707,463	3,595,192	21,210,964	6,129,785	3,171,651	37,614,271
Loans and advances to customers	549,441,138	562,735,070	166,561,360	203,397,331	43,789,558	30,938,874	26,043,096	92,004,851
Investments available-for-sale	30,104,393	30,104,393	30,104,393	-	-	-	-	-
Investments held-to-maturity	7,116,353	7,830,008	-	-	-	-	7,830,008	-
Derivative liabilities held for risk management	3,606,718	3,606,718	2,877,082	28,119	153,668	271,598	276,251	-
Amounts owed to banks	670,768,692	688,049,860	275,143,611	117,859,303	103,361,548	167,909,294	7,511,251	16,264,853
Amounts owed to customers	523,848,225	533,710,642	380,687,173	33,596,025	22,168,767	37,394,490	17,784,549	42,079,638
Debt securities in issue	10,599,196	10,608,496	9,608,970	999,526	-	-	-	-

## Bank - 31 December 2015

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Balances with the Central Bank of Malta, Treasury Bills and cash	77,413,470	77,447,610	24,132,831	47,317,646	-	5,997,133	-	-
Derivative assets held for risk management	1,142,952	1,142,952	755,905	230,207	-	156,840	-	-
Financial assets designated at fair value through profit or loss	17,741,000	20,090,934	186,662	70,458	514,239	657,205	8,129,662	10,532,708
Loans and advances to banks	212,123,584	217,156,586	107,420,504	18,368,661	16,804,851	33,156,082	34,555,486	6,851,002
Loans and advances to customers	567,176,993	625,463,862	190,001,310	278,012,216	5,124,878	10,228,430	4,790,230	137,306,798
Investments available-for-sale	274,048,615	304,164,216	139,516,046	-	-	-	39,473,410	125,174,760
Investments held-to-maturity	7,476,940	9,061,101	746,440	-	-	8,314,661	-	-
Derivative liabilities held for risk management	921,237	921,237	678,324	97,229	-	145,684	-	-
Amounts owed to banks	665,277,976	673,439,313	272,720,048	94,276,309	63,455,425	124,255,476	118,732,055	-
Amounts owed to customers	405,611,504	409,042,184	323,925,836	16,347,836	20,987,619	24,985,400	10,337,422	12,458,071
Debt securities in issue	20,000,000	20,114,189	-	-	20,114,189	-	-	-
Subordinated liabilities	50,000,000	59,389,731	-	901,728	-	1,803,456	3,606,911	53,077,636

## Bank- 31 December 2014

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Balances with the Central Bank of Malta, Treasury Bills and cash	7,804,628	7,804,628	7,804,628	-	-	-	-	-
Derivative assets held for risk management	2,570,036	2,570,036	1,799,124	29,716	190,568	274,377	276,251	-
Financial assets designated at fair value through profit or loss	18,000,000	19,788,772	-	-	131,027	262,055	524,109	18,871,581
Loans and advances to banks	423,146,523	427,920,149	356,130,096	3,593,898	21,203,873	6,127,745	3,105,811	37,758,726
Loans and advances to customers	635,248,176	377,797,101	65,834,156	173,671,758	13,576,237	6,498,566	26,085,537	92,130,847
Investments available-for-sale	30,103,691	30,103,691	30,103,691	-	-	-	-	-
Investments held-to-maturity	7,116,353	7,830,008	-	-	-	-	7,830,008	-
Derivative liabilities held for risk management	1,606,718	1,606,718	877,082	28,119	153,668	271,598	276,251	-
Amounts owed to banks	580,466,522	588,301,017	248,972,755	63,964,419	103,361,548	162,777,723	7,313,408	1,911,164
Amounts owed to customers	496,006,520	505,830,008	366,268,042	23,092,656	20,523,294	36,081,829	17,784,549	42,079,638

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

As at 31 December 2015, the Group and Bank had outstanding guarantees incurred on behalf of third parties amounting to USD10,422,946 and USD37,002,036 (2014: USD21,472,543 and USD31,805,224) respectively which are callable upon the request of the third party.

4 financial risk review - continued

## 4.4 market risk

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

## foreign exchange risk

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

Group - 31 December 2015

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	25,969,863	51,454,396	4,131	4,216	77,432,606
Trading assets	258,296,030	70,437,801	15,698,980	10,631,187	355,063,998
Derivative assets held for risk management	18,485	804,353	11,009	305,243	1,139,090
Financial assets designated at fair value through profit or loss	17,741,000	-	-	-	17,741,000
Loans and advances to banks	140,127,193	74,738,824	245,855	8,077,686	223,189,558
Loans and advances to customers	259,800,137	63,166,576	718,993	65,265,518	388,951,224
Investments held-to-maturity	7,476,940	-	-	-	7,476,940
Investments available-for-sale	226,274,372	47,774,944	-	-	274,049,316
Other assets	29,188,472	1,784,685	-	22,400,422	53,373,579
Derivative liabilities held for risk management	(18,657)	(585,233)	-	(313,224)	(917,114)
Amounts owed to banks	(548,801,203)	(147,277,351)	(6,078,557)	(27,784,046)	(729,941,157)
Amounts owed to customers	(231,468,200)	(177,706,450)	(8,356,159)	(4,546,494)	(422,077,303)
Debt securities in issue	(32,879,205)	(12,767,550)	-	-	(45,646,755)
Subordinated liabilities	(50,000,000)	-	-	-	(50,000,000)
Other liabilities	(13,246,920)	(3,680,560)	(833,321)	(2,642,702)	(20,403,503)
Net on balance sheet financial position	88,478,307	(31,855,565)	1,410,931	71,397,806	129,431,479
Notional amount of derivative instruments held for riskmanagement	-	41,275,183	(2,224,199)	(10,333,109)	-

## 4 financial risk review - continued

Group - 31 December 2014

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	4,625	7,811,138	3,262	5,071	7,824,096
Trading assets	217,001,593	42,812,595	3,042,187	-	262,856,375
Derivative assets held for risk management	18,485	605,032	183,307	1,743,069	2,549,893
Financial assets designated at fair value through profit or loss	18,000,000	-	-	-	18,000,000
Investments held-to-maturity	7,116,353	-	-	-	7,116,353
Loans and advances to banks	115,385,234	297,095,406	6,094,927	12,080,132	430,655,699
Loans and advances to customers	360,007,485	77,655,709	5,213,335	106,564,609	549,441,138
Other assets	45,077,631	9,913,180	170,171	28,806,783	83,967,765
Derivative liabilities held for risk management	(2,018,657)	(651,878)	(182,005)	(754,178)	(3,606,718)
Amounts owed to banks	(403,418,277)	(183,546,149)	(1,518,661)	(82,285,605)	(670,768,692)
Amounts owed to customers	(239,162,607)	(264,823,676)	(13,208,345)	(6,653,597)	(523,848,225)
Debt securities in issue	(8,845,270)	(1,753,926)	-	-	(10,599,196)
Other liabilities	(7,969,608)	(5,400,313)	(601,627)	(2,783,626)	(16,755,174)
Net on balance sheet financial position	101,196,987	(20,282,883)	(803,449)	56,722,666	136,833,321
Notional amount of derivative instruments held for risk management	-	14,937,629	(777,399)	-	-

Bank - 31 December 2015

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	25,966,067	51,447,403	-	-	77,413,470
Derivative assets head for risk management	22,348	804,353	11,009	305,242	1,142,952
Financial assets designated at fair value through profit or loss	17,741,000	-	-	-	17,741,000
Loans and advances to banks	132,490,712	74,983,511	196,349	4,453,012	212,123,584
Loans and advances to customers	422,077,147	117,796,585	16,481,268	10,821,993	567,176,993
Investments held-to-maturity	7,476,940	-	-	-	7,476,940
Investments available-for-sale	226,273,671	47,774,944	-	-	274,048,615
Other assets	26,723,050	1,886,318	-	78,053	28,687,421
Derivative liabilities held for risk management	(22,780)	(585,302)	-	(313,155)	(921,237)
Amounts owed to banks	(512,413,453)	(145,336,923)	(6,078,557)	(1,449,043)	(665,277,976)
Amounts owed to customers	(215,759,998)	(178,055,237)	(8,356,159)	(3,440,110)	(405,611,504)
Debt securities in issue	(20,000,000)	-	-	-	(20,000,000)
Subordinated liabilities	(50,000,000)	-	-	-	(50,000,000)
Other liabilities	(5,598,665)	(1,790,403)	(111,616)	(9,139)	(7,509,823)
Net on balance sheet financial position	54,976,039	(31,074,751)	2,142,294	10,446,853	36,490,435
Notional amount of derivative instruments held for risk management	-	41,275,183	(2,224,199)	(10,333,109)	-

## 4 financial risk review - continued

Bank - 31 December 2014

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	-	7,804,628	-	-	7,804,628
Derivative assets held for risk management	38,628	605,032	183,307	1,743,069	2,570,036
Financial assets designated at fair value through profit or loss	18,000,000	-	-	-	18,000,000
Investments held-to-maturity	7,116,353	-	-	-	7,116,353
Loans and advances to banks	112,435,133	297,072,589	6,012,873	7,625,928	423,146,523
Loans and advances to customers	518,314,103	108,333,921	8,600,152	-	635,248,176
Other assets	42,677,536	8,841,425	128,178	101,140	51,748,279
Derivative liabilities held for risk management	(18,657)	(651,878)	(182,005)	(754,178)	(1,606,718)
Amounts owed to banks	(399,785,382)	(178,686,472)	(1,518,661)	(476,007)	(580,466,522)
Amounts owed to customers	(219,124,367)	(257,888,441)	(13,208,345)	(5,785,367)	(496,006,520)
Other liabilities	(4,185,194)	(4,184,827)	(65,562)	(9,391)	(8,444,974)
Net on balance sheet financial position	75,468,153	(18,754,023)	(50,063)	2,445,194	59,109,261
Notional amount of derivative instruments held for risk management	-	14,937,629	(777,399)	(1,249,012)	

The following exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
USD	2015	2014	2015	2014
1 EUR	1.1105	1.3268	1.0928	1.2149
1 GBP	1.5294	1.6469	1.4828	1.5552

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

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
31 December 2015				
EUR	659,373	659,373	720,382	720,382
GBP	(56,929)	(56,929)	(5,728)	(5,728)
Other currencies	3,815,976	77,971	7,957	7,957
31 December 2014				
EUR	(374,168)	(374,168)	(266,799)	(266,799)
GBP	(110,659)	(110,659)	(57,922)	(57,922)
Other currencies	3,970,587	485,036	83,384	83,384

A 7 percent weakening of the above currencies against the US Dollar at 31 December would have an 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 reprice at different times or at different amounts.

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

### Group - 31 December 2015

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non- interest bearing USD	Total USD
<b>Assets</b>							
Balances with the Central Bank of Malta, Treasury Bills and cash	24,121,433	47,307,919	-	5,977,567	-	25,687	77,432,606
Trading assets	86,614,867	114,956,928	80,721,451	30,847,670	23,850,623	18,072,459	355,063,998
Derivative assets held for risk management	-	-	-	-	-	1,139,090	1,139,090
Financial assets designated at fair value through profit or loss	7,566,000	10,175,000	-	-	-	-	17,741,000
Loans and advances to banks	125,111,791	16,511,356	29,634,980	30,000,000	-	21,931,431	223,189,558
Loans and advances to customers	257,636,515	55,228,389	7,865,189	541,090	28,038,641	39,641,400	388,951,224
Investments available-for-sale	-	-	-	-	134,720,315	139,329,001	274,049,316
Investments held-to-maturity	-	-	-	7,476,940	-	-	7,476,940
Other assets	-	-	-	-	-	98,861,714	98,861,714
<b>Total assets</b>	<b>501,050,606</b>	<b>244,179,592</b>	<b>118,221,620</b>	<b>74,843,267</b>	<b>186,609,579</b>	<b>319,000,782</b>	<b>1,443,905,446</b>
<b>Liabilities &amp; equity</b>							
Derivative liabilities held for risk management	-	-	-	-	-	917,114	917,114
Amounts owed to banks	203,877,155	198,941,154	60,258,065	77,579,761	111,806,208	77,478,814	729,941,157
Amounts owed to customers	305,160,815	25,211,851	20,797,050	24,572,800	21,870,852	24,463,935	422,077,303
Debt securities in issue	23,633,674	2,013,081	20,000,000	-	-	-	45,646,755
Subordinated liabilities	-	50,000,000	-	-	-	-	50,000,000
Other liabilities	-	-	-	-	-	20,403,503	20,403,503
Equity	-	-	-	-	-	174,919,614	174,919,614
<b>Total liabilities and equity</b>	<b>532,671,644</b>	<b>276,166,086</b>	<b>101,055,115</b>	<b>102,152,561</b>	<b>133,677,060</b>	<b>298,182,980</b>	<b>1,443,905,446</b>

	Less than 3 Months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non- interest bearing USD	Total USD
Assets	745,230,198	118,221,620	74,843,267	186,609,579	319,000,782	1,443,905,446
Liabilities	(808,837,730)	(101,055,115)	(102,152,561)	(133,677,060)	(298,182,980)	(1,443,905,446)
<b>Interest sensitivity gap</b>	<b>(63,607,532)</b>	<b>17,166,505</b>	<b>(27,309,294)</b>	<b>52,932,519</b>	<b>20,817,802</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(63,607,532)</b>	<b>(46,441,027)</b>	<b>(73,750,321)</b>	<b>(20,817,802)</b>	<b>-</b>	<b>-</b>

### change in interest rate for the period

100bps increase	(477,056)	85,833	(22,758)
100bps decrease	477,056	(85,833)	22,758

## 4 financial risk review - continued

Group - 31 December 2014

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non- interest bearing USD	Total USD
<b>Assets</b>							
Balances with the Central Bank of Malta, Treasury Bills and cash	7,794,252	-	-	-	-	29,844	7,824,096
Trading assets	65,312,155	96,609,793	43,758,359	28,825,154	28,350,914	-	262,856,375
Derivative assets held for risk management	-	-	-	-	-	2,549,893	2,549,893
Financial assets designated at fair value through profit or loss	7,800,000	10,200,000	-	-	-	-	18,000,000
Investments held-to-maturity	-	-	-	-	7,116,353	-	7,116,353
Loans and advances to banks	366,074,568	2,497,355	49,487,766	5,520,635	1,871,651	5,203,724	430,655,699
Loans and advances to customers	392,999,232	30,356,288	16,257,971	-	76,744,203	33,083,444	549,441,138
Other assets	-	-	-	-	-	131,531,863	131,531,863
<b>Total assets</b>	<b>839,980,207</b>	<b>139,663,436</b>	<b>109,504,096</b>	<b>34,345,789</b>	<b>114,083,121</b>	<b>172,398,768</b>	<b>1,409,975,417</b>

## Liabilities &amp; equity

Derivative liabilities held for risk management	-	-	-	-	-	3,606,718	3,606,718
Amounts owed to banks	235,656,251	241,965,977	97,440,191	43,490,255	1,876,004	50,340,014	670,768,692
Amounts owed to customers	392,732,400	24,929,192	18,627,149	33,767,993	24,533,280	29,258,211	523,848,225
Debt securities in issue	9,604,173	995,023	-	-	-	-	10,599,196
Other liabilities	-	-	-	-	-	16,755,174	16,755,174
Equity	-	-	-	-	-	184,397,412	184,397,412
<b>Total liabilities and equity</b>	<b>637,992,824</b>	<b>267,890,192</b>	<b>116,067,340</b>	<b>77,258,248</b>	<b>26,409,284</b>	<b>284,357,529</b>	<b>1,409,975,417</b>

	Less than 3 Months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non- interest bearing USD	Total USD
<b>Assets</b>	979,643,643	109,504,096	34,345,789	114,083,121	172,398,768	1,409,975,417
<b>Liabilities</b>	(905,883,016)	(116,067,340)	(77,258,248)	(26,409,284)	(284,357,529)	(1,409,975,417)
<b>Interest sensitivity gap</b>	<b>73,760,627</b>	<b>(6,563,244)</b>	<b>(42,912,459)</b>	<b>87,673,837</b>	<b>(111,958,761)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>73,760,627</b>	<b>67,197,383</b>	<b>24,284,924</b>	<b>111,958,761</b>	<b>-</b>	<b>-</b>
<b>change in interest rate for the period</b>						
100bps increase	553,205	(32,816)	(35,760)			
100bps decrease	(553,205)	32,816	35,760			



## Bank - 31 December 2015

	Less than 1 month USD	Between1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non- interest bearing USD	Total USD
Assets							
Balances with the Central Bank of Malta, Treasury Bills and cash	24,121,433	47,307,919	-	5,977,567	-	6,551	77,413,470
Derivative assets held for risk management	-	-	-	-	-	1,142,952	1,142,952
Financial assets designated at fair value through profit or loss	7,566,000	10,175,000	-	-	-	-	17,741,000
Loans and advances to banks	110,624,031	16,511,356	29,634,980	30,000,000	-	25,353,217	212,123,584
Loans and advances to customers	509,344,846	1,782,301	6,373,761	454,545	27,578,835	21,642,705	567,176,993
Investments available-for-sale	-	-	-	-	134,720,315	139,328,300	274,048,615
Investments held-to-maturity	-	-	-	7,476,940	-	-	7,476,940
Other assets	-	-	-	-	-	116,193,035	116,193,035
Total assets	651,656,310	75,776,576	36,008,741	43,909,052	162,299,150	303,666,760	1,273,316,589
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	921,237	921,237
Amounts owed to banks	198,106,507	156,755,600	60,258,065	57,103,049	111,718,566	81,336,189	665,277,976
Amounts owed to customers	297,925,375	16,299,315	20,797,050	24,601,813	21,559,266	24,428,685	405,611,504
Debt securities in issue	-	-	20,000,000	-	-	-	20,000,000
Subordinated liabilities	-	50,000,000	-	-	-	-	50,000,000
Other liabilities	-	-	-	-	-	7,509,824	7,509,824
Equity	-	-	-	-	-	123,996,048	123,996,048
Total liabilities and equity	496,031,882	223,054,915	101,055,115	81,704,862	133,277,832	238,191,983	1,273,316,589
Interest rate sensitivity analysis							
	Less than 3 Months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non- interest bearing USD	Total USD	
Assets	727,432,886	36,008,741	43,909,052	162,299,150	303,666,760	1,273,316,589	
Liabilities	(719,086,797)	(101,055,115)	(81,704,862)	(133,277,832)	(238,191,983)	(1,273,316,589)	
Interest sensitivity gap	8,346,089	(65,046,374)	(37,795,810)	29,021,318	65,474,777	-	
Cumulative gap	8,346,089	(56,700,285)	(94,496,095)	(65,474,777)	-	-	
change in interest rate for the period							
100bps increase	62,596	(325,232)	(31,497)				
100bps decrease	(62,596)	325,232	31,497				

## 4 financial risk review - continued

Bank - 31 December 2014

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
<b>Assets</b>							
Balances with the Central Bank of Malta, Treasury Bills and cash	7,794,252	-	-	-	-	10,376	7,804,628
Derivative assets held for risk management	-	-	-	-	-	2,570,036	2,570,036
Financial assets designated at fair value through profit or loss	7,800,000	10,200,000	-	-	-	-	18,000,000
Investments held-to-maturity	-	-	-	-	7,116,353	-	7,116,353
Loans and advances to banks	355,593,286	2,497,356	49,487,766	5,520,635	1,871,651	8,175,829	423,146,523
Loans and advances to customers	489,464,870	30,356,288	9,346,048	-	76,744,203	29,336,767	635,248,176
Other assets	-	-	-	-	-	122,176,648	122,176,648
<b>Total assets</b>	<b>860,652,408</b>	<b>43,053,644</b>	<b>58,833,814</b>	<b>5,520,635</b>	<b>85,732,207</b>	<b>162,269,656</b>	<b>1,216,062,364</b>

**Liabilities & equity**

Derivative liabilities held for risk management	-	-	-	-	-	1,606,718	1,606,718
Amounts owed to banks	206,535,782	177,939,071	97,440,191	43,490,255	1,749,101	53,312,122	580,466,522
Amounts owed to customers	373,794,263	16,025,624	18,627,149	33,767,993	24,533,280	29,258,211	496,006,520
Other liabilities	-	-	-	-	-	8,444,974	8,444,974
Equity	-	-	-	-	-	129,537,630	129,537,630
<b>Total liabilities and equity</b>	<b>580,330,045</b>	<b>193,964,695</b>	<b>116,067,340</b>	<b>77,258,248</b>	<b>26,282,381</b>	<b>222,159,655</b>	<b>1,216,062,364</b>

	Less than 3 Months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
<b>Assets</b>	903,706,052	58,833,814	5,520,635	85,732,207	162,269,656	1,216,062,364
<b>Liabilities</b>	(774,294,740)	(116,067,340)	(77,258,248)	(26,282,381)	(222,159,655)	(1,216,062,364)
<b>Interest sensitivity gap</b>	<b>129,411,312</b>	<b>(57,233,526)</b>	<b>(71,737,613)</b>	<b>59,449,826</b>	<b>(59,889,999)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>129,411,312</b>	<b>72,177,786</b>	<b>440,173</b>	<b>59,889,999</b>	<b>-</b>	<b>-</b>
change in interest rate for the period						
100bps increase	970,585	(286,168)	(59,781)			
100bps decrease	(970,585)	286,168	59,781			

## cash flow sensitivity analysis for repricing instruments

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

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
31 December 2015	(413,981)	(413,981)	(294,133)	(294,133)
31 December 2014	484,629	484,629	624,636	624,636

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

The Group is exposed to price risk which arises from available-for-sale securities on both debt and equity instruments, as well as investments measured at fair value through profit or loss.

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Credit linked notes	17,741,000	18,000,000	17,741,000	18,000,000
Available-for-sale securities	274,049,316	30,104,393	274,048,615	30,103,691

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

## cash flow sensitivity analysis for market risk

An increase in the price 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	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
31 December 2015	29,179,032	1,774,100	29,178,962	1,774,100
31 December 2014	4,810,439	1,800,000	4,810,369	1,800,000

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

4 financial risk review - continued

#### 4.5 operational risk

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

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

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

#### 4.6 capital management regulatory capital

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

On 1 January 2014 the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulations (CRR) came into effect, constituting the European implementation of the Basel capital and liquidity agreement of 2010. The Group has made the necessary changes in order to ensure that it is compliant with the Pillar 1 capital requirements set by the CRR.

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

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

The Group's 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.

## capital adequacy

The 2015 capital ratios, based on CRD IV (Basel III), are as follows:

OWN FUNDS	Group USD	Bank USD
Tier 1		
Paid up capital instruments	149,268,322	149,268,322
Share premium	8,072,276	8,072,276
Accumulated losses	(5,644,809)	(36,616,090)
Other reserves	(2,613,234)	3,271,540
Deductions:		
- Goodwill accounted for as intangible asset	(6,867,365)	-
- Other intangible assets	(1,697,231)	(1,078,027)
- Deferred tax liabilities associated to other intangible assets	330,706	179,923
- Deferred tax asset that rely on future profitability and arise from temporary differences	(26,964,863)	(10,556,199)
- Market value of assets pledged in favour of Depositor Compensation Scheme	(1,507,776)	(1,507,776)
- Other transitional adjustments	32,844,839	5,745,721
Common Equity Tier 1	145,220,865	116,779,690
Total Tier 1	145,220,865	116,779,690
Tier 2		
General credit risk adjustments	5,886,035	4,571,395
Subordinated liabilities	49,041,621	49,041,621
Other transitional adjustments	1,512,066	1,512,066
Total Tier 2	56,439,722	55,125,082
Total own funds	201,660,587	171,904,772

## RISK-WEIGHTED ASSETS

	Group Exposure Amount USD	Risk weighted Amount USD	Bank Exposure Amount USD	Risk weighted Amount USD
Central governments or central banks	205,289,861	91,318	205,289,861	91,318
Public sector entities	28,993,152	23,894,143	14,869,761	9,770,752
Institutions	364,534,684	122,676,475	313,934,297	111,551,317
Corporates	361,244,617	340,710,638	575,914,971	557,465,391
Retail	12,658,716	9,196,014	39,183,167	29,089,352
Secured by mortgages on immovable property	633,295	299,436	633,295	299,436
Exposures in default	46,675,565	61,109,521	27,362,237	33,190,555
Collective investments undertakings (CIU)	139,287,986	139,287,986	139,287,986	139,287,986
Equity	41,015	41,015	84,718,800	84,718,800
Other items	81,226,198	83,246,975	27,018,941	37,993,131
	1,240,585,089	780,553,521	1,428,213,316	1,003,458,038
Market risk, including foreign exchange risk		390,183,827		51,788,339
Operational risk		76,664,913		50,345,220
Total risk-weighted assets		1,247,402,261		1,105,591,597

## CAPITAL ADEQUACY RATIO

Tier 1 ratio	11.6%	10.6%
Total capital ratio	16.2%	15.5%

The total capital ratios of the Group and the Bank at 31 December 2014, stood at 13.8% and 13.0% respectively.

## 5 fair values of financial instruments

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

### 5.1 valuation of financial instruments

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

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or pay to transfer the liability in an orderly transaction between market participants at the measurement date.

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

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

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

The Group has an established control framework with respect to the measurement of fair values. This framework includes reports to the Group's Executive Management having overall responsibility for verifying the results of trading in financial instruments and all significant fair value measurements. Market risk and related exposure to fair value movement is also a key function of the Group's Asset-Liability Committee and all valuations of financial instruments are reported to the Committee for review and approval.

## 5 fair values of financial instruments - continued

## 5.2 financial instruments measured at fair value – fair value hierarchy

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

## Group - 31 December 2015

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	20	-	-	355,063,998	355,063,998
Derivative assets held for risk management	21	-	1,139,090	-	1,139,090
Financial assets designated at fair value through profit or loss	22	-	-	17,741,000	17,741,000
Investments available-for-sale	25	134,720,315	133,622,632	5,706,369	274,049,316
		134,720,315	134,761,722	378,511,367	647,993,404
Derivative liabilities held for risk management	21	-	917,114	-	917,114
		-	917,114	-	917,114

## Group - 31 December 2014

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	20	-	-	262,856,375	262,856,375
Derivative assets held for risk management	21	-	2,549,893	-	2,549,893
Financial assets designated at fair value through profit or loss	22	-	-	18,000,000	18,000,000
Investments available-for-sale	25	-	24,072,000	6,032,393	30,104,393
		-	26,621,893	286,888,768	313,510,661
Derivative liabilities held for risk management	21	-	3,606,718	-	3,606,718
		-	3,606,718	-	3,606,718

## Bank - 31 December 2015

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	21	-	1,142,952	-	1,142,952
Financial assets designated at fair value through profit or loss	22	-	-	17,741,000	17,741,000
Investments available-for-sale	25	134,720,315	133,622,632	5,705,668	274,048,615
		134,720,315	134,765,584	23,446,668	292,932,567
Derivative liabilities held for risk management	21	-	921,237	-	921,237
		-	921,237	-	921,237

## 5 fair values of financial instruments - continued

Bank - 31 December 2014

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	21	-	2,570,036	-	2,570,036
Financial assets designated at fair value through profit or loss	22	-	-	18,000,000	18,000,000
Investments available-for-sale	25	-	24,072,000	6,031,691	30,103,691
		-	26,642,036	24,031,691	50,673,727
Derivative liabilities held for risk management	21	-	1,606,718	-	1,606,718
		-	1,606,718	-	1,606,718

## 5.3 level 3 fair value measurements

## 5.3.1 reconciliation

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

Group - 2015	Trading assets USD	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2015	262,856,375	18,000,000	6,032,393	286,888,768
Total gains and losses in profit or loss	2,362,814	(259,000)	-	2,103,814
Total gains and losses in other comprehensive income	-	-	(326,024)	(326,024)
Purchases	450,292,973	-	-	450,292,973
Settlements	(360,448,164)	-	-	(360,448,164)
Balance at 31 December 2015	355,063,998	17,741,000	5,706,369	378,511,367

Total gains or losses for the year in the above table are presented in the statement of profit or loss and other comprehensive income as follows:

	Trading assets USD	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Total gains and losses in profit or loss				
- Net trading results	2,362,814	-	-	2,362,814
- Net gain from other financial instruments carried at fair value	-	(259,000)	-	(259,000)
Total gains and losses in other comprehensive income				
- Net change in fair value of available-for-sale financial assets	-	-	(326,024)	(326,024)



Group - 2014

	Trading assets USD	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2014	272,831,977	17,700,000	2,098,557	292,630,534
Total gains and losses in profit or loss	(10,634,714)	300,000	-	(10,334,714)
Total gains and losses in other comprehensive income	-	-	(1,355,577)	(1,355,577)
Purchases	352,892,501	-	5,289,413	358,181,914
Settlements	(352,233,389)	-	-	(352,233,389)
Balance at 31 December 2014	262,856,375	18,000,000	6,032,393	286,888,768

Total gains or losses for the year in the above table are presented in the statement of profit or loss and other comprehensive income as follows:

	Trading assets USD	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Total gains and losses in profit or loss				
- Net trading results	(10,634,714)	-	-	(10,634,714)
- Net gain from other financial instruments carried at fair value	-	300,000	-	300,000
Total gains and losses in other comprehensive income				
- Net change in fair value of available-for-sale financial assets	-	-	(1,355,577)	(1,355,577)

## 5 fair values of financial instruments - continued

## Bank – 2015

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2015	18,000,000	6,031,691	24,031,691
Total gains and losses in profit or loss	(259,000)	-	(259,000)
Total gains and losses in other comprehensive income	-	(326,023)	(326,023)
Balance at 31 December 2015	17,741,000	5,705,668	23,446,668

Total gains or losses for the year in the above table are presented in the statement of profit or loss and other comprehensive income as follows:

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Total gains and losses in profit or loss			
- Net gain from other financial instruments carried at fair value	(259,000)	-	(259,000)
Total gains and losses in other comprehensive income			
- Net change in fair value of available-for-sale financial assets	-	(326,023)	(326,023)

5 fair values of financial instruments - continued

Bank - 2014

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2014	17,700,000	2,097,856	19,797,856
Total gains and losses in profit or loss	300,000	-	300,000
Total gains and losses in other comprehensive income	-	(1,355,578)	(1,355,578)
Purchases	-	5,289,413	5,289,413
Balance at 31 December 2014	18,000,000	6,031,691	24,031,691

Total gains or losses for the year in the above table are presented in the statement of profit or loss and other comprehensive income as follows:

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Total gains and losses in profit or loss			
- Net gain from other financial instruments carried at fair value	300,000	-	300,000
Total gains and losses in other comprehensive income			
- Net change in fair value of available-for-sale financial assets	-	(1,355,578)	(1,355,578)

## 5 fair values of financial instruments - continued

5.3.2 *unobservable inputs used in measuring fair value*

The below sets out information about significant unobservable inputs used at 31 December 2015 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

**trading assets**

The trading assets portfolio represent Forfaiting Assets, that is the discounting of receivables generated from an export contract on a without recourse basis. The assets would be evidenced by a number of different debt instruments including Bills of Exchange, Promissory Notes, Letters of Credit and trade or project related Syndicated and Bi-lateral Loan (Financing) Agreements.

The Group establishes fair value of its trading assets using a valuation technique based on the discounted expected future principal and interest cash flows. The discount rate is an estimate based on current expected credit margin spreads and interest rates at the reporting date. Inputs to valuation technique reasonably represent market expectation and measures of risk-return factors inherent in the financial instrument.

The Group uses the LIBOR yield curve as of each reporting date plus an adequate credit margin spread to discount the trading assets held. At 31 December 2015, the interest rates used range between 0.42% and 9.00% (2014: between 0.17% and 8.40%).

The effect of an estimated general increase of one percentage point in interest rate on trading assets at 31 December 2015 would reduce the Group's profit before tax by approximately USD432,410 (2014: USD858,055).

**financial assets designated at fair value through profit or loss**

The Financial assets designated at fair value through profit or loss ("FVTPL") consist of credit linked notes, whereby the Group is funding the risk of default with respect to specified borrowers.

The FVTPL portfolio is fair valued using a model based on the current credit worthiness of the counterparties by reference to specialised dealer price quotations. Periodical changes in dealer quotations are compared to changes in quoted prices for instruments with similar characteristics issued by the borrowers.

All credit linked notes have a floating-interest rate characteristic and the impact of interest rates on the value of the instrument is therefore limited to the interest repricing period which generally occurs on a quarterly or half-yearly basis. The effect on profit or loss is disclosed in Note 4.4 to these financial statements.

**investments available-for-sale**

Available-for-sale investments mainly represent holdings in an unlisted sub-fund of a collective investment scheme whose underlying investments would be classified as Level 3 assets. The sub-fund, independently run by a licensed investment manager, invests in sustainable energy plants with returns generated throughout the life of each plant.

The fair value is measured by the Group based on periodical net-asset-valuations prepared by the scheme's independent administrator. The sub-fund's assets are marked to fair market value. Assets are marked at observable traded prices where that is possible. Where there is no observable price, the assets are marked in accordance with best market practice. This may involve the use of models and forward projections. Inputs and assumptions used in these models may be subjective and could include a number of highly judgemental uncertainties including the projected valuations of the individual plants and the future potential income from each plant.

The effect of a ten percentage point increase/(decrease) in the net asset value of the sub-fund at 31 December 2015 would increase/(decrease) the Bank and Group equity by approximately USD566,535 (2014: USD599,138).

## 5.4 financial instruments not measured at fair value

The following table sets out the fair value of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

### Group - 31 December 2015

	Level 1 USD	Level 2 USD	Level 3 USD	Total fair values USD	Total carrying amount USD
<b>ASSETS</b>					
Balances with the Central Bank of Malta, Treasury Bills and cash	-	77,432,606	-	77,432,606	77,432,606
Loans and advances to banks	-	223,189,558	-	223,189,558	223,189,558
Loans and advances to customers	-	388,951,224	-	388,951,224	388,951,224
Investments held-to-maturity	-	7,476,940	-	7,476,940	7,476,940
<b>LIABILITIES</b>					
Amounts owed to banks	-	729,941,157	-	729,941,157	729,941,157
Amounts owed to customers	-	422,077,303	-	422,077,303	422,077,303
Subordinated liabilities	-	50,000,000	-	50,000,000	50,000,000
Debt securities in issue	-	45,646,755	-	45,646,755	45,646,755

### Group - 31 December 2014

	Level 1 USD	Level 2 USD	Level 3 USD	Total fair values USD	Total carrying amount USD
<b>ASSETS</b>					
Balances with the Central Bank of Malta, Treasury Bills and cash	-	7,824,096	-	7,824,096	7,824,096
Loans and advances to banks	-	430,655,699	-	430,655,699	430,655,699
Loans and advances to customers	-	549,441,138	-	549,441,138	549,441,138
Investments held-to-maturity	-	7,116,353	-	7,116,353	7,116,353
<b>LIABILITIES</b>					
Amounts owed to banks	-	670,768,692	-	670,768,692	670,768,692
Amounts owed to customers	-	523,848,225	-	523,848,225	523,848,225
Debt securities in issue	-	10,599,196	-	10,599,196	10,599,196

## 5 fair values of financial instruments - continued

Bank - 31 December 2015

	Level 1 USD	Level 2 USD	Level 3 USD	Total fair values USD	Total carrying amount USD
<b>ASSETS</b>					
Balances with the Central Bank of Malta, Treasury Bills and cash	-	77,413,470	-	77,413,470	77,413,470
Loans and advances to banks	-	212,123,584	-	212,123,584	212,123,584
Loans and advances to customers	-	567,176,993	-	567,176,993	567,176,993
Investments held-to-maturity	-	7,476,940	-	7,476,940	7,476,940
<b>LIABILITIES</b>					
Amounts owed to banks	-	665,277,976	-	665,277,976	665,277,976
Amounts owed to customers	-	405,611,504	-	405,611,504	405,611,504
Subordinated liabilities	-	50,000,000	-	50,000,000	50,000,000
Debt securities in issue	-	20,000,000	-	20,000,000	20,000,000

Bank - 31 December 2014

	Level 1 USD	Level 2 USD	Level 3 USD	Total fair values USD	Total carrying amount USD
<b>ASSETS</b>					
Balances with the Central Bank of Malta, Treasury Bills and cash	-	7,804,628	-	7,804,628	7,804,628
Loans and advances to banks	-	423,146,523	-	423,146,523	423,146,523
Loans and advances to customers	-	635,248,176	-	635,248,176	635,248,176
Investments held-to-maturity	-	7,116,353	-	7,116,353	7,116,353
<b>LIABILITIES</b>					
Amounts owed to banks	-	580,466,522	-	580,466,522	580,466,522
Amounts owed to customers	-	496,006,520	-	496,006,520	496,006,520

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, and primary origination or secondary market spreads.

The fair value of amounts owed to banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

## 6 classification of financial assets and liabilities

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

Group - 31 December 2015

	Trading USD	Designated at fair value USD	Loans and receivables USD	Available- for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD	Fair value USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	-	77,432,606	-	-	77,432,606	77,432,606
Trading assets	355,063,998	-	-	-	-	355,063,998	355,063,998
Derivative assets held for risk management	-	1,139,090	-	-	-	1,139,090	1,139,090
Financial assets designated at fair value through profit or loss	-	17,741,000	-	-	-	17,741,000	17,741,000
Loans and advances to banks	-	-	223,189,558	-	-	223,189,558	223,189,558
Loans and advances to customers	-	-	388,951,224	-	-	388,951,224	388,951,224
Investments available-for-sale	-	-	-	274,049,316	-	274,049,316	274,049,316
Investments held-to-maturity	-	-	7,476,940	-	-	7,476,940	7,476,940
Derivative liabilities held for risk management	-	917,114	-	-	-	917,114	917,114
Amounts owed to banks	-	-	-	-	729,941,157	729,941,157	729,941,157
Amounts owed to customers	-	-	-	-	422,077,303	422,077,303	422,077,303
Debt securities in issue	-	-	-	-	45,646,755	45,646,755	45,646,755
Subordinated liabilities	-	-	-	-	50,000,000	50,000,000	50,000,000

	Trading USD	Designated at fair value USD	Loans and receivables USD	Available- for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD	Fair value USD
Group - 31 December 2014							
Balances with the Central Bank of Malta, Treasury Bills and cash	-	-	7,824,096	-	-	7,824,096	7,824,096
Trading assets	262,856,375	-	-	-	-	262,856,375	262,856,375
Derivative assets held for risk management	-	2,549,893	-	-	-	2,549,893	2,549,893
Financial assets designated at fair value through profit or loss	-	18,000,000	-	-	-	18,000,000	18,000,000
Loans and advances to banks	-	-	430,655,699	-	-	430,655,699	430,655,699
Loans and advances to customers	-	-	549,441,138	-	-	549,441,138	549,441,138
Investments available-for-sale	-	-	-	30,104,393	-	30,104,393	30,104,393
Investments held-to-maturity	-	-	7,116,353	-	-	7,116,353	7,116,353
Derivative liabilities held for risk management	-	3,606,718	-	-	-	3,606,718	3,606,718
Amounts owed to banks	-	-	-	-	670,768,692	670,768,692	670,768,692
Amounts owed to customers	-	-	-	-	523,848,225	523,848,225	523,848,225
Debt securities in issue	-	-	-	-	10,599,196	10,599,196	10,599,196

## 6 classification of financial assets and liabilities - continued

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

Bank - 31 December 2015	Designated at fair value USD	Loans and receivables USD	Available- for- sale USD	Liabilities at amortised cost USD	Total carrying amount USD	Fair value USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	77,413,470	-	-	77,413,470	77,413,470
Derivative assets held for risk management	1,142,952	-	-	-	1,142,952	1,142,952
Financial assets designated at fair value through profit or loss	17,741,000	-	-	-	17,741,000	17,741,000
Loans and advances to banks	-	212,123,584	-	-	212,123,584	212,123,584
Loans and advances to customers	-	567,176,993	-	-	567,176,993	567,176,993
Investments available-for-sale	-	-	274,048,615	-	274,048,615	274,048,615
Investments held-to-maturity	-	7,476,940	-	-	7,476,940	7,476,940
Derivative liabilities held for risk management	921,237	-	-	-	921,237	921,237
Amounts owed to banks	-	-	-	665,277,976	665,277,976	665,277,976
Amounts owed to customers	-	-	-	405,611,504	405,611,504	405,611,504
Debt securities in issue	-	-	-	20,000,000	20,000,000	20,000,000
Subordinated liabilities	-	-	-	50,000,000	50,000,000	50,000,000
Bank - 31 December 2014	Designated at fair value USD	Loans and receivables USD	Available- for- sale USD	Liabilities at amortised cost USD	Total carrying amount USD	Fair value USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	7,804,628	-	-	7,804,628	7,804,628
Derivative assets held for risk management	2,570,036	-	-	-	2,570,036	2,570,036
Financial assets designated at fair value through profit or loss	18,000,000	-	-	-	18,000,000	18,000,000
Loans and advances to banks	-	423,146,523	-	-	423,146,523	423,146,523
Loans and advances to customers	-	635,248,176	-	-	635,248,176	635,248,176
Investments available-for-sale	-	-	30,103,691	-	30,103,691	30,103,691
Investments held-to-maturity	-	7,116,353	-	-	7,116,353	7,116,353
Derivative liabilities held for risk management	1,606,718	-	-	-	1,606,718	1,606,718
Amounts owed to banks	-	-	-	580,466,522	580,466,522	580,466,522
Amounts owed to customers	-	-	-	496,006,520	496,006,520	496,006,520

Financial assets not measured at fair value comprise loans and advances and balances with Central Bank. Loans and advances are reported net of impairment allowances to reflect the estimated recoverable amounts as at the financial reporting date. In the case of loans and advances which are repriceable in the short term, the carrying value approximates to fair value. 82% (2014: 80%) of the Group's and 91% (2014: 83%) of the Bank's loans and advances to customers are repriceable within six months. 77% (2014: 97%) of the Group's and 74% (2014: 96%) of the Bank's loans and advances to banks are repriceable within six months.

Financial liabilities measured at amortised cost comprise amounts owed to banks and customers, debt securities in issue and subordinated liabilities. 71% (2014: 85%) of the Group's and 70% (2014: 83%) of the Bank's amounts owed to banks and customers are repriceable within 6 months. The Group's debt securities in issue are subject to fixed and variable interest rates whilst subordinated liabilities are subject to floating rates. Interest rates on debt securities and subordinated liabilities are further disclosed in Note 38 and Note 39 to these financial statements.



## operating segments

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

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

The financial position and performance of items not falling within any of the reportable segments is grouped under "Other", and this includes items of non-core activities mainly related to the letting of property to third parties.

In the table below, interest income is disclosed gross of interest expense since it represents the revenue measure used by Executive Management in assessing the performance of each segment. Net interest income is disclosed in Note 8, including further analysis of its components.

### information about operating segments

Group – 2015  
USD

	Trade Finance	Forfaiting	Factoring	IT Solutions	Other	Total
External revenue:						
Interest income	17,238,937	12,050,690	23,228,998	-	-	52,518,625
Fee and commission income	9,928,982	3,879,471	5,394,737	416,347	99,681	19,719,218
Trading income	5,157,859	(4,699,243)	594,141	(120)	(44,019)	1,008,618
	32,325,778	11,230,918	29,217,876	416,227	55,662	73,246,461
Intersegment revenue:						
Interest receivable	5,120,048	-	-	-	-	5,120,048
Fee and commission income	-	55,322	-	266,763	-	322,085
	5,120,048	55,322	-	266,763	-	5,442,133
Reportable segment (loss)/profit before income tax	(15,837,869)	805,664	(3,152,695)	(79,646)	(1,004,295)	(19,268,841)
Reportable segment assets	1,203,141,610	363,054,561	223,705,263	794,932	99,085,196	1,889,781,562
Reportable segment liabilities	1,136,819,186	295,274,268	95,109,238	28,253	33,726,594	1,560,957,539

Group – 2014  
USD

	Trade Finance	Forfaiting	Factoring	IT Solutions	Other	Total
External revenue:						
Interest income	20,360,157	12,955,762	17,438,739	-	-	50,754,658
Fee and commission income	13,909,345	6,160,278	4,713,132	684,949	130,594	25,598,298
Trading income	1,477,225	(8,108,381)	135,423	(1,059)	(27,881)	(6,524,673)
	35,746,727	11,007,659	22,287,294	683,890	102,713	69,828,283
Intersegment revenue:						
Interest receivable	5,967,653	-	-	-	-	5,967,653
Fee and commission income	-	51,144	-	273,961	-	325,105
	5,967,653	51,144	-	273,961	-	6,292,758
Reportable segment (loss)/profit before income tax	(57,005,677)	1,004,203	(34,645,080)	(167,506)	(1,202,335)	(92,016,395)
Reportable segment assets	1,129,959,719	270,773,330	291,216,006	868,812	77,074,409	1,769,892,276
Reportable segment liabilities	1,066,997,552	203,798,701	171,732,888	22,487	35,759,462	1,478,311,090

7 operating segments - continued

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

Group

REVENUES	2015 USD	2014 USD
Total revenue for reportable segments	78,632,932	76,018,328
Other revenue	55,662	102,713
	78,688,594	76,121,041
Elimination of intersegment revenue	(5,442,133)	(6,292,758)
Consolidated revenue	73,246,461	69,828,283
PROFIT OR LOSS		
Total loss for reportable segments	(18,264,546)	(90,814,060)
Other profit or loss	(1,004,295)	(1,202,335)
	(19,268,841)	(92,016,395)
Share of loss of associates	(805,800)	(3,175,580)
Net fair value gains on previously-held investments in associates	-	3,196,543
Impairment to goodwill	-	(8,910,609)
Effect of other consolidation adjustments on segment results	8,026,424	47,475,419
Consolidated loss before tax	(12,048,217)	(53,430,622)
ASSETS		
Total assets for reportable segments	1,790,696,366	1,692,817,867
Other assets	99,085,196	77,074,409
	1,889,781,562	1,769,892,276
Elimination of intersegment assets	(460,326,727)	(368,959,469)
Effect of other consolidation adjustments on segment results	15,224,781	9,997,280
Unallocated amounts	(774,170)	(954,670)
Consolidated assets	1,443,905,446	1,409,975,417
LIABILITIES		
Total liabilities for reportable segments	1,527,230,945	1,442,551,628
Other liabilities	33,726,594	35,759,462
	1,560,957,539	1,478,311,090
Elimination of intersegment liabilities	(291,156,338)	(251,641,746)
Effect of other consolidation adjustments on segment results	165,762	-
Unallocated amounts	(981,131)	(1,091,339)
Consolidated liabilities	1,268,985,832	1,225,578,005

## 7 operating segments - continued

## geographical areas

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

## Group

	Malta		Other Countries		Total	
	2015 USD	2014 USD	2015 USD	2014 USD	2015 USD	2014 USD
External revenues	2,244,451	4,843,098	71,002,010	64,985,185	73,246,461	69,828,283
Non-current assets	33,514,782	34,531,142	11,988,802	13,032,956	45,503,584	47,564,098

Non-current assets include property and equipment and intangible assets and goodwill.

## 8 net interest income

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Interest income				
On loans and advances to banks	5,191,460	3,909,673	3,785,262	3,881,841
On loans and advances to customers	32,183,290	29,983,740	13,255,660	14,752,484
On loans and advances to subsidiary companies	-	-	5,120,048	5,967,653
On balances with Central Bank of Malta and Treasury Bills	7,984	503,851	7,984	503,852
	37,382,734	34,397,264	22,168,954	25,105,830
On forfeiting assets	12,048,521	12,950,953	-	-
On financial instruments carried at fair value	907,871	518,858	907,871	518,858
On held-to-maturity financial instruments	596,360	553,979	596,360	553,979
On other trade finance activities	1,583,139	2,333,604	1,351,174	2,213,712
	52,518,625	50,754,658	25,024,359	28,392,379
Interest expense				
On amounts owed to banks	13,903,094	15,673,617	7,038,890	7,969,552
On amounts owed to customers	5,718,512	5,942,596	5,406,141	5,683,275
On debt securities in issue	2,682,214	678,362	7,303	-
On derivative instruments	-	89,734	-	89,734
On subordinated debt	617,488	-	617,487	-
	22,921,308	22,384,309	13,069,821	13,742,561
Net interest income	29,597,317	28,370,349	11,954,538	14,649,818

Included in Group and Bank is interest income and interest expense payable to the parent company and to an entity holding a significant shareholding in the Group (see Note 47).

## 9 net fee and commission income

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Fee and commission income				
Credit related fees and commission	1,994,494	2,389,764	1,994,494	2,389,764
On letters of credit	4,768,593	7,969,776	4,768,593	7,969,776
On factoring	5,322,702	4,652,621	1,750,765	1,756,563
On forfaiting activities	3,879,471	6,160,278	-	-
On IT Solutions	416,347	684,949	-	-
Other fees	3,337,611	3,740,910	3,144,060	3,501,599
	19,719,218	25,598,298	11,657,912	15,617,702
Fee and commission expense				
Credit related fees	810	206,359	810	206,359
Correspondent banking fees	421,579	397,639	290,573	337,421
On forfaiting activities	431,157	624,030	-	-
Other fees	4,310,839	3,609,719	2,223,765	1,478,878
	5,164,385	4,837,747	2,515,148	2,022,658
Net fee and commission income	14,554,833	20,760,551	9,142,764	13,595,044

## 10 net trading results

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Net trading income from assets held for trading	(4,570,212)	(8,115,335)	-	-
Foreign exchange rate fluctuations	5,578,830	1,590,662	5,186,999	1,769,718
	1,008,618	(6,524,673)	5,186,999	1,769,718

## 11 net gain from other financial instruments carried at fair value

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Net income on derivatives held for risk management purposes	(2,412,472)	1,428,405	(2,368,182)	1,505,129
Investment securities designated at fair value through profit or loss	(259,000)	149,942	(259,000)	149,942
	(2,671,472)	1,578,347	(2,627,182)	1,655,071

## 12 net fair value gains on previously-held investments in associates

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Fair value gain on previously held 49% investment in India Factoring	-	3,607,534	-	-
Fair value loss on previously held 40% investment in CIS Factors	-	(410,991)	-	-
	-	3,196,543	-	-

## 12 net fair value gains on previously-held investments in associates- continued

During the year ended 31 December 2014, the Group acquired a controlling interest in India Factoring and CIS Factors which were previously recognised as “Associates” and measured using the “Equity Method”. Upon making further investment in these two entities the Group re-measured its previously held non-controlling interest to fair value recognising the respective gains or losses in the Income Statement.

## 13 dividend income

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Dividend from an available-for-sale investment	3,324,960	1,523,364	3,324,960	1,523,364
	3,324,960	1,523,364	3,324,960	1,523,364

## 14 other operating income

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Rental income from leased property	243,117	220,130	-	-
(Loss)/profit on disposal of equipment	(855)	8,108	(11,725)	8,214
Support fees receivable	16,926	19,228	16,926	19,227
	259,188	247,466	5,201	27,441

## 15 net impairment loss on financial assets

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Loans and advances to banks				
- specific impairment allowances	(3,972,829)	(16,043)	(3,972,829)	(16,043)
- collective impairment allowances	(338,364)	808,071	(338,364)	808,071
- write-offs	(1,708,360)	-	(1,708,360)	-
	(6,019,553)	792,028	(6,019,553)	792,028
Loans and advances to customers				
- specific impairment allowances	35,274,300	(48,596,742)	8,112,961	(24,918,136)
- collective impairment allowances	1,797,313	685,159	1,617,856	(584,302)
- write-offs	(40,173,233)	(3,661,514)	(6,365,400)	(191,406)
- recoveries	294,247	56,346	279,276	1,199
	(2,807,373)	(51,516,751)	3,644,693	(25,692,645)
Investments in subsidiaries				
- specific impairment allowances	-	-	(1,506,042)	(39,021,239)
	-	-	(1,506,042)	(39,021,239)
Investments in associates				
- specific impairment allowances	(1,504,875)	-	(7,212,658)	-
	(1,504,875)	-	(7,212,658)	-
Net impairment loss	(10,331,801)	(50,724,723)	(11,093,560)	(63,921,856)

## 16 administrative expenses

### 16.1 administrative expenses incurred during the year are analysed as follows:

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Personnel expenses	24,710,301	22,959,423	13,226,759	13,666,815
Operating lease rentals	1,449,814	1,253,590	1,189,012	1,252,986
Other administrative expenses	17,831,473	13,482,742	13,165,927	9,764,349
Recharge of services rendered by subsidiaries	-	-	430,672	430,672
	43,991,588	37,695,755	28,012,370	25,114,822

Included in Operating Lease Rentals for the Bank is an amount of USD936,944 (2014: USD898,789) payable to subsidiary companies. Included in other administrative expenses of the Group for the financial year ended 31 December 2015 are the following:

a) expenses which are expected to be non-recurring in future financial periods, including:

- USD1.47 million incurred in connection with employment and consultancy contract terminations and reorganisation of various roles and positions; and
- USD6.43 million incurred on professional advice being sought by the Bank in relation to legal matters connected to a review of banking transactions carried out in prior years. In the opinion of the Directors, additional expenses to be incurred in this respect are unlikely to be material based on an assessment of the status of events at the date these financial statements have been approved.

b) fees charged by auditors as follows:

	Audit services USD	Other assurance services USD	Tax advisory services USD	Other non-audit services USD
By the auditors of the parent	155,192	96,028	12,435	53,568
Other auditors	203,518	115,208	32,710	7,856

All fees are inclusive of indirect taxes.

### 16.2 personnel expenses incurred during the year

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Directors' emoluments	285,126	317,394	277,907	303,960
Staff costs				
- wages, salaries and allowances	23,382,286	21,648,848	12,498,340	12,870,795
- defined contribution costs	1,042,889	993,181	450,512	492,060
	24,710,301	22,959,423	13,226,759	13,666,815

## 16 administrative expenses - continued

## 16.3 average number of employees

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

	Group		Bank	
	2015 No. of employees	2014 No. of employees	2015 No. of employees	2014 No. of employees
Executive and senior managerial	30	37	21	17
Other managerial, supervisory and clerical	341	277	146	155
Other staff	16	15	2	3
	387	329	169	175

For the financial year ending 31 December 2014, the Group average number of employees includes the effect of a full-year consolidation of India Factoring and Latam Factors acquired on 01 April 2014 and 01 October 2014 respectively.

## 16.4 executive share option schemes

## FIMBank

The Bank has in place Executive Share Option Schemes that are approved by the shareholders by extraordinary resolutions at different General Meetings. The rules for these Schemes regulate the award of Share Options based on the Bank's performance for the year in respect of which the grant is made. Under the Executive Share Option Scheme rules, the Bank awards share options to executives for targeted performance based on the results of the preceding year at the exercise price established at grant date. When the options are exercised, equity is increased by the amount of the proceeds received based on the market price determined on grant date. As at 31 December 2015, there was one scheme under which awarded options are still unexercised.

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

	Group and Bank	
	2015 No. of share options	2014 No. of share options
As at 1 January	2,344,056	3,055,936
Additional share options as a result of capital restructuring	-	270,817
Exercised	-	(197,600)
Forfeited due to termination of employment	(257,400)	(222,248)
Forfeited due to expiry of exercise period	(419,848)	(562,849)
As at 31 December	1,666,808	2,344,056

Details of share options granted:

		Exercise period	
		2011 scheme 01/01/14 to 31/12/18	2008 scheme 01/01/11 to 31/12/15
Exercise price per USD0.50 share	USD	USD0.6753	USD1.4468
Number of share options unexercised at 1 January 2015	2,344,056	1,884,168	459,888
Forfeited due to termination of employment	(257,400)	(217,360)	(40,040)
Forfeited due to expiry of exercise period	(419,848)	-	(419,848)
Number of share options unexercised at 31 December 2015	1,666,808	1,666,808	-

16 administrative expenses - continued

	Exercise period			
	Total	2011 scheme 01/01/14 to 31/12/18	2008 scheme 01/01/11 to 31/12/15	2007 scheme 01/01/10 to 31/12/14
Exercise price per USD0.50 share	USD	USD0.6753	USD1.4468	USD1.1717
Number of share options unexercised at 1 January 2014	3,055,936	2,014,480	477,360	564,096
Additional share options as a result of capital restructuring	270,817	174,408	43,368	53,041
Exercised share options	(197,600)	(197,600)	-	-
Forfeited due to termination of employment	(222,248)	(107,120)	(60,840)	(54,288)
Forfeited due to expiry of exercise period	(562,849)	-	-	(562,849)
Number of share options unexercised at 31 December 2014	2,344,056	1,884,168	459,888	-

During the year no new options were authorized for issue by the Board.

The share option schemes approved in 2007 and 2008 expired during the financial years ended 31 December 2014 and 31 December 2015 respectively and all unexercised options as at the expiry date were forfeited in accordance with the applicable scheme rules.

#### India Factoring

India Factoring has an Employee Stock Option Plan (ESOP), under which it has granted 2,844,000 options to the eligible employees of the company on the basis of their service and other eligibility criteria. The ESOP is monitored by India Factoring Employee Welfare Trust, a shareholder of India Factoring.

Options granted under ESOP would vest in not more than five years from the date of the grant of such options. Vesting of options would be subject to the continued employment with the Company and respective employee's performance.

At 31 December 2015, the company had 1,913,040 (31 December 2014: 2,156,040) outstanding share options, at an exercise price of INR10/option (31 December 2014: INR10/option). The remaining contractual life of the shares ranging between 3 to 6 years.

The Company has adopted the intrinsic value method to account for the plan. No expense arising from stock option plan as per the intrinsic value method was recognized for the year (2014: Nil).



## 17 taxation

### 17.1 taxation, which is based on the taxable profit for the year comprises:

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Current tax - current year	(50,317)	(2,131,310)	(32,711)	(2,130,668)
Deferred tax - origination and reversal of temporary differences	7,520,970	16,633,143	7,145,014	8,589,450
Taxation in income statement	7,470,653	14,501,833	7,112,303	6,458,782

### 17.2 taxation for the year and the result of the accounting loss multiplied by the tax rate applicable in Malta, are reconciled as follows:

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Loss before tax	(12,048,217)	(53,430,622)	(13,033,699)	(56,696,915)
Tax income using the domestic income tax rate of 35%	4,216,876	18,700,717	4,561,795	19,843,920
Tax effect of:				
Non-deductible expenses	(253,276)	(3,482,144)	(155,182)	(243,949)
Non-taxable income	1,163,736	1,651,968	1,163,736	533,178
Unrecognised temporary differences	(264,707)	(1,373,347)	(3,051,545)	(13,657,433)
Temporary differences previously not recognised	3,723,480	411,790	4,614,761	-
Effect of tax rates in foreign jurisdictions	(21,262)	(16,934)	(21,262)	(16,934)
Investment tax credit	(5,476)	27,277	-	-
Share of loss from associates	(282,030)	(1,111,453)	-	-
Different tax rates	(806,688)	(306,041)	-	-
Taxation	7,470,653	14,501,833	7,112,303	6,458,782

## 18 earnings per share

### 18.1 basic earnings per share

The calculation of basic earnings per share has been based on the following results attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

18 earnings per share - continued

*profit attributable to ordinary shareholders (basic):*

Group	Continuing operations		Discontinued operations		Total	
	2015 USD	2014 USD	2015 USD	2014 USD	2015 USD	2014 USD
Loss attributable to equity holders of the Bank	(4,188,679)	(33,327,791)	(2,201,128)	(5,231,282)	(6,389,807)	(38,559,073)

Bank	Continuing operations		Discontinued operations		Total	
	2015 USD	2014 USD	2015 USD	2014 USD	2015 USD	2014 USD
Loss attributable to equity holders of the Bank	(5,921,396)	(50,238,133)	-	-	(5,921,396)	(50,238,133)

*weighted average number of ordinary shares (basic):*

	Group and Bank	
	2015 No. of shares	2014 No. of shares
Weighted average number of ordinary shares at 31 December (basic)	289,093,393	253,794,123

The weighted average number of ordinary shares at 31 December 2014 has been restated to take into effect the impact of the Bonus Issue of shares in May 2015.

18.2 *diluted earnings per share*

The calculation of diluted earnings per share has been based on the results attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares.

*profit attributable to ordinary shareholders (diluted):*

Group	Continuing operations		Discontinued operations		Total	
	2015 USD	2014 USD	2015 USD	2014 USD	2015 USD	2014 USD
Loss attributable to equity holders of the Bank	(4,188,679)	(33,327,791)	(2,201,128)	(5,231,282)	(6,389,807)	(38,559,073)

Bank	Continuing operations		Discontinued operations		Total	
	2015 USD	2014 USD	2015 USD	2014 USD	2015 USD	2014 USD
Loss attributable to equity holders of the Bank	(5,921,396)	(50,238,133)	-	-	(5,921,396)	(50,238,133)

*weighted average number of ordinary shares (diluted):*

	2015 No. of shares	2014 No. of shares
Weighted average number of ordinary shares at 31 December (basic)	289,093,393	253,794,123
Effect of share options in issue	-	169,372
Diluted weighted average number of ordinary shares at 31 December	289,093,393	253,963,495

The weighted average number of ordinary shares at 31 December 2014 has been restated to take into effect the impact of the Bonus Issue of shares in May 2015.

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

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Balances with the Central Bank of Malta	7,729,782	7,794,252	7,729,782	7,794,252
Treasury bills	69,677,137	-	69,677,137	-
Cash	25,687	29,844	6,551	10,376
	77,432,606	7,824,096	77,413,470	7,804,628

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

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## trading assets

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

At 31 December 2015, trading assets included assets with a carrying amount of USD52,815,860 (2014: USD20,984,783) pledged in favour of third parties under reverse-repos or borrowing arrangements.

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## derivatives held for risk management

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Derivative assets held for risk management				
- foreign exchange	1,139,090	2,549,893	1,139,090	2,549,893
- interest rate	-	-	3,862	20,143
	1,139,090	2,549,893	1,142,952	2,570,036
Derivative liabilities held for risk management				
- foreign exchange	917,114	1,606,718	917,114	1,606,718
- equity	-	2,000,000	-	-
- interest rate	-	-	4,123	-
	917,114	3,606,718	921,237	1,606,718

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## financial assets designated at fair value through profit or loss

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Designated at fair value through profit or loss				
- unlisted debt securities	17,741,000	18,000,000	17,741,000	18,000,000
	17,741,000	18,000,000	17,741,000	18,000,000

22 *financial assets designated at fair value through profit or loss - continued*

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

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

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

- 22.2 At 31 December 2015, no financial assets designated at fair value through profit or loss are pledged in favour of third parties (2014: USD18,000,000).

23 **loans and advances to banks**

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Repayable on call and at short notice	95,254,860	312,183,162	80,331,509	301,701,880
Term loans and advances	136,863,564	123,119,035	140,720,941	126,091,141
<b>Total loans and advances</b>	<b>232,118,424</b>	<b>435,302,197</b>	<b>221,052,450</b>	<b>427,793,021</b>
Specific impairment	(6,869,050)	(2,925,047)	(6,869,050)	(2,925,047)
Collective impairment	(2,059,816)	(1,721,451)	(2,059,816)	(1,721,451)
<b>Net loans and advances</b>	<b>223,189,558</b>	<b>430,655,699</b>	<b>212,123,584</b>	<b>423,146,523</b>

Loans and advances to banks include blocked funds amounting to USD113,126 (2014: USD113,096) pursuant to US Sanctions. The balances also include pledged funds amounting to USD7,216,270 (2014: USD6,017,272), of which an amount of USD904,666 (2014: USD781,420) represents pledged funds in favour of the Depositor Compensation Scheme Reserve.

The aggregate amount of impaired loans to banks amounted to USD25,822,214 (2014: USD15,470,251), gross of collaterals. Specific impairment is exclusive of USD143,147 (2014: USD2,331,679) in respect of suspended interest not recognised in interest receivable.

24 **loans and advances to customers**

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Repayable on call and at short notice	121,850,333	146,994,951	124,221,996	153,312,630
Term loans and advances	298,136,809	473,065,564	159,865,212	252,136,683
	<b>419,987,142</b>	<b>620,060,515</b>	<b>284,087,208</b>	<b>405,449,313</b>
Amounts owed by subsidiary companies	-	-	310,128,831	270,745,007
<b>Total loans and advances</b>	<b>419,987,142</b>	<b>620,060,515</b>	<b>594,216,039</b>	<b>676,194,320</b>
Specific impairment	(27,209,699)	(65,993,172)	(24,527,467)	(36,816,709)
Collective impairment	(3,826,219)	(4,626,205)	(2,511,579)	(4,129,435)
<b>Net loans and advances</b>	<b>388,951,224</b>	<b>549,441,138</b>	<b>567,176,993</b>	<b>635,248,176</b>

Loans and advances to customers include pledged funds amounting to USD109,276 (2014: USD68,566). In addition, loans and advances amounting to USD25,497,732 (2014: USD32,302,231) are owed by associate companies.

For the Group, the aggregate amount of impaired loans and advances to customers amounted to USD61,734,060 (2014: USD102,601,599), gross of collaterals. Specific impairment is exclusive of USD6,825,060 (2014: USD19,063,833) in respect of suspended interest not recognised in interest receivable.

For the Bank, the aggregate amount of impaired loans and advances to customers amounted to USD37,366,830 (2014: USD62,860,949), gross of collaterals. Specific impairment is exclusive of USD4,142,828 (2014: USD12,746,154) in respect of suspended interest not recognised in interest receivable.

Amounts owed by subsidiaries include facilities that are priced on an arm's length basis, unsecured and repayable on demand. Pricing of facilities is dependent on the currency of funding and market conditions.

## 25 investments available-for-sale

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Debt instruments				
- local listed	42,108,871	-	42,108,871	-
- foreign listed	92,611,444	-	92,611,444	-
	134,720,315	-	134,720,315	-
Equity instruments				
- shares in sub-funds of a local unlisted collective investment scheme	139,287,986	30,063,377	139,287,986	30,063,377
- foreign unlisted equities	41,015	41,016	40,314	40,314
	139,329,001	30,104,393	139,328,300	30,103,691
	274,049,316	30,104,393	274,048,615	30,103,691

At 31 December 2015, investments available-for-sale included assets with a carrying amount of USD175,543,758 (2014: Nil) pledged in favour of third parties under reverse-repos or borrowing arrangements.

Whilst there is no active market for these investments, fair value for the collective investment schemes is determined by reference to funds' net asset values and fair value for the equities is determined by reference to broker prices. Fair value movement is recognised, net of deferred tax, in fair value reserve.

At reporting date, the Group and Bank held an investment of USD133,622,632 (2014: USD24,072,000) in a sub-fund of a local unlisted collective investment scheme, categorised as a Professional Investor Fund, which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in London. The Group is a seed investor in the fund, being the subscriber of all seed shares currently in issue (or 99% of total units, as an additional 1% of the units consist of Founders' Shares). Such investor shares entitle the Group to a preferential fee structure as applicable to all other holders of the same class of shares. Presently, the sub-fund is seeking additional investment capital from third-parties which would dilute the Group's unit holding percentage in the sub-fund. In addition to this, the Group is represented on the sub-fund's Advisory Board by 1 out of 3 members. The Advisory Board acts solely in an advising capacity and the Investment Manager may, in its own discretion, ignore, accept or reject any recommendations of the Advisory Board.

The Group also has a Sub-Fund Service Agreement ("SFSA") with the Investment Manager whereby the Group assists in the risk analysis, credit analysis, recovery and enforcement actions, portfolio monitoring, report production, assisting in the valuation, assisting with regulators engagements, provision of information as requested, assisting in preparing marketing material and preparation of material for the assistance in the evaluation of transactions by the Advisory Board. Remuneration to the Group in respect of the SFSA is related to the asset levels held by the fund.

The Group, through its various entities, offers/sells trade finance transactions to the sub-fund that are in line with its investment objectives. The offer to the sub-fund is subject to discussions and analysis within the Advisory Board, and the ultimate decision to participate or otherwise rests with the independent Investment Manager. All such transactions are offered/sold to the fund on an arm's length basis.

Although the Group currently holds more than 50% of the units in the sub-fund, these shares do not carry any voting rights in relation to management and control of the fund; the contractual relationship by virtue of the SFSA is purely operational, in that the Group is performing “back-office” operations for the Investment Manager; and the sub-fund has no investment restrictions and it can invest in both exposures of the Group or in assets sourced from third parties.

Since the Group does not have the power to direct the relevant activities of the sub-fund or to affect the amount of own returns, it is not consolidating its investment and is measuring it at fair value through other comprehensive income.

## 26 investments held-to-maturity

	2015 USD	Group 2014 USD	Bank 2015 USD	2014 USD
Foreign unlisted subordinated bonds	7,476,940	7,116,353	7,476,940	7,116,353
	7,476,940	7,116,353	7,476,940	7,116,353

The held-to-maturity instruments carried by the Group and Bank were issued by the parent company of the Group (see Note 50). The instruments have a weighted average effective interest rate of 8.4% and mature in 2016.

## 27 investments in associates

### 27.1 the Group's investment in associates is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Equity interest		Group	
				2015 %	2014 %	2015 USD	2014 USD
BRASILFACTORS S.A. ("BRASILFACTORS")	Brazil	Factoring	Ordinary Shares	50	50	1,301,671	2,238,484
Levant Factors S.A.L. ("Levant Factors")	Lebanon	Factoring	Ordinary Shares	50	50	-	-
The Egyptian Company for Factoring S.A.E. ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	50	40	15,447	583,186
						1,317,118	2,821,670
At 1 January						2,821,670	22,276,790
Net share of losses						(805,800)	(3,175,580)
Investment in Egypt Factors - exercise of Put Option by IFC						1,504,875	-
Impairment of investment in Egypt Factors						(1,504,875)	-
Investment in BRASILFACTORS						-	1,000,000
Reclassification resulting from the acquisition of controlling interest in India Factoring and CIS Factors						-	(17,126,243)
Currency translation difference						(698,752)	(153,297)
At 31 December						1,317,118	2,821,670

## 27.2 the Bank's investment in associate entities is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Equity interest		Bank	
				2015 %	2014 %	2015 USD	2014 USD
The Egyptian Company for Factoring S.A.E. ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	50	40	305,641	6,013,425
						305,641	6,013,425
At 1 January						6,013,425	6,013,425
Investment in Egypt Factors - exercise of Put Option by IFC						1,504,875	-
Impairment of investment in Egypt Factors						(7,212,659)	-
At 31 December						305,641	6,013,425

## 27.3 impairment assessment

At each reporting date the Bank carries out an impairment assessment to calculate the recoverable amounts of its investment in associates (at cost) and determine the possibility of an impairment loss. The recoverable amount of the investment in Egypt Factors is being reduced to approximate the Group's share of the entity's book value at reporting date, and an impairment loss of USD7,212,659 is being recognised in "Net impairment loss on financial assets" in the Income Statement. This amount is inclusive of USD1,504,875 impairment arising out of the exercise of the Put Option by the IFC during the second half of 2015 (see Note 15).

## 27.4 BRASILFACTORS S.A. ("BRASILFACTORS")

In September 2011, the Group, through its wholly owned subsidiary FIMFactors B.V., incorporated BRASILFACTORS S.A. ("BRASILFACTORS"), a factoring company incorporated in São Paulo, Brazil. BRASILFACTORS' core business focuses on factoring services and forfaiting, with small and medium-sized companies being its target market.

On incorporation, the Group had a 40% holding in the company, with the other shareholders being Banco Industrial e Comercial S.A. ("BICBANCO") and the International Finance Corporation ("IFC"), each holding 40% and 20% respectively. During 2014, IFC exercised its Put Option on the other shareholders, with the Group acquiring 10% of BRASILFACTORS and bringing the investment in the entity by both the Group and BICBANCO to 50% each. The Group is not deemed to have a controlling interest in the company and continues to measure its investment using the Equity Method.

## 27.5 Levant Factors S.A.L. ("Levant Factors")

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

The Group's carrying amount of its investment in Levant Factors is nil.

27 *investments in associates - continued*27.6 **The Egyptian Company for Factoring S.A.E. ("Egypt Factors")**

In November 2006, the Bank incorporated Egypt Factors, a company which provides factoring services in Egypt. On incorporation of Egypt Factors, the Bank had a 40% investment in Egypt Factors with the other shareholders being Commercial International Bank ("CIB") and International Finance Corporation ("IFC") (holding 40% and 20% equity respectively). During 2015, IFC exercised its Put Option on the other shareholders, with the Group acquiring 10% of Egypt Factors and bringing the investment in the entity by both the Group and CIB to 50% each. The Group is not deemed to have a controlling interest in the company and continues to measure its investment using the Equity Method.

As a result of past losses and changes in shareholding structure, the Group has reviewed the strategy of its factoring operations in Egypt and negotiations are at an advanced stage to acquire the remaining 50% shareholding of the company. This transaction would result in Egypt Factors becoming a fully owned subsidiary of the Group.

27.7 **Summary of financial information for investments in associates not adjusted for the percentage ownership of the Group:**

	Total assets USD	Total liabilities USD	Total revenue USD	Total expenses USD	(Loss)/profit for the year USD
<b>31 December 2015</b>					
BRASILFACTORS	44,464,722	42,209,910	1,600,736	(2,076,861)	(476,125)
Egypt Factors	38,209,783	33,731,763	3,464,540	(6,298,485)	(2,833,945)
Levant Factors	28,549	1,239,244	153,271	(215,767)	(62,496)

	Total assets USD	Total liabilities USD	Total revenue USD	Total expenses USD	(Loss)/profit for the year USD
<b>31 December 2014</b>					
BRASILFACTORS	20,595,469	16,637,857	2,106,657	(2,788,660)	(682,003)
Egypt Factors	47,949,644	46,525,601	6,082,479	(12,702,563)	(6,620,084)
Levant Factors	693,598	1,835,820	470,912	(820,008)	(349,096)



## 28 investments in subsidiaries

### 28.1 capital subscribed

	Bank	
	2015 USD	2014 USD
At 1 January	61,278,380	79,234,301
Additional investment in FIMFactors B.V.	24,906,147	19,606,298
Investment in FIM Holdings (Chile) S.p.A.	-	1,455,271
Additional investment in FIM Property Investment Limited	-	3,749
Impairment of investments	(1,506,041)	(39,021,239)
At 31 December	84,678,486	61,278,380

### 28.2 investments in subsidiaries

Name of Company	Country of incorporation	Nature of business	Equity interest		Bank	
			2015 %	2014 %	2015 USD	2014 USD
FactorRus LLC	Russia	Factoring	100	-	-	-
FIMFactors B.V.	Netherlands	Holding company	100	100	44,846,031	21,445,925
FIM Business Solutions Limited	Malta	IT services provider	100	100	5,000	5,000
FIM Holdings (Chile) S.p.A.	Chile	Holding company	100	100	1,455,271	1,455,271
FIM Property Investment Limited	Malta	Property management	100	100	1,005,749	1,005,749
London Forfaiting Company Limited	UK	Forfaiting	100	100	37,366,435	37,366,435
					84,678,486	61,278,380

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

Name of Company	Country of incorporation	Nature of business	Equity interest	
			2015 %	2014 %
CIS Factors Holdings B.V. ("CIS Factors")	Netherlands	Holding company	100	80
India Factoring and Finance Solutions Private Limited ("India Factoring")	India	Factoring	85	79
Menafactors Limited	United Arab Emirates	Factoring	100	100

## 28 investments in subsidiaries - continued

The Bank, indirectly through FIM Holdings Chile S.p.A., controls the following subsidiary:

Name of Company	Country of incorporation	Nature of business	Equity interest	
			2015 %	2014 %
Latam Factors S.A. (previously First Factors S.A.)	Chile	Factoring and leasing	51	51

In turn, Latam Factors S.A. controls the following subsidiaries:

Name of Company	Country of incorporation	Nature of business	Equity interest	
			2015 %	2014 %
Fondo de Inversión Privado Factoring 1	Chile	Factoring fund	20*	20
FFSF S.A. Administradora de Fondos de Inversión	Chile	Factoring fund	100	98

\* Latam Factors S.A. has been deemed to be exercising control over Fondo de Inversión Privado Factoring 1 by virtue of its relationship (controller and manager) to the company. The fund is therefore being recognised as a subsidiary and consolidated in the Group.

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

Name of Company	Country of incorporation	Nature of business	Equity interest	
			2015 %	2014 %
London Forfaiting International Limited	UK	Holding company	100	100
London Forfaiting Americas Inc. **	United States of America	Marketing	100	100
London Forfaiting do Brasil Ltda. **	Brazil	Marketing	100	100

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

## 28.3 FactorRus LLC

During 2015, FIMFactors BV acquired the shareholding in FactorRus LLC held by its subsidiary CIS Factors Holdings B.V. Subsequently the shareholding was transferred from FIMFactors B.V. to the Bank. The cost of this investment was already fully provided through the Bank's investment in FIMFactors B.V., and at reporting date, the carrying amount is NIL.

## 28.4 CIS Factors Holdings B.V.

During 2015, IFC exercised its Put Option on FIMFactors B.V., with the Group acquiring the remaining 20% of CIS Factors, bringing the investment in the entity to 100%. The exercise price as determined by reference to the original Put Option agreement was USD1,506,041. On exercise date, CIS Factors held the Group's investment in FactorRus LLC, a factoring company incorporated under the laws of the Russian Federation. As disclosed in Note 28.3, during 2015 such investment was ultimately transferred to the Bank with no other investments or assets held by CIS Factors.

## 28.5 Latam Factors S.A. (previously First Factors S.A.)

On 1 October 2014, the Group through its wholly owned subsidiary FIM Holdings (Chile) S.p.A. acquired 51% of the shares and voting interests in Latam Factors S.A. (previously First Factors S.A.) ("Latam Factors"). First Factors is a factoring and leasing company incorporated and operating in Chile with its functional and reporting currency being the Chilean Peso (CLP).

*put and call options*

A Put and Call Options Agreement has been entered into between FIMBank, FIM Holdings (Chile) S.p.A., Latam Factors S.A. and the other shareholders in Latam Factors S.A. (hereinafter also referred to as the “Company”). This agreement sets out the terms of the Call Option to be written by the other Shareholders in favour of FIMBank and the terms of the Put Option to be written by FIMBank in favour of the other shareholders of the Company.

In accordance with the Put and Call Options Agreement the other shareholders and the Company have agreed to grant to FIMBank, for good and valuable consideration, the option and right, but not the obligation to increase its shareholding interest in the Company to 65% of all outstanding shares, through the subscription of newly issued shares (the “Subscription Option”). The Subscription Option shall be exercisable on the third anniversary of the Completion Date, as defined in the Shareholders Agreement, with FIMBank to deliver to the Company an irrevocable written notice of exercise of the Subscription Option no less than three months before expiry. The Aggregate Exercise Price to be paid by FIMBank to the Company for the subscription of the Issued Shares shall be 14% of the net asset book value of the Company reported in the most recently audited financial statements at the date of exercising the option.

Should FIMBank exercise the Subscription Option, FIMBank shall grant to each other Shareholder, for good and valuable consideration, the option and right, but not the obligation to sell to FIMBank no less than all of its shares in the Company (the “Put Option”). The Put Option may be exercised by each of the other Shareholders on the exercise date of the Subscription Option in respect of its respective shareholding interest. The exercise price to be paid by FIMBank to the selling shareholder(s) shall be equal to the net asset book value of the Company in accordance with the most recently audited financial statements at the exercise date of the Put Option, multiplied by the percentage of all the shareholding interest to be transferred.

In addition, the parties have agreed to grant to each other the right but not the obligation to buy all the shares of the Company held by the other parties in the event that either of the parties, as the case may be, fails to take the necessary actions to support any proposal presented by any of them, as applicable, to increase the share capital of the Company (the “Call Option Two”). Call Option Two is valid for an automatically renewable term of ten years.

Any premium paid for the call option and the fair value of the put option (to the extent that this is material) will be considered on the final determination of the accounting for the business combination.

28.6 *impairment assessment*

At each reporting date the Bank carries out an impairment assessment to calculate the recoverable amounts of its investment in subsidiaries (at cost) and determine the possibility of an impairment loss. The recoverable amounts of the investment in subsidiaries have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of each entity. Impairment losses for the year amounted to USD1,506,041 (2014: USD39,021,238). Impairment losses for 2015 related to FactorRus (see below). No further impairment losses were recognised during the financial year ended 31 December 2015 as the recoverable amounts of the other investments were determined to be higher than the carrying amount.

*FactorRus*

As disclosed in Note 28.3, the Bank acquired from IFC the remaining 20% of CIS Factors, which in turn owned 100% of FactorRus LLC. The Group is still in the process of winding down its activities related to FactorRus and at reporting date the assets, liabilities and results of the entity are being presented in accordance with IFRS 5 “Non-current assets held for sale and discontinued operations”. As a result of this, the recoverable amount of the investment is being deemed to be Nil and a further impairment loss of USD1,506,041 is being recognised in “Net impairment loss on financial assets” in the Bank’s Income Statement.

*India Factoring*

Management has approved a set of budgets based on a strategy to grow the business in a changing market landscape, whilst ensuring an effective operational and control environment. These budgets formed the basis on which the recoverable amount of the investment is arrived at (the recoverable amount exceeds the carrying amount of the investment). Whilst it is inherent that actual results may differ from those budgeted, and such variations may be significant, the Directors believe that the business plan can be supported, such that it will enable the Bank to recover the investment at least at the amount stated.

## discontinued operations

During the year under review, the Group continued in its process to wind down its activities related to FactorRus and at reporting date the assets, liabilities and results of the entity are being presented in accordance with IFRS 5 “Non-current assets held for sale and discontinued operations”.

### results of discontinued operation

The following information summarises the results of FactorRus:

	2015 USD	2014 USD
Net interest income	2,411,627	1,767,329
Net fee income	(2,878)	243,051
Net trading costs	(223,025)	(1,369,355)
Operating income before net impairment	2,185,724	641,025
Net impairment loss on financial assets	(2,101,154)	(5,292,346)
Operating income	84,570	(4,651,321)
Operating expenses	(710,145)	(2,485,082)
Operating loss	(625,575)	(7,136,403)
Taxation	(1,928,803)	838,194
Loss for the year	(2,554,378)	(6,298,209)

In addition, impairment losses of USD1,506,041, representing write-downs of the carrying amount of the investment to its estimated recoverable amount of Nil are being recognised in “Net impairment loss on financial assets” in the Bank’s Income Statement (see Note 28.6).

Earnings per share on discontinued operations are being disclosed in Note 18.

### non-current assets held for sale

	2015 USD	Group 2014 USD
Loans and advances to banks	1,009,896	5,073,667
Loans and advances to customers	-	803,546
Deferred tax asset	-	1,684,535
Other assets	17,898	276,526
At 31 December	1,027,794	7,838,274

### liabilities associated with non-current assets held for sale

	2015 USD	Group 2014 USD
Other liabilities	165,762	249,502
At 31 December	165,762	249,502

## 30 property and equipment

Group							
Cost	Freehold land USD	Freehold premises USD	Computer system USD	Improvement to premises USD	Computer equipment USD	Others USD	Total USD
At 1 January 2014	6,921,589	30,675,052	1,955,011	678,331	2,116,806	3,175,734	45,522,523
Acquisitions through business combinations	-	201,320	-	462,223	502,431	534,824	1,700,798
Other additions	8,651	285,282	-	103,564	476,547	277,382	1,151,426
Disposals during the year	-	-	-	(1,581)	(66,052)	(63,109)	(130,742)
Effect of movement in exchange rates	-	(3,041)	-	(6,981)	(16,086)	(14,105)	(40,213)
At 31 December 2014	6,930,240	31,158,613	1,955,011	1,235,556	3,013,646	3,910,726	48,203,792
At 1 January 2015	6,930,240	31,158,613	1,955,011	1,235,556	3,013,646	3,910,726	48,203,792
Other additions	-	76,406	-	2,579	496,845	574,969	1,150,799
Disposals during the year	-	-	-	(9,101)	(11,756)	(148,528)	(169,385)
Effect of movement in exchange rates	-	(28,350)	-	(70,503)	(140,581)	(140,186)	(379,620)
Reclassification to investment property	(848,165)	(3,315,351)	-	-	(4,138)	(21,035)	(4,188,689)
At 31 December 2015	6,082,075	27,891,318	1,955,011	1,158,531	3,354,016	4,175,946	44,616,897
Accumulated depreciation							
At 1 January 2014	-	1,402,589	1,559,621	251,926	1,628,685	1,672,809	6,515,630
Accumulated depreciation through business combinations	-	25,165	-	326,113	420,049	392,650	1,163,977
Charge for the year	-	1,268,079	153,335	54,864	299,085	502,143	2,277,506
Disposals during the year	-	-	-	(1,581)	(66,052)	(51,919)	(119,552)
Effect of movement in exchange rates	-	(381)	-	15,489	(13,939)	(34,412)	(33,243)
At 31 December 2014	-	2,695,452	1,712,956	646,811	2,267,828	2,481,271	9,804,318
At 1 January 2015	-	2,695,452	1,712,956	646,811	2,267,828	2,481,271	9,804,318
Charge for the year	-	1,267,463	152,402	91,890	372,841	591,840	2,476,436
Disposals during the year	-	-	-	(5,631)	(10,905)	(92,351)	(108,887)
Effect of movement in exchange rates	-	(3,780)	-	(49,075)	(136,403)	(116,011)	(305,269)
Reclassification to investment property	-	(371,005)	-	-	(3,167)	(10,513)	(384,685)
At 31 December 2015	-	3,588,130	1,865,358	683,995	2,490,194	2,854,236	11,481,913
Carrying amounts							
At 1 January 2014	6,921,589	29,272,463	395,390	426,405	488,121	1,502,925	39,006,893
At 31 December 2014	6,930,240	28,463,161	242,055	588,745	745,818	1,429,455	38,399,474
At 31 December 2015	6,082,075	24,303,188	89,653	474,536	863,822	1,321,710	33,134,984

At financial reporting date, there was no property and equipment hypothecated in favour of third party banks (2014: USD6,605,000).

30 *Property and equipment - continued*

Bank						
Cost	Freehold premises USD	Computer system USD	Improvement to leasehold premises USD	Computer equipment USD	Others USD	Total USD
At 1 January 2014	221,708	1,955,011	515,184	1,585,079	1,903,031	6,180,013
Acquisitions during the year	-	-	65,689	413,190	178,081	656,960
Disposals during the year	-	-	-	-	(53,156)	(53,156)
At 31 December 2014	221,708	1,955,011	580,873	1,998,269	2,027,956	6,783,817
At 1 January 2015	221,708	1,955,011	580,873	1,998,269	2,027,956	6,783,817
Acquisitions during the year	-	-	-	362,144	38,085	400,229
Disposals during the year	-	-	(9,101)	(935)	(129,779)	(139,815)
At 31 December 2015	221,708	1,955,011	571,772	2,359,478	1,936,262	7,044,231
Accumulated depreciation						
At 1 January 2014	50,624	1,559,621	109,135	1,226,652	1,163,219	4,109,251
Charge for the year	4,434	153,335	38,723	206,565	247,569	650,626
Disposals during the year	-	-	-	-	(41,966)	(41,966)
At 31 December 2014	55,058	1,712,956	147,858	1,433,217	1,368,822	4,717,911
At 1 January 2015	55,058	1,712,956	147,858	1,433,217	1,368,822	4,717,911
Charge for the year	4,434	152,402	39,762	267,600	193,830	658,028
Disposals during the year	-	-	(5,631)	(156)	(75,022)	(80,809)
At 31 December 2015	59,492	1,865,358	181,989	1,700,661	1,487,630	5,295,130
Carrying amounts						
At 1 January 2014	171,084	395,390	406,049	358,427	739,812	2,070,762
At 31 December 2014	166,650	242,055	433,015	565,052	659,134	2,065,906
At 31 December 2015	162,216	89,653	389,783	658,817	448,632	1,749,101

The Group leases part of its Head Office building to third parties. During 2015, the areas leased out to third parties became more than insignificant in proportion to the whole building and therefore such areas were transferred to Investment Property (see note 31).

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## investment property

Group

	2015 USD	2014 USD
Cost		
At 1 January	-	-
Reclassification from property, plant and equipment	4,188,689	-
At 31 December	4,188,689	-
Accumulated depreciation		
At 1 January	-	-
Reclassification from property, plant and equipment	384,685	-
At 31 December	384,685	-
Carrying amounts		
At 1 January	-	-
At 31 December	3,804,004	-

Investment property comprises a number of areas within the Group Head Office building in St. Julian's, Malta which are available for rent to third parties. During the financial year ended 31 December 2015 these designated areas were reclassified from property, plant and equipment to investment property. At financial reporting date, the market value of the investment property as per independent architect valuation is USD7,048,410.

## intangible assets and goodwill

### reconciliation of carrying amount

Group	Goodwill USD	Software licences USD	Other USD	Total USD
Cost				
At 1 January 2014	-	3,993,268	-	3,993,268
Acquisitions through business combinations	18,279,569	239,523	-	18,519,092
Other acquisitions	-	639,390	-	639,390
Disposals	-	(4,737)	-	(4,737)
Effects of movement in exchange rates	(1,779,715)	(,328)	-	(1,789,043)
At 31 December 2014	16,499,854	4,858,116	-	21,357,970
At 1 January 2015	16,499,854	4,858,116	-	21,357,970
Recognition of intangible assets on acquisition of Latam Factors	(345,028)	-	345,028	-
Acquisitions	-	278,422	-	278,422
Effects of movement in exchange rates	(1,110,043)	(19,792)	-	(1,129,835)
At 31 December 2015	15,044,783	5,116,746	345,028	20,506,557
Accumulated amortisation and impairment losses				
At 1 January 2014	-	2,650,546	-	2,650,546
Accumulated amortisation through business combinations	-	167,779	-	167,779
Charge for the year	-	463,608	-	463,608
Disposals during the year	-	(4,737)	-	(4,737)
Impairment loss	8,910,609	-	-	8,910,609
Effects of movement in exchange rates	-	5,541	-	5,541
At 31 December 2014	8,910,609	3,282,737	-	12,193,346
At 1 January 2015	8,910,609	3,282,737	-	12,193,346
Charge for the year	-	498,594	-	498,594
Effects of movement in exchange rates	(733,191)	(16,788)	-	(749,979)
At 31 December 2015	8,177,418	3,764,543	-	11,941,961
Carrying amounts				
At 1 January 2014	-	1,342,722	-	1,342,722
At 31 December 2014	7,589,245	1,575,379	-	9,164,624
At 31 December 2015	6,867,365	1,352,203	345,028	8,564,596

During the financial year ended 31 December 2015 no software research and development was either capitalised or expensed (2014 : Nil).



Bank

Cost

Software licences  
USD

At 1 January 2014	1,839,504
Additions during the year	585,211
At 31 December 2014	2,424,715
At 1 January 2015	2,424,715
Additions during the year	264,389
At 31 December 2015	2,689,104
Accumulated amortisation	
At 1 January 2014	1,123,991
Charge for the year	230,066
At 31 December 2014	1,354,057
At 1 January 2015	1,354,057
Charge for the year	257,020
At 31 December 2015	1,611,077
Carrying amounts	
At 1 January 2014	715,513
At 31 December 2014	1,070,658
At 31 December 2015	1,078,027

## impairment testing for CGUs containing goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs as follows:

	2015 USD	Group 2014 USD
FactorRus		
– cost, net of exchange differences	1,242,492	1,653,256
– accumulated impairment, net of exchange differences	(1,242,492)	(1,653,256)
Latam Factors	-	402,586
India Factoring		
– cost, net of exchange differences	13,802,291	14,444,012
– accumulated impairment, net of exchange differences	(6,934,926)	(7,257,353)
	6,867,365	7,589,245

## India Factoring

The recoverable amount of this CGU was based on its value in use, determined by discounting the future cash flows based on free cash flows to equity. At reporting date, the recoverable amount was determined to be higher than the carrying amount of the CGU and the carrying amount of goodwill was deemed to be appropriate (2014: goodwill impairment of USD7,257,353).

The key assumptions used in the calculation of value in use were as follows:

	31 December 15	31 December 14
Pre-tax discount rate	16.06%	19.01%
Terminal value exit multiple	1.75x	1.75x
Budgeted portfolio growth rates (average during projection period)	41.4%	34.0%

The discount rate used is based on the rate (2015: 7.8%, 2014: 7.9%) of 10-year government bonds issued by the government in India and in the same currency as the cash flows, adjusted for a risk premium (2015: 6.3%, 2014: 6.3%) to reflect both the increased risk of investing in equities generally and the systemic risk (2015: 2%, 2014: 2%) of the specific entity.

Cash flows of five years were included in the discounted cash flow model. Terminal value into perpetuity was determined by reference to price-to-book of comparable companies, further adjusted for size and margins, illiquidity and control premium.

Budgeted profits were based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past years and the estimated growth for over the projection period.

Management has approved a set of budgets based on a strategy to grow the business in a changing market landscape, whilst ensuring an effective operational and control environment. These budgets formed the basis on which the recoverable amount of goodwill is arrived at (the recoverable amount exceeds the carrying amount of goodwill). Whilst it is inherent that actual results may differ from those budgeted, and such variations may be significant, the Directors believe that the business plan can be supported, such that it will enable the Group to recover the goodwill at least at the amount stated.

The key assumptions described above may change as economic, political and market conditions change. Whilst the recoverable amount is higher than the carrying amount, any significant adverse movement in a key assumption would lead to an impairment of goodwill.

## FactorRus

As further disclosed in Note 29, the assets, liabilities and results of FactorRus are being presented in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". As a result of this, the recoverable amount of the CGU is being deemed to be Nil and goodwill has been fully provided for in 2014.

## Latam Factors

The Group acquired a controlling shareholding in the company on 01 October 2014, and as part of the accounting required for this acquisition, goodwill was provisionally recognised in the financial statements for the year ended 31 December 2014. During the year under review, the Group finalised the independent valuation arising out of this acquisition. As a result of this valuation, two separate intangible assets have been identified in the form of customer relationships and entity's funding structure, which in turn reduced the value of goodwill to Nil.

## 33 deferred taxation

### 33.1 deferred taxation is analysed as follows:

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	(415,500)	(472,365)	(270,372)	(328,076)
- allowances for uncollectibility	23,608,558	26,284,551	13,363,327	15,897,951
- changes in fair value of financial instruments	163,331	24,776	163,473	24,921
- investment tax credits	328,489	328,489		
- unabsorbed capital allowances	275,438	-	275,438	-
- unabsorbed tax losses	16,607,931	7,746,597	9,003,427	-
	40,568,247	33,912,048	22,535,293	15,594,796

Recognition of deferred tax assets is based on the historical levels of profitability which indicate that it is probable that the Group's entities will have future taxable profits against which these assets can be used.

### 33.2 unrecognised deferred taxation

At the financial reporting date the Bank had unrecognised temporary differences amounting to USD50.3 million (2014: USD54.8 million). In addition Group subsidiaries had unrecognised and unutilised tax losses and tax credits amounting to USD45.0 million (2014: USD43.1 million) and USD0.6 million (2014: USD0.6 million) respectively.

### 33.3 movements in temporary differences during the year

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Acquired through business combinations USD	Effect of movement in exchange rates USD	Closing balance USD
Group						
2014						
Excess of capital allowances over depreciation	(518,872)	-	46,507	-	-	(472,365)
Allowances for uncollectibility	6,629,256	-	16,829,966	3,296,405	(471,076)	26,284,551
Changes in fair values of financial instruments	(163,568)	510,841	(322,497)	-	-	24,776
Investment tax credits	328,489	-	-	-	-	328,489
Unabsorbed capital allowances	183,379	-	(183,379)	-	-	-
Unabsorbed tax losses	6,785,068	-	262,546	717,296	(18,313)	7,746,597
	13,243,752	510,841	16,633,143	4,013,701	(489,389)	33,912,048
2015						
Excess of capital allowances over depreciation	(472,365)	-	56,865	-	-	(415,500)
Allowances for uncollectibility	26,284,551	-	(2,214,574)	-	(461,419)	23,608,558
Changes in fair values of financial instruments	24,776	(204,515)	343,070	-	-	163,331
Investment tax credits	328,489	-	-	-	-	328,489
Unabsorbed capital allowances	-	-	275,438	-	-	275,438
Unabsorbed tax losses	7,746,597	-	9,060,171	-	(198,837)	16,607,931
	33,912,048	(204,515)	7,520,970	-	(660,256)	40,568,247

## 33 deferred taxation - continued

## Bank

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Closing balance USD
2014				
Excess of capital allowances over depreciation	(368,089)	-	40,013	(328,076)
Allowances for uncollectibility	6,629,255	-	9,268,696	15,897,951
Changes in fair values of financial instruments	(163,427)	510,841	(322,493)	24,921
Unabsorbed capital allowances	183,378	-	(183,378)	-
Unabsorbed tax losses	213,388	-	(213,388)	-
	6,494,505	510,841	8,589,450	15,594,796
2015				
Excess of capital allowances over depreciation	(328,076)	-	57,704	(270,372)
Allowances for uncollectibility	15,897,951	-	(2,534,624)	13,363,327
Changes in fair values of financial instruments	24,921	(204,517)	343,069	163,473
Unabsorbed capital allowances	-	-	275,438	275,438
Unabsorbed tax losses	-	-	9,003,427	9,003,427
	15,594,796	(204,517)	7,145,014	22,535,293

## 34 other assets

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Operational debtors and other recoverable amounts	2,876,503	4,023,413	1,399,890	1,863,657
Indirect taxation	373,732	456,887	452,710	433,614
	3,250,235	4,480,300	1,852,600	2,297,271

Other assets include an amount of USD603,110 (2014: USD520,947) pledged in favour of the Depositor Compensation Scheme.

## 35 prepayments and accrued income

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Accrued income	2,540,231	2,514,240	2,609,000	2,512,318
Prepayments	2,099,535	1,868,620	1,384,887	1,240,203
	4,639,766	4,382,860	3,993,887	3,752,521

## 36 amounts owed to banks

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Term loans and deposits	566,732,455	548,700,082	502,069,275	458,397,912
Repayable on demand	163,208,702	122,068,610	163,208,701	122,068,610
	729,941,157	670,768,692	665,277,976	580,466,522

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## amounts owed to banks - continued

Included in term loans and deposits are facilities of USD210,000,000 (2014: USD155,000,000) due to a Bank holding a significant shareholding in the Group, of which USD110,000,000 (2014: Nil) are secured by equity shares classified as available-for-sale, repayable within a period not exceeding two years. In addition, USD30,000,000 (2014: Nil) are due to the Parent company, which amounts are unsecured and repayable within a period not exceeding 90 days. A subsidiary of a shareholder having a significant influence in the Group holds a fixed term deposit of USD10,000,000 (2014: Nil), repayable within 90 days. All such loans and deposits are priced on an arm's length basis.

The Group and Bank includes balances amounting to USD108,553,613 (2014: USD56,525,222) held as collateral for irrevocable commitments. Pledges are generally conducted under terms that are usual and customary for standard borrowing contracts.

## 37 amounts owed to customers

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Term deposits	196,614,352	259,328,848	186,597,248	243,039,332
Repayable on demand	225,462,951	264,519,377	218,588,789	252,558,552
	422,077,303	523,848,225	405,186,037	495,597,884
Amounts owed to subsidiaries	-	-	425,467	408,636
	422,077,303	523,848,225	405,611,504	496,006,520

The Group and the Bank have deposits amounting to USD35,708,189 (2014: USD39,949,955) held as collateral for irrevocable commitments. Pledges are generally conducted under terms that are usual and customary for standard borrowing contracts.

Amounts owed to subsidiaries include facilities that are interest-free, unsecured and repayable on demand.

## 38 debt securities in issue

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Unsecured promissory notes	45,646,755	10,599,196	20,000,000	-
	45,646,755	10,599,196	20,000,000	-

At 31 December 2015, promissory notes in issue have a tenor of up to one year. The Group's effective interest rate is 1.74% (2014: 2.01%), and the Bank's effective interest rate is 1.20% (2014: Nil).

## 39 subordinated liabilities

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Subordinated loan	50,000,000	-	50,000,000	-
	50,000,000	-	50,000,000	-

The subordinated loan was granted by a Bank holding a significant shareholding in the Group. The loan has a floating rate of interest, it is priced at an arm's length basis and has a contractual maturity of five years. In the event of the Bank's liquidation, dissolution or winding up this loan will rank after the Bank's unsubordinated, secured and unsecured creditors. This loan qualifies as Tier 2 capital under the provisions of the Capital Requirements Regulation (see Note 4.6).

## 40 accruals and deferred income

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Accrued interest	4,725,806	2,749,000	4,320,274	2,654,916
Other accruals	15,376,105	11,357,979	3,053,720	1,934,843
	20,101,911	14,106,979	7,373,994	4,589,759

Accrued interest includes an amount of USD1,325,517 (2014: USD300,018) payable to a Bank holding a significant investment in the Group and USD29,296 (2014: Nil) payable to the Parent company (see Note 50).

41 equity  
41.1 share capital

	2015		2014	
	Shares	Shares of 50 US cents USD	Shares	Shares of 50 US cents USD
Authorised Ordinary shares at 31 December	1,000,000,000	500,000,000	1,000,000,000	500,000,000
Issued and fully paid up Ordinary shares at 31 December	298,536,643	149,268,322	271,396,591	135,698,296

	Ordinary Shares	
	2015 No of Shares	2014 No of Shares
On issue at 1 January	271,396,591	179,198,169
Bonus issue of shares	27,140,052	17,939,936
Rights issue of shares	-	74,060,885
Exercise of share options	-	197,601
On issue at 31 December	298,536,643	271,396,591

## bonus issue

In May 2015, the Annual General Meeting approved a 1 for 10 Bonus issue of shares through the capitalisation of the share premium reserve.

## 41.2 share premium

The share premium represents the excess, net of issue costs, over the nominal value of shares, received through a number of capital raising initiatives including new equity from strategic shareholders, rights issues, scrip dividend and allotment of shares under the executive share option schemes. This reserve is non-distributable.

## 41.3 reserve for general banking risks

The reserve for general banking risks is a regulatory reserve created by virtue of Banking Rule 9 "Measures addressing credit risks arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Banking Act 1994". Under this Rule, Banks are required to calculate a "Regulatory Allocation" which would be equal to their level of non-performing exposures (gross of any collateral but reduced for suspended interest) reduced by the specific impairment allowance as calculated and disclosed in these financial statements. An amount ranging between 2.5% and 5.0% of the "Regulatory Allocation" is then appropriated to the reserve for general banking risks.

## 41.4 currency translation reserve

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

## 41.5 fair value reserve

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

## 41.6 other reserve

The reserve consists of amounts representing the difference between the net proceeds received on the sale of own shares net of the relative acquisition costs and the share issue costs by a subsidiary undertaking.

## 41.7 dividends

No dividends were declared or paid during the year (2014: Nil). The Board of Directors is not recommending the payment of a dividend for the financial year ended 31 December 2015 (2014: Nil).

## 41.8 availability of reserves for distribution

At 31 December 2015, the Bank had accumulated losses of USD36,616,090 (2014: USD30,109,690).

## 42 non-controlling interests

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations:

31 December 2015	India Factoring	Latam Factors	Total
Acquisition date	31 March 2014	1 October 2014	
NCI percentage	15%	49%	
	USD	USD	
Total assets	53,697,103	35,002,714	
Total liabilities	(26,621,011)	(2,236,371)	
Net assets	27,076,092	32,766,343	
Carrying amount of NCI	(2,167,448)	28,004,507	25,837,059
(Loss)/profit for the year	(3,343,885)	243,634	
(Loss)/profit allocated to NCI	(508,270)	119,385	(388,885)*
Net increase/(decrease) in cash and cash equivalents	10,207	(409,373)	

(\*) During 2015, the Group acquired the remaining 20% shareholding in CIS Factors, reducing the share of non-controlling interests to NIL (2014: 20%). The allocation of loss to NCI up to acquisition date was USD353,250.

31 December 2014	CIS Factors	India Factoring	First Factors	Total
Acquisition date	18 February 2014	31 March 2014	1 October 2014	
NCI percentage	20%	21%	49%	
	USD	USD	USD	USD
Total assets	7,356,014	86,850,147	35,939,143	
Total liabilities	13,839,009	80,055,093	3,404,577	
Net assets	(6,482,995)	6,795,054	32,534,566	
Carrying amount of NCI	(1,296,599)	(1,957,878)	27,100,767	23,846,290
Loss for the year	(5,334,640)	(27,267,942)	261,641	
Loss allocated to NCI	(1,066,928)	(5,726,268)	125,271	(6,667,925)
Net increase in cash and cash equivalents	4,612,778	1,430	3,818,484	

## 43 contingent liabilities

### 43.1

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Guarantee obligations incurred on behalf of third parties	10,422,946	21,472,543	37,002,036	31,805,224

### 43.2 other contingencies

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.

## 44 commitments

	Group		Bank	
	2015 USD	2014 USD	2015 USD	2014 USD
Undrawn credit facilities	35,512,227	93,719,549	35,512,227	93,719,549
Confirmed letters of credit	84,232,796	58,004,749	73,914,393	55,471,139
Documentary credits	3,926,055	7,829,152	3,926,055	7,829,152
Risk participations	3,735,602	-	3,735,602	-
Factoring commitments	34,643	105,520	34,643	105,520
Commitment to purchase assets	22,517,580	11,414,536	-	-
	149,958,903	171,073,506	117,122,920	157,125,360

The Bank has total sanctioned limits to customers amounting to USD1,484,952,022 (2014: USD1,441,125,550).

In addition, as at the financial reporting date the Bank had open back-to-back documentary credits amounting to USD701,212 (2014: USD1,823,339).



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## cash and cash equivalents

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

	Group		Bank	
	2015	2014	2015	2014
	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	77,432,606	7,824,101	77,413,470	7,804,628
Loans and advances to banks	115,988,844	331,905,664	100,730,186	321,424,387
Amounts owed to banks	(235,529,929)	(217,898,583)	(275,529,929)	(217,898,585)
Cash and cash equivalents at end of year	(42,108,479)	121,831,182	(97,386,273)	111,330,430
Adjustment to reflect balances with contractual maturity of more than three months	(387,210,515)	(354,120,079)	(278,354,649)	(260,845,801)
Per statement of financial position	(429,318,994)	(232,288,897)	(375,740,922)	(149,515,371)
Analysed as follows:				
Balances with the Central Bank of Malta, Treasury Bills and cash	77,432,606	7,824,096	77,413,470	7,804,628
Loans and advances to banks	223,189,558	430,655,699	212,123,584	423,146,523
Amounts owed to banks	(729,941,158)	(670,768,692)	(665,277,976)	(580,466,522)
	(429,318,994)	(232,288,897)	(375,740,922)	(149,515,371)

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## operating leases

### leases as lessee

The Group leases motor vehicles and office premises under operating lease arrangements. Details of amounts charged under operating leases are disclosed in note 16.1.

Non-cancellable operating lease rentals are payable as follows:

	Group		Bank	
	2015	2014	2015	2014
	USD	USD	USD	USD
Less than one year	1,077,982	548,436	618,623	650,430
Between one and five years	1,768,774	795,943	53,990	47,854
More than 5 years	-	6,691	-	-
	2,846,756	1,351,070	672,613	698,284

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## related parties

47.1

### identity of related parties

The Bank has a related party relationship with its significant shareholders, subsidiaries, associates and jointly-controlled entities, directors and executive officers. For the purpose of this note, significant shareholders include all shareholders (and their connected parties) holding at least five percent of the issued share capital of the Bank.

47 related parties - continued

## 47.2 transactions with key management personnel

Directors of the Group control less than 1 per cent of the voting shares of the Bank and the Group respectively (2014: less than 1 per cent).

There were no loans and advances to Directors as at 31 December 2015 and as at 31 December 2014.

On 31 December 2015, an amount of USD197,715 (2014: USD259,792) was receivable from Executive Officers. Interest and fees earned from Executive Officers during the financial year ending 31 December 2015 amounted to USD1,145 (2014: USD1,708).

Deposits by Directors as at 31 December 2015 amounted to USD315,737 (2014: USD310,398) and are included in "amounts owed to customers". Interest paid to Directors during the financial year ending 31 December 2015 amounted to USD7,624 (2014: USD6,993). Guarantees in favour of Directors as at 31 December 2015 amounted to USD20,000 (2014: USD20,000).

Deposits by Executive Officers as at 31 December 2015 amounted to USD481,952 (2014: USD622,837) and are included in "amounts owed to customers". Interest paid to Executive Officers during the financial year ending 31 December 2015 amounted to USD13,788 (2014: USD25,657). Furthermore, Guarantees in favour of Executive Officers as at 31 December 2015 amounted to USD2,545 (2014: USD2,830).

In addition to their salaries, the Group also provides non-cash benefits to Executive Officers. Directors' compensations are disclosed in Note 16.2 to these financial statements. Total remuneration payable to Executive Officers amounting to USD2,928,370 (2014: USD2,599,945) is included in "personnel expenses" (see note 16.2).

As at 31 December 2015, Executive Officers had a total of 234,440 (2014: 764,192) unexercised share options.

## 47.3 other related party transactions

During the financial year ended 31 December 2015, interest paid to the parent company amounted to USD366,899 (2014: USD300,578) and interest paid to shareholders having significant influence amounted to USD3,960,818 (2014: USD3,431,837). An amount of USD37,222 (2014: Nil) was also paid to a subsidiary of a shareholder having a significant influence in the Group.

During the financial year ended 31 December 2015, interest received from the parent company amounted to USD596,360 (2014: USD553,979) and interest received from shareholders having significant influence amounted to USD1,657 (2014: USD 468).

Amounts equivalent to USD35,151 (2014: USD43,890) and USD47,060 (2014: USD55,215) were charged by shareholding companies and Directors respectively for travelling and accommodation expenses in connection with the Board and Board Committee meetings of the Bank. Consultancy and professional fees amounting to USD251,087 (2014: USD294,767) were charged by companies owned, directly and indirectly by the Bank's Directors, former Directors and key management personnel.

Amounts equivalent to USD8,824 (2014: USD10,932) were due from an entity holding a significant shareholding in the Bank for travelling and accommodation expenses in connection with meetings of the Bank.

## 47.4 related party balances

Information on amounts due to/by subsidiary companies, associated companies and jointly-controlled entities are set out in notes 23, 24, 26, 27, 28, 36, 37 and 39 to these financial statements. Amounts due to/by Key Management Personnel are disclosed in note 47.2 above.

## 48 financial commitments

For 2016, the Board approved capital injections of up to USD5 million to provide additional support to existing factoring investments by way of additional capital.

## 49 capital commitments

At financial reporting date the Group did not have any outstanding capital commitments (2014: Nil).



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## ultimate parent company

The ultimate parent company of FIMBank p.l.c. is by Kuwait Investments Projects (Holding) (“KIPCO”) a company registered in Kuwait, and the immediate parent company is United Gulf Bank B.S.C. (“UGB”), a credit institution licensed and supervised by the Central Bank of Bahrain. The registered address of KIPCO is KIPCO Tower, Khalid Bin Al Waleed Street, Sharq, Kuwait City and the registered address of UGB is UGB Tower, Manama, Bahrain.

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## comparative information

Certain comparative amounts have been reclassified or re-represented as a result of a 2015 Bonus Issue of shares having an impact on the prior year Earnings per Share (see Note 18).

# statement by the directors pursuant to listing rule 5.68

For the year ended 31 December 2015

We, the undersigned, declare that to the best of our knowledge, the financial statements set out on pages 28 to 120 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 15 March 2016 by:



John C. Grech  
Chairman



Masaud M.J. Hayat  
Vice Chairman



# report of the independent auditors

to the members of FIMBank p.l.c.

## report on the financial statements

We have audited the financial statements of FIMBank p.l.c. (the “Bank”) and of the Group of which the Bank is the parent, as set out on pages 28 to 120, which comprise the statements of financial position as at 31 December 2015 and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## directors’ responsibility for the financial statements

As explained more fully in the Directors’ Responsibilities Statement set out on page 27, the directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the “Act”), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation. They are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## 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 Act, and Article 31 of the Banking Act, 1994 (Chapter 371, Laws of Malta), and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report 2015 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

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

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

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

## opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the Group’s and the Bank’s financial position as at 31 December 2015, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation.

## emphasis of matter

Without qualifying our opinion, we draw attention to Notes 28.1 and 32 to the financial statements (the 'Notes'). At 31 December 2015, the Bank carried out an impairment assessment to calculate the recoverable amount of its investments in its subsidiary undertakings (and the related goodwill arising on the acquisition of India Factoring and Finance Solutions Private Limited reported in the Group's consolidated financial statements) to determine whether those amounts are at least equal to the carrying amounts at which such assets are stated. One of the principal assumptions underlying the model used to calculate the recoverable amount relating to the equity held in India Factoring and Finance Solutions Private Limited is the attainment of the approved set of budgets used as a basis to arrive at the recoverable amount of the investment in this subsidiary and the goodwill recognised on its initial accounting as a business combination. The Notes explain how actual results may differ from those budgeted.

## report on other legal and regulatory requirements

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

In our opinion:

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

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

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

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

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

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

Our responsibility as independent auditors of the Bank, is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages 15 to 24.

We read the Directors' Statement of Compliance, and report as to whether this Statement provides the disclosures required by Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process, or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risks and control procedures.

In our opinion, the Directors' Statement of Compliance set out on pages 15 to 24 provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

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



KPMG  
Registered Auditors  
Portico Building  
Marina Street  
Pieta' PTA 9044  
Malta

15 March 2016



schedule I

# income statement

Five Year Summary

Bank

	2015 USD	2014 USD	2013 USD	2012 USD	2011 USD
Interest income	25,024,359	28,392,379	25,308,593	21,815,348	20,990,805
Interest expense	(13,069,821)	(13,742,561)	(18,318,032)	(16,288,411)	(15,080,538)
Net interest income	11,954,538	14,649,818	6,990,561	5,526,937	5,910,267
Fee and commission income	11,657,912	15,617,702	16,004,841	15,543,409	14,629,402
Fee and commission expense	(2,515,148)	(2,022,658)	(1,339,461)	(1,304,577)	(1,429,800)
Net fee and commission income	9,142,764	13,595,044	14,665,380	14,238,832	13,199,602
Net trading results	2,559,817	3,424,789	1,992,071	3,885,844	2,901,446
Dividend income	3,324,960	1,523,364	691	699	-
Other operating income	5,201	27,441	25,591	5,290	32,322
Operating income before net impairment losses	26,987,280	33,220,456	23,674,294	23,657,602	22,043,637
Net impairment loss/reversal on financial assets	(11,093,560)	(63,921,856)	(6,709,515)	(1,690,609)	328,517
Operating income	15,893,720	(30,701,400)	16,964,779	21,966,993	22,372,154
Administrative expenses	(28,012,370)	(25,114,822)	(20,552,916)	(19,730,475)	(20,681,648)
Depreciation and amortisation	(915,048)	(880,693)	(741,316)	(666,464)	(671,744)
Provision	-	-	(676,921)	-	-
Total operating expenses	(28,927,419)	(25,995,515)	(21,971,153)	(20,396,939)	(21,353,392)
(Loss)/profit before tax	(13,033,699)	(56,696,915)	(5,006,374)	1,570,054	1,018,762
Taxation	7,112,303	6,458,782	2,175,605	(41,902)	820,472
(Loss)/profit for the year	(5,921,396)	(50,238,133)	(2,830,769)	1,528,152	1,839,234

schedule II

# statement of financial position

Five Year Summary

Bank

	2015 USD	2014 USD	2013 USD	2012 USD	2011 USD
<b>ASSETS</b>					
Balances with the Central Bank of Malta, Treasury Bills and cash	77,413,470	7,804,628	69,680,966	20,818,657	11,202,132
Financial assets at fair value through profit or loss	18,883,952	20,570,036	18,583,480	56,528,905	43,172,482
Loans and advances to banks	212,123,584	423,146,523	328,578,318	392,215,931	410,335,778
Loans and advances to customers	567,176,993	635,248,176	593,801,221	476,424,777	417,827,014
Investments available-for-sale	274,048,615	30,103,691	26,475,502	92,040	92,040
Investments held-to-maturity	7,476,940	7,116,353	6,783,621	-	-
Investments in associates	305,641	6,013,425	6,013,425	6,013,425	3,213,425
Investments in subsidiaries	84,678,486	61,278,380	79,234,301	78,234,301	73,481,359
Property and equipment	1,749,101	2,065,906	2,070,762	2,180,246	1,882,113
Intangible assets	1,078,027	1,070,658	715,513	622,001	653,646
Current tax assets	-	-	2,064,316	1,416,224	448,583
Deferred tax	22,535,293	15,594,796	6,494,506	4,456,996	4,466,875
Other assets	1,852,600	2,297,271	3,984,761	2,581,299	2,773,613
Prepayments and accrued income	3,993,887	3,752,521	2,635,135	1,405,124	4,412,473
<b>Total assets</b>	<b>1,273,316,589</b>	<b>1,216,062,364</b>	<b>1,147,115,827</b>	<b>1,042,989,926</b>	<b>973,961,533</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Financial liabilities at fair value through profit or loss	921,237	1,606,718	506,477	791,622	4,722,154
Amounts owed to banks	665,277,976	580,466,522	593,551,588	412,808,494	358,274,318
Amounts owed to customers	405,611,504	496,006,520	414,846,277	427,387,411	408,123,600
Debt securities in issue	20,000,000	-	-	43,141,189	42,346,073
Subordinated liabilities	50,000,000	-	-	40,122,813	41,162,938
Provisions	-	-	-	1,733,104	1,733,104
Current tax liabilities	-	1,456,521	-	-	-
Other liabilities	135,830	2,398,694	368,015	409,346	94,392
Accruals and deferred income	7,373,994	4,589,759	5,039,952	5,858,275	6,265,596
	<b>1,149,320,541</b>	<b>1,086,524,734</b>	<b>1,014,312,309</b>	<b>932,252,254</b>	<b>862,722,175</b>
<b>Equity</b>					
Share capital	149,268,322	135,698,296	89,599,085	71,471,801	68,318,160
Share premium	8,072,276	21,642,302	19,820,564	8,028,945	10,474,390
Reserve for general banking risks	1,000,027	415,293	80,893	-	-
Fair value reserve	(409,528)	(789,342)	159,362	(97,470)	(97,470)
Other reserve	2,681,041	2,681,041	2,681,041	2,681,041	2,681,041
Retained earnings/(accumulated losses)	(36,616,090)	(30,109,960)	20,462,573	28,653,355	29,863,237
	<b>123,996,048</b>	<b>129,537,630</b>	<b>132,803,518</b>	<b>110,737,672</b>	<b>111,239,358</b>
<b>Total liabilities and equity</b>	<b>1,273,316,589</b>	<b>1,216,062,364</b>	<b>1,147,115,827</b>	<b>1,042,989,926</b>	<b>973,961,533</b>
<b>MEMORANDUM ITEMS</b>					
Contingent liabilities	37,002,036	31,805,224	61,549,236	82,152,480	72,685,336
Commitments	117,122,920	157,125,360	237,393,657	173,120,939	116,747,046





schedule III

# cash flow statement

Five Year Summary

Bank

	2015 USD	2014 USD	2013 USD	2012 USD	2011 USD
Net cash flows from/(used in) operating activities	(145,013,301)	105,650,593	(49,159,379)	79,368,658	44,432,606
Cash flows from investing activities					
Net payments to acquire property and equipment	(400,228)	(656,961)	(434,749)	(776,241)	(548,275)
Payments to acquire intangible assets	(264,389)	(585,213)	(292,256)	(176,797)	(104,554)
Proceeds from disposal of property and equipment	47,281	19,404	7,244	6,806	12,326
Purchase of shares in associates	(1,504,875)	-	-	(2,800,000)	-
Purchase of shares in subsidiary companies	(24,906,146)	(21,065,318)	(1,000,000)	(4,752,941)	(8,705,959)
Purchase of other investment	(110,000,000)	(5,237,791)	(25,988,335)	-	(719)
Receipt of dividend	3,324,960	1,523,364	691	699	-
Cash flows (used in)/generated from investing activities	(133,703,397)	(26,002,515)	(27,707,405)	(8,498,474)	(9,347,181)
Cash flows from financing activities					
Proceeds from issue of share capital	-	47,920,950	29,918,903	-	-
Net (repayment)/issue of debt securities	20,000,000	-	(44,263,812)	-	-
(Repayment)/proceeds from subordinated debt	50,000,000	-	(42,224,862)	(1,714,285)	(1,714,285)
Dividends paid	-	-	(5,279,120)	(2,029,838)	(2,791,061)
Net cash flows from/(used in) financing activities	70,000,000	47,920,950	(61,848,891)	(3,744,123)	(4,505,346)
Increase/(decrease) in cash and cash equivalents	(208,716,698)	127,569,028	(138,715,675)	67,126,061	30,580,079
Cash and cash equivalents at beginning of year	111,330,430	(16,238,598)	122,477,077	55,351,016	24,770,937
Cash and cash equivalents at end of year	(97,386,268)	111,330,430	(16,238,598)	122,477,077	55,351,016

schedule IV

# accounting ratios

## Five Year Summary

Bank	2015 %	2014 %	2013 %	2012 %	2011 %
Net interest income and other operating income to total assets	2.32	2.90	2.47	2.39	2.41
Operating expenses to total assets	2.27	2.14	2.17	1.96	2.19
(Loss)/profit before tax to total assets	(1.02)	(4.66)	(0.49)	0.15	0.10
Pre-tax return on capital employed	(10.51)	(43.77)	(3.77)	1.42	0.92
(Loss)/profit after tax to equity	(4.78)	(38.78)	(2.13)	1.38	1.65
	2015	2014	2013	2012	2011
Weighted average number of shares in issue (000's)	289,093	253,794	203,395	187,561	186,393
Net assets per share (US cents)*	42.89	51.04	65.29	59.04	59.68
Basic earnings per share (US cents) *					
Basic	(2.05)	(19.79)	(1.39)	0.81	0.99
Diluted	(2.05)	(19.78)	(1.39)	0.81	0.99

\* Ratios for 2011 to 2014 have been restated to reflect the number of shares in issue as a result of the 2012, 2014 and 2015 bonus issue of shares.



schedule V

# additional regulatory disclosures (pillar 3)

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

For the year ended 31 December 2015

## 1. introduction

### 1.1 background

This document comprises the Pillar 3 Regulatory Disclosures required by BR/07 as at 31 December 2015 for FIMBank p.l.c. (the "Bank") and its subsidiary undertakings (the "Group").

These Regulatory Disclosures reflect the requirements of Articles 431 to 455 of "Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012" ("Capital Requirements Regulation", or "CRR") and of "Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regards to disclosure of own funds requirements for institutions" and of "Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions", and of the "European Banking Authority Guidelines on Disclosure of Encumbered and Unencumbered Assets EBA/GL/2014/03" ("EBA Guidelines", or "Guidelines") and of "Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile .

### 1.2 basis and frequency of disclosures

These disclosures are based on 31 December 2015 year-end data and are updated on an annual basis.

### 1.3 publication and verification

The Pillar 3 disclosures are not subject to external audit, except to the extent that any such disclosures are also required for the purpose of the preparation of the Group's International Financial Reporting Standards (IFRS) financial statements. Nonetheless, these disclosures have been internally reviewed by the Group as well as independently reviewed by KPMG so as to ensure their proper preparation and presentation. The Pillar 3 disclosures have been approved by the Bank's Audit Committee and the Board of Directors.

The Pillar 3 disclosure document is also published on the Bank's corporate website. This can be found at [www.fimbank.com](http://www.fimbank.com).

## 2. risk governance

### 2.1 risk management function

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

- Executive Committee
- Audit Committee
- Board Risk Committee
- Nomination and Remuneration Committee
- Credit Committee
- Governance Committee

Details of the composition and responsibilities of these Committees are laid out in the Statement of compliance with the

## 2 risk governance - continued

principles of good corporate governance in pages 15 and 24 of the Annual Report.

The Group adopts a three lines of defence model for risk management, with the first line of defence being represented by the business origination units; the second line of defence is represented by the Risk Management Department, which reports to an independent Group Chief Risk Officer (GCRO) and oversees all risks within the Group; the third line of defence is constituted by Internal Audit, being the function which provides independent assurance to the Board on the processes and procedures employed by the Bank. The three lines of defence model attributes responsibility for risk management at all levels within the Group.

The GCRO reports directly to the Chairman of the Board Risk Committee, with a dotted reporting line to the Group's CEO. Currently the CRO of the Group is Ronald Haverkorn, who was appointed to this role in May 2015.

The Risk Management Department is a group function and oversees and manage risks for the Bank and all consolidated subsidiaries of the Group. The Department includes a wide range of professionals with a degree of specialisation in certain areas of risk (credit, market, operational, funding and liquidity risks) and is supported by risk specialists located at the different subsidiaries of the Group, who report directly to the Risk Management Department. A central Risk Register is kept by the Risk Management Department and updated and managed as appropriate. All credit and other limits are approved by the relevant approval authorities at head office level and usage of such limits is monitored centrally through a number of different systems and platforms. The overall Risk Appetite Statement for the Group is presented by the GCRO for approval by the Board on an annual basis. Reporting of risk issues, exposures and portfolio management takes place on a continuous basis, with formal updates and discussions at each Board meeting.

## 2.2 adequacy of risk management systems

The risk management framework and processes in place reflect the business strategy being followed by the Group. The Bank's Board of Directors, acknowledges that such processes need to be robust to safeguard against inherent risks faced within emerging markets, including those of political and economic nature. Trade flows may also be affected by market downturns in supply and demand, whether cyclical, economic or seasonal that may impact significantly on the business. The Group continuously endeavours to upgrade its risk management processes to meet such developments

## 2.3 risk management profile

The below table and commentary summarises the risk profile of the Group at different reporting dates:

USD Million	31 December 2015	31 December 2014
Gross Portfolio (on-balance sheet)	1,384.1	1,388.1
Gross Portfolio (off-balance sheet)	160.7	190.4
Total Gross Portfolio	1,544.8	1,578.5
Impaired Portfolio (net of suspended interest and collateral)	101.6	117.6
Impaired Portfolio/Gross Portfolio	6.5%	7.4%
Loan Loss Reserves	55.4	95.6
Loan Loss Reserves/Impaired Portfolio	54.8%	81.3%

- Impaired Portfolio includes trading assets which were subject to fair value adjustments
- Loan Loss Reserves includes fair value adjustments on trading book. General reserves are excluded.

As a general rule, the risk profile of the Group is presented, analysed and discussed at each Board Risk Committee meeting. Deviations from the Risk Appetite Statement (within the risk tolerance set by the management body) are approved and/or ratified as appropriate.

The reduction in impaired assets during the year under review (US\$101.6 million at year-end 2015, representing 6.5% of the Group's gross portfolio; 2014: 7.4%) is mainly attributable to the write-off of a number of impaired assets for which all avenues of potential recovery were exhausted during the year, offset by the inclusion of additional assets classified as impaired during the year. The overall gross portfolio remained stable in absolute terms during 2015. Mainly as a result of impaired asset write-offs, loan loss reserves decreased from US\$95.6 million at the end of 2014 to US\$55.4 million at the end of 2015. With freshly impaired assets decreasing by a lower proportion to US\$101.6 million at the end of 2015 (2014: US\$117.6 million), loan loss reserve coverage decreased to 54.8% from the 81.3% registered at the end of 2014. This was mainly due to the high probability of immediate recovery for the assets classified as impaired during the year under review. In 2015 a number of actions were taken to further strengthen risk management oversight of the subsidiaries



2

*risk governance - continued*

activities as well as enhancing the onboarding and selection process of new customers and exposures. Use of credit risk mitigation as well as physical and legal control over the various commodities being financed by the Group were also strengthened.

## 2.4 board and senior management

The management body of the Group is deemed to be the Board of Directors, which is appointed in accordance with the Bank's Articles of Association. At 31 December 2015, the Board of Directors consisted of:

	Number of directorships held (including FIMBank p.l.c. and its subsidiaries)
John C. Grech (Chairman)	5
Rogers David LeBaron	2
Masaud M. J. Hayat	13
Mohamed Fekih Ahmed	7
Adrian Alejandro Gostuski	3
Eduardo Eguren Linsen	34
Majed Essa Ahmed Al-Ajeel	5
Rabih Soukariéh	8
Osama Talat Al-Ghoussein	2

As disclosed in Principle 8 of the Statement of Compliance with the Principles of Good Governance (page 18), in 2015 the Board will be setting up a Nomination and Remuneration Committee which was granted the power to lead the process for Board and Board committee appointments. This committee can amongst others, present recommendations to the Board regarding nomination to the board's membership in accordance with approved policies, standards, and instructions on nomination regulations for the board of director's membership. It can also implement policies in relation to the required knowledge, skills and expertise of nominated directors as well as the diversity with regard to selection of members of the Board. The committee is empowered to perform an annual review of the needs required in regards to suitable skills for board membership and prepare a description of the skills and qualifications required for board membership.

The Board has established separate Risk and Credit committees with specific responsibilities on risk management and governance across the Group. Further details on the duties, composition and number of times the committee have met during 2015 are disclosed in Principle 8 of the Statement of Compliance with the Principles of Good Governance (page 18).

## board risk committee

The Board Risk Committee ("BRC") has an oversight responsibility for all material risks in all business, functions and subsidiaries of the Group. As a result, the BRC ensures that the material risks and cases which might affect the Group are duly identified. In addition, the BRC oversees the setting up and monitoring of the Risk Appetite Framework. The Committee's responsibilities also include, but are not limited to, the following matters:

- Oversight of risk management and governance structures;
- Monitoring of the Risk Appetite and Risk Tolerance limits for credit, market and product risk;
- Review of updates to Risk Appetite Statement;
- Rectify country limits as approved by the Credit Committee;
- Review and make recommendations to the Board on Funding Risk (Capital and Liquidity);
- Review and monitor the Group's overall process for risk assessment, ranking and management/mitigation, as well as ensure that the Board is fully informed and updated on all major potential risks.
- Review and monitor the Group's Operational Risk Framework and review, assess and determine Key Operational Risk indications.

The Chairman of the Board Risk Committee reports the outcome of all its meetings to the Board of Directors by means of a presentation during Board meetings. The Secretary prepares and maintains Minutes of all meetings of the Committee and these are also circulated to the Board of Directors.

The BRC appoints, terminates and sets remuneration of the Group Chief Risk Officer, who in turn reports on a day-to-day basis to the CEO.

2 *risk governance - continued***credit committee**

The Credit Committee ("CC") is the main body (subject to specified delegated authorities to management) with the powers and duties to review credit applications and approve credit limits and specific transactions up to the legal lending limit of the Bank, and within the guidelines specified in the Group's credit policy procedures. The CC records the outcome of all its meetings by keeping record of the approved minutes of meetings held, which are available to CC members and the Bank's internal auditors, and by issuing a circular – shortly after each meeting - to Management and to the key business origination officers, highlighting the main credit decisions taken by the CC. For the composition and number of meetings held on 2015, please refer to the Principle 8 of the Statement of Compliance with the Principles of Good Governance on page 18.

3. **scope of application of applicable consolidated requirements**3.1 **overall scoping**

As disclosed in the Directors Report in page 9, the FIMBank Group (the "Group") is composed of FIMBank p.l.c. (the "Bank"), a credit institution licensed under the Banking Act, 1994, and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), FIM Holdings (Chile) S.p.A. ("FHC"), FactorRus LLP ("FactorRus") and FIMFactors B.V. ("FIMFactors"). As disclosed in Note 28 to the Financial Statements, LFC is the parent company of a number of other subsidiaries, FHC is the parent of Latam Factors S.A., whilst FIMFactors is the parent company of CIS Factors Holdings B.V. ("CIS Factors"), Menafactors Limited ("Menafactors") and India Factoring and Finance Solutions Private Limited ("India Factoring"). The Group also holds a significant interest in the associated entities, The Egyptian Company for Factoring S.A.E. ("Egypt Factors" - 50% holding), BRASILFACTORS S.A. ("BRASILFACTORS" - 50% holding) and Levant Factors S.A.L. ("Levant Factors" - 50% holding).

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

**basis of consolidation**

At 31 December 2015, all Group entities were consolidated as outlined below. For all companies listed below, there are no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities within the members of the Group, including the parent company.

**London Forfaiting Company Limited**

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

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

**FIM Business Solutions Limited and FIM Property Investment Limited**

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

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

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

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



## FIM Holdings (Chile) S.p.A.

FHC (100%), registered in Chile, serves as the corporate vehicle for Latam Factors S.A. (51%), registered also under the laws of Chile, to provide all types of factoring, financial leasing and other management services. The other shareholders are Inversiones El Mayorazgo Limitada, Marín y Compañía S.A., Asesoría e Inversiones CABS S.A., Compañía de Rentas Epulafquén Ltd., Compañía de Rentas Trigal Ltd. and Compañía General de Rentas Ltd.

FIMHoldings (Chile) S.p.A. is fully consolidated within the Group on a line-by-line basis.

## FactorRus LLP

FactorRus is registered in Russia and ceased operations following a decision to wind down its business. The recoverable amount of the investment is being deemed to be Nil.

FactorRus is fully consolidated and at reporting date the assets, liabilities and results of the entity are being presented in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations".

## FIMFactors B.V.

FIMFactors B.V., a wholly owned subsidiary registered in the Netherlands, is the corporate vehicle for FIMBank's holdings in factoring joint ventures and associated companies. At 31 December 2015, FIMFactors holds the Group's investments in CIS Factors, Menafactors, India Factoring and BRASILFACTORS.

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

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

CIS Factors is a company incorporated in the Netherlands and served as the holding vehicle for other factoring companies. Currently the company is not carrying any investments.

CIS Factors is fully consolidated within the Group on a line-by-line basis.

## Menafactors Limited

Menafactors, a wholly owned subsidiary, is incorporated in the United Arab Emirates and is licensed by the Dubai Financial Services Authority to provide international factoring and forfaiting services in the Gulf and MENA region. Menafactors also holds the Group's investment in Levant Factors as set out in the Directors Report of the Annual Report and note 27 to the Financial Statements.

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

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

India Factoring is a company incorporated under Indian law and provides factoring, forfaiting and trade finance related activities in India. The Group holds 85% of the Company's shareholding. The other shareholders are Banca IFIS (5%), Blend Financial Services Limited (1%) and India Factoring Employee Welfare Trust (9%). India Factoring is regulated by the Reserve Bank of India.

India Factoring is fully consolidated within the Group on a line-by-line basis.

### 3 scope of application of applicable consolidated requirements- continued

#### BRASILFACTORS S.A.

BRASILFACTORS is a company incorporated in São Paulo, Brazil, focusing on factoring services and forfaiting, with small and medium-sized companies being its target market. The Group has a 50% holding in the company, with the other shareholder being Banco Industrial e Comercial S.A. ("BICBANCO"). The Group is not deemed to have a controlling interest in the company.

BRASILFACTORS is included to the Group using the "equity method" of accounting and the investment is exempt from Own Funds deductions.

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

The Bank also holds a 50% equity investment in Egypt Factors, a company incorporated in Egypt, where the other shareholders are Commercial International Bank (Egypt) holding 50%. Egypt Factors is active in providing international factoring and forfaiting services to Egyptian and other Middle Eastern exporting companies. The Group is not deemed to have a controlling interest in the company.

Egypt Factors is included to the Group using the "equity method" of accounting and the investment is exempt from Own Funds deductions.

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

Levant Factors is a factoring company incorporated in Lebanon. The Group is not deemed to have a controlling interest in the company and the other major shareholder (49.25%) in Levant Factors is The Lebanese Credit Insurer S.A.L, a joint venture between ATRADIUS Re and a group of local and regional insurance companies and investors.

The Group measures its investment in Levant Factors using the "equity method" of accounting and the carrying amount of its investment is nil.

## 4 identification of risks

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

- a. Credit and Concentration Risk,
- b. Counterparty Credit Risk;
- c. Operational risk;
- d. Market risk;
- e. Exposures to interest rate risk in the non-trading book;
- f. Equities not included in the trading book;
- g. Liquidity risk;
- h. Reputational risk; and
- i. Strategic and business risk

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

### 4.1 credit risk

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

#### 4.1.1 minimum capital requirements under pillar 1: credit risk

The Group calculates the overall minimum capital requirement for credit risk using the Standardised Approach to credit expressed as 8% of the risk weighted exposure amounts for each of the Standardised Credit Risk Exposure Classes. The table below illustrates the capital requirement for each of the exposure classes as at 31 December 2015.





#### 4 identification of risks- continued

	Risk Weight Amount	Minimum Capital Requirement (8%)
	2015 USD	2015 USD
Type of exposure:		
Central governments or central banks	91,318	7,305
Regional governments or local authorities	-	-
Public sector entities	23,894,143	1,911,531
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	122,280,817	9,782,465
Corporates	340,669,357	27,253,549
Retail	9,196,013	735,681
Secured by mortgages on immovable property	299,436	23,955
Exposures in default	61,109,522	4,888,762
Items associated with particular high risk	-	-
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings (CIU)	139,287,986	11,143,039
Equity	41,015	3,281
Other items	83,246,975	6,659,758
	780,116,583	62,409,327

#### 4.1.2 credit risk management strategy and processes

Strict credit assessment and control procedures are in place in order to monitor credit exposures. The Credit Committee is responsible for implementing the Group's credit policy within the risk parameters identified by the Board, for approving individual limits for banks and corporates within its delegated parameters of authority as set out in the Statement of Compliance with the Principles of Good Corporate Governance in page 15 of the Annual Report.

All on- and off- balance sheet exposures are approved after a thorough review of the counterparties' creditworthiness. This is done by primarily evaluating the risk rating of the counterparty by reference to established Rating Agencies. In addition to this, a credit review is also done by means of other assessment criteria, including but not limited to, financial statements review, analysis of relevant markets and sectors, commodity prices outlook, structure of proposed transactions and market position of the relevant counterparties.

The Group also ensures that it has a reasonable level of diversification of loans to customers. This diversification of credit among different economic sectors is a policy adopted by the Group to mitigate against a number of risks, including concentration risk. 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 risks.

The Group maintains a prudent provisioning policy in accordance with the applicable laws and regulations to ensure that losses are immediately recognised in the income statements. Efforts at recovering losses incurred in past financial periods are continuous. To this purpose, legal proceedings have been undertaken in the courts of competent jurisdictions. Such efforts are co-ordinated and promoted under the supervision of a Recovery Unit with overall Group responsibilities, which was established in March 2015.

## 4 identification of risks- continued

## 4.1.3 credit risk limit setting and monitoring

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

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

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

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

For derivative instruments the Group faces a counterparty credit risk, which is the risk that the counterparty to a derivative transaction defaults before the final settlement of the transactions' cash flows. Such a risk is monitored through the setting up of counterparty settlement limits for forward and other derivative instruments. As noted in section 4.6, the Group also has in place operational procedures to mitigate settlement risk. Counterparty credit risk is assigned a capital charge using the marked-to-market method, based on the residual maturities of the contracts.

*credit risk exposure by region*

The geographic distribution of the Group exposures as at 31 December 2015, broken down in significant areas by the same exposure classes shown in the previous table is set out in note 4.2 to the Financial Statements.

*credit risk exposure by sector*

Note 4.2 to the Financial Statements also sets out the distribution of the Group's exposures as at 31 December 2015 by sector.

*credit risk exposures by maturity*

The residual maturity breakdown of the Group's exposures as at 31 December 2015, broken down by exposure classes is set out in Note 4.3 to the Financial Statements.

## 4.1.4 credit concentration risk

In addition to policies aimed at managing credit risk and concentrations within credit portfolios as set out in note 4.2 to the Financial Statements, and this Section, the Group assesses the requirement for an additional capital charge against undesired concentrations across various portfolios. The Group uses the Herfindhal-Hirschmann Index (HHI) in assessing concentrations within single/connected counterparties, countries and industries/sectors.



#### 4 identification of risks- continued

### 4.2 counterparty credit risk

Counterparty credit risk (CCR) is defined as the risk that a counterparty to an over-the-counter (OTC) derivative transaction may default before completing the settlement of the transaction. An economic loss might occur if the transaction has a positive economic value at the time of default.

#### 4.2.1 minimum capital requirements under pillar 1: counterparty credit risk

	Risk Weight Amount	Minimum Capital Requirement (8%)
	2015 USD	2015 USD
Type of exposure:		
Institutions	395,658	31,653
Corporates	41,282	3,303
	436,940	34,955

#### 4.2.2 counterparty credit risk management strategy and processes

Use of derivatives within the Group is limited to hedging balance-sheet positions and to a lesser extent satisfy customer requests (for example, for commodity price hedging). The Group's Treasury Unit is responsible for the risk management of such instruments and the relevant processes are described in the Group's Treasury policies and procedures.

#### 4.2.3 credit derivatives

The Group does not enter into credit derivative contracts and no such hedges were carried as at 31 December 2015.

### 4.3 operational risk

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

#### 4.3.1 minimum capital requirement: operational risk

The following table shows the Group's overall minimum capital charges for operational risk in accordance with the Basic Indicator Approach:

	2015 USD
<b>Gross income:</b>	
Financial year ending 31/12/2014	49,151,947
Financial year ending 31/12/2013	33,471,082
Financial year ending 31/12/2012	40,040,832
Average gross income	40,887,954
Capital requirement (15%)	6,133,193
Notional Risk Weight	76,664,913

## 4 identification of risks- continued

## 4.3.2 management and mitigation of operational risk

In calculating the capital requirement for Operational Risk, the Group has adopted the Basic Indicator Approach as detailed in the CRR. Under this approach, the capital requirement for operational risk is equal to 15% of the relevant indicator, being the average over the last three years of the sum of net interest income and net non-interest income.

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

At 31 December 2015, the Group took an Operational Risk capital charge as disclosed in Section 4.3.1 to this Schedule and note 4.6 to the Financial Statements.

Legal, Insurance and Information Technology Risks form part of Operational risk but their importance within the Group's functions and operations merit a separate discussion and capital allocation assessment under the Pillar II analysis.

The Group believes that the discipline applied to the more business oriented risks, should also be applied to the management of operational risks. It seeks to continuously develop an appropriate risk management environment which identifies, assesses, monitors and mitigates operational risk inherent in its products, activities, processes, systems and working environment. This is being achieved by establishing policies, processes and procedures which control or far better mitigate operational risks, identified as material, and at the same time setting up proper internal and external control systems which regularly review and monitors compliance with the established policies and procedures, as set out in note 4.5 to the Financial Statements. At the end of 2015, the Group has embarked on the adoption of an Operational Risk Management (ORM) platform with a view to automate the main processes and procedures related to operational risk. These include an operational risk self-assessment system, the setting and monitoring of adequate operational key risk indicators, as well as the reporting and analysis of operational losses (incident reporting system). The ORM platform should become fully operational by the second half of 2016.

## 4.4 market risk

Market risk for the Group is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises four types of risk: foreign exchange risk, settlement risk, position 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.

## Management and Mitigation of Market Risk

The Group has implemented policies, established limits as well as maintains currency and interest derivative contracts, aimed at mitigating market risks.

## 4.4.1 foreign exchange risk

Currency risk is mitigated by a closely monitored currency position policy and is managed through matching within the foreign currency portfolio. However mismatches could arise where the Group enters into foreign exchange transactions (say 'foreign currency swaps') which could result in an on-balance sheet mismatch mitigated by an off-balance sheet hedging contract. Other mismatches are allowed up to an established threshold, and any excesses are regularised immediately. The Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies spot or forward rates when considered appropriate.

## 4.4.1.1 minimum capital requirement: foreign exchange risk

When calculating its capital requirements, the Group also considers its Net Open Foreign Currency Position in terms of the CRR. Through this approach, each net currency position is analysed and a capital charge is taken on the net short or long currency exposure.



At 31 December 2015, the Group took a Foreign Exchange capital charge as follows:

Foreign Currency	Long position USD equivalent	Short position USD equivalent
Euro	42,158,857	
Australian Dollar	335	
Brazilian Real	1,329,433	
Canadian Dollar		9,243
Danish Krone	3,245	
Pound Sterling		871,504
Yen		1,807
Russian Ruble		5,684,369
Swedish Krona	567	
Swiss Franc	66,509	
Norwegian Krone	1,083	
Hong Kong Dollar	5,245	
Singapore Dollar	17,083	
Other Foreign Currencies	67,141,370	384,730
<b>Total position</b>	<b>110,723,727</b>	<b>6,951,654</b>
<b>Notional Risk Weight</b>		<b>110,723,727</b>
<b>8% Capital requirement</b>		<b>8,857,898</b>

#### 4.4.2 position risk

##### 4.4.2.1 traded debt instruments

The Group has non-securitised debt instruments for which a specific capital charge is taken under the CRR. Such assets are allocated a) a "specific risk" charge based on the percentage risk weight which would be attributable to the assets under the Standardised Approach for credit risk and b) a "general risk" charge based on the maturity profile of the asset.

At 31 December 2015, the Group took a Position risk capital charge as follows:

	Risk Weight Amount 2015 USD	Minimum Capital Required 2015 USD
<b>Specific Risk</b>		
Debt securities which would receive a 0% risk weight under the Standardise Approach for credit risk	-	-
Debt securities which would receive a 20% or 50% risk weight under the Standardise Approach for credit risk with a residual term <= 6 months	1,344,610	107,569
Debt securities which would receive a 20% or 50% risk weight under the Standardise Approach for credit risk with a residual term > 6 months and <= 24 months	8,570,149	685,612
Debt securities which would receive a 20% or 50% risk weight under the Standardise Approach for credit risk with a residual term > 24 months	-	-
Debt securities which would receive a 100% risk weight under the Standardise Approach for credit risk	240,454,684	19,236,375
Debt securities which would receive a 150% risk weight under the Standardise Approach for credit risk	4,530,906	362,473
<b>General Risk</b>		
Zone One - Debt securities with a residual term <= 12 months	13,063,952	1,045,116
Zone Two - Debt securities with a residual term > 1 year and <= 4 years	7,500,191	600,015
Zone Three - Debt securities with a residual term > 4 years	1,361,368	108,909
	<b>276,825,861</b>	<b>22,146,069</b>

## 4 identification of risks- continued

## 4.4.3 settlement risk

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

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

## 4.4.4 other price risk

Other price risk arises out of changes in market values not related to changes in interest rates or foreign currency. Generally, these would be factors directly related to the issuer's or exposure's financial stability and performance.

As set out in note 4.4 to the Financial Statements, the Group's exposure to price risk is considered relevant in the case of bonds and credit linked notes portfolios which are both measured by reference to their quoted market values in active markets. Price risk is deemed to be less relevant for the forfaiting portfolio. These assets do not have observable market prices and their fair value is determined through the use of valuation techniques, including net present value and discounted cash flow models, which require varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instruments. Notwithstanding this, the Group endeavours to mitigate any price risk by building a diversified forfaiting portfolio with different geographical exposures and short time-to-maturity positions.

For marketable securities, price risk is mainly mitigated by investing in a diversified portfolio of instruments in industries and regions where the Group has specialised knowledge and expertise. The marketable securities portfolio is monitored on a daily basis and decisions to sell assets prior to or to hold until maturity depends on the Group's outlook of the underlying assets as well as liquidity requirements and profit opportunity arising out of the disposal of an instrument.

As disclosed in note 4.4 to the Financial Statements, changes in the market value of marketable securities are recorded in the Group's income statement, directly impacting equity. An increase in the price of instruments would increase the value of the underlying asset and would therefore result in an increase in equity. A decrease in prices would have an opposite effect on both value of instruments and equity.

The Group assesses the requirement for a capital allocation against other price risk under Pillar 2.

## 4.5 exposures to interest rate risk in the non-trading book

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

Accordingly, interest rate risk in the non-trading book is managed on a monthly basis, through the use of maturity/ re-pricing schedules that distribute interest-bearing assets and liabilities into different time bands. The determination of each instrument into the appropriate time period is dependent on the contractual maturity (if fixed rate) or time remaining to their next re-pricing date (if floating rate). This method also referred to as "gap analysis", will eventually portray the Group's sensitivity of earnings and capital to changing interest rates.

A positive, or asset-sensitive, gap arises when assets (both on and off- balance sheet) exceed liabilities in the corresponding time band, and this implies that the Group's net interest income (and therefore capital) could decline as a result of a decrease in the level of interest. To the contrary, a negative, or liability-sensitive, gap implies that net interest income could decrease as a result of an increase in interest rates. Note 4.4 to the Financial Statements details the effect to the Group's assets and liabilities as at 31 December 2015 due to a +/- 100 basis point change in interest rates.

Notwithstanding that no capital charge is taken under the Pillar 1 Framework, an additional capital charge is taken under Pillar 2.



4 identification of risks- continued

#### 4.6 equities not included in the trading book

The only Group's exposure to equities is in its non-trading book and such equities are in unlisted entities.

The accounting and valuation methodologies differ depending on the percentage holding and marketability of the instruments. There were no sales nor liquidations in the year ending 31 December 2015.

##### 4.6.1 equity investments less than 10%

Equity investments comprising less than 10% of the investee company's capital are classified as "available-for-sale". All equity securities carried by the Group are not listed on an exchange and there is no readily available active market. As such these unquoted securities are carried at cost less impairment losses. At 31 December 2015, the Group had USD41,015 in equity investments.

The Group calculates the overall minimum capital requirement for Equity Investments less than 10% using the Standardised Approach for Credit Risk expressed as 8% of the risk weighted exposure amount, as shown in the table below:

	Balance Sheet Value	Fair Value	Risk Weight Exposure Amount	Minimum Capital Required
	2015	2015	2015	2015
	USD	USD	USD	USD
Credit Risk	41,015	41,015	41,015	3,281

##### 4.6.2 equity investments between 10% and 50%

Equity investments comprising between 10% and 50% of the investee company's capital are generally classified as "associates" and are accounted for using the equity method (equity accounted investees) and are recognised at cost less impairment allowances.

The Consolidated Financial Statements include the Group's share of the income and expenses and equity movement of equity accounted investees, after adjustments to align the accounting policies with those of the Group. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

This accounting treatment is also applied on those investments where the Group has joint control (50%) over the strategic, financial and operational decisions of the investee.

All investments in associates and jointly-controlled entities are made in line with the Group's strategic objectives of investing in trade-finance related companies.

Such assets are allocated a) a "specific risk" charge by multiplying the overall position by 8% and b) a "general risk" charge which also requires multiplying the overall position by 8%, under Market Risk.

	Balance Sheet Value	Fair Value	Risk Weight Exposure Amount	Minimum Capital Required
	2015	2015	2015	2015
	USD	USD	USD	USD
Market Risk - Specific Risk	1,317,119	1,317,119	1,317,119	105,370
Market Risk - General Risk	1,317,119	1,317,119	1,317,119	105,370
			2,634,239	210,739

##### 4.6.3 equity Investments exceeding 50%

Equity investments exceeding 50% of the investee company's capital are classified as "subsidiaries" and are fully consolidated in the Group results and financial position. The equity investment in the Group's Financial Statements is therefore replaced by the financial result and position of the subsidiaries, net of any minority interests.

## 4 identification of risks- continued

## 4.6.4 unit investments in collective investment schemes

Unit Investments in Collective Investment Schemes are classified as “available-for-sale”. These unit investments are not listed on an exchange and there is no readily available active market. Fair value for the collective investment schemes is determined by reference to funds’ net asset values, with fair value movement being recognised, net of deferred tax, in the fair value reserve. At 31 December 2015, the Group had USD139,287,986 in Unit Investments in Collective Investment Schemes.

The Group calculates the overall minimum capital requirement for Unit Investments in Collective Investment Schemes using the Standardised Approach for Credit Risk expressed as 8% of the risk weighted exposure amount, as shown in the table below:

	Balance Sheet Value	Fair Value	Risk Weight Exposure Amount	Minimum Capital Required
	2015 USD	2015 USD	2015 USD	2015 USD
Credit Risk	139,287,986	139,287,986	139,287,986	11,143,039

## 4.7 liquidity risk

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

## 4.7.1 management and mitigation of liquidity risk

Liquidity risk is managed by maintaining significant levels of liquid funds, and identifying and monitoring changes in funding required to meet business goals driven by management. The Group’s ALCO is responsible for establishing appropriate asset and liability management policies, monitoring their application and reviewing financial information on the basis of which investment and funding decisions are taken. The daily application of the asset and liability management policies rests with the Treasury Unit of the Group. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

Liquidity Risk Management is described in detail in note 4.3 to the financial statements.

## 4.7.2 liquidity concentration risk

Note 4.3 to the Financial Statements and Note 4.7.1 of this Schedule set out the Group’s policies, tools and other mitigants used in managing liquidity risk. The Group also uses the Herfindhal-Hirschmann index (HHI) in assessing the need of a capital allocation against concentrations in terms of single/connected counterparties, countries and industries within its funding liabilities. Capital charges against detected concentrations in liabilities help in having the Group’s business units more vigilant against concentrations in funding sources.

## 4.8 reputational risk

Reputational risk is the risk that negative publicity on the Group’s business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. Reputational risk could be particularly damaging for the Group since the nature of its business requires maintaining the confidence of depositors, creditors, regulatory authorities and of the general marketplace.

Reputational risk arises from operational failures, failure to comply with relevant laws and regulations - especially Anti-Money Laundering (“AML”) and Anti-Terrorism Financing (“ATF”) regulations - or from other sources, including acts or omissions of misconduct on the part of its Directors and/or officers and/or representatives overseas, even in matters which are unrelated to their mandate or position within the Group. The impact to the Group for non-compliance with





#### 4 identification of risks- continued

the applicable regulations can be substantial and can include formal enforcement actions, monetary penalties, informal enforcement actions, and enhanced supervisory monitoring.

To this purpose, detailed AML, ATF and fraud documentation policies and procedures, a robust Customer Acceptance Policy as well as a strong and capillary oversight by the Group's Board and Management have been devised. The Group uses qualitative research tools to assess the adequacy of prospective clients and transactions and implemented Anti-Money Laundering software for the screening of incoming and outgoing messages and payments as well as rating of corporate and business relationships. Through such rigid procedures, the Group would be able to identify transactions and clients which pose a higher risk compared to others. These include Politically Exposed Persons ("PEPs"), clients and transactions deriving from non-compliant jurisdictions and correspondent banking. In addition, reputational risk is also indirectly mitigated through the setting of Country Limits. Some of the criteria used in setting up a transaction limit for particular countries are closely related to reputational risk, including issues relating to the political environment such as the fairness and frequency of election processes and access to power and effectiveness in reforming political systems and implementing economic agendas.

The Group has also installed adequate internal monitoring systems to discover any such irregularities on the part of persons who may cause such risk, thus ensuring that persons not maintaining the highest standards of integrity in their activities, even if such activities are unrelated to their position, are not allowed to retain their positions of responsibility within the Group. Moreover, Regulatory authorities require a formalised review process for senior management personnel which results are submitted to the same authorities and also published to the market.

In addition to these mitigants, the Group assesses the need for capital allocation against reputation risk under Pillar II framework. Capital was allocated against reputational risk at 31 December 2014.

#### 4.9 strategic and business risk

Strategic risk is the risk associated with the Group's future business plans and strategies. Improper strategic choices or the actual implementation of strategic decisions, as well as lack of responsiveness to changes in the economic environment, can have a serious and significant impact on prospective profit and capital results. As the Group is mainly engaged in trade finance business, this risk category is intimately connected with the overall performance of international trade in the global economy, and in particular to the level of cross-border trade between countries and in markets that are typically in the developing stages of their economic development and political stability.

Closely linked with the above, Business Risk is the risk associated with the particular business and operating circumstances of the Group, and is more within the control of decisions taken by Management but which nevertheless can have a significant impact on operating and business results.

The Group adopts various ways to mitigate strategic and business risks. Primarily, the Group has in place a "corporate governance" structure composed of both executive and non-executive officials as detailed in the Statement of Compliance with the Principles of Good Corporate Governance, included in the Annual Report for 2015. Based on their remit and charters, the various corporate committees provide advice to the Board in taking ultimate strategic and business decisions. The size of the Group enables its corporate structures to have a more "on the ground" approach and positions and decisions can be formulated and taken in a sufficient timely manner. The Board and Committees are assisted by a team of Executive and Senior Management, who have focused on-the ground expertise in their various areas of responsibilities. Executive and Senior Management hold periodical meetings in order to discuss major business decisions, business and economical trends, as well as implement decisions taken by the Board or any of its Committees. Through these meetings, the collective expertise of the management team is brought together and is a determinant factor in the success of identifying and exploiting business opportunities.

The Group also has a strategic investment policy aimed at providing direction with respect to long-term investments in other entities. This policy is flexible enough to support situations arising in different markets and environments but at the same time provides clear objectives in what constitutes ideal target companies and markets based on the overall risk appetite. This policy also reflects the Group's diversification policy both in terms of products as well as geographical markets.

In addition to these mitigants, the Group assesses the need for capital allocation against strategic and business risk under Pillar II framework. Capital was allocated against reputational risk at 31 December 2015.

## 5 External Credit Assessment Institutions (ECAI)

The Group complies with the standard association of exposure ratings to credit quality steps as detailed in Part Three, Title II, Chapter 2 of the CRR. The Group applies the ratings of the following External Credit Assessment Institutions ("ECAIs") in determining the appropriate credit quality step:

- a. Fitch Ratings(\*);
- b. Moody's; or
- c. Standard & Poor's.

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

The ratings of each ECAI is linked to each exposure using the credit quality steps and risk weights prescribed in Part Three, Title II, Chapter 2 of the CRR. The Group applies the ECAI ratings to the following exposure classes:

- a. Central governments or central banks
- b. Public sector entities
- c. Institutions
- d. Corporate

At 31 December 2015, the Group classified its on- and off- balance sheet exposures under the following "exposure classes" as defined in the CRR:

Exposure class	Credit quality step	Exposure Value	Credit Risk Mitigation	Exposure Value after Credit Risk Mitigation
	USD			USD
Central governments or central banks	0%	198,105,662	-	198,105,662
	20%	2,606	-	2,606
	100%	7,181,593	-	7,181,593
		<b>205,289,861</b>	-	<b>205,289,861</b>
Public sector entities	20%	6,373,761	-	6,373,761
	100%	22,619,391	-	22,619,391
		<b>28,993,152</b>	-	<b>28,993,152</b>
Institutions	0%	31,486,000	-	31,486,000
	20%	192,588,227	(27,785,406)	164,802,821
	50%	91,348,693	7,403,153	98,751,845
	100%	41,942,142	20,382,253	62,324,395
	150%	6,219,786	-	6,219,786
		<b>363,584,848</b>	-	<b>363,584,848</b>
Corporates	0%	9,949,717	-	9,949,717
	50%	2,338,622	-	2,338,622
	100%	321,812,632	-	321,812,632
	150%	27,102,364	-	27,102,364
		<b>361,203,335</b>	-	<b>361,203,335</b>
Retail	0%	397,365	-	397,365
	75%	12,261,351	-	12,261,351
		<b>12,658,716</b>	-	<b>12,658,716</b>
Secured by mortgages on immovable property	35%	114,742	-	114,742
	50%	518,553	-	518,553
		<b>633,295</b>	-	<b>633,295</b>
Exposures in default	0%	312,839	-	312,839
	100%	16,869,135	-	16,869,135
	150%	29,493,591	-	29,493,591
		<b>46,675,565</b>	-	<b>46,675,565</b>
Claims in the form of CIU	100%	139,287,986	-	139,287,986
		<b>139,287,986</b>	-	<b>139,287,986</b>
Equity Exposures	100%	41,015	-	41,015
		<b>41,015</b>	-	<b>41,015</b>
Other items	0%	18,880,356	-	18,880,356
	100%	48,411,753	-	48,411,753
	250%	13,934,089	-	13,934,089
		<b>81,226,198</b>	-	<b>81,226,198</b>



## 6. credit risk mitigation

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

### Main types of collateral and concentrations in credit risk mitigations

Exposures to both financial institutions and corporate clients are typically secured either by property (including shipping vessels), cash collateral, credit insurance cover, personal or bank guarantees or by pledged goods. For financial collateral, the main counterparties would be reputable credit institutions, financial institutions, or credit insurers. Procedures are in place to limit the market and credit risk concentrations of collateral, including the regular monitoring of commodity market prices and assessment of credit worthiness of collateral counterparties.

The collateral policies 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. Investment securities are not usually held as collateral, and no such collateral was held at 31 December 2015. The table below provides an estimate of the fair value of collateral and other security enhancements held against the Group's Loan portfolio (some items of collateral are not being extended a value for regulatory purposes):

The table below shows the total exposure value that is covered by eligible collateral for each exposure class as defined in CRR:

	Exposure value covered by cash	Exposure value covered by guarantees	Exposure value covered by residential immovable property	Exposure value covered by commercial immovable property	Exposure value for uncovered assets
	2015 USD	2015 USD	2015 USD	2015 USD	2015 USD
Central governments or central banks	198,105,662	-	-	-	7,184,200
Public sector entities	-	-	-	-	28,993,152
Institutions	31,486,000	27,785,406	-	-	304,313,442
Corporate	9,949,717	-	-	-	351,253,618
Retail	397,365	-	-	-	12,261,351
Secured by mortgages on immovable property	-	-	114,742	518,553	-
Exposures in default	312,839	-	-	-	46,362,726
Claims in the form of CIU	-	-	-	-	139,287,986
Equity Exposures	-	-	-	-	41,015
Other items	-	-	-	-	81,226,198
	240,251,583	27,785,406	114,742	518,553	970,923,688

The main source of mitigation for credit and market concentration risk is through the fact that exposures are in the main collateralised by cash. As FIMBank is mainly engaged in structured trade finance related to hard and soft commodities, the value of goods representing collateral for such facilities can be easily determined by monitoring the market prices of such commodities. Screen prices are readily available on several commodities exchanges and monitored on a daily basis by Risk Management. Collateral management is performed on FIMBank's behalf by specialised companies (SGS, Bureau Veritas, Control Union, etc.) appointed ad hoc for a particular transaction. Collateral management agreements are usually tri-partite agreements (between FIMBank, the borrower and the collateral manager) and where applicable, also give FIMBank title to the goods held as collateral, in addition to physical control.

The Group's provision of collateral to third parties is mainly limited to repo transactions with a contractual maturity generally not exceeding 12 months. Given the short nature of such transactions, the Group does not expect a material change to its collateral value as a result of a downgrade in the credit rating of the counterparty.

## 7. credit risk adjustments

### Past due and impaired facilities

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

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

### Credit reserves

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

### Specific credit risk adjustments

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

The basis of allocating amounts to the specific credit reserve is dependent on the grading of non-performing exposures assigned in accordance with Banking Rule 09, as revised in December 2013. Specific credit reserve calculations are based on discounted cash flow techniques applied to the expected future cash flows.

### General credit risk adjustments

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



7. *credit risk adjustments - continued*

The following tables provides details of the Group's exposures, broken down by geography, industry and residual maturity as at 31 December 2015:

Exposure Class	Europe USD	Sub-Saharan Africa USD	Middle East and North Africa (MENA) USD	Commonwealth of Independent States (CIS) region USD	Others USD
Central governments or central banks	94,456,995	7,000,000	181,593	-	103,651,273
Public sector entities	-	-	14,869,761	-	14,123,391
Institutions	59,156,517	175,077,045	49,550,162	20,035,471	59,765,654
Corporate	124,311,829	3,284,966	110,251,909	8,333,333	115,021,297
Retail	6,297,725	7,717	88,867	-	6,264,406
Secured by mortgages on immovable property	633,295	-	-	-	-
Exposures in default	8,468,803	6,281,715	17,154,209	12,528,302	2,242,536
Claims in the form of CIU	139,287,986	-	-	-	-
Equity Exposures	41,015	-	-	-	-

Exposure Class	Industrial Raw Materials USD	Ship and Transportation USD	Wholesale/Retail USD	Financial Intermediation USD	Other Services USD
Central governments or central banks	-	-	-	9,011,240	196,278,621
Public sector entities	20,225,125	92,095	-	6,373,761	2,302,171
Institutions	-	-	-	363,584,848	-
Corporate	81,831,477	27,972,496	160,929,821	75,495,053	14,974,488
Retail	2,663,546	449,685	1,387,623	4,155,666	4,002,196
Secured by mortgages on immovable property	114,742	-	-	518,553	-
Exposures in default	6,942,080	840,275	16,536,894	20,979,955	1,376,361
Claims in the form of CIU	-	-	-	139,287,986	-
Equity Exposures	-	-	-	-	41,015

Exposure Class	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Central governments or central banks	31,498,226	47,307,919	904,665	5,972,720	38,245,495	81,360,837
Public sector entities	15,269,522	353,942	4,071,831	2,924,095	-	6,373,761
Institutions	168,289,059	65,004,589	19,641,447	37,561,768	34,986,748	38,101,237
Corporate	244,436,469	47,622,242	16,137,493	12,834,518	1,750,151	38,422,462
Retail	8,649,121	1,078,048	1,483,239	203,708	194,278	1,050,323
Secured by mortgages on immovable property	633,295	-	-	-	-	-
Exposures in default	26,959,327	764,937	3,566,116	-	14,479,823	905,363

## 7. credit risk adjustments - continued

The following tables provides details of the Group's impaired exposures and past due exposures and specific and general credit risk adjustments:

Exposure Class	Industrial Raw Materials USD	Ship and Transportation USD	Wholesale/Retail USD	Financial Intermediation USD	Other Services USD
Individually impaired (net of specific credit risk adjustment)	7,056,822	840,275	16,536,894	20,979,955	1,376,361
Past due but not impaired	3,070,990	-	-	3,996,608	752
Specific credit risk adjustment	4,986,852	1,258,072	12,638,489	14,826,870	368,466
General credit risk adjustment	710,781	81,158	1,875,706	3,072,236	146,154

Exposure Class	Europe USD	Sub-Saharan Africa USD	Middle East and North Africa (MENA) USD	Commonwealth of Independent States (CIS) region USD	Others USD
Individually impaired (net of specific credit risk adjustment)	8,583,545	6,281,715	17,154,209	12,528,302	2,242,536
Past due but not impaired	3,934,749	-	3,070,990	-	62,612
Specific credit risk adjustment	14,802,818	1,255,365	6,223,242	4,471,698	7,325,625
General credit risk adjustment	1,173,027	898,703	1,444,368	913,026	1,456,911

The table below shows a reconciliation of changes in the specific and general credit risk adjustments for impaired exposures:

	Specific credit risk adjustment USD	General credit risk adjustment USD
Opening Balance	68,918,219	6,347,656
Amounts taken against credit risk adjustments during the year	18,418,074	1,370,354
Reversals of credit risk adjustments during the year	(7,728,797)	(1,824,832)
Write-offs	(41,990,752)	-
Foreign Exchange differences	(3,537,995)	(7,144)
Closing Balance	34,078,749	5,886,035



## 8. asset encumbrance

Encumbered assets of the Group mainly consist of available-for-sale investments and trading assets which are pledged under borrowing arrangements or repoed. Repoed transactions are covered by the ISMA Global Master Repurchase Agreement and involve the sale of financial assets with a simultaneous agreement to repurchase at a pre-determined price at a future date. Other Assets encumbered represent amounts pledged in favour of the Depositor Compensation Scheme or to counterparties under documentary credits.

	Carrying amount of encumbered assets USD	Fair value of encumbered assets USD	Carrying amount of unencumbered assets USD	Fair value of unencumbered assets USD
Equity instruments	133,622,632	133,622,632	7,023,489	7,023,489
Debt securities	94,736,985	94,736,985	490,017,074	490,017,074
Other assets	7,361,277		711,170,636	
	235,720,894		1,208,211,199	

	Fair value of encumbered collateral received or own debt securities issued USD	Fair value of collateral received or own debt securities issued available for encumbrance USD
Equity instruments	-	-
Debt securities	-	-
Other assets	-	124,253,201
	-	124,253,201

	Matching liabilities, contingent liabilities or securities lent USD	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered USD
Carrying amount of selected financial liabilities	137,247,186	228,468,734

The Group continues to recognise these encumbered assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the encumbered assets being derecognised for accounting purposes. There are no encumbered assets between entities of the Group.

Since the last disclosure period the Group has increased its encumbered assets by \$182,987,427. The increase relates to Equity Instruments and Debt Securities which are pledged under borrowing arrangements.

## 9. own funds and capital requirements

Detailed analysis on the composition of Tier 1, Tier 2 and Own Funds is disclosed in Note 4.6

9.1 Full reconciliation of Own Funds items to audited financial statements in accordance with Article 437(1)(a) of Regulation (EU) No 575/2013

9.1.1 Reconciliation between the balance sheet used to calculate own funds as in the published financial statements and the balance sheet used to calculate regulatory own funds

	Cross-reference to Notes in Financial Statements	Cross-reference to Statement of Transitional Adjustments	Balance Sheet in accordance with IFRS scope of consolidation 2015 USD	Effect of deconsolidation for regulatory consolidation 2015 USD	Balance Sheet in accordance with regulatory scope of consolidation 2015 USD
<b>Equity</b>					
Share capital	41		149,268,322	-	149,268,322
Share premium	41		8,072,276	-	8,072,276
Retained earnings/(accumulated losses)	41		(5,644,809)	-	(5,644,809)
Reserve for general banking risks	41		1,000,027	-	1,000,027
Currency translation reserve	41		(5,690,377)	-	(5,690,377)
Fair value reserve	41		(409,528)	-	(409,528)
Other reserve	41		2,486,644	-	2,486,644
Other Reserves			(2,613,234)	-	(2,613,234)
Other transitional adjustments to CET1: Non-controlling interests deductible from own funds		TA1	15,502,235	-	15,502,235
Non-controlling interests not deductible from own funds			10,334,823	10,334,823	-
Non-controlling interests	42		25,837,058	10,334,823	15,502,235
<b>Assets</b>					
Pledged assets in favour of Depositor Compensation Scheme reported under loans and advances to banks	23		904,665	-	904,665
Pledged assets in favour of Depositor Compensation Scheme reported under other assets	34		603,110	-	603,110
Market value of assets pledged in favour of Depositor Compensation Scheme			1,507,776	-	1,507,776
Collective impairment	23/24		(5,886,035)	-	(5,886,035)
Goodwill accounted for as intangible asset			6,867,365	-	6,867,365
Other intangible assets			1,697,231	-	1,697,231
Intangible assets and goodwill	32		8,564,596	-	8,564,596





9. own funds and capital requirements - continued

Deferred tax liabilities associated to other intangible assets		(330,706)	-	(330,706)
Deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds		26,964,863	-	26,964,863
Other transitional adjustments to cet1: deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds	TA2	(18,854,669)	-	(18,854,669)
Deferred tax asset that rely on future profitability and arise from temporary differences and not deductible from own funds		32,788,759	32,788,759	-
Deferred taxation	32	40,568,247	32,788,759	7,779,488

**Liabilities**

Subordinated liabilities	38	50,000,000	958,379	49,041,621
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9.1.2 statement of transitional adjustments

	Note	2015 USD
Non-controlling interests deductible from own funds	TA 1	15,502,235
Deferred tax asset that relies on future profitability and arises from temporary differences and is deductible from own funds	TA 2	18,854,669
Unrealised gains measured at fair value recycled to Tier 2	TA 3	(1,512,066)
<b>Transitional adjustments to CET 1</b>		<b>32,844,839</b>
Unrealised gains measured at fair value recycled from CET 1	TA 3	
<b>Transitional adjustments to T 1</b>		<b>1,512,066</b>

## 9. own funds and capital requirements - continued

## 9.1.3 Mapping between own funds statement as reported in Note 4.6 and the Balance Sheet in accordance with regulatory scope of consolidation and the Statement of transitional adjustments as reported in tables 9.1.1 and 9.1.2 respectively

	Own Funds	Balance Sheet in accordance with regulatory scope of consolidation	Statement of transitional adjustments
	2015 USD	2015 USD	2015 USD
<b>Tier 1</b>			
Paid up capital instruments	149,268,322	Share capital	149,268,322
Share premium	8,072,276	Share premium	8,072,276
Retained earnings/(accumulated losses)	(5,644,809)	Retained earnings/(accumulated losses)	(5,644,809)
Other reserves	(2,613,234)	Other Reserves	(2,613,234)
<b>Deductions:</b>			
Goodwill accounted for as intangible asset	(6,867,365)	Goodwill accounted for as intangible asset	(6,867,365)
Other intangible assets	(1,697,231)	Other intangible assets	(1,697,231)
Deferred tax liabilities associated to other intangible assets	330,706	deferred tax liabilities associated to other intangible assets	330,706
Deferred tax asset that rely on future profitability and arise from temporary differences	(26,964,863)	deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds	(26,964,863)
Market value of assets pledged in favour of Depositor Compensation Scheme	(1,507,776)	Market value of assets pledged in favour of Depositor Compensation Scheme	(1,507,776)
Other transitional adjustments	32,844,839		Transitional adjustments to Tier 2
Common Equity Tier 1	145,220,865		32,844,839
<b>Total Tier 1</b>	<b>145,220,865</b>		
<b>Tier 2</b>			
General credit risk adjustments	5,886,035	Collective impairment	5,886,035
Subordinated liabilities	49,041,621	Subordinated liabilities	49,041,621
Other transitional adjustments	1,512,066		Transitional adjustments to Tier 2
			1,512,066
<b>Total Tier 2</b>	<b>56,439,722</b>		
<b>Total own funds</b>	<b>201,660,587</b>		



9. own funds and capital requirements - continued

## 9.2 description of features of Tier1 and Tier 2 capital instruments in accordance with Article 437(1)(b) of Regulation (EU) No 575/2013

### ISIN number

MT0000180100

### Governing law of the instrument

Maltese Law

### Regulatory treatment

- transitional CRR rules	Common equity Tier 1
- post transitional CRR rules	Common equity Tier 1
- eligibility for inclusion in own funds	Bank solo and Group consolidated
- amount recognised in regulatory capital	298,536,643 shares
- nominal value of each share	USD0.50
- issue price	N/A
- redemption price	N/A
- accounting classification	Share capital
- original date of issuance	8 November 1994
- perpetual or dated	N/A
- original maturity date	N/A
- issuer call subject to prior supervisory approval	N/A

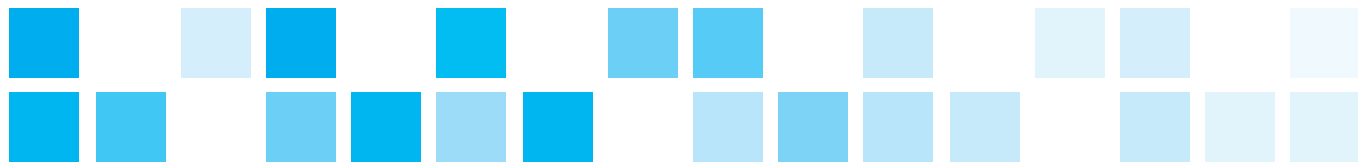
### Dividends

- fixed or floating dividend	Floating
- coupon rate and any related index	N/A
- existence of a dividend stopper	No
- fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
- fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
- existence of step-up or incentive to redeem	N/A
- non-cumulative or cumulative	Non-cumulative
- convertible or non-convertible	Non-convertible
- write-down features	N/A
- position in subordination hierarchy in liquidation	Subordinated to senior creditors and depositors
- non-compliant transitional features	None

## 9. own funds and capital requirements - continued

## 9.3 nature and amounts of specific items on own funds during the transitional period in accordance with Articles 437(1)(d) and (e)

	Amount at Disclosure Date	Amount subject to pre- Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013
	2015 USD	2015 USD
Common Equity Tier 1 capital: Instruments and reserves		
Capital Instruments and the related share premium accounts	157,340,598	-
Retained earnings	(5,644,809)	-
Accumulated other comprehensive Income and other reserves	(3,613,261)	-
Funds for general banking risk	1,000,027	-
Minority Interest (amount allowed in consolidated CET1)	15,502,235	15,502,235
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>164,584,790</b>	<b>15,502,235</b>
Common Equity Tier 1 capital: regulatory adjustments		
Intangible assets net of related tax liability	(8,233,890)	-
Deferred tax asset arising from temporary differences above 10% threshold net of related tax liability	(8,110,194)	18,854,669
Market value of assets pledged in favour of Depositor Compensation Scheme	(1,507,776)	-
Unrealised gains measured at fair value	(1,512,066)	(1,512,066)
<b>Total regulatory adjustments to Common equity Tier 1 (CET1)</b>	<b>(19,363,925)</b>	<b>17,342,604</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>145,220,865</b>	<b>32,844,839</b>
<b>Tier 1 capital</b>	<b>145,220,865</b>	<b>32,844,839</b>
Tier 2 capital: Instruments and provisions		
Credit risk adjustments	5,886,035	-
Subordinated liabilities	49,041,621	-
<b>Tier 2 capital</b>	<b>54,927,656</b>	<b>-</b>
Tier 2 capital: regulatory adjustments		
Unrealised gains measured at fair value	1,512,066	1,512,066
<b>Total regulatory adjustments to Tier 2</b>	<b>1,512,066</b>	<b>1,512,066</b>
<b>Total capital</b>	<b>201,660,587</b>	<b>1,512,066</b>
<b>Total Risk Weighted Assets</b>	<b>1,247,402,262</b>	
Capital Ratios		
Common Equity Tier 1 (CET1) capital	11.6%	
Tier 1 capital	11.6%	
Total capital	16.2%	
Capital ratios and buffers		
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities below 10% threshold	41,015	
Direct and indirect holdings of the capital of financial sector entities where the institution has a significant investment in those entities below 10% threshold	1,317,119	
Deferred tax asset arising from temporary differences below 10% threshold net of related tax liability	13,934,089	
Applicable caps on the inclusion of provisions in Tier 2		
Credit risk adjustments included in T2 in respect of exposures subject to standardized approach	5,886,035	
Cap on inclusion of credit risk adjustments in T2 under standardized approach	5,886,035	



9. own funds and capital requirements - continued

#### 9.4 capital requirements

The Group uses the Standardised Approach under the capital requirements framework, overall capital requirements have to be calculated and compared with the Own Funds described above. The overall capital requirements are expressed in terms of Risk Weighted Assets ("RWA") whereby capital requirements need to be 8% of RWA.

The Group's minimum capital requirement under Pillar 1 is calculated by adding the credit risk charge to that required for operational risk and market risk.

The following table shows both the Group's overall minimum capital requirement and capital adequacy position under Pillar 1:

	Risk weighted assets	Capital required
	2015	2015
	USD	USD
Capital Requirements		
Credit Risk (Section 4.1)	780,116,583	62,409,327
Counterparty Risk (Section 4.2)	436,940	34,955
Operational Risk (Section 4.3)	76,664,913	6,133,193
Market Risk - Foreign Exchange Risk (Section 4.4.1)	110,723,727	8,857,898
Market Risk - Position Risk in Traded debt instruments (Section 4.4.2)	276,825,861	22,146,069
Market Risk - Equity Investments between 10% and 50% (Section 4.6.1.1.2)	2,634,239	210,739
<b>Total Capital Requirements Pillar 1</b>	<b>1,247,402,262</b>	<b>99,792,181</b>
Tier 1 Capital	145,220,865	
Total Own Funds	201,660,587	
Capital Ratios	%	
Tier 1 capital	11.6	
Total capital	16.2	

## 9.5 Internal Capital Adequacy Assessment Process ("ICAAP")

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

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

The ICAAP process is managed by the Group's Risk Management which is responsible for the preparation, formulation and overall coordination of this document. Inputs are received as appropriate by other relevant departments, including but not limited to the Finance, Legal, Treasury, IT, Administration, Human Resources and Operations departments. Each of these departments has a direct connection with one or more risks, policies and procedures analysed and assessed in this ICAAP.

Throughout this process, senior officers from each department provide their input and guidance on how risks are being mitigated and how these risks can be analysed and assessed both in a qualitative as well as quantitative manner. The final document is subjected to a review by the Group's Internal Audit department, and the findings arising from this review are documented in an "Auditors' report".

The final version of the ICAAP is eventually discussed by the Audit Committee before being presented to the Board of Directors, and following its recommendation, it is ultimately approved.

## 10. leverage ratio

CRR requires financial institutions to calculate a non-risk based leverage ratio to supplement risk based capital requirements. The leverage ratio is defined as Tier 1 capital divided by a non-risk-based measure of an institution's on- and off-balance sheet items (the "exposure measure"). The leverage ratio has two objectives, namely to limit the risk of excessive leverage by constraining the building up of leverage in the banking sector during economic upswings and to act as a simple instrument that offers a safeguard against the risks associated with the risk models underpinning risk weighted assets.

Since the leverage ratio is a new regulatory tool in the EU, there is a lack of information about the effectiveness and the consequences of implementing it as a binding (Pillar 1) measure. European banks are therefore following a monitoring period, to gather more information before making it a binding requirement. A report shall be prepared from the Commission to Council and Parliament by the end of 2016 including, a legislative proposal to introduce the leverage ratio as a binding measure as of 2018.

The indicative minimum requirement of the Tier 1 leverage ratio is 3%. This would be in line with the fully-transitioned Basel III standards (which will apply from 1 January 2019), as internationally agreed by the Governors of Central Banks and heads of supervision of Basel Committee member jurisdictions.

The Group's leverage ratio is determined and monitored on a regular basis. As at 31 December 2015, the leverage ratio for the Group stood at 7.7%, which is well above the indicative minimum requirement. The Group is in the process of determining an appropriate leverage monitoring framework.



10. leverage ratio - continued

Balance Sheet Values  
2015  
USD

#### Summary reconciliation of accounting assets and leverage ratio exposures

Total assets as per published financial statements	1,443,905,446
Adjustments for derivative financial instruments	(147,972)
Adjustment for off-balance sheet items ( i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	62,439,879
Other adjustments	(52,859,956)
<b>Total leverage ratio exposure</b>	<b>1,453,337,396</b>

CRR leverage ratio  
exposures  
2015  
USD

#### Leverage ratio common disclosure

On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,442,766,353
Asset amounts deducted in determining Tier 1 capital	(52,859,956)
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>1,389,906,397</b>

Replacement cost associated with all derivatives	991,118
<b>Derivative exposures</b>	<b>991,118</b>

Off-balance sheet exposures at gross notional amount	160,381,850
Adjustments for conversion to credit equivalent amounts	(97,941,972)
<b>Other off-balance sheet exposures</b>	<b>62,439,879</b>

<b>Total leverage ratio exposures</b>	<b>1,453,337,393</b>
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Tier 1 capital	112,376,027
<b>Leverage ratio</b>	<b>7.7%</b>

Choice on transitional arrangements for the definition of the capital measure	Fully phased in
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CRR leverage ratio  
exposures  
2015  
USD

#### Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

<b>Trading book exposures</b>	<b>355,063,997</b>
Central governments or central banks	198,108,268
Public sector entities	28,993,152
Institutions	245,944,865
Secured by mortgages of immovable properties	633,295
Retail exposures	12,202,604
Corporate	326,099,173
Exposures in default	46,675,565
Other exposures ( e.g. equity, securitisations and other non-credit obligation assets)	176,185,477
<b>Banking book exposures</b>	<b>1,034,842,399</b>
<b>Total on-balance sheet exposures</b>	<b>1,389,906,396</b>

## 11. remuneration policy

The Nomination and Remuneration Committee is charged with overseeing the development and implementation of the Group's Remuneration Policy. This Committee met twice in 2015. The Committee is composed of Masaud M. J. Hayat (Chairman), Majed Essa Ahmed Al-Ajeel (Vice Chairman), Rogers David LeBaron (Member) and John C. Grech (Member). The Committee is directly accountable to the Board, who has the right to change the Committee's Charter in compliance with the relevant laws and regulations.

The Remuneration Policy ensures that the remuneration is in line with the Group's long-term strategy and performance. It encompasses the remuneration of all employees including Executive Management and identified staff. The Group bases the definition of Identified Staff on the Commission Delegated Regulation 604-2014 which includes categories of staff including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and whose professional activities have a material impact on their risk profile.

The table below includes total fixed and variable remuneration for Identified Staff in each business area. The fixed remuneration includes all cash allowances advanced to employees, including allowances for car, housing and flights, health and life insurances and other direct expenses.

	Supervisory Function	Management Function	Corporate Functions	Independent Control Functions	All Other
Number of identified staff	9	10	13	1	136
Total fixed remuneration	USD 295,096	USD 1,810,276	USD 1,342,983	USD 189,467	USD 10,922,074
Total variable remuneration	-	129,603	58,875	8,884	247,784
Total remuneration	295,096	1,939,879	1,401,858	198,351	11,169,858

The variable portion of the remuneration represents cash bonuses. In accordance with Article 94(1)(g) of Directive 2013/36/EU, the variable remuneration cannot exceed 100% of the basic remuneration, unless approved by the Regulator. The bonus pool is divided amongst the employees depending on their individual performance and is based on a percentage of profit. Performance of individuals is mapped through the performance appraisal process. The objectives reflect the individual and team performance. This is weighed against Group performance. The bonus pool is decided by the NRC and payment of performance bonus is based on the distribution as detailed in the Performance Management Policy. Individual performance is linked to the Performance Management System whereby individual objectives set against Key Performance Indicators (KPIs) are based on department plans which are aligned to strategic objectives. The KPIs take into consideration all stakeholders of the Group and are set around people management, internal processes, customers, financial and learning and development.

In year 2015, three individuals were awarded severance payments, amounting to an aggregate of USD289,062. The highest severance payment made was for USD101,572.

The following table shows a Deferred Remuneration position:

	Unvested Deferred Remuneration 2015 USD	Vested Deferred Remuneration 2015 USD
Opening Deferred Remuneration for the year	-	-
Deferred Remuneration awarded in the year	326,504	-
Deferred Remuneration paid in the year	-	-
Closing Deferred Remuneration for the year	326,504	-

At least 50% of the variable remuneration for employees, whose variable remuneration exceeds 100% of their fixed remuneration or EUR100,000, are paid in shares. At least 40% of the variable remuneration for such employees is deferred over a period of three years. In 2015, the ratio of variable remuneration to fixed remuneration for the identified staff for the whole group stood at 3%.

No Individual was remunerated more than Euro 1 million. Supplementary information on remuneration is included in the Remuneration Report.





# directors and senior management

## board of directors

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

### company secretary

Andrea Batelli

### registered address and contact number

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MALTA  
Tel: 00 356 2132 2100

## senior management - fimbank p.l.c.

### chief executive officer

Murali Subramanian

### first executive vice president

Howard Gaunt

Chief Operating Officer

### executive vice presidents

Michael Davis  
Aly Siby  
Ronald Haverkorn

Chief Compliance Officer & MLRO  
Chief Banking Officer  
Chief Risk Officer

### senior vice presidents

Gilbert Coleiro  
Ronald Mizzi  
  
Giovanni Bartolotta  
Andrea Batelli  
Bruno Cassar  
Michael Davakis  
Noel Galea  
Nigel Harris  
Carmelo Occhipinti  
Richard Scerri  
Charles Wallbank  
Demetris Zouzoukis

Chief Information Officer  
Chief Financial Officer

Head of Risk Management  
Head of Legal  
Head of Human Resources  
Head of Treasury & Capital Markets  
Head of Compliance Operations  
Head of FIMBank DIFC Branch  
Head of Financial Management  
Head of Internal Audit  
Head of Banking Operations  
Head of Hellenic Branch

Maarten Van Alkemade  
Toufic Yafaoui

Trade & Commodity Finance  
Treasury & Capital Markets

### first vice presidents

Corinne Lanfranco  
Loranne Pace  
Antonio Salgueiro  
Chris Trapani  
Jason Zammit  
Stefan Galea

Head of Financial Institutions and Deposits  
Head of Project Management  
Head of Factoring Product and Operations  
Head of Cash Management  
Head of Administration & Public and Media Relations  
Head of IT Infrastructure & Information Security

Christine Coleiro  
Dennis Camilleri  
George Goumassis  
Joe Rodgers  
Peter Zammit

Human Resources  
Trade & Commodity Finance  
Hellenic Branch  
Transactional Trade Finance  
Risk Management

## senior management - london forfeiting company limited

managing director	Simon Lay	
directors	Ian Lucas Tony Knight	Head of UK Marketing Head of Trading
company secretary	William Ramzan	Head of Finance
senior manager	Sandro Valladares	Trading and Marketing
subsidiaries and offices	Irina Babenko Greg Bernardi Alex Ozzetti  Lorna Pillow Yonca Sarp Wenli Wang Eric Baillavoine	Representative, LFC Moscow President, London Forfeiting Americas Inc. Managing Director, London Forfeiting do Brasil Ltda. Head of Operations, LFC Malta Representative, LFC Istanbul Representative, LFC Germany Head of LFC France

## senior management - menafactors limited

acting chief executive officer	Sean Aston	
senior vice president	Naushirwan S. Commissariat Bassam Azab	Head of Finance and Company Secretary Head of Business Development (GCC)
first vice presidents	Venkatesh B. Krishnamurthy Shweta Obhroi	Head of Credit Administration and Control Head of Compliance & MLRO

## senior management – india factoring and finance solutions (private) limited

chief executive officer	Sandeep Mathkar	
senior vice presidents	Ravi Valecha	Head of Product & Networking

## senior management – latam factors

chief executive officer	Carlos Alberto Baudrand Saavedra	
deputy chief executive officer	Gabriela Gallegos Nuñez	
senior vice presidents	Pablo Arturo Frei Partarrien Francisco Javier Hormazabal Riquelme Maria Monica Rosales Carreno	Chief Financial Officer Chief Operations Officer Chief Risk Officer



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