

ANNUAL REPORT & FINANCIAL STATEMENTS

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CHAIRMAN'S STATEMENT TO THE MEMBERS



It is sad when only few banks and financial institutions around the world will have good news to tell their shareholders, but we are happy to announce that we are amongst these few. It is in times like these when business strategies and models are tested, and when focus and specialisation in core business start to pay back. It is in times like these when investors can properly evaluate their investment decisions. They can separate between investments in

companies that only do well in good times but cannot survive a down-turn, and companies that provide essential goods and services, that can be sustainable during hard times.

These are times when poorly managed institutions can no longer cover their inefficiencies, and those that are serious and specialised in what they do, and apply proper corporate governance, stand out. Auditors, regulators, and rating agencies are forced to review or redefine their procedures, so shareholders and investors may once again have confidence in the information and reports produced. It is now the time when fundamentals must return to the landscape.

In last year's Annual Report I spoke to you about the lessons we may learn from events that were unfolding then, and the message essentially was that (a) working in emerging or developing markets should not necessarily mean taking higher risks than working in developed markets, and (b) lending to a highly rated institution would not necessarily mean taking lower risks. Events in 2008 have confirmed this statement once more, and international trade and a fairly wide cross-section of emerging markets - the heart and soul of the FIMBank Group's business model - remained the most resilient to the crises and gave speed to an overall strong operating performance in 2008. And for these reasons, while other institutions are shrinking, we continue to grow; and when others are consolidating, our size and efficiency open new opportunities for us to expand.

Whilst this year's record consolidated post-tax profit of USD24.8 million (2007 - USD10.5 million) was clearly helped by the realised gain on the disposal of our shares in Global Trade Finance Limited (GTF), the main operating income contributors nevertheless performed robustly during the year under review. Had the GTF disposal not taken place, we would still have reported a strong profit result. Liquidity and capital adequacy ratios were also very healthy and comfortably above the regulatory requirements at year-end, as well as throughout the most difficult times of the crises. The position we are in is not accidental. Once again, the clear vision and focus on international trade helped the Group to continue to do business and to look forward with optimism. We have also benefited from operating within the framework of rigorous risk management policies and a well-regulated environment which have steered the Group away from the excesses that have afflicted banks world-wide. Throughout the crises, Malta's banking system was reported to be "among the top 10 soundest in the world".

We are mindful that the meltdown in asset prices as well as collapse of values in many stock exchanges have impacted shareholders everywhere. Even so, at a time when many international banks have suffered downgrades to their ratings, our Group has performed against that trend. We have also maintained our credit rating and our outlook at 'Stable'. And the recently announced bond issue will have as its main purpose not the replenishment of lost capital but the support for the further growth and expansion of the Group. Although 2009 is proving to be a challenging year as nervousness and volatility in the markets remain, and more economies, including emerging markets, face difficult times ahead, we are confident of continuing to find opportunities to grow the business.

The Board of Directors will be recommending to the Annual General Meeting the approval of a net scrip dividend of US cents 2.25 per ordinary share (2007 - US cents 3.80). This dividend, together with the extraordinary distribution made in September 2008, would bring the total net dividend for the year to a record US cents 5.54 net per ordinary share. We believe that the last 15 months - with a Rights Offer, the consistent application of the scrip policy, a Bonus Share Issue in April 2008 as well as the extraordinary dividend paid in late summer 2008 - should serve as a fine example of our commitment to our Shareholders and not miss any opportunity to pass value on to them.

At the 2008 Annual General Meeting, René Graafland retired as Director of the Bank. 'René' had been with us since 2000 and also served as Chairman of the Audit Committee. On behalf of the Board I would like to express my thanks to René for the help and experience he always brought to the Board and to the Group. He is replaced by John D. Freeman, who comes to FIMBank with years of senior banking and investment experience, and to whom I extend a warm welcome.

My final words go to our Shareholders and Customers for the consistent support and confidence, especially in these challenging times. I also thank my fellow Board Members for their sound advice and commitment. And I reserve the last thanks to the Management and Staff who again delivered an excellent performance driven by dedication, diligence and a high sense of duty.

Najeeb H.M. Al-Saleh
Chairman

كلمة رئيس مجلس الإدارة إلى المساهمين

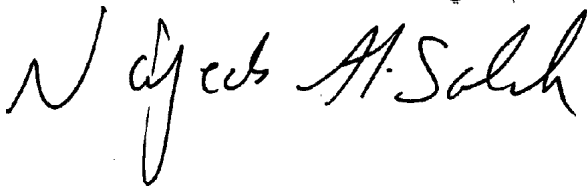
المصارف حول العالم. وخلال الأزمة، وُصف نظام مالطا المصرفي بأنه "من بين العشرة الأوائل في العالم من حيث الرصانة".

نحن على وعي بأن التدهور في أسعار الأصول والانهيار في قيم العديد من البورصات أثر سلباً على المساهمين في كل مكان. ومع ذلك، وفي الوقت الذي تعرضت فيه العديد من المصارف الدولية للتخفيض في تصنيفاتها، فإن مجموعتنا أدت عملها ضد هذا الاتجاه. فقد احتفظنا بتصنيفنا وبوضعنا بصفته "مستقر". وما أعلن حديثاً عن إصدار السندات، الغرض الرئيسي منه ليس سد النقص في رأس المال المفقود ولكن دعم النمو المتزايد وتوسع المجموعة. ومع أن سنة 2009 تبدو مليئة بالتحديات حيث الهلع والتقلب يبقى سائداً في الأسواق، وتواجه العديد من الاقتصادات، بما في ذلك الأسواق الناشئة، أوقاتاً صعبة مرتقبة، فإننا على ثقة من الإستمرار في العثور على فرص لتنمية عملنا التجاري.

مجلس الإدارة سيوصي الجمعية العمومية السنوية بالمصادقة على دفع أرباح أسهم توزيع على شكل سندات إذنية قصيرة الأجل بواقع 2,25 سنتاً أمريكياً عن السهم العادي (2007-3,80 سنتاً أمريكياً). هذا الربح، مع التوزيع الاستثنائي الذي تم في سبتمبر 2008، سيصل بمجموع صافي أرباح الأسهم عن السنة إلى رقم قياسي وهو 5,54 سنتاً أمريكياً صافياً للسهم العادي. ونحن نعتقد أن الخمسة عشر شهراً الأخيرة – بعرض اكتتاب الأسهم، والتطبيق المستمر لسياسة منح السندات، وإصدار الأسهم الإضافية في أبريل 2008 وكذلك أرباح الأسهم الاستثنائية التي دُفعت في أواخر صيف 2008- هي دليل جيد على التزامنا بمكافأة مساهميننا وعدم إضاعة أي فرصة لتنمية استثماراتهم.

في الجمعية العمومية السنوية لعام 2008، تخلى ريني جرافلاندا عن منصبه كعضو مجلس إدارة للمصرف. وقد عمل ريني معنا منذ سنة 2000 وعمل أيضاً كرئيس للجنة المراجعة. وباسم مجلس الإدارة، أود أن أعتبر عن شكري لريني على المساعدة والخبرة التي قدمها دائماً إلى مجلس الإدارة وإلى المجموعة. وقد حل محله جون دي فريمان، الذي يأتي إلى فيم بانك بسنوات من العمل المصرفي الرفيع والخبرة في الاستثمار، والذي أتقدم إليه بالترحيب الحار.

كلماتي الأخيرة أوجهها إلى مساهميننا، وزبائننا على دعمهم المستمر وثقتهم، وخاصة في هذه الأوقات المليئة بالتحديات. كما أشكر زملائي أعضاء مجلس الإدارة على نصائحهم القيمة والتزامهم. وأخص بالشكر أخيراً الإدارة وطاقم العمل الذين قدموا مرة أخرى أداءاً ممتازاً مدفوعين بإخلاصهم، واجتهادهم، واحساسهم العالي بالواجب.



ن. ج.

رئيس مجلس الإدارة

إنه لمن المؤسف أن قلة من المصارف والمؤسسات المالية في العالم ستكون لديها أخبار حسنة تنقلها لمساهميها، ولكننا سعداء بأن نعلن أننا من بين هذه القلة. وإنه في أوقات كهذه يتم اختبار استراتيجيات الأعمال التجارية، ويبدأ التركيز والتخصص في العمل التجاري الأساسي يعطي ثماره. وفي مثل هذه الأوقات يصبح بإمكان المستثمرين تقييم قراراتهم الاستثمارية. فهم يستطيعون الفصل بين الاستثمارات في الشركات التي تعمل جيداً فقط في الأوقات العادية ولكنها لا تستطيع القيام بواجباتها في الأيام العصيبة، وبين الاستثمارات في الشركات التي تقدم السلع والخدمات الضرورية والقدرة على الإستمرارية أثناء الأوقات الصعبة.

هذه هي الأوقات التي لم تعد فيها المؤسسات الضعيفة الإدارة قادرة على تغطية عدم كفاءتها، أما المؤسسات الجادة والمتخصصة فيما تعمل، والتي تطبق الإدارة المؤسساتية المناسبة، فهي تبرز دون غيرها. والمراجعون والمشرعون ووكالات التصنيف مجبرة على مراجعة وإعادة النظر في مناهجها حتى يستعيد المساهمون ثقتهم في التقارير والمعلومات المقدمة. وقد حان الوقت للعودة إلى الأصول الجوهرية في التعامل.

في التقرير السنوي في العام الماضي تحدثت إليكم حول الدروس التي يمكننا تعلمها من الأحداث التي بدأت تتبلور حينئذ، وكانت الرسالة في جوهرها هي أن (أ) العمل في الأسواق الناشئة أو النامية لا يعني بالضرورة الدخول في مجازفات أكبر من مجازفات العمل في الأسواق المتقدمة، و(ب) إقراض مؤسسة عالية التصنيف لا يعني بالضرورة الدخول في مجازفات أقل. وقد أكدت الأحداث في سنة 2008 مرة أخرى صحة هذا البيان، والتجارة الدولية وقطاع واسع من الأسواق الناشئة، وهي قلب وروح العمل التجاري لمجموعة فيم بانك، بقيت الأكثر مرونة مع الأزمة وزادت من سرعة الأداء التشغيلي القوي بشكل عام في سنة 2008. ولهذه الأسباب، بينما المؤسسات الأخرى تنقلص، فإننا مستمرين في النمو، وفيما ينكمش الآخرون، فإن حجمنا وكفاءتنا تفتح لنا فرصاً جديدة لكي نتوسع.

بينما يدعم سجلنا في هذه السنة الأرباح بعد الضرائب بواقع 24,8 مليون دولار أمريكي (2007-10,5 مليون دولار أمريكي) وكان هذا بكل وضوح بمساعدة المكسب المتحقق من التصرف في أسهمنا في شركة جلوبال تريند فاينانس المحدودة (GTF) فإن أهم المساهمين في الدخل التشغيلي مع ذلك قاموا بأداء جيد خلال السنة الواقعة تحت المراجعة. وحتى لو لم يتم التفرغ في GTF، لكننا سجلنا نتيجة ربح قوية. والسيولة والكفاية في معدلات رأس المال كانت أيضاً صحية جداً وواقعة بشكل مريح فوق المتطلبات التنظيمية مع نهاية السنة، وكذلك خلال معظم الأوقات الصعبة في الأزمة. والوضع الذي نحن فيه لم يأت بالصدفة. ومرة أخرى، فإن الرؤية الواضحة، والتركيز على التجارة الدولية ساعدت المجموعة على الإستمرار في الانخراط في الأعمال والنظر إلى الأمام بتفؤل. وقد استفدنا أيضاً من العمل وفق سياسات رصينة لإدارة المخاطر وفي بيئة جيدة التنظيم ساعدتنا على توجيه المجموعة بعيداً عن التجاوزات المفرطة التي أصابت

DÉCLARATION DU PRÉSIDENT AUX ACTIONNAIRES

Un nombre malheureusement limité de banques et d'institutions financières auront de bonnes nouvelles à partager avec leurs actionnaires ; nous sommes toutefois satisfaits de figurer parmi celles-ci. C'est durant ces temps difficiles que les stratégies et les modèles financiers seront mis à l'épreuve, que la concentration et spécialisation donneront leurs fruits et que les investisseurs pourront évaluer leurs placements. Ils pourront différencier les investissements dans les sociétés qui normalement produisent de bons résultats mais ne sont pas aptes à surmonter des crises, de ceux dans les sociétés offrant des services essentiels et qui sont stables en périodes difficiles.

C'est aujourd'hui que certaines sociétés ne pourront plus éviter les risques causés par leur inefficacité, et que d'autres plus spécialisées, appliquant une gestion d'entreprise sérieuse, se distingueront. Les Commissaires aux Comptes, les autorités réglementaires et les agences de notations sont obligés de revoir ou redéfinir leurs procédures afin de renforcer la confiance des actionnaires et investisseurs dans les informations et rapports donnés. C'est le moment du retour aux principes fondamentaux.

Dans le Rapport Annuel de l'année passée je vous avais parlé des leçons que nous devons tirer des événements qui se sont alors déroulés et le message était essentiellement que (a) travailler dans un marché émergent ou en développement ne devrait pas nécessairement impliquer plus de risques que sur un marché développé et (b) accorder des crédits à des institutions ayant des notations élevées n'exclut pas les risques. Les événements de 2008 l'ont confirmé encore une fois ; le commerce international et une partie considérable des marchés émergents, étant au cœur de l'activité du Groupe FIMBank, demeurent des plus résistants à la crise et ont accéléré la performance d'exploitation en 2008. Et c'est pour ces raisons que nous continuons à croire alors que la situation financière d'autres institutions se détériore et quand d'autres essaient de se renforcer notre taille et notre efficacité nous ouvrent de nouvelles opportunités de développement.

Notre profit record après-taxes consolidé de USD24.8 millions (2007 - USD10.5 millions) a été certainement favorisé par le gain réalisé par la vente de nos actions dans Global Trade Finance Limited (GTF); cependant les principaux éléments qui contribuent au Revenu d'Exploitation ont néanmoins eu une excellente performance durant l'année en cours. Si la vente des actions de GTF n'avait pas eu lieu, nous aurions quand même déclaré un profit en hausse. La liquidité et les ratios de fonds propres étaient également très solides et bien au delà des exigences réglementaires en fin d'année ainsi que durant les moments les plus difficiles de la crise. La position dans laquelle nous nous sommes retrouvés n'est pas accidentelle. Une fois encore, la vision claire et la concentration de notre activité sur le commerce international auront aidé le Groupe à étendre son activité avec optimisme. Nous avons également bénéficié d'avoir opéré sous une politique rigoureuse de gestion des risques dans un environnement bien réglementé, qui a aidé à éloigner le Groupe des excès qui ont atteint les banques mondialement. Pendant la crise, le système bancaire maltais a été considéré comme étant « parmi les 10 plus sains du monde ».

Nous sommes conscients que la baisse des prix des actifs ainsi que l'effondrement des valeurs dans de nombreuses places boursières ont eu un impact sur les actionnaires. Au moment où plusieurs banques internationales ont souffert du déclin de leurs notations, la performance de notre Groupe est allée contre cette tendance. Nous avons maintenu notre notation ainsi que notre perspective économique au niveau « Stable ». L'émission d'obligations annoncée récemment va avoir comme but principal non pas le réapprovisionnement des capitaux perdus mais un support à la croissance et l'expansion du Groupe.

Même si 2009 se révèle être une année de défis en raison des tensions et de la volatilité des marchés, et malgré le fait que de nouvelles économies, dont les marchés émergents, font face à des temps difficiles, nous sommes confiants de la possibilité de trouver de nouvelles opportunités pour développer notre activité.

Le Conseil d'Administration va recommander à l'Assemblée Générale des Actionnaires l'accord du paiement de promesses écrites de dividendes nettes de US cents 2.25 par action ordinaire (2007 - US cents 3.80). Ce dividende en plus de la distribution extraordinaire faite en Septembre 2008 va amener le total net des dividendes sur l'année à US cents 5.54 net par action ordinaire. Nous pensons que les 15 derniers mois - avec l'Offre de Souscription d'Actions, étant l'application conséquente de la politique de paiement de promesses écrites de dividendes, l'attribution gratuite d'Actions en Avril 2008 ainsi que le dividende extraordinaire distribué à la fin de l'été - pourront servir de bon exemple de notre intention à récompenser nos Actionnaires et de ne perdre aucune opportunité d'accroître la valeur de leurs engagements.

À l'Assemblée Générale de 2008, René Graafland s'est retiré de son poste d'administrateur. 'René' était en poste depuis 2000 et était Président du Comité d'Audit. Au nom du Conseil je voudrais exprimer mes remerciements à René pour l'aide et l'expérience qu'il a toujours apportées au Comité et au Groupe. Il est remplacé par John D Freeman, qui arrive à FIMBank avec des années d'expérience bancaire et auquel je souhaite la bienvenue.

Mon dernier mot est dédié à nos actionnaires et à nos clients pour leur soutien continu et leur confiance surtout en ces temps difficiles. Je remercie également mes confrères membres du Conseil pour leurs recommandations et leur engagement. Je réserve les derniers remerciements à la Direction et au Personnel qui ont encore une fois livré une excellente performance résultant de leur dévouement, diligence et grand sens du devoir.



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

REVIEW OF OPERATIONS

For the Year Ended 31 December 2008

The Annual Financial Statements covered by this review refer to the consolidated accounts of FIMBank Group (“the Group”), which includes FIMBank p.l.c (“the Bank”) and its wholly-owned subsidiaries, London Forfaiting Company Ltd (“LFC”) together with its subsidiary companies, FIMFactors B.V. (“FIMFactors”) and its wholly-owned subsidiary Menafactors Limited (“Menafactors”), FIM Business Solutions Limited (“FBS”), and FIM Property Investment Limited (“FPI”).

Introduction

After decades of strong growth, the world economy decelerated to 3.4% in 2008 (2007: 5.2%), buffeted by still high energy and commodity prices and deepening financial strains. In particular, financial risks emanating from advanced economies have shaken financial markets worldwide. The emerging and developing economies, which had been growing above their trend until recently, have not decoupled from the advanced economies slowdown and grew at 6.3% in 2008 from 8.3% in the previous year.

Following the robust growth during the first half of 2008, economic growth in developing countries deteriorated as the crisis in the banking sector intensified amid the collapse of several global financial market players and the sharp increase in risk premiums on emerging market debt, with sovereign and corporate spreads jumping significantly in the last quarter of 2008. Equity prices also dropped sharply for emerging markets and new issues have plummeted from the highs of 2007. While the effect on emerging Asian assets was moderate, Eastern Europe and Latin America experienced the largest drops on debt returns. These developments also led to a sharp drop in capital flows into developing countries, tighter financing conditions and lower market capitalisation. Countries with substantial external deficits and unsustainable credit growth were mostly affected from the financial crisis. Nonetheless, GDP growth contribution from emerging economies, which has been the key driver of global growth in recent years, remained strong and around 60% in 2008.

Owing to strong productivity gains and improved policy frameworks, emerging economies continued to provide a source

of resilience to world economic growth, with developing Asian and Middle-East economies delivering the strongest performance. Most of the developing countries’ currencies depreciated vis-à-vis the Dollar as investors, with reduced appetite for risk and facing larger uncertainty, retrenched their assets from emerging markets. At the same time, the upsurge in most commodity prices persisted into the first half of 2008, boosting the region’s inflation rate to 9.2% in 2008 and led to losses in real incomes. The combination of these financial and economic woes led to a sharp deceleration in investment, industrial production and international trade, with short-term global export volumes expected to drop for the first time in more than two decades.

Fiscal positions have also deteriorated amid countercyclical policies and government expenditure measures aimed at reducing the burden of higher commodity prices. Remittance flows to developing countries also eased during the second half of 2008, providing less support to GDP growth in the region. The economic slowdown in the emerging and developing region is expected to persist into 2009, and possibly rebound in 2010, although remaining the main supporter of global economic growth with growth rates significantly above those of advanced economies.

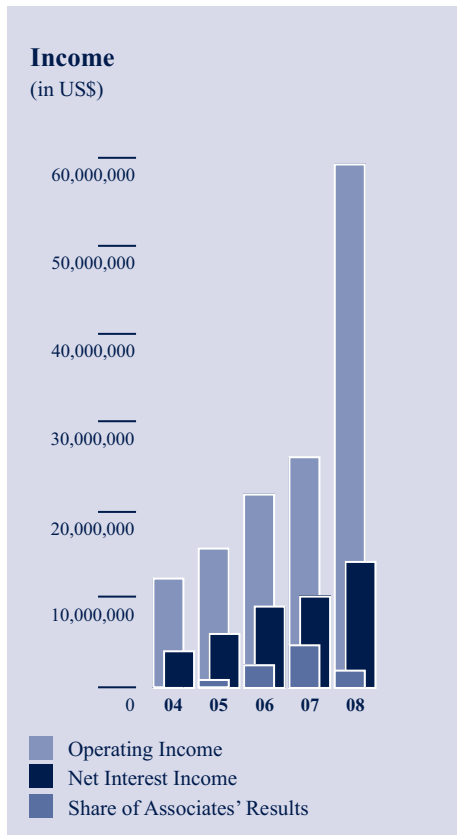
Emerging and Developing Markets in Focus

Developing Asia

Common to all emerging and developing economies, the economic cycle in emerging Asia also weakened in 2008 - from 10.6% in 2007 to 7.8% in 2008. At 9% annual growth rate, China remained the strongest performer in the area and contributed around 25% to global GDP growth in 2008. Despite being hindered by slowing exports and a slump in investment, the Chinese economy remained supported by accelerating consumption and still strong investments. China’s current account remained in surplus and together with strong capital inflows, foreign exchange reserves increased and the Chinese Renminbi continued to appreciate. Despite growth in India and Pakistan standing above 6% in 2008, supported primarily by private consumption and export growth, economic expansion



REVIEW OF OPERATIONS



was hobbled by the slowdown in industrial production. The Indian Rupee, like the Pakistan Rupee and the South African Rand, depreciated owing to rising costs of commodity imports and widening current account deficits. The Korean Won has also come under pressure, owing to worsening terms of trade. While the monetary policy stance in China eased, the monetary policy in India, Thailand, Taiwan and Vietnam was tightened.

Latin America

In Latin America, following four years of robust economic growth, activity slowed down to 4% in 2008 buttressed by a combination of slowing export growth, worsening external conditions and high inflation. These conditions also led to a drop in equity prices, widening spreads, tightening access to Dollar funding, and weakening exchange rates. Commodity exporting countries, facing lower commodity prices since mid-2008, were mostly shackled by these developments. Economic growth in Mexico weakened to 1.8% in 2008, from 3.2% in the previous year, against the backdrop of slowdown in the United States of America - Mexico's primary trade partner. The Mexican Peso depreciated amid the slip in commodity prices. In Argentina, after a sustained period of output growth amid strong external demand, fiscal and trade surpluses and depreciation of the peso; economic growth slowed to 6.6% in 2008 (2007: 8.7%) as the world economic crisis slashed the demand and price of its commodity exports. The Argentinean Peso, in line with other currencies in commodity exporting countries, continued to depreciate against the Dollar in 2008. Venezuela, which introduced the Venezuelan Bolivares Fuerte as the official currency in circulation in January 2008, also registered its slowest growth pace since 2003. Despite Venezuela's relatively stable exchange rate against the Dollar, inflation soared to a double digit level and investment shrunk. Brazil's economy grew by 5.8% in 2008 and along with its new 'investment grade' status, it remains South America's leading economic power. At end-2008, Brazil's currency fell to its lowest point against the Dollar in three years, despite monetary authority's efforts to strengthen the currency, as investors withdrew money out of Brazil in search of more stable investments. Overall, inflation in Latin America rose significantly in response to higher food and oil prices, with policy makers



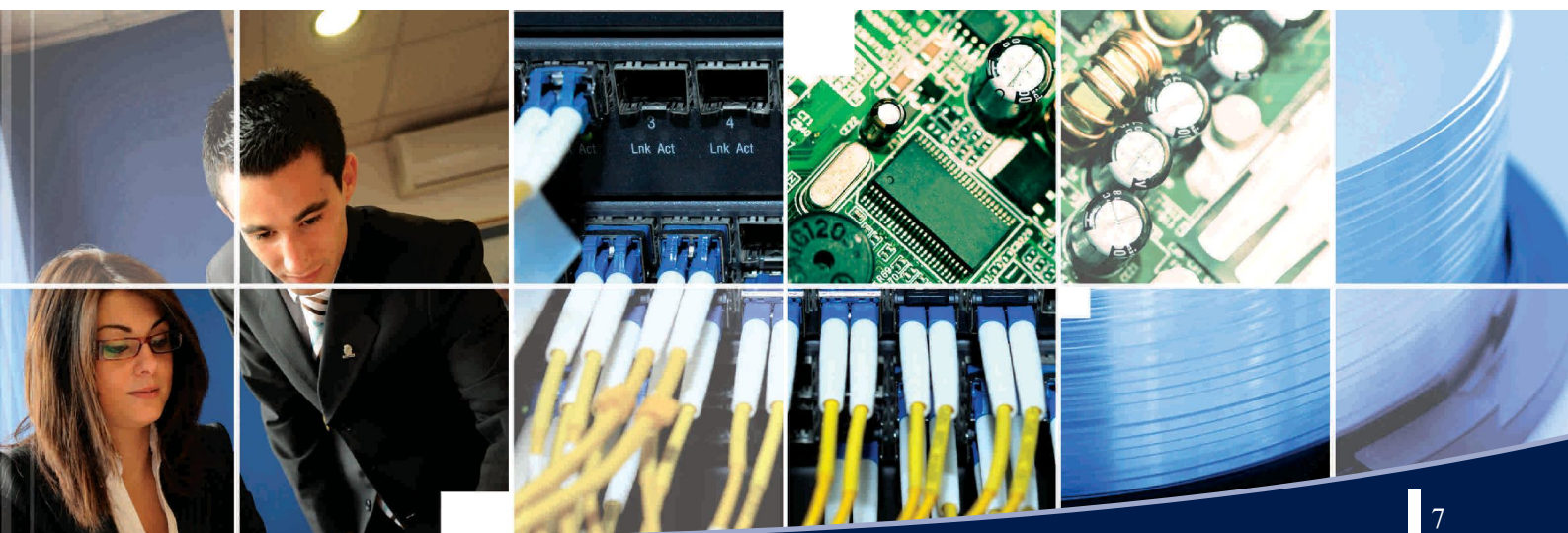
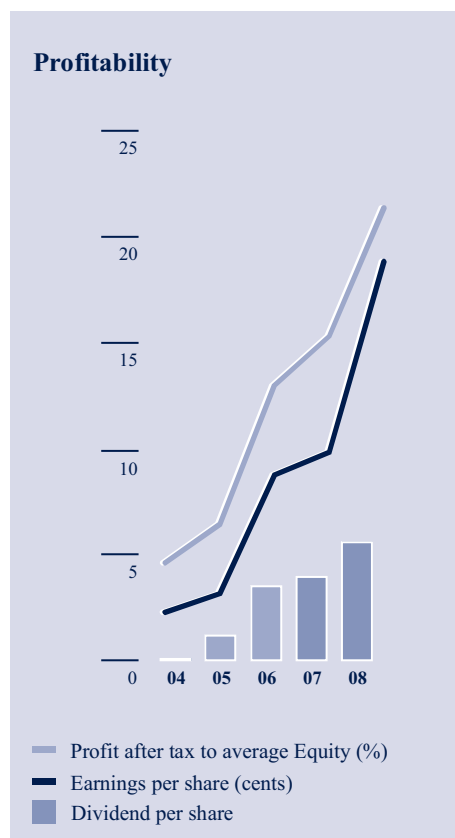
in some countries, such as Brazil and Peru, tightening their monetary policy stance.

Central and Emerging Europe

Following a prolonged period of rapid expansion, activity in Central and Emerging Europe abated due to cooling of demand in Western Europe, tighter external financing conditions and weaker private consumption on the back of soaring food and energy prices. Turkey's economic growth dropped to 3% in 2008, with inflation reaching the double digit region. Central and Eastern Europe grew by 3.2% in 2008, down from 5.4% in 2007. The region remains vulnerable to changes in market sentiment against the backdrop of extensive domestic borrowing in foreign currencies, dependence on wholesale funding from abroad and large non-resident holdings of local currency debt. Despite little exposure to the U.S. subprime market, banks in the region saw their external funding costs rise, with shortening maturities, reflecting the decline in global risk appetite. On the other hand, the ongoing credit boom, which is supporting the strong domestic demand in the region, is accompanied by lengthening maturities and rising loan to value ratios. Rising bond spreads added to bank's funding costs. Tight labour markets, the surge in food and energy prices of early mid-2008 and buoyant domestic demand boosted inflation, with monetary authorities in Central and Eastern Europe tightening their monetary policy stance.

Ex- Commonwealth of Independent States

The Ex- Commonwealth of Independent States' (Ex-CIS) economic growth remained robust at 6%, despite below the growth rate of 2007, underpinned by strong domestic demand and terms of trade gains. High commodity prices continued to support strong trade balances for net commodity exporters, such as Russia and Kazakhstan, the latter recording a current account surplus in 2008 following a deficit in the previous year. On the other hand, countries with large external negative positions, such as Ukraine and Belarus, and with heavy external dependence for capital inflows, were affected negatively by the deepening financial and economic strains. Russia's growth slowed down to 6.2% in 2008, with growth supported by a



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large fiscal stimulus, rising external balances and strong performance, in particular during the first half of 2008. During the last quarter of 2008, the Russian Rouble came under intense pressures on the back of capital outflows, weaker economic background and continued downward pressures on oil prices. As a result, the Central Bank of Russia - who keeps a managed float against the Euro and the US Dollar - allowed the Rouble to depreciate on various occasions during the last quarter of 2008. The economy of Kazakhstan, Central Asia's largest economy, also weakened and grew at 4.5% in 2008. This slowdown reflects the sapping demand for Kazakhstan's energy and metal exports, Kazakhstan's main source of export revenues. This has put the Kazakh Tenge under pressure, with the subsequent heavy interventions by the domestic Central Bank to keep the peg against the Dollar stable. Weaker future expectations for some countries in the CIS region, such as Kazakhstan and Russia, resulted into loss of investor confidence, with previous concerns of possible overheating shifting to fears of financial crisis, and into a slowdown of capital inflows. The Ukrainian economic growth plunged to 2.1% in 2008, from 7.7% in 2007, primarily reflecting the significant depreciation in the price of steel - Ukraine's main source of revenue. Against this background, the Ukrainian's current account deficit widened along with a significant deterioration of the Ukrainian Hyrvna currency against the Dollar and a double-digit inflation rate. Sovereign spreads widened significantly in October 2008, notably for Russia, Turkey and especially for Ukraine and Kazakhstan.

Middle East and North Africa

In the Middle-East, the economy continued to grow at a robust pace, 6.1% in 2008. The economy in the region, which experienced little effect from the global financial turmoil, is strongly supported by the larger oil revenues and improved business environment, the latter fostering private investment and the needed build up of public infrastructure. Oil exporters in the region, in particular the Gulf Cooperation Council (GCC) region, are recording large and growing surpluses approximating 10% - 45% of GDP. In other countries, deficits have widened in response to rising import costs, together with double digit inflation in Jordan and Lebanon. The solid performance in

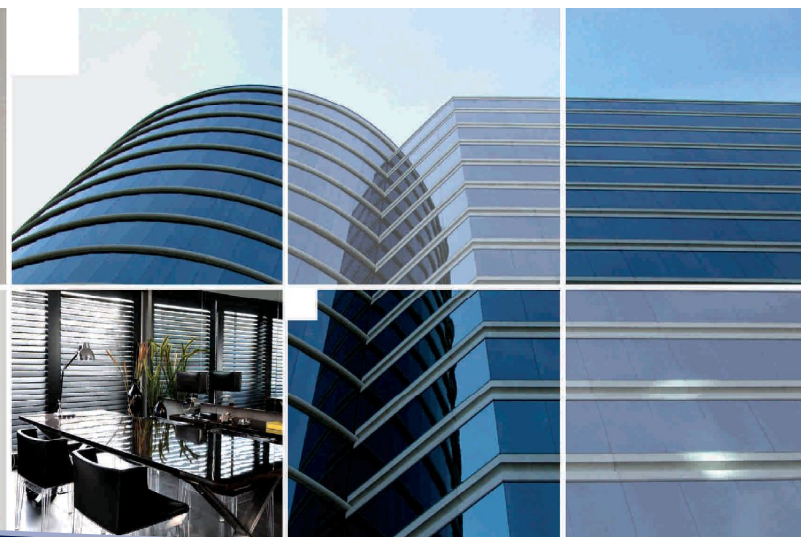
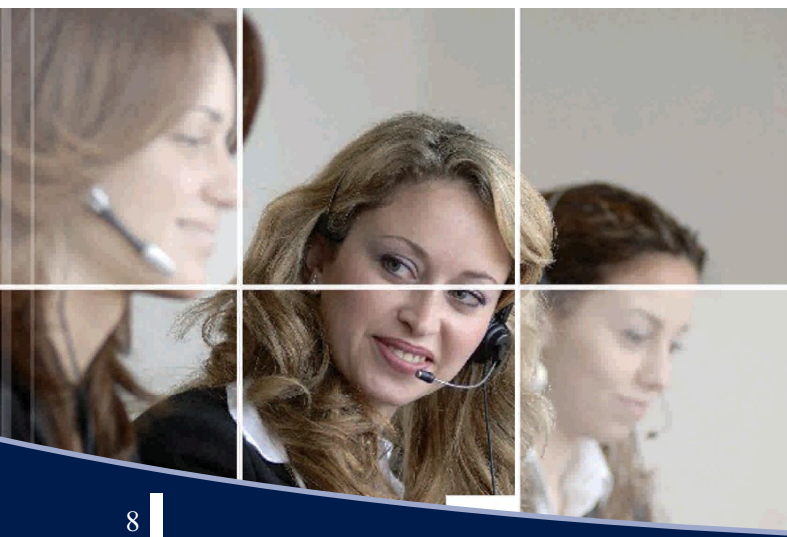
Tunisia and Jordan persisted into 2008 while Morocco underwent a strong recovery from the drought in 2007. Inflation in the Middle East is mainly driven by the depreciation of the US Dollar against third currencies and from pressures from the domestically determined prices of non-traded goods. Sizable foreign direct investment inflows continued to boost activity in Egypt and Jordan while Lebanon continued to recover from the conflict of 2006. Still-robust domestic demand and foreign investors' continued strong interest from within the GCC, support the fast economic growth in the GCC region. Currencies of many oil exporters in the region remained undervalued, constrained by the peg to the US Dollar, which has been depreciating.

Sub-Saharan Africa

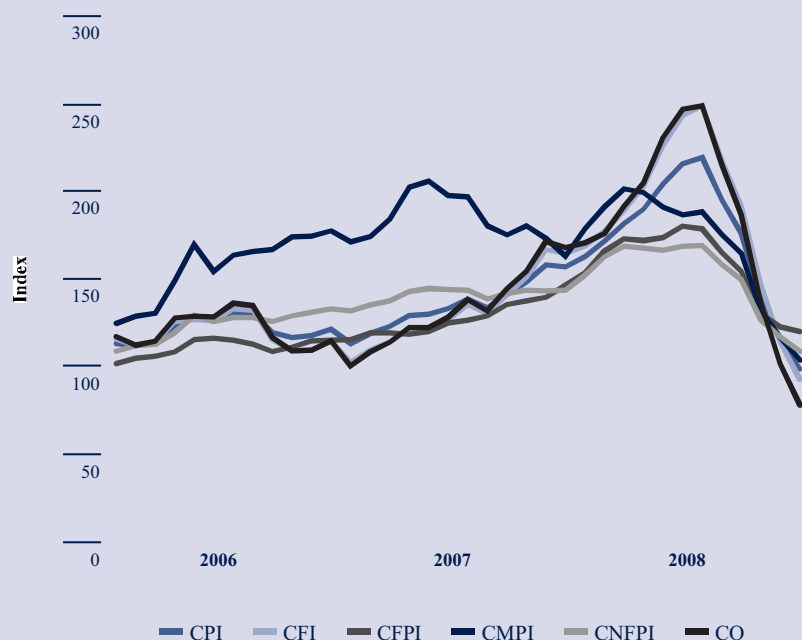
The economy of Sub-Saharan Africa has enjoyed another strong year, despite growth coming in at 5.4% in 2008 slowing down from the 6.9% recorded in 2007, which was its best period of sustained growth since the 1960s. While oil exporting countries, such as Nigeria, continue to benefit from strong oil revenues and still high global crude prices, other non-oil exporting countries were also performing strongly and outperforming historic trends. Economic improvement in the region has become more broad-based and less volatile, especially among oil-importing countries. Improving terms of trade, sound macroeconomic policies and the rising openness to trade has supported growth to both oil and non-oil exporting countries. Oil importers, despite faced by higher fuel prices during early 2008, putting further pressures on their current account deficits, benefited from higher prices for metal, such as South Africa and Togo, and for coffee, cocoa and cotton, such as Cote d'Ivoire and Zambia. By contrast, oil-exporting countries registered a surplus in their current account balances. These countries face the challenge of spending the windfall gains in a prudent manner, especially as oil prices remain under pressure, and without inducing further inflationary pressures.

Commodity Markets overview for 2008

Commodity prices, which have been trending upwards since 2003, continued the robust increase that began in 2007 into the



Commodity Price Indices



Source : International Monetary Fund

Notes:

CPI: Consumer Price Index; includes both fuel and non-fuel price indices

CFI: Commodity Fuel Index; includes crude oil, natural gas and coal price indices

CMPI: Commodity Metals Price Index; includes copper, aluminum, iron ore, tin, nickel, zinc, lead and uranium price indices

CNFPI: Commodity Non-Fuel Price Index; includes food and beverages and industrial inputs price indices

CO: Crude Oil; simple average of Dated Brent, West Texas Intermediate and the Dubai Fateh

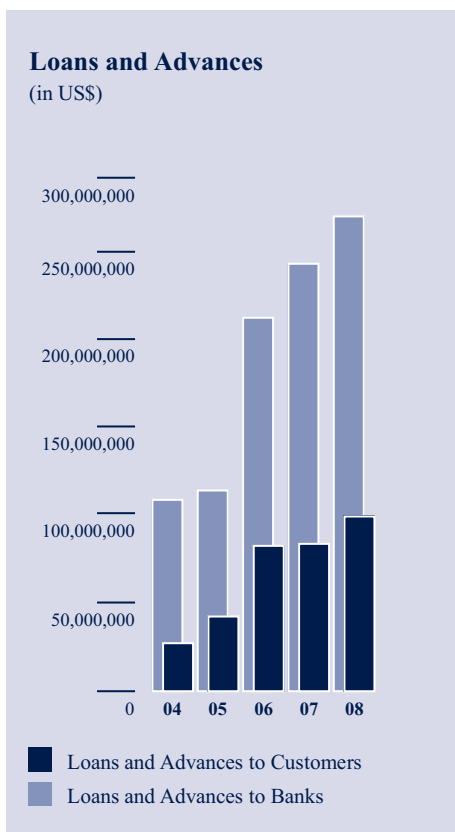
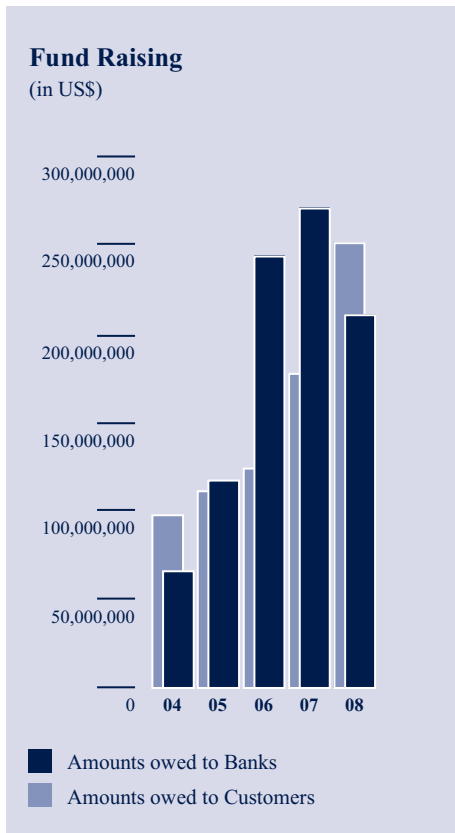
first half of 2008. However, during the second half of the year, commodity prices plummeted, giving up most of the gains obtained in the first half of the year. The abrupt decline reflected the end of an economic boom and the financial crisis of late 2008.

The recent commodity boom marked the largest and longest of any such boom cycle since 1900. The surge in oil prices was the first to mark the initial phase of the commodity boom, followed by the metals and minerals markets, with agricultural prices rising sharply in early 2007 (see chart above).

In the oil and metals sector, the surge in prices primarily reflected the strong growth in demand combined with a slow-growing supply capacity. Metal prices were also affected by the growing metal intensity in China, which reflected the country's strong investment, manufacturing and export growth. The diversion of food crops towards biofuel production, combined with the hike in oil and fertilizer prices, also led to substantial gains in agricultural prices. The food boom, which heightened during 2007 and early 2008, was also supported by increased interest in agricultural commodities as an asset class and by the export bans imposed by several countries.



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Since its inception in mid-2008, the economic downturn resulted into significant drops in commodity prices. After peaking in July 2008, most commodity prices have since dropped sharply, losing all the gains of 2007 and early 2008 (see chart on page 9). As shown by the Commodity Metal Price Index (CMPI), which is a composite index of copper, aluminum, iron ore, tin, nickel, zinc, lead and uranium prices, average metal prices fell to their pre-boom price level by the end of 2008. Metal prices plummeted on the back of slowing global demand and improving supply prospects, with zinc losing value on the backdrop of weakened automobile, slowdown in Chinese imports and construction activity. Price of lead also lost value as supply prospects improved.

The 2007 and early 2008 swell in food prices underpinned fast price increases in basic staples, in particular wheat and rice. This increase was reversed as economic growth deteriorated, fuel prices plummeted, export bans were lifted by several countries and improved food supplies became available. As demonstrated in the chart on page 9, the Commodity Food Price index (CFPI) and the Crude Oil (CO) Price Index track together throughout the sample period, highlighting the high input content of energy in the food production chain.

Group Activities and Operations

During 2008 the FIMBank Group continued developing its trade finance strategy across a wider matrix of products, clients and geographies. The strong and fast growth of the first 9 months of the year was contrasted by the financial turmoil and uncertainty which characterised the last quarter.

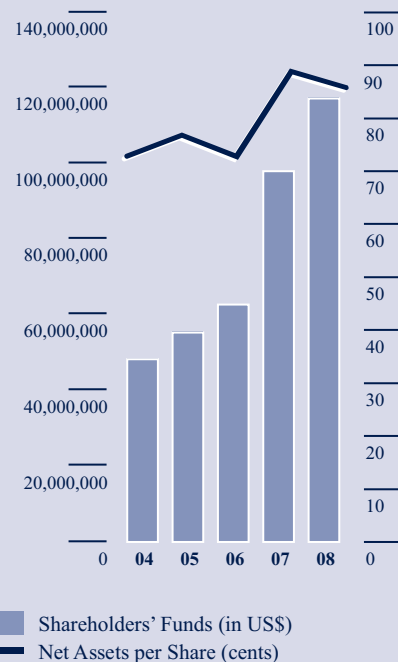
Despite the slow down in the major economies and its contagion cross-border effect, the Group continues to recognise that emerging markets remain the ultimate providers of food, energy resources and other essential commodities, and that specialised trade-finance products are required to facilitate trade flows that link emerging and global markets. In 2008, the Group continued to expand its client and product base in both emerging and developed markets, initiated new correspondent relationships with banks and consistently increased its international payments and foreign exchange activity. To complement and support this stronger business presence, the Group maintained a focused risk control, operational and compliance environment. This balance, coupled by proven trade finance expertise and experience, enables the Group to maintain a global client and product focus. On the funding side, the Group continued with its efforts to grow a more diversified deposit base, through adequate presence of medium to long-term deposits and a mix in terms of size, sector and industry of relationships, aimed at maintaining stability in its funding. However, liquidity rationing arising from the market crises and uncertainty caused the Group to develop a greater appetite for unfunded business towards the latter part of the year.

The Bank continued to expand correspondent banking services to financial institutions, by increasing activity with both existing and new relationships. For most of 2008 the Bank enjoyed a consistent flow of letter of credit transactions, structured finance and documentary credits, international payments, institutional deposits, post-export financing and foreign exchange. New business was sourced from existing relationships overseas as well as in Malta. 2008 saw an increase in contacts and new business emanating from the Bank's Dubai branch, as it slowly scaled up its operation and moved to new premises within the Dubai International Financial Centre. All this is reflected in the positive trend and improvement in fee and commission income generated during 2008.

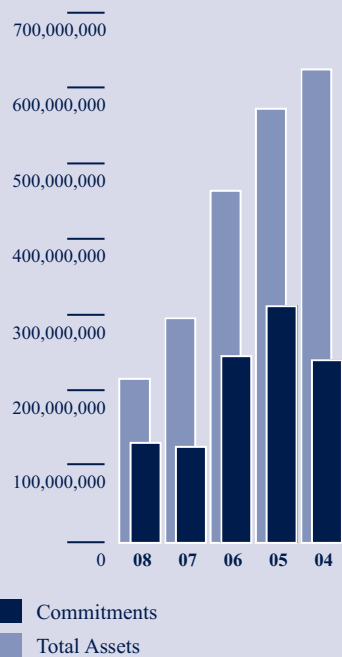
LFC consolidated its position as a market leader in forfaiting, retaining and securing prestigious international awards in the process. Strong business growth was achieved in 2008. Trading turnover (defined as the total value of forfaiting assets held for trading sold/matured during the year) increased by 32% to USD476 million, compared to the USD361 million registered in 2007. This performance has to be seen against the background of lower spreads which characterised the early part of the year. During the latter part of 2008, the turmoil in the global financial markets created more challenging conditions for LFC's business activities and for its customers. Liquidity for forfaiting assets held for trading was affected by the global crunch, slowing LFC's sales activity in the last quarter. Furthermore, the deterioration in global credit risk perception increased the margins available for new transactions. This improved LFC's forfaiting yields but had a negative impact on certain fair value adjustments in its portfolio, which adjustments directly affect the Group's results in the trading income figures. Notwithstanding these difficult circumstances, LFC recorded a pre-tax result of USD3.56 million for 2008, an increase of 11.5% on 2007.

The Group continued with its strategy of pursuing factoring ventures and projects in the midst of challenging market conditions. The factoring department in FIMBank continued to slowly grow its business book, concurrently improving on efficiency by separating operational support from marketing. FIM Business Solutions Limited, the IT subsidiary, now offers back-office support to the associated ventures, the Medfactors department in FIMBank, as well as third party clients. During the first half of 2008, following the merger of National Bank of Dubai (NBD) into Emirates Bank, the Bank acquired NBD's 50% share of Menafactors to increase its holding to 100%, and later transferred this shareholding to FIMFactors, the Group's holding vehicle for factoring joint ventures. Such acquisition is temporary, and it remains the Bank's intention to dispose a substantial part of such investment at the earliest feasible opportunity. Both Menafactors and The Egyptian Company for Factoring S.A.E. ("Egypt Factors") increased the scale and scope of their operations in 2008, and made steady progress in growing their business book. Moreover, on 3 March 2009,

Shareholders' Funds



Assets & Commitments (in US\$)



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Menafactors acquired 25% of LCI Factors S.A.L., a factoring company incorporated in Beirut, Lebanon, for a total consideration of USD100,000.

On 28 March 2008, the Bank concluded the sale of its 38.5% investment in Global Trade Finance Limited (“GTF”) to State Bank of India at the price of 73 Indian Rupees per ordinary share, for a gross consideration of 2.168 billion Indian Rupees or USD54.1 million at then prevailing rates of exchange. Full details of this transaction are provided in the Notes to the Financial Statements. India has been a positive experience for the Group’s factoring strategy, and it is planned to explore that market again when the right opportunity arises. In line with the strategy decided by the Board in 2007, the Group continues to look for opportunities to acquire equity stakes in factoring ventures. Discussions with potential strategic partners in Latin and South America and Russia, in particular, continued in 2008.

On 23 April 2008, FIM Property Investment Limited was incorporated. FPI will be used by the Group to acquire and hold immovable property to be developed for use in the Bank’s and Group’s operations. On 3 September 2008, FPI entered into a promise of sale and purchase agreement to acquire a site at The Exchange, Pendergardens, identified as the future location of the Group’s Head Office.

On the operational side, the Group continued consolidating its internal policies, procedures and processes. Committee Charters and procedures were also reviewed and updated. Amongst other things, updates were carried out to the Anti-Money Laundering (AML) and Anti-Terrorist Financing (ATF) policies and procedures manuals. A revised Internal Code for dealing in financial instruments, applicable to all directors and employees, was introduced. Accompanying such developments, extensive training, professional development and education programmes were continuing, both in-house and external, and covering soft as well as technical skills. Human resources in a number of the Bank’s departments were strengthened, of particular mention were the recruitment of a senior executive as the new Head of Banking and Deputy to the President, a Head of Factoring, senior officers in marketing, as well as management changes and appointments.

Following the appointment of the new Head of Banking, an exercise is underway to modernise and render more efficient the organisation of the banking services and products. More emphasis is being laid to reap better synergies between the various units, members and offices of the Group network. Contact with clients, correspondent bank relationships and business intermediaries were actively maintained through regular visits. Officers of the Group were regular participants at various international business events where the FIMBank Group was actively marketed.

During 2008, the Group adopted the requirements of Basel II’s Pillar 2 as embodied in Banking Rule 12 “The Supervisory Review Process of Credit Institutions under the Banking Act, 1994” issued by the Malta Financial Services Authority (“MFSA”). In carrying out its Internal Capital Adequacy Assessment Process (“ICAAP”) the Group performed a comprehensive risk-assessment of its entire business spectrum, under various stress scenarios, analysing such risks in terms of the internal control systems in place and determining whether an additional capital charge (over the requirement of Banking Rule 8 - Pillar 1) is required to cover such risks. The ICAAP document was approved by the Board in December 2008, subject to renewal in 2009 in line with the updated future business plans and projections.

The document, containing a number of stress-testing scenarios, determined a targeted capital adequacy ratio (Pillar 1 and Pillar 2) ranging between 12% and 20%. This range is deemed to provide an adequate level of risk-taking opportunities whilst at the same time not putting the Group’s capital under stress.

Income Statement

During the year under review, the Bank increased its Net Interest Income from USD6.01 million to USD8.51 million, an increase of 41%. Increases in short-term money market placements, trade loans and advances, discountings, as well as in the factoring book contributed to all-round growth in interest receivable. This was partly offset by the increase in interest payable due to the availability of higher customer and bank deposits and increased longer term funding sources. The Bank continued its



focus on its core trade-finance transactions, growing its Net Fee and Commission Income by 29% over 2007, from USD11.47 million to USD14.84 million.

The turbulence in financial markets which characterised the last quarter of 2008 impacted on the Bank's financial assets carried at fair value which resulted in an aggregate downward mark-to-market adjustment of USD7.18 million, all of which was unrealised as at 31 December 2008. The Bank is confident that these unrealised mark-downs, which are also reflected at Group level, will be recovered in time as they are not related to any foreseeable substantive deterioration in credit quality, and in good part refer to instruments of proximate maturity.

The above fair value adjustments were partly offset by realised and unrealised profits resulting from foreign exchange operations, which amounted to USD3.61 million (2007: USD1.16 million). During 2008, FIMBank also received a dividend of USD1.53 million from its forfailing subsidiary, LFC, while the disposal of shares in Global Trade Finance Ltd in March 2008 resulted in a realised profit at the level of the Bank of USD43.09 million. Net Impairment Losses increased by USD0.35 million to USD1.08 million, largely reflecting the increase in collective impairment allowances of USD0.32 million. Net Operating Income (net of impairments) amounted to USD62.09 million, significantly higher than the USD18.55 million booked in 2007. Operating costs, largely made up of staff and administrative overheads, also grew by 33% and include a significant absorption of the support given to subsidiaries, associated companies and start-up activities, further recruitment, increases in performance-based compensation and a one-time special bonus to staff paid in relation to the extraordinary profit arising out of the disposal of shareholding in GTF.

During 2008, the Bank recognised a provision of USD1.73 million in respect of a payment under documentary credit for which court proceedings had been instituted in 2006. FIMBank had defended the proceedings before the courts of the jurisdiction of the claimant, but a decision against it was received in the first half of the year under review. The judgment was delivered by the court of first instance and the Bank is appealing this decision.

At the solo level, FIMBank registered a pre-tax profit of USD40.50 million, compared to the USD3.50 million recorded in 2007, with a tax charge of USD9.96 million, out of which USD9.81 million represents tax held at source on the disposal of GTF.

At the Group level, Net Interest Income increased by 35% from USD10.48 million to USD14.19 million, while Net Fee & Commission Income increased by 33%, reflecting improved performance at both Bank level and its subsidiaries - LFC and FIMBusiness Solutions Limited. The disposal of shares in the Indian associated company, Global Trade Finance Ltd, contributed to a consolidated profit on disposal of USD33.63 million. When compared to the Group, the Bank recognises a higher profit on disposal, since the Group reflects the results of the associate on an equity basis while the Bank carries the investment at cost. The Group's Impairment Losses increased by 32% to USD1.08 million, mirroring in large part the trend in specific and collective impairment charges of the Bank. The Group booked a Net Operating Income (net of impairments) of USD59.25 million, significantly higher than that recorded in 2007 which amounted to USD25.94 million. Operating Expenses before the Provisions for Liabilities and Charges and Adjustment to Goodwill, increased by 26%, reflecting the increased activity and operating base of the Group.

The net contribution of equity accounted investees to the consolidated profit was of USD1.74 million (2007: USD4.63 million). This included GTF and Menafactors for the first quarter only and Egypt Factors for the entire year. Subsequent to the temporary acquisition of the entire shareholding of Menafactors, the Group started measuring this investment in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" which resulted in a profit for the Group of USD0.01 million.

It is important to point out that the Group had the option to avoid the unrealised mark-downs by reclassifying a significant portion of its trading book as "available for sale" or "held-to-maturity", as permitted by amendments to IAS 39 and IFRS 7 issued by the IASB in October 2008, thereby booking such assets at cost and by-passing the mark-to-market adjustments.



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However, it was considered prudent and more transparent, especially in the current market conditions, to steer clear from such accounting reclassifications.

For the year ended 31 December 2008, the FIMBank Group posted an after tax-profit of USD24.78 million, a significant increase over the USD10.46 million registered for the same period in 2007, with Group Basic Earnings per Share for 2008 amounting to US cents 18.60 (2007 - US cents 9.85).

Balance Sheet Developments

At the Bank level, Amounts Owed to Banks dropped by 22% to USD211 million. Increases in time deposits from existing and new Bank relationships and drawings under new and existing Bank lines have been offset by a drop in both cash collateral accounts and deposits withdrawable on demand from Banks. Amounts Owed to Customers increased by 40%, from USD180 million in 2007 to USD252 million, with time deposits growing by 80%, current and call deposits increasing by 8% while cash collateral accounts registered a drop of 14% when compared to 2007, respectively. The IFC Subordinated Convertible Term Loan remained unchanged at USD6 million, with no conversion taking place during 2008. Liabilities at 31 December 2008 stood at USD477 million, up by 3% when compared to 2007.

The Bank's Total Assets stood at USD589 million, an increase of 7% over the figure of 31 December 2007. Loans and Advances to Banks increased by 13%, largely reflecting increases in short-term money market exposures. Loans and Advances to Customers increased by USD24 million, or 12%, to USD230 million, fuelled by growth in trade-finance bridge facilities as well as substantial growth in the factoring book. Funding support to the Bank's subsidiaries stood at USD115 million, down by 5% over the levels recorded in 2007 and largely reflecting subdued activity towards year-end resulting from the market uncertainty. Financial Assets carried at fair value, comprising bonds and credit-linked notes, dropped by 29% when compared to 2007, largely reflecting the unrealised fair value losses incurred by these instruments. During 2008, Menafactors became a wholly-owned subsidiary with a total

equity investment of USD12 million, following the temporary acquisition of the entire shareholding of this entity by the Bank. As part of the Group's overall strategy, the Bank transferred its holding in Menafactors to FIMFactors B.V. After the sale of the Bank's shareholding in GTF in March 2008, investments in equity accounted investees dropped to USD2.01 million.

Group funding trends largely mirror those of the Bank with Total Liabilities at 7% above those of 31 December 2007. During 2008, LFC continued to develop own funding resources through further issues of promissory notes guaranteed by the parent. Holdings of such instruments stood at USD25 million, well above the level recorded at the end of 2007 of USD12 million.

At 31 December 2008, Group Total Assets stood at USD624 million, an increase of 9% over the results reported at 31 December 2007. Loans and Advances to Banks increased by 11% while Loans and Advances to Customers increased by 18%, trends which mirror that of the Bank. The Group's Trading Assets, comprising the forfaiting book, increased by 13%, from USD157 million in 2007 to USD177 million. Non-current assets held for sale stood at USD27 million, resulting from the Group's temporary acquisition of the entire shareholding in Menafactors Limited. During 2008, the Group also entered into a promise of sale and purchase agreement of freehold land and apartment, of which, USD1.44 million of the purchase consideration was settled at Balance Sheet date; capitalised expenses, representing directly attributable costs incurred in the process of acquiring this property, amounted to USD0.30 million as at Balance Sheet date. The Group's Deferred Tax Asset remained at same levels of 2007, with no further recognition of deferred tax asset taking place at LFC level during 2008.

Group equity as at Balance Sheet date stood at USD117 million, an increase of 19% on the Equity at the 2007 year-end, reflecting largely the Group's record profit performance as well as earnings retention as a result of the two scrip dividends approved in April and August 2008. The Group's Basel II capital ratio at end of 2008 stood at 21.91%, well above the required regulatory minimum of 8%.



Group commitments stood at USD240 million at 31 December 2008, a drop of 22% when compared to the levels recorded at the end of 2007, reflecting drops in Commitments to Purchase Forfeiting Assets, Documentary Credits and Undrawn Credit facilities. This was partially offset by an increase in unfunded Credit-linked Notes, which stood at USD38 million at the end of 2008 while Confirmed Letters of Credit remained at same levels of 2007. Contingent Liabilities, comprising Guarantees to banks and customers, increased by 27%, when compared to 2007.

Outlook for 2009

In 2008 the Group registered a strong operating performance which once again underscored its strong business fundamentals, market and product expertise. This was reflected in significant growth in the main interest and fee-based operating sources of income, particularly in the first three quarters of the year. This trend was reversed during the last quarter when weakening economic conditions, financial market turbulence and deteriorating confidence caused scarcity in liquidity and a slowdown in business. Against a landscape of difficult and weakening cycles in the major economies and emerging markets, the strategy of product and market diversification, the specialisation in the finance of the international trade, goods and commodities which tends to be resilient even in stressful circumstances, as well as the exposure to regions that inherently feel less the effects of the crises, continue to provide opportunities for profit, at all levels of the Group.

The first months of the 2009 financial year witnessed a continuation of extreme nervousness and volatility in the international financial markets, as Governments around the world took exceptional measures to stabilise the global financial system at the same as trying to nurse their economies through weakening economic conditions and, in many cases, deepening recessions. Although the concerted actions being taken by Governments, such as the massive re-capitalisation of major international banks and infusion of liquidity, demonstrate a certain determination to secure cross-border stability soonest, serious concerns about the extent and depth of the crises are accentuating the prevailing lack of confidence. As the markets

continue to re-price risk and liquidity remains scarce, prospects of a pick-up in credit and economic activity remain modest. Against this background, a prolonged shortage of liquidity coupled with the threat of potential credit issues make business sentiment cautious, and prospects of growing the business more challenging.

The Directors consider that the trends demonstrated by the challenging circumstances of the last quarter of 2008 are expected to apply for the foreseeable future in 2009. However the Group has important strengths and expertise which should continue to drive its operating fundamentals and performance; in this regard, they are optimistic that the unrealised mark-downs in assets should be temporary and will be clawed back in time as they do not represent a foreseeable substantive deterioration or impairment in credit quality, and in any case are not realised losses. In these highly challenging and difficult conditions, the Directors are confident that prudent management, a demonstrated strong approach to risk coupled with the necessary flexibility will continue to provide the Group with opportunities to grow the business.



DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Najeeb H.M. Al-Saleh (*Chairman*)
 John C. Grech (*Vice Chairman*)
 Fouad M.T. Alghanim
 Mohammed I.H. Marafie
 Duco Reinout Hooft Graafland (resigned on 10 April 2008)
 Hamad MUSAED BADER Mohammed Al-Sayer
 Francis J. Vassallo
 Tareq M. Al-Saleh
 Jacques Leblanc
 Rogers David LeBaron
 Pierre Olivier Fragnière
 John. D. Freeman (appointed on 10 April 2008)

COMPANY SECRETARY

Raffaella Bonadies

SENIOR MANAGEMENT

PRESIDENT

Margrith Lütschg-Emmenegger

SENIOR EXECUTIVE VICE PRESIDENT

Armin Eckermann *Head of Banking, Deputy to the President
 (appointed 16 December 2008)*

EXECUTIVE VICE PRESIDENTS

Marcel Cassar *Chief Financial Officer*
 Simon Lay *Managing Director,
 London Forfaiting Company Limited*
 Silvio Mifsud *Head of Information & Administration
 (appointed 1 March 2008)*
 Raymond Busuttill *Head of Business Development & Marketing
 (resigned 16 January 2008)*

SENIOR VICE PRESIDENTS

Raffaella Bonadies *Head of Legal & Compliance*
 Bruno Cassar *Head of Human Resources*
 Nassif A. Chehab *Head of Financial Institutions*
 Ivan Fsadni *Head of Internal Audit*
 Nigel Harris *Head of FIMBank DIFC Branch*
 Carmelo Occhipinti *Head of Risk Management*
 Richard Scerri *Head of Finance*
 Renald Theuma *Head of Corporate Clients*
 Charles Wallbank *Head of Operations*



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DIRECTORS' REPORT

For the Year Ended 31 December 2008

The Directors are pleased to present their report together with the audited financial statements of the Bank and the Group for the year ended 31 December 2008. This report is prepared in terms of the Companies Act, 1995 and complies with the disclosure requirements of the Sixth Schedule to the same Act.

Results for the Year

The Bank and the Group reported a profit after tax of USD30,536,508 and USD24,778,640 respectively for the year under review.

Further information about the results is provided in the "Income Statements" on page 33 and in the "Review of Operations" on pages 5 to 15.

Principal Activities

The FIMBank Group of Companies (the "Group") comprises FIMBank p.l.c. (the "Bank"), and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), and FIMFactors B.V. ("FIMFactors"). LFC is itself a parent of a number of subsidiaries as set out in note 27.3 to the accounts whilst FIMFactors is the parent of a fully owned subsidiary Menafactors Limited ("Menafactors").

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. During the financial year ended 31 December 2008, the Bank incorporated FPI, acquired from Emirates National Bank of Dubai full control of Menafactors on a temporary basis, and transferred its holding in Menafactors to FIMFactors as part of a reorganisation of its holdings in its factoring entities. The Group is supervised on a consolidated basis by the Malta Financial Services Authority, whilst Menafactors and FIMBank's Branch in the United Arab Emirates are licensed and regulated by the Dubai Financial Services Authority.

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

FIMFactors B.V., a wholly owned subsidiary registered in the Netherlands, is the corporate vehicle for FIMBank's holdings in factoring joint ventures and associated companies.

FBS, a wholly owned subsidiary registered in Malta, has as its primary purpose the provision of information technology 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 has been set up with the primary objective to plan, construct and complete FIMBank's head office in Malta. FIM Property Investment Limited will also be responsible for the day-to-day management of the purposely built office block and leasing, if any, of space for commercial purposes.

Menafactors 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.

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

On 28 March 2008, the Bank concluded the sale of its 38.5% investment in Global Trade Finance Limited ("GTF") to State Bank of India. The sale of the Bank's 29.7 million ordinary shares in GTF was executed at a price of 73 Indian Rupees per

DIRECTORS' REPORT

For the Year Ended 31 December 2008

ordinary share, for a gross consideration of 2.168 billion Indian Rupees (USD54.1 million). Further details are provided in Notes 25 and 37 to these financial statements.

Business Review and Future Developments

A review of the business of the Group during the current year and an indication of likely future developments are given in the "Review of Operations" on pages 5 to 15.

Dividends and Reserves

The Directors will be recommending to the Annual General Meeting of shareholders the payment of a scrip dividend amounting to USD3,035,907 (2007: USD4,184,820), representing a net dividend per ordinary share of US cents 2.251215 (2007: US cents 3.80232493). In view of the Bonus Issue of shares which took place in April 2008, the effective dividend per share paid to ordinary shareholders in respect of the financial year ended 31 December 2007 amounts to 3.1685977 US cents.

In addition to this, during the financial year ended 31 December 2008, the Directors after considering the extraordinary nature of the gain made by the Bank on the disposal of its shareholding in GTF, declared an extraordinary dividend of USD4,397,685, representing a net dividend per ordinary share of USD cents 3.2909240.

Both dividend payments result in a total net dividend per share for the year of US cents 5.542139.

Standard Licence Conditions and Regulatory Sanctions

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

Approvals at the Annual General Meeting of Shareholders

The Bank convened its Annual General Meeting on 10 April 2008. Along with the statutory Ordinary Resolutions, the Meeting also approved Resolutions presented as special business to the shareholders, namely: the disclosure of unpublished price-sensitive information under certain circumstances and a Bonus Issue of 22,012,168 shares of USD0.50c each. Furthermore, four Extraordinary Resolutions were approved, namely (a) renewal of the Directors' authority to: (i) issue new equity securities and to (ii) restrict or withdraw statutory pre-emption rights; (b) authority to the Bank to acquire its own shares; and (c) amendment to the Bank's Memorandum and Articles of Association to increase the Authorised Share Capital from USD100 million to USD200 million divided into 400 million Ordinary Shares of USD0.50c each.

At the Annual General Meeting, Duco Reinaut Hooft Graafland retired as director and did not offer himself for re-election. Mr. John D. Freeman was elected by the Meeting to fill the vacancy created by Mr. Graafland. All the other directors who retired and offered themselves for re-election continue to serve as members of the Board until the next Annual General Meeting.

Disclosure in terms of the Sixth Schedule to the Companies Act, 1995

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

Disclosure in terms of the Listing Rules

The Directors refer to the following disclosures in terms of Listing Rule 9.43:

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

DIRECTORS' REPORT

For the Year Ended 31 December 2008

- b. Except as provided for by Articles 6A and 41 of the Articles of Association of the Bank, or where the consents of the supervisory authorities may be required, there are no restrictions on the transfer of securities, or limitations on the holding of securities, or the need to obtain the approval of the Bank or other holders of securities of the Bank for any such transfer or holding.
- c. Direct and indirect shareholdings in excess of 5% of the Share Capital are disclosed in Schedule V "Other Relevant Company Information" appended to the Financial Statements.
- d. In accordance with Article 6A of the Articles of Association of the Bank, for a number of reserved matters, the Bank needs to obtain the prior written consent of the International Finance Corporation. The reserved matters are the following:
 - Reduction in the capital of the Bank;
 - Change in the nominal value of, or the rights attached to any shares of any class of the Bank, unless this is specifically required by Maltese law;
 - Merger or consolidation of the Bank;
 - Material reorganisation of the Bank;
 - Sale of all or substantially all of the Bank's assets;
 - Change in the Bank's capital structure, except for the issuance of any new shares or securities convertible into shares. In case of issue of new shares or securities convertible into shares, the Bank needs to inform the IFC 90 days prior to the issuance of such shares; and
 - Alteration or amendment to the Memorandum or Articles of Association.
- e. There is no share scheme in place which gives employees rights to any form of control.
- f. The Bank's Articles of Association do not contain more stringent provisions than the ones contained in the Companies Act governing the changes or variations in the rights attached to shares.

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

- g. There are no agreements between shareholders, known to the Bank, which may result in restrictions on the transfer of securities and/or voting rights.
- h. The rules and procedures governing the appointment and replacement of Board members are provided by the Articles of Association and are referred to in the "Statement of Compliance with the Principles of Good Corporate Governance". Any amendments to the Articles shall be by means of an Extraordinary Resolution in accordance with the provisions of Articles 90 and 91.
- i. At the 2008 Annual General Meeting the Bank requested and obtained a renewal authorisation from the shareholders to buy back its own shares, as indeed empowered to do so by Article 23 of the Articles of Association. Such authorisation is required in terms of the Companies Act and is valid until the Annual General Meeting in 2009. The number of shares which the Company is authorised to buy back may not exceed the maximum permissible at law, i.e. up to 10% of the issued share capital. Any prospective acquisition will be financed from profits available for distribution in terms of law. The Bank has declared that it would be its intention to acquire such shares with a view to dispose of them in an orderly manner and within a reasonable time-frame; they will neither be retained as own shares for a considerable period of time nor cancelled as part of a capital reduction exercise. The price range was established on the basis of a range of up to 50% below and above the trade weighted average price of the shares for the period of seven months up to and including 13 March 2008, with discretion being given to the Directors in the use of such range. This basis was consistent with that used in the preceding two Annual General Meetings.

DIRECTORS' REPORT

For the Year Ended 31 December 2008

- j. Unless otherwise disclosed in this Annual Report, there are no significant agreements to which the Bank is a party and which take effect, alter or terminate upon a change of control of the Bank following a takeover bid and the effects thereof.
- k. There are no agreements between the Bank and its Board Members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

Events after the Balance Sheet date

On 3 March 2009, Menafactors acquired 25% of LCI Factors S.A.L., a factoring company incorporated in Beirut, Lebanon, for a total consideration of USD100,000.

Moreover, the Board of Directors also approved the Prospectus for a Bond in respect of an issue of an aggregate of EUR15,000,000 Subordinated Bonds 2012-2019 subject to an over-allotment option of EUR15,000,000.

Further information is found in note 47 to these Financial Statements.

Directors

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

Board of Directors

Najeeb H.M. Al-Saleh (*Chairman*)
 John C. Grech (*Vice Chairman*)
 Fouad M.T. Alghanim
 Mohammed I.H. Marafie
 Duco Reinout Hooft Graafland (resigned on 10 April 2008)
 Hamad MUSAED BADER Mohammed Al-Sayer
 Francis J. Vassallo
 Tareq M. Al-Saleh
 Jacques Leblanc
 Rogers David LeBaron
 Pierre Olivier Fragnière
 John. D. Freeman (appointed on 10 April 2008)

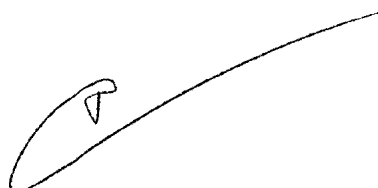
Independent Auditors

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 9 March 2009 and signed on its behalf by:



Najeeb H.M. Al-Saleh
Chairman



John C. Grech
Vice Chairman

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

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Introduction

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

Compliance with the Principles

Although the Principles are not mandatory, the Authority has recommended that Listed Companies endeavour to adopt such Principles.

The Board strongly believes that the Principles are in the best interests of the shareholders because they commit both the Directors and the Management and employees of the Bank to internationally recognised high standards of corporate governance. Ultimate responsibility for good corporate governance is of the Directors who have therefore resolved to adopt the Principles and endorse them accordingly, except for those instances where there exist particular circumstances that warrant non-adherence thereto, or at least postponement for the time being.

Roles and Responsibilities

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

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

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

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

These procedures apply also to the appointment of officers. A brief outline of induction, training and professional development provided to directors and officers of the Group is given in the ‘Review of Operations’ on pages 5 to 15.

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Going Concern

As required by Listing Rule 9.44e.13, upon due consideration of the Bank's profitability and balance sheet, 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.

Board Composition and Appointment of Directors

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

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

	<i>Year when first appointed</i>	<i>No. of shares held in the Bank directly in his name</i>
Najeeb H.M. Al- Saleh (<i>Chairman</i>)	1994	787,889
John C. Grech (<i>Vice-Chairman</i>)	2004	509,438
Mohamed I.H. Marafie	1994	5,990,101
Fouad M. T. Alghanim	1997	7,152,412
Hamad Musaed Bader Mohammed Al-Sayer	2002	Nil
Francis J. Vassallo	2003	Nil
Tareq M. Al-Saleh	2004	Nil
Jacques Leblanc	2004	Nil
Rogers David LeBaron	2006	Nil
Pierre Olivier Fragnière	2007	Nil
John D. Freeman	2008	Nil

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

Aside from these direct interests in the shareholding of the Bank, directors hold beneficial interests in the Bank's shareholding as shown in Schedule V. Other than in the case of the IFC - who has the right to appoint a Director pursuant to the Bank's Memorandum of Association - no shareholder is entitled to any automatic right to nominate or appoint a director on the Board. Details of outstanding loans, guarantees or similar facilities made available to related parties or beneficial interests thereof, including directors, are disclosed in the Notes to the Financial Statements.

Proceedings of Directors

The proceedings of Directors are regulated by the Bank's Articles. Meetings of the Board are held at least quarterly (unless circumstances so warrant) and are notified by the Company Secretary at least seven days before the meeting with the issue of the agenda for the forthcoming meeting. The agenda is accompanied by such papers and documents as are necessary to make Directors informed of issues relating to their roles and responsibilities, and in particular of the decisions they are expected to take. Meetings also include presentations by Management, whilst other information and documentation is made available for perusal by the Directors, at their request. Members of senior management, who invariably include the President, attend all Board meetings. The Board also might request that the meetings be attended by other employees or by professional advisors, as and when necessary.

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

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

In terms of the Articles, whenever a conflict of interest situation, real or potential, arises in connection with any matter, the interest has to be declared. In particular, the Director concerned refrains from taking part in proceedings relating to the matter or decision. The minutes of Board meetings, as well as those of Board Committees, invariably include a suitable record of such declaration and of the action taken by the individual Director concerned. In all other circumstances, the Directors are expected to play a full and constructive role in the Group's affairs. The Board also believes that, for the time being, a formal evaluation procedure for the Board of Directors and the Board Committees is not required.

The Board held four meetings during 2008, and the overall attendance rate for these meetings was 86%.

Board Committees

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

Accordingly, the Board has established the following committees:

- Executive Committee
- Audit Committee
- Risk Committee
- Asset-Liability Committee

Executive Committee

The Executive Committee acts as the highest delegated authority by the Board in overseeing the activities and management of the Group and approving limits beyond the powers of the other Committees.

The members of the Executive Committee are:

Jacques Leblanc (*Chairman*)
 Najeeb H. M. Al-Saleh
 Francis J. Vassallo
 Tareq M. Al-Saleh
 Pierre Olivier Fragnière
 Margrith Lütschg-Emmenegger
 Marcel Cassar
 Simon Lay

The Executive Committee met on eight occasions during 2008, however communication with and between Management and the Committee's members is regular and ongoing.

Compensation Sub-Committee

Since June 2007 the Executive Committee has delegated the review, approval and monitoring of the overall Group remuneration policy to a sub-committee constituted from amongst its members. The Compensation Sub-Committee usually meets on a quarterly basis to consider and monitor remuneration, bonuses and share options allocation to staff, within the parameters set by the Board.

The members of the Compensation Sub-Committee are:

Najeeb H.M. Al-Saleh (*Chairman*)
 Jacques Leblanc
 Francis J. Vassallo
 Tareq M. Al-Saleh
 Pierre Olivier Fragnière
 Margrith Lütschg-Emmenegger

During 2008, the Compensation Sub-Committee met on three occasions.

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Audit Committee

The Audit Committee assists the Board in fulfilling its supervisory and monitoring responsibilities by reviewing the systems and procedures of internal control implemented by Management, the financial statements disclosures and the adequacy of financial information, and the external and internal audit processes. The Committee's terms of reference are included in the Audit Charter and reflect the requirements of the Listing Rules as well as current best recommendations and practices of good corporate governance. The Committee also considers the arm's length nature of related party transactions that the Bank carries out and, in August 2008, it approved a 'Procedure Paper' detailing the responsibilities for reporting, consideration, as well as action pursuant to, related party transactions. Both the Audit Committee's and the Internal Auditor's terms of reference clearly stipulate their independence from other Board Committees and Management. The Internal Auditor has direct access to the Committee Chairman at all times.

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

The Audit Committee members are:

John D. Freeman (*Chairman*) (appointed on 10 April 2008)
 Hamad Musaed Bader Mohammed Al-Sayer
 Tareq M. Al-Saleh
 Duco Reinout Hooft Graafland (retired on 10 April 2008)

Duco Reinout Hooft Graafland served as chairman of the Audit Committee until his retirement as Director on 10 April 2008.

In accordance with the Listing Rules, Mr. John D. Freeman is deemed to be an independent member of the Audit Committee. Mr. Freeman served for many years as President and Managing Director of Quabbin Capital, a private equity investment firm as well as a board member of a number of its portfolio companies.

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

The Audit Committee normally requests members of Management to attend its meetings, and these invariably include the President.

The Audit Committee held six meetings during 2008, at two of which the independent auditors were present. However, communication with and between the Secretary/Internal Auditor and the Committee's members is ongoing, and considerations that required the Committee's attention were acted upon between meetings and decided by the Members (where necessary) through electronic circulation and correspondence.

Risk Committee

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

Since June 2007, certain powers of the Risk Committee have been delegated to a Risk Sub-Committee. Consequently, the Risk Sub-Committee decides on credit applications up to and including USD5 million. Credit applications exceeding USD5 million up to the Bank's legal lending limit are decided by the Risk Committee.

The Risk Committee members are:

Francis J. Vassallo (*Chairman*)
 Margrith Lütschg-Emmenegger (*Vice Chairman*)
 John C. Grech
 Marcel Cassar
 Armin Eckermann (appointed on 16 December 2008)

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Risk Sub-Committee members are:

Margrith Lütschg-Emmenegger (*Chairman*)
 Marcel Cassar (*Vice Chairman*)
 Simon Lay
 Renald Theuma
 Carmelo Occhipinti

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

During 2008, the Risk Committee met on 29 occasions and the Risk Sub-Committee met on 23 occasions.

Asset-Liability Committee

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

The Asset-Liability Committee members are:

Francis J. Vassallo (*Chairman*)
 Margrith Lütschg-Emmenegger
 Marcel Cassar
 Nassif Chehab
 Carmelo Occhipinti

The ALCO met on four occasions during 2008.

Internal Control

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

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

Terms and Remuneration

The Annual General Meeting of shareholders approves the maximum annual aggregate remuneration which the Directors may receive for the holding of their office. At the Annual General Meeting of 10 April 2008, the shareholders established USD350,000 as the maximum aggregate amount to which Directors would be entitled in 2008. Of the total remuneration paid during 2008, USD200,000 relate to payments made to Directors in respect of services rendered during prior years. Further details about the aggregate remuneration received by Directors in 2008 are provided in the Notes to the Financial Statements. The Board decides and approves how individual remuneration is to be allocated amongst Directors for the roles that they carry out, such as participation at Committees, and for acting as Chairman of the Board and of Committees. None of the Directors is on a contract of service with the Bank. No Director is entitled to profit sharing, share options or pension benefits from the Bank or other member of the Group.

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Board considers that the terms and remuneration of members of Management should reflect their responsibilities whilst taking account of (a) industry and market benchmarks, reflecting internationally established criteria, but within (b) conservative parameters establishing the relationship between fixed compensation terms and performance related bonuses. The review, approval and monitoring of the overall Group remuneration policy, as well as the implementation of the Executive Share Option Schemes, is delegated by the Board to the Executive Committee which, in turn, has established a Compensation Sub-Committee to oversee this responsibility. The Sub-Committee determines the remuneration, bonuses as well as the allocation of share options of all other members of staff, within the parameters approved by the Board.

Commitment to Shareholders and an Informed Market

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.

The Board complies with the provisions of the Bank's Memorandum and Articles, as well as all legislation, rules and regulations that oblige it to maintain a fair and informed market in the Bank's equity securities. It discharges its obligations by having in place formal procedures for dealing with potentially price-sensitive information and ensuring the proper conduct of its officers and staff in that regard.

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 2008 the Bank issued seventeen announcements. More specifically, in accordance with Listing Rules 9.51 et seq., two announcements were made regarding the Interim Directors' Statements on 14 May 2008 and 10 October 2008 respectively.

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

Dealings by Directors, Management and Staff

In December 2008, the Board approved the "FIMBank Financial Instruments Internal Code of Dealing" which has been drawn up in accordance with the requirements of the Listing Rules, and which supersedes and replaces the existing Code of Conduct on dealings by Directors and Senior Officers approved in February 2006. The revised Code contains updated requirements, including 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.

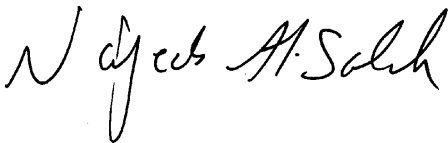
STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Corporate Social Responsibility

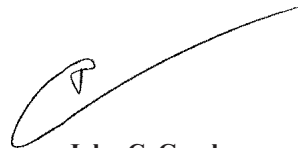
The Board of Directors encourages that sound principles of corporate social responsibility are adhered to in the ongoing management practices of the Group. As a result, from time to time the Bank and its subsidiaries are involved in supporting initiatives at both national and community level aimed at contributing to economic and societal development. They also assist and promote small-scale projects of a charitable and humanitarian nature. Late in 2008, the Bank agreed to support a national project in Malta aimed at creating awareness and availability of facilities for the disposal and recycling of batteries, which project is expected to take place in 2009.

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

Approved by the Board of Directors on 9 March 2009 and signed on its behalf by:



Najeeb H.M. Al-Saleh
Chairman



John C. Grech
Vice Chairman

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Companies Act, 1995 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.

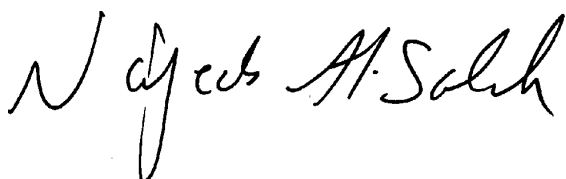
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies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

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 and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors by:



Najeeb H.M. Al-Saleh
Chairman



John C. Grech
Vice Chairman

BALANCE SHEETS

At 31 December 2008

	Note	GROUP		BANK	
		2008 USD	2007 USD	2008 USD	2007 USD
ASSETS					
Balances with the Central Bank of Malta and cash	18	8,820,337	15,149,627	8,811,029	15,137,885
Trading assets	19	177,329,308	157,181,282	-	-
Derivative assets held for risk management	20	726,199	1,057,929	726,199	1,057,929
Financial assets designated at fair value through profit or loss	21	25,623,116	36,278,285	25,623,116	36,278,285
Loans and advances to banks	22	268,569,116	242,680,313	264,614,667	234,875,967
Loans and advances to customers	23	98,499,302	83,689,609	229,640,248	205,566,411
Investments available-for-sale	24	61,789	149,029	61,789	149,029
Investments in equity accounted investees	25	1,073,715	21,646,962	2,013,425	13,567,359
Non-current assets classified as held for sale	26	27,397,646	-	-	-
Investments in subsidiaries	27	-	-	49,394,666	37,392,666
Property and equipment	28	3,531,500	1,743,871	1,631,305	1,441,827
Intangible assets	29	1,193,393	1,041,451	589,825	463,678
Current tax recoverable		210,811	-	210,811	-
Deferred tax asset	30	8,007,358	7,812,096	1,285,255	1,206,759
Other assets	31	1,498,224	1,466,659	2,359,199	1,134,150
Prepayments and accrued income	32	1,872,718	1,424,467	2,044,412	1,503,348
Total assets		624,414,532	571,321,580	589,005,946	549,775,293
LIABILITIES AND EQUITY					
Liabilities					
Derivative liabilities held for risk management	20	1,058,376	45,834	1,159,079	255,540
Amounts owed to banks	33	210,169,468	270,259,724	211,163,939	272,381,082
Amounts owed to customers	34	251,494,010	176,468,204	252,147,811	180,034,363
Liabilities directly associated with non-current assets classified as held for sale	26	294,528	-	-	-
Debt securities in issue	35	24,754,490	11,554,888	-	1,000,000
Subordinated convertible loan	36	6,000,000	6,000,000	6,000,000	6,000,000
Provisions	37	2,600,320	1,155,072	1,733,104	-
Current tax payable		-	637,144	-	637,144
Other liabilities		2,280	1,768	2,280	1,769
Accruals and deferred income	38	11,404,750	7,263,839	4,737,313	3,359,395
Total liabilities		507,778,222	473,386,473	476,943,526	463,669,293
Equity					
Called up share capital	39	67,428,196	54,946,953	67,428,196	54,946,953
Share premium	39	9,658,098	18,136,923	9,658,098	18,136,923
Currency translation reserve	39	3,790	1,501,139	-	-
Other reserve	39	9,311,248	8,988,067	2,681,041	2,681,041
Retained earnings	39	30,234,978	14,362,025	32,295,085	10,341,083
Total equity		116,636,310	97,935,107	112,062,420	86,106,000
Total liabilities and equity		624,414,532	571,321,580	589,005,946	549,775,293

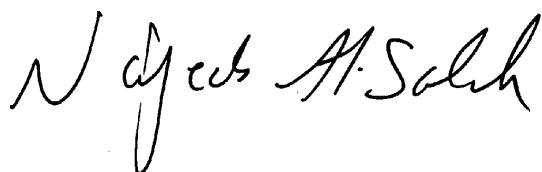
BALANCE SHEETS

At 31 December 2008

	Note	GROUP		BANK	
		2008 USD	2007 USD	2008 USD	2007 USD
MEMORANDUM ITEMS					
Contingent liabilities	40	<u>11,148,490</u>	<u>8,804,574</u>	<u>36,148,490</u>	<u>19,804,574</u>
Commitments	41	<u>240,121,052</u>	<u>308,451,886</u>	<u>235,844,877</u>	<u>239,187,505</u>

The notes on pages 36 to 110 are an integral part of these financial statements.

The financial statements on pages 30 to 110 were approved by the Board of Directors on 9 March 2009 and were signed on its behalf by:



Najeeb H.M. Al-Saleh
Chairman



John C. Grech
Vice Chairman

STATEMENTS OF CHANGES IN EQUITY

For the Year Ended 31 December 2008

GROUP	Called up	Issued	Currency	Other	Retained	Total
	Share	Share	Translation	Reserve	Earnings	
	Capital	Premium	Reserve	Reserve	Earnings	
	USD	USD	USD	USD	USD	USD
At 1 January 2007	43,084,340	3,654,479	(12,229)	2,681,041	13,243,930	62,651,561
Issue of share capital	11,447,350	13,756,486	-	-	-	25,203,836
Share issue costs	-	(86,096)	-	-	-	(86,096)
Currency translation reserve	-	-	1,513,368	-	-	1,513,368
Transfer to other reserves	-	-	-	6,307,026	(6,307,026)	-
Shares issued on exercise of options	47,658	40,355	-	-	-	88,013
Profit for the year	-	-	-	-	10,462,050	10,462,050
Dividend paid	-	-	-	-	(3,036,929)	(3,036,929)
Scrip issue of ordinary shares	367,605	771,699	-	-	-	1,139,304
As at 31 December 2007	<u>54,946,953</u>	<u>18,136,923</u>	<u>1,501,139</u>	<u>8,988,067</u>	<u>14,362,025</u>	<u>97,935,107</u>
At 1 January 2008	54,946,953	18,136,923	1,501,139	8,988,067	14,362,025	97,935,107
Issue of share capital	11,006,084	(11,006,084)	-	-	-	-
Currency translation reserve	-	-	(1,497,349)	-	-	(1,497,349)
Transfer to other reserves	-	-	-	323,181	(323,181)	-
Shares issued on exercise of options	404,043	147,069	-	-	-	551,112
Profit for the year	-	-	-	-	24,778,640	24,778,640
Dividend paid	-	-	-	-	(8,582,506)	(8,582,506)
Scrip issue of ordinary shares	1,071,116	2,380,190	-	-	-	3,451,306
As at 31 December 2008	<u>67,428,196</u>	<u>9,658,098</u>	<u>3,790</u>	<u>9,311,248</u>	<u>30,234,978</u>	<u>116,636,310</u>
BANK		Called up	Share	Other	Retained	
		Share	Premium	Reserve	Earnings	Total
		USD	USD	USD	USD	USD
At 1 January 2007		43,084,340	3,654,479	2,681,041	10,269,612	59,689,472
Issue of share capital		11,447,350	13,756,486	-	-	25,203,836
Share issue costs		-	(86,096)	-	-	(86,096)
Shares issued on exercise of options		47,658	40,355	-	-	88,013
Profit for the year		-	-	-	3,108,400	3,108,400
Dividend paid		-	-	-	(3,036,929)	(3,036,929)
Scrip issue of ordinary shares		367,605	771,699	-	-	1,139,304
At 31 December 2007		<u>54,946,953</u>	<u>18,136,923</u>	<u>2,681,041</u>	<u>10,341,083</u>	<u>86,106,000</u>
At 1 January 2008		54,946,953	18,136,923	2,681,041	10,341,083	86,106,000
Issue of share capital		11,006,084	(11,006,084)	-	-	-
Shares issued on exercise of options		404,043	147,069	-	-	551,112
Profit for the year		-	-	-	30,536,508	30,536,508
Dividend paid		-	-	-	(8,582,506)	(8,582,506)
Scrip issue of ordinary shares		1,071,116	2,380,190	-	-	3,451,306
At 31 December 2008		<u>67,428,196</u>	<u>9,658,098</u>	<u>2,681,041</u>	<u>32,295,085</u>	<u>112,062,420</u>

The notes on pages 36 to 110 are an integral part of these financial statements.

INCOME STATEMENTS

For the Year Ended 31 December 2008

	Note	GROUP		BANK	
		2008 USD	2007 USD	2008 USD	2007 USD
Interest income	8	32,815,017	28,418,274	26,111,791	22,870,430
Interest expense	8	(18,620,789)	(17,936,912)	(17,606,671)	(16,858,192)
Net interest income	8	14,194,228	10,481,362	8,505,120	6,012,238
Fee and commission income	9	20,557,357	16,156,674	16,128,175	12,420,609
Fee and commission expense	9	(1,625,947)	(1,945,941)	(1,288,088)	(946,703)
Net fee and commission income	9	18,931,410	14,210,733	14,840,087	11,473,906
Net trading income	10	2,077,831	1,972,316	3,610,220	1,158,310
Net loss from other financial instruments carried at fair value	11	(8,578,025)	(68,468)	(8,469,022)	(14,926)
Dividend income	12	564	371	1,530,101	600,123
Profit on disposal of associated undertaking	25	33,626,234	-	43,085,785	-
Other operating income	13	77,405	165,738	69,788	51,537
Operating income before net impairment losses		60,329,647	26,762,052	63,172,079	19,281,188
Net impairment losses	14	(1,079,697)	(820,782)	(1,079,697)	(732,089)
Operating income		59,249,950	25,941,270	62,092,382	18,549,099
Administrative expenses	15	(24,080,233)	(18,980,268)	(19,324,672)	(14,528,885)
Depreciation and amortisation	28/29	(810,713)	(807,318)	(534,636)	(517,125)
Adjustment to goodwill	29	-	(1,129,726)	-	-
Provision for liabilities and charges	37	(1,733,104)	-	(1,733,104)	-
Total operating expenses		(26,624,050)	(20,917,312)	(21,592,412)	(15,046,010)
Operating profit		32,625,900	5,023,958	40,499,970	3,503,089
Share of profit of equity accounted investees (net of tax)	25	1,743,495	4,632,878	-	-
Profit before income tax		34,369,395	9,656,836	40,499,970	3,503,089
Taxation	16	(9,598,495)	805,214	(9,963,462)	(394,689)
Profit from continuing operations		24,770,900	10,462,050	30,536,508	3,108,400
Discontinued operations	26	7,740	-	-	-
Profit for the year		24,778,640	10,462,050	30,536,508	3,108,400
Basic earnings per share	17	18.60c	9.85c	22.92c	2.93c
Diluted earnings per share	17	17.85c	9.57c	21.94c	3.12c

The notes on pages 36 to 110 are an integral part of these financial statements.

CASH FLOW STATEMENTS

For the Year Ended 31 December 2008

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Cash flows from operating activities				
Interest and commission receipts	53,624,287	43,174,272	41,735,510	34,857,650
Exchange received	6,119,977	1,293,800	2,737,417	813,113
Interest and commission payments	(19,096,580)	(19,428,567)	(17,935,654)	(17,270,325)
Payments to employees and suppliers	(23,809,394)	(19,226,020)	(18,898,306)	(14,899,108)
Operating profit before changes in operating assets / liabilities	16,838,290	5,813,485	7,638,967	3,501,330
(Increase) / decrease in operating assets:				
- Financial assets at fair value through profit or loss	(18,762,818)	(48,374,816)	3,390,681	(16,611,897)
- Loans and advances to customers and banks	1,330,946	(348,529)	(17,898,324)	(559,353)
- Other assets	(31,577)	(446,243)	(1,225,050)	(328,020)
Increase / (decrease) in operating liabilities:				
- Amounts owed to customers and banks	57,860,113	4,898,814	62,685,574	5,628,236
- Other liabilities	510	(42,956)	510	(42,956)
- Net advance to subsidiary companies	-	-	3,108,947	(34,743,686)
Net cash inflows / (outflows) from operating activities before income tax	57,235,464	(38,500,245)	57,701,305	(43,156,346)
Income tax paid	(1,084,448)	(70,525)	(1,082,901)	(70,035)
Net cash inflows / (outflows) from operating activities	56,151,016	(38,570,770)	56,618,404	(43,226,381)
Cash flows from investing activities				
- Payments to acquire property and equipment	(2,388,698)	(626,931)	(623,495)	(597,122)
- Payments to acquire intangible assets	(361,765)	(166,076)	(226,765)	(166,076)
- Proceeds on disposal of property and equipment	14,388	828,644	6,589	5,940
- Purchase of shares in subsidiary companies	-	-	(2,000)	-
- Purchase of shares in equity accounted investees	(1,300,000)	(5,013,425)	(8,300,000)	(5,013,425)
- Proceeds from disposal of shares in equity accounted investees	41,173,634	-	41,173,634	-
- Increase in net assets classified as held for sale	(22,291,491)	-	-	-
- Proceeds from disposal of other investment	87,239	-	87,239	-
- Receipt of dividend	564	600,123	1,530,101	600,123
Net cash flows from / (used) in investing activities	14,933,871	(4,377,665)	33,645,303	(5,170,560)
Cash flows from financing activities				
- Proceeds from issue of share capital	-	25,203,836	-	25,203,836
- Share issue costs	-	(86,096)	-	(86,096)
- Proceeds from issue of shares on exercise of options	551,112	88,013	551,112	88,013
- Debt securities in issue	13,199,602	(7,959,112)	(1,000,000)	1,000,000
- Dividends paid	(5,131,200)	(1,897,625)	(5,131,200)	(1,897,625)
Net cash flows from/(used in) financing activities	8,619,514	15,349,016	(5,580,088)	24,308,128
Increase / (decrease) in cash and cash equivalents c/f	79,704,401	(27,599,419)	84,683,619	(24,088,813)

CASH FLOW STATEMENTS

For the Year Ended 31 December 2008

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Increase / (decrease) in cash and cash equivalents b/f	79,704,401	(27,599,419)	84,683,619	(24,088,813)
Analysed as follows:				
- Effect of exchange rate changes on cash and cash equivalents	(799,676)	385,217	(634,111)	217,847
- Net increase / (decrease) in cash and cash equivalents	80,504,077	(27,984,636)	85,317,730	(24,306,660)
Increase / (decrease) in cash and cash equivalents	79,704,401	(27,599,419)	84,683,619	(24,088,813)
Cash and cash equivalents at beginning of year	10,845,127	38,444,546	907,681	24,996,494
Cash and cash equivalents at end of year 42	90,549,528	10,845,127	85,591,300	907,681

The notes on pages 36 to 110 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

1 REPORTING ENTITY

FIMBank p.l.c. (“the Bank”) is a public limited liability company domiciled and incorporated in Malta. The consolidated financial statements of the Bank for the year ended 31 December 2008 comprise the Bank and its subsidiary undertakings (together referred to as “the Group”) as disclosed in note 27 to these financial statements.

2 BASIS OF PREPARATION

2.1 Statement of compliance

By virtue of Regulation 3 of Legal Notice 19 of 2009, Accountancy Profession (Accounting and Auditing Standards) Regulations, 2009 published under the Accountancy Profession Act, compliance with generally accepted accounting principles and practice has been defined as adherence to international accounting standards as adopted by the EU. The legal notice has been deemed to come into force on 1 October 2008, and accordingly these financial statements have been drawn up 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.

The change in the applicable framework from IFRS issued by the International Accounting Standards Board, in use for the comparative period, did not result in any changes in the Group’s accounting policies and accordingly, no adjustment was required to the corresponding figures included in the current year’s financial statements. In addition, this change did not impact the year end financial position and the current year’s financial performance and cash flows.

These financial statements have also been prepared and presented in accordance with the provisions of the Banking Act, 1994 and the Companies Act, 1995 both enacted in Malta.

The financial statements were approved by the Board of Directors on 9 March 2009.

2.2 Basis of measurement

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

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

The methods used to measure fair values are discussed further in note 3.10.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

2 BASIS OF PREPARATION *(continued)*

2.4 Use of estimates and judgements *(continued)*

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

3.1.1 Subsidiaries

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

3.1.2 Associates and jointly-controlled entities

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

3.1.3 Transactions eliminated on consolidation

Intra-group balances and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

3.2.1 Foreign currency transactions

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Foreign currency (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

3.2.2 Foreign operations

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

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

3.3 Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. 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 points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include:

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

3.4 Fees and commissions

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

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

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

3.5 Net trading income

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Net income from other financial instruments at fair value

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

3.7 Dividends

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

3.8 Operating lease payments

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

3.9 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.10 Financial assets and liabilities

3.10.1 Recognition

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

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

3.10.2 Derecognition

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Financial assets and liabilities (continued)

3.10.2 Derecognition (continued)

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

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

3.10.3 Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

3.10.4 Amortised cost measurement

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

3.10.5 Fair value measurement

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.10 Financial assets and liabilities *(continued)*

3.10.5 Fair value measurement (continued)

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

3.10.6 Identification and measurement of impairment

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Financial assets and liabilities (continued)

3.10.7 Designation at fair value through profit or loss

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

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

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

3.11 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Central Bank of Malta and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

3.12 Trading assets and liabilities

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

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

3.13 Derivatives held for risk management purposes

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

3.14 Loans and advances

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Investment securities

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

3.15.1 Designated at fair value through profit or loss

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

3.15.2 Available-for-sale

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

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

Other fair value changes are recognised directly in equity until the investment is sold or impaired whereupon the cumulative gains and losses previously recognised in equity are recognised in profit or loss.

3.16 Investments in subsidiaries, associates and jointly-controlled entities

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

3.17 Property and equipment

3.17.1 Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

3.17.2 Subsequent costs

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

3.17.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Improvements to leasehold premises are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Property and equipment (continued)

3.17.3 Depreciation (continued)

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 the reporting date. No depreciation is provided on fixed assets not yet available for use.

3.18 Intangible assets

3.18.1 Goodwill

Goodwill arises on the acquisition of subsidiaries.

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

Goodwill is measured at cost less accumulated impairment losses.

3.18.2 Software

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

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

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is seven years.

3.19 Impairment of non-financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.19 Impairment of non-financial assets *(continued)*

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

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

3.20 Deposits, debt securities issued and subordinated liabilities

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

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

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

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

3.21 Provisions

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

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

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

3.22 Financial guarantees

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23 Employee benefits

3.23.1 Defined contribution plans

The Bank contributes towards a defined contribution state pension plan in accordance with Maltese legislation. Subsidiaries contribute to other defined contribution plans. The Group does not have a commitment beyond the payment of fixed contributions. Related costs are recognised as an expense during the year in which these are incurred.

3.23.2 Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that do not meet the related service and non-market performance conditions at the vesting date.

3.24 Share capital

3.24.1 Share issue costs

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

3.24.2 Repurchase of share capital

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

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

3.25 Earnings per share

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

3.26 Discontinued operations

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.27 Segment reporting

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

3.28 New standards adopted and new standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group is currently in the process of evaluating the potential effect of this amendment.
- IFRS 8 Operating Segments introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's “chief operating decision maker” in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 6). This standard will have no effect on the Group's reported total profit or loss or equity. The Group is currently in the process of determining the potential effect of this standard on the Group's segment reporting.
- Revised IAS 1 Presentation of Financial Statements (2007) introduces the term “total comprehensive income”, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements as the Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements. In accordance with the transitional requirements, the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Group's 2009 consolidated financial statements.

In addition, in October 2008 the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendments to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e. trading) category. The Group did not opt to make use of this amendment/option and therefore no reclassification of assets was affected.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT

4.1 Introduction and overview

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

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

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

Risk management framework

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

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

In this respect, as also noted in the Review of Operations on pages 1 to 9, the Bank has recently completed its Internal Capital Adequacy Assessment Process (ICAAP) report which was submitted to the Regulator in terms of the relative Banking Rule. Whilst the report concentrates on the Bank's capital adequacy as an objective, the process involves the documentation of a formal assessment of the Bank's risk appetite and exposure together with the risk mitigants that impact capital.

4.2 Credit risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

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

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

Maximum exposure

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

GROUP

	Loans and advances to banks		Loans and advances to customers	
	2008 USD	2007 USD	2008 USD	2007 USD
Individually impaired	46,960	46,960	1,540,604	767,052
Neither past due nor impaired	268,522,156	242,633,353	96,958,698	82,922,557
Total carrying amount	<u>268,569,116</u>	<u>242,680,313</u>	<u>98,499,302</u>	<u>83,689,609</u>

BANK

	Loans and advances to banks		Loans and advances to customers	
	2008 USD	2007 USD	2008 USD	2007 USD
Individually impaired	46,960	46,960	1,540,604	767,052
Neither past due nor impaired	264,567,707	234,829,007	228,099,644	204,799,359
Total carrying amount	<u>264,614,667</u>	<u>234,875,967</u>	<u>229,640,248</u>	<u>205,566,411</u>

For the Group amounts of USD61,789 (2007: USD149,029) representing "Investments available-for-sale", USD1,073,715 (2007: USD21,646,962) representing "Investments in equity accounted investees" are classified as Neither past due nor impaired.

For the Bank amounts of USD61,789 (2007: USD149,029) representing "Investments available-for-sale", USD49,394,666 (2007: USD37,392,666) representing "Investments in subsidiaries", USD2,013,425 (2007: USD13,567,359) representing "Investments in equity accounted investees" are classified as Neither past due nor impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Credit quality of neither past due nor impaired

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

GROUP

	Loans and advances to banks		Loans and advances to customers		Trading assets and financial assets designated at fair value through profit or loss	
	2008	2007	2008	2007	2008	2007
	USD	USD	USD	USD	USD	USD
AAA/AA	55,600,053	61,735,082	-	-	-	18,086,221
A/BBB	82,536,789	17,485,667	-	-	20,812,186	24,135,727
BB/C	27,134,143	57,846,300	-	-	120,153,578	110,918,111
Unrated	103,251,171	105,566,304	96,958,698	82,922,557	61,986,660	40,319,508
	<u>268,522,156</u>	<u>242,633,353</u>	<u>96,958,698</u>	<u>82,922,557</u>	<u>202,952,424</u>	<u>193,459,567</u>

BANK

	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss	
	2008	2007	2008	2007	2008	2007
	USD	USD	USD	USD	USD	USD
AAA/AA	50,651,135	51,809,378	-	-	-	10,000,000
A/BBB	82,536,789	17,485,667	-	-	-	-
BB/C	27,134,143	57,846,300	-	-	25,372,972	25,726,089
Unrated	104,245,640	107,687,662	228,099,644	204,799,359	250,144	552,196
	<u>264,567,707</u>	<u>234,829,007</u>	<u>228,099,644</u>	<u>204,799,359</u>	<u>25,623,116</u>	<u>36,278,285</u>

Impaired loans and securities

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

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group. The Group did not have any exposures that at balance sheet date were past due but not impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Credit risk *(continued)*

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. No renegotiated term loans were carried by the Group and the Bank as at 31 December 2008 and 31 December 2007.

Allowances for impairment

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

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

Write-off policy

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

Collaterals

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

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

Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2008 and 2007.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Collaterals (continued)

	Loans and advances to banks		Loans and advances to customers	
	2008	2007	2008	2007
	USD	USD	USD	USD
Against neither past due nor impaired				
Cash or quasi cash	21,812,295	21,797,275	13,642,182	8,084,149
Property	-	-	26,993,336	36,848,366
Other	1,652,833	-	15,834,336	27,370,712
Against impaired				
Cash or quasi cash	46,963	46,960	274,310	349,310
Property	-	-	433,272	655,979
Other	-	-	671,302	-
	23,512,091	21,844,235	57,848,738	73,308,516

Concentration of credit risk by sector

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

	GROUP		BANK	
	2008	2007	2008	2007
	USD	USD	USD	USD
Industrial raw materials	23,291,863	6,059,300	23,291,863	6,059,300
Ship pre-demolition	28,198,387	37,233,423	28,198,387	37,233,423
Wholesale and retail trade	43,445,285	46,948,527	43,445,285	46,948,527
Financial intermediation	271,378,865	246,300,147	398,565,362	360,372,603
Other services	15,492,982	3,657,121	15,492,982	3,657,121
	381,807,382	340,198,518	508,993,879	454,270,974

Concentration of credit risk by region

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Concentration of credit risk by region (continued)

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

GROUP	Loans and advances to banks		Loans and advances to customers		Trading assets and Financial assets designated at fair value through profit or loss		Investments available-for-sale	
	2008	2007	2008	2007	2008	2007	2008	2007
	USD	USD	USD	USD	USD	USD	USD	USD
Europe	166,853,928	86,160,897	59,334,581	54,246,906	39,985,803	62,506,458	39,342	39,342
Sub-Sahara Africa (SSA)	75,242,294	117,991,390	2,620,731	1,506,989	5,888,884	18,831,875	-	-
Middle East and North Africa (MENA)	10,053,244	14,879,913	19,802,833	24,027,163	10,894,747	5,214,434	-	-
Commonwealth of Independent States (CIS)	1,380,432	1,380,440	-	-	66,731,119	83,780,863	22,447	109,687
Others	16,447,536	23,072,108	17,524,464	4,353,629	79,451,871	23,125,937	-	-
	269,977,434	243,484,748	99,282,609	84,134,687	202,952,424	193,459,567	61,789	149,029
Collective impairment	(1,408,318)	(804,435)	(783,307)	(445,078)	-	-	-	-
	268,569,116	242,680,313	98,499,302	83,689,609	202,952,424	193,459,567	61,789	149,029

BANK	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss		Investments available-for-sale	
	2008	2007	2008	2007	2008	2007	2008	2007
	USD	USD	USD	USD	USD	USD	USD	USD
Europe	165,352,216	85,729,536	174,815,547	176,123,709	250,145	10,552,196	39,342	39,342
Sub-Sahara Africa (SSA)	75,242,294	117,991,390	2,620,731	1,506,989	-	5,050,000	-	-
Middle East and North Africa (MENA)	10,053,244	14,879,913	35,462,813	24,027,163	5,000,000	5,050,000	-	-
Commonwealth of Independent States (CIS)	1,380,432	1,380,440	-	-	7,872,971	10,404,166	22,447	109,687
Others	13,994,799	15,699,123	17,524,464	4,353,628	12,500,000	5,221,923	-	-
	266,022,985	235,680,402	230,423,555	206,011,489	25,623,116	36,278,285	61,789	149,029
Collective impairment	(1,408,318)	(804,435)	(783,307)	(445,078)	-	-	-	-
	264,614,667	234,875,967	229,640,248	205,566,411	25,623,116	36,278,285	61,789	149,029

For region exposure on "Investments in equity accounted investees" and "Investments in subsidiaries" please refer to note 25 and note 27 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Credit risk *(continued)*

Settlement Risk

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

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

4.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

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

Liquidity risk arises in the general funding of the Group’s activities and the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates as well as the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Group raises funds from deposits, other financial institutions (by means of loans and money market placements), by issuing promissory notes and similar paper and through increases in share capital. Liquidity is managed by maintaining significant levels of liquid funds, and identifying and monitoring changes in funding required and in meeting business goals driven by management.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.3 Liquidity risk *(continued)*

Management of liquidity risk *(continued)*

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.

During the last quarter of 2008 the Group managed its asset / liability positions in a more active and concentrated manner as pressures from certain correspondent banks invariably ensued as a result of the market illiquidity brought about by the credit crisis.

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, 2002, "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:

	2008	2007
At 31 December	75.4%	54.2%
Average for the period	58.3%	59.7%
Maximum for the period	88.6%	75.5%
Minimum for the period	36.1%	45.9%

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Liquidity risk (continued)

Exposure to liquidity risk (continued)

Residual contractual maturities of financial assets and liabilities:

GROUP - 31 December 2008

	Carrying amount USD	Gross nominal inflow / (outflow) USD	Less than 1 month USD	Between 1 and 3 months USD	Between 3 and 6 months USD	Between 6 months & 1 year USD	Between 1 and 2 years USD	More than 2 years USD
Balances with the Central Bank of Malta and cash	8,820,337	8,820,337	8,820,337	-	-	-	-	-
Trading assets	177,329,308	177,329,308	177,329,308	-	-	-	-	-
Derivative assets held for risk management	726,199	726,199	354,867	371,332	-	-	-	-
Financial assets designated at fair value through profit or loss	25,623,116	25,623,116	25,623,116	-	-	-	-	-
Loans and advances to banks	268,569,116	274,649,938	211,996,063	47,817,548	10,644,021	4,079,210	113,096	-
Loans and advances to customers	98,499,302	117,247,189	53,445,070	13,037,591	15,776,870	23,114,331	11,094,166	779,161
Derivative liabilities held for risk management	(1,058,376)	(1,058,376)	(697,012)	(361,364)	-	-	-	-
Amounts owed to banks	(210,169,468)	(212,612,726)	(111,923,685)	(44,674,115)	(28,094,511)	(24,532,486)	-	(3,387,929)
Amounts owed to customers	(251,494,010)	(255,280,552)	(144,627,611)	(47,469,928)	(34,542,095)	(28,445,907)	(195,011)	-
Debt securities in issue	(24,754,490)	(25,049,082)	-	(11,834,600)	(13,214,482)	-	-	-
Subordinated convertible loan	(6,000,000)	(7,221,597)	-	-	-	-	-	(7,221,597)

GROUP - 31 December 2007

	Carrying amount USD	Gross nominal inflow / (outflow) USD	Less than 1 month USD	Between 1 and 3 months USD	Between 3 and 6 months USD	Between 6 months and 1 year USD	Between 1 and 2 years USD	More than 2 years USD
Balances with the Central Bank of Malta and cash	15,149,627	15,149,627	15,149,627	-	-	-	-	-
Trading assets	157,181,282	157,181,282	157,181,282	-	-	-	-	-
Derivative assets held for risk management	1,057,929	1,057,929	1,000,272	8,467	46,754	2,436	-	-
Financial assets designated at fair value through profit or loss	36,278,285	36,278,285	36,278,285	-	-	-	-	-
Loans and advances to banks	242,680,313	247,653,118	201,465,539	26,311,196	13,897,963	5,865,325	113,095	-
Loans and advances to customers	83,689,609	102,295,349	51,535,567	11,229,230	4,616,705	18,210,024	16,703,823	-
Derivative liabilities held for risk management	(45,834)	(45,834)	-	(45,834)	-	-	-	-
Amounts owed to banks	(270,259,724)	(271,779,718)	(172,556,299)	(58,794,534)	(31,931,068)	(5,288,903)	(3,208,914)	-
Amounts owed to customers	(176,468,204)	(177,642,491)	(130,922,287)	(33,060,209)	(12,786,597)	(650,571)	(222,827)	-
Debt securities in issue	(11,554,888)	(11,888,462)	(1,032,447)	-	(5,994,429)	(4,861,586)	-	-
Subordinated convertible loan	(6,000,000)	(8,668,808)	(225,273)	-	-	(225,273)	(450,546)	(7,767,716)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Liquidity risk (continued)

Exposure to liquidity risk (continued)

Residual contractual maturities of financial assets and liabilities (continued)

BANK - 31 December 2008

	Carrying amount USD	Gross nominal inflow / (outflow) USD	Less than 1 month USD	Between 1 and 3 months USD	Between 3 and 6 months USD	Between 6 months & 1 year USD	Between 1 and 2 years USD	More than 2 years USD
Balances with the Central Bank of Malta and cash	8,811,029	8,811,029	8,811,029	-	-	-	-	-
Derivative assets held for risk management	726,199	726,199	354,867	371,332	-	-	-	-
Financial assets designated at fair value through profit or loss	25,623,116	25,623,116	25,623,116	-	-	-	-	-
Loans and advances to banks	264,614,667	270,695,489	207,230,161	47,817,548	10,644,021	4,890,663	113,096	-
Loans and advances to customers	<u>229,640,248</u>	<u>248,752,666</u>	<u>53,450,146</u>	<u>13,037,591</u>	<u>20,453,914</u>	<u>149,126,100</u>	<u>11,905,754</u>	<u>779,161</u>
Derivative liabilities held for risk management	(1,159,079)	(1,159,079)	(797,714)	(361,365)	-	-	-	-
Amounts owed to banks	(211,163,939)	(213,607,197)	(112,106,703)	(44,674,115)	(28,094,511)	(25,343,939)	-	(3,387,929)
Amounts owed to customers	(252,147,811)	(255,934,678)	(145,281,736)	(47,469,929)	(34,542,095)	(28,445,907)	(195,011)	-
Subordinated convertible loan	<u>(6,000,000)</u>	<u>(7,221,597)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,221,597)</u>

BANK - 31 December 2007

	Carrying amount USD	Gross nominal inflow / (outflow) USD	Less than 1 month USD	Between 1 and 3 months USD	Between 3 and 6 months USD	Between 6 months and 1 year USD	Between 1 and 2 years USD	More than 2 years USD
Balances with the Central Bank of Malta and cash	15,137,885	15,137,885	15,137,885	-	-	-	-	-
Derivative assets held for risk management	1,057,929	1,057,929	1,000,272	8,467	46,754	2,436	-	-
Financial assets designated at fair value through profit or loss	36,278,285	36,278,285	36,278,285	-	-	-	-	-
Loans and advances to banks	234,875,967	239,848,771	192,478,375	26,311,196	15,080,780	5,865,325	113,095	-
Loans and advances to customers	<u>205,566,411</u>	<u>224,172,152</u>	<u>51,535,567</u>	<u>11,229,230</u>	<u>4,616,705</u>	<u>139,191,937</u>	<u>17,598,713</u>	<u>-</u>
Derivative liabilities held for risk management	(255,540)	(255,540)	-	(255,540)	-	-	-	-
Amounts owed to banks	(272,381,082)	(273,901,075)	(173,494,839)	(58,794,534)	(33,113,885)	(5,288,903)	(3,208,914)	-
Amounts owed to customers	(180,034,363)	(181,208,651)	(134,488,447)	(33,060,209)	(12,786,597)	(650,571)	(222,827)	-
Debt securities in issue	(1,000,000)	(1,032,447)	(1,032,447)	-	-	-	-	-
Subordinated convertible loan	<u>(6,000,000)</u>	<u>(8,668,808)</u>	<u>(225,273)</u>	<u>-</u>	<u>-</u>	<u>(225,273)</u>	<u>(450,546)</u>	<u>(7,767,716)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Liquidity risk (continued)

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

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 2008

All amounts are expressed in USD

	USD	EUR	GBP	Other Currencies	Total
Balances with the Central Bank of Malta and cash	98,758	8,704,315	12,023	5,241	8,820,337
Trading assets	146,324,860	29,088,517	1,915,931	-	177,329,308
Derivative assets held for risk management	726,199	-	-	-	726,199
Financial assets designated at fair value through profit or loss	24,271,569	-	1,351,547	-	25,623,116
Loans and advances to banks	42,659,805	192,633,794	9,726,752	23,548,765	268,569,116
Loans and advances to customers	61,174,843	33,684,371	3,555,537	84,551	98,499,302
Other assets	9,343,668	1,084,017	98,563	401,327	10,927,575
Derivative liabilities held for risk management	(977,012)	-	(81,364)	-	(1,058,376)
Amounts owed to banks	(45,045,061)	(148,570,165)	(2,383,537)	(14,170,705)	(210,169,468)
Amounts owed to customers	(110,792,940)	(117,979,232)	(14,050,996)	(8,670,842)	(251,494,010)
Debt securities in issue	(24,754,490)	-	-	-	(24,754,490)
Subordinated convertible loan	(6,000,000)	-	-	-	(6,000,000)
Provisions	(2,600,320)	-	-	-	(2,600,320)
Other liabilities	(7,415,273)	(4,265,214)	(571,387)	(287,796)	(12,539,670)
Net on balance sheet financial position c/f	87,014,606	(5,619,597)	(426,931)	910,541	81,878,619

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk

Foreign exchange risk (continued)

GROUP

31 December 2008

All amounts are expressed in USD

	USD	EUR	GBP	Other Currencies	Total
Net on balance sheet financial position b/f	87,014,606	(5,619,597)	(426,931)	910,541	81,878,619
Derivative instruments held for risk management	(2,323,292)	4,126,857	(1,258,111)	(545,454)	-
% Change in Exchange rates to USD					
7% increase	-	(104,492)	(117,953)	25,556	(196,889)
7% decrease	-	104,492	117,953	(25,556)	196,889

GROUP

31 December 2007

All amounts are expressed in USD

	USD	EUR	GBP	Other Currencies	Total
Balances with the Central Bank of Malta and cash	45,520	15,075,867	16,554	11,686	15,149,627
Trading assets	124,316,274	26,396,579	1,329,378	5,139,051	157,181,282
Derivative assets held for risk management	1,057,929	-	-	-	1,057,929
Financial assets designated at fair value through profit or loss	34,410,153	-	1,868,132	-	36,278,285
Loans and advances to banks	98,944,663	114,576,676	4,652,713	24,506,261	242,680,313
Loans and advances to customers	53,836,145	25,153,018	3,204,174	1,496,272	83,689,609
Other assets	8,790,314	144,306	466,613	666,041	10,067,274
Derivative liabilities held for risk management	(45,834)	-	-	-	(45,834)
Amounts owed to banks	(111,997,955)	(140,218,080)	(2,560,120)	(15,483,569)	(270,259,724)
Amounts owed to customers	(88,861,055)	(62,018,169)	(12,384,653)	(13,204,327)	(176,468,204)
Debt securities in issue	(11,554,888)	-	-	-	(11,554,888)
Subordinated convertible loan	(6,000,000)	-	-	-	(6,000,000)
Other liabilities	(2,833,060)	(2,324,266)	(752,437)	(246,385)	(6,156,148)
Net on balance sheet financial position	100,108,206	(23,214,069)	(4,159,646)	2,885,030	75,619,521
Derivative instruments held for risk management	(36,868,770)	35,225,669	5,968,329	(4,325,228)	-
% Change in Exchange rates to USD					
7% increase	-	840,812	126,608	(100,814)	866,606
7% decrease	-	(840,812)	(126,608)	100,814	(866,606)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk (continued)

Foreign exchange risk (continued)

BANK

31 December 2008

All amounts are expressed in USD

	USD	EUR	GBP	Other Currencies	Total
Balances with the Central Bank of Malta and cash	89,450	8,704,315	12,023	5,241	8,811,029
Derivative assets held for risk management	726,199	-	-	-	726,199
Financial assets designated at fair value through profit or loss	24,271,569	-	1,351,547	-	25,623,116
Loans and advances to banks	39,951,571	191,001,237	10,113,095	23,548,764	264,614,667
Loans and advances to customers	160,110,273	62,813,971	6,596,256	119,748	229,640,248
Other assets	3,111,137	1,771,293	170,957	436,424	5,489,811
Derivative liabilities held for risk management	(1,077,715)	-	(81,364)	-	(1,159,079)
Amounts owed to banks	(45,224,997)	(148,753,182)	(3,015,054)	(14,170,706)	(211,163,939)
Amounts owed to customers	(111,367,880)	(117,979,232)	(14,050,996)	(8,749,703)	(252,147,811)
Subordinated convertible loan	(6,000,000)	-	-	-	(6,000,000)
Other liabilities	(2,148,065)	(3,798,148)	(80,062)	(274,702)	(6,300,977)
Net on balance sheet financial position	62,441,542	(6,239,746)	1,016,402	915,066	58,133,264
Derivative instruments held for risk management	(2,323,292)	4,126,857	(1,258,111)	(545,454)	-
% Change in Exchange rates to USD					
7% increase	-	(147,902)	(16,920)	25,873	(138,949)
7% decrease	-	147,902	16,920	(25,873)	138,949

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk (continued)

Foreign exchange risk (continued)

BANK

31 December 2007

All amounts are expressed in USD

	USD	EUR	GBP	Other Currencies	Total
Balances with the Central Bank of Malta and cash	38,681	15,074,177	13,884	11,143	15,137,885
Derivative assets held for risk management	1,057,929	-	-	-	1,057,929
Financial assets designated at fair value through profit or loss	34,410,153	-	1,868,132	-	36,278,285
Loans and advances to banks	92,290,329	112,731,237	5,348,179	24,506,222	234,875,967
Loans and advances to customers	139,973,549	54,588,486	4,480,057	6,524,319	205,566,411
Other assets	2,242,530	156,570	292,585	717,212	3,408,897
Derivative liabilities held for risk management	(255,540)	-	-	-	(255,540)
Amounts owed to banks	(112,936,545)	(140,218,079)	(3,742,937)	(15,483,521)	(272,381,082)
Amounts owed to customers	(89,376,296)	(65,005,003)	(12,384,653)	(13,268,411)	(180,034,363)
Debt securities in issue	(1,000,000)	-	-	-	(1,000,000)
Subordinated convertible loan	(6,000,000)	-	-	-	(6,000,000)
Other liabilities	(1,272,991)	(955,732)	(197,838)	(221,140)	(2,647,701)
Net on balance sheet financial position	59,171,799	(23,628,344)	(4,322,591)	2,785,824	34,006,688
Derivative instruments held for risk management	(36,868,770)	35,225,669	5,968,329	(4,325,228)	-
% Change in Exchange rates to USD					
7% increase		811,813	115,202	(107,758)	819,257
7% decrease		(811,813)	(115,202)	107,758	(819,257)

The following exchange rates applied during the year:

USD	Average rate		Reporting date mid-spot rate	
	2008	2007	2008	2007
1 EUR	1.3703	1.2550	1.4745	1.3182
1 GBP	2.0022	1.8401	1.9980	1.9666

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk (continued)

Foreign exchange risk (continued)

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

	GROUP		BANK	
	Equity	Profit or loss	Equity	Profit or loss
	USD	USD	USD	USD
31 December 2008				
EUR	(104,492)	(104,492)	(147,902)	(147,902)
GBP	(117,953)	(117,953)	(16,920)	(16,920)
Other	25,556	25,556	25,873	25,873
31 December 2007				
EUR	840,812	840,812	811,813	811,813
GBP	126,608	126,608	115,202	115,202
Other	(100,814)	(100,814)	(107,758)	(107,758)

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

Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk (continued)

Interest rate risk (continued)

GROUP

31 December 2008

	Less than 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	More than 1 year	Non- Interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	8,389,048	-	-	-	-	431,289	8,820,337
Trading assets	798,459	1,661,582	29,165,196	83,039,422	62,664,649	-	177,329,308
Derivative assets held for risk management	-	-	-	-	-	726,199	726,199
Financial assets designated at fair value through profit or loss	-	-	21,500,145	-	4,122,971	-	25,623,116
Loans and advances to banks	194,995,466	15,429,050	23,098,102	2,753,715	-	32,292,783	268,569,116
Loans and advances to customers	85,838,043	645,319	436,288	-	-	11,579,652	98,499,302
Other assets	-	-	-	-	-	44,847,154	44,847,154
Total assets	290,021,016	17,735,951	74,199,731	85,793,137	66,787,620	89,877,077	624,414,532
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	1,058,376	1,058,376
Amounts owed to banks	105,728,770	24,070,719	8,937,388	27,942,373	5,824,859	37,665,359	210,169,468
Amounts owed to customers	123,658,285	33,454,857	38,557,417	38,669,392	8,375,322	8,778,737	251,494,010
Debt securities in issue	-	-	-	24,754,490	-	-	24,754,490
Subordinated convertible loan	-	-	6,000,000	-	-	-	6,000,000
Other liabilities	-	-	-	-	-	14,301,878	14,301,878
Equity	-	-	-	-	-	116,636,310	116,636,310
Total liabilities and equity	229,387,055	57,525,576	53,494,805	91,366,255	14,200,181	178,440,660	624,414,532
		Less than 3 months	Between 3 and 6 months	Between 6 months and 1 year	More than 1 year	Non- Interest bearing	Total
		USD	USD	USD	USD	USD	USD
Assets		307,756,967	74,199,731	85,793,137	66,787,620	89,877,077	624,414,532
Liabilities		(286,912,631)	(53,494,805)	(91,366,255)	(14,200,181)	(178,440,660)	(624,414,532)
Interest sensitivity gap		20,844,336	20,704,926	(5,573,118)	52,587,439	(88,563,583)	-
Cumulative Gap		20,844,336	41,549,262	35,976,144	88,563,583	-	-
Change in interest rate for the period							
100bps increase		156,333	103,525	(4,644)			
100bps decrease		(156,333)	(103,525)	4,644			

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk (continued)

Interest rate risk (continued)

GROUP

31 December 2007

	Less than 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	More than 1 year	Non- Interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	14,970,343	-	-	-	-	179,284	15,149,627
Trading assets	4,953,357	16,328,664	93,687,499	29,352,008	12,236,464	623,290	157,181,282
Derivative assets held for risk management	-	-	-	-	-	1,057,929	1,057,929
Financial assets designated at fair value through profit or loss	-	-	29,030,545	-	7,247,740	-	36,278,285
Loans and advances to banks	151,800,020	26,484,604	24,838,660	3,703,201	-	35,853,828	242,680,313
Loans and advances to customers	77,544,840	567,993	1,129,742	-	-	4,447,034	83,689,609
Other assets	-	-	-	-	-	35,284,535	35,284,535
Total assets	249,268,560	43,381,261	148,686,446	33,055,209	19,484,204	77,445,900	571,321,580
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	45,834	45,834
Amounts owed to banks	175,240,796	7,948,983	40,348,048	8,765,600	-	37,956,297	270,259,724
Amounts owed to customers	112,224,007	25,930,465	27,953,696	4,165,673	2,625,073	3,569,290	176,468,204
Debt securities in issue	-	-	1,000,000	3,000,000	7,554,888	-	11,554,888
Subordinated convertible loan	-	-	6,000,000	-	-	-	6,000,000
Other liabilities	-	-	-	-	-	9,057,823	9,057,823
Equity	-	-	-	-	-	97,935,107	97,935,107
Total liabilities and equity	287,464,803	33,879,448	75,301,744	15,931,273	10,179,961	148,564,351	571,321,580
		Less than 3 months	Between 3 and 6 months	Between 6 months and 1 year	More than 1 year	Non- Interest bearing	Total
		USD	USD	USD	USD	USD	USD
Assets		292,649,821	148,686,446	33,055,209	19,484,204	77,445,900	571,321,580
Liabilities		(321,344,251)	(75,301,744)	(15,931,273)	(10,179,961)	(148,564,351)	(571,321,580)
Interest sensitivity gap		(28,694,430)	73,384,702	17,123,936	9,304,243	(71,118,451)	-
Cumulative Gap		(28,694,430)	44,690,272	61,814,208	71,118,451	-	-
Change in interest rate for the period							
100bps increase		(215,208)	366,924	14,270			
100bps decrease		215,208	(366,924)	(14,270)			

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk (continued)

Interest rate risk (continued)

BANK

31 December 2008

	Less than 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	More than 1 year	Non- Interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	8,389,048	-	-	-	-	421,981	8,811,029
Derivative assets held for risk management	-	-	-	-	-	726,199	726,199
Financial assets designated at fair value through profit or loss	-	-	21,500,144	-	4,122,972	-	25,623,116
Loans and advances to banks	190,046,545	15,429,050	23,098,103	2,753,715	-	33,287,254	264,614,667
Loans and advances to customers	216,978,987	645,319	436,290	-	-	11,579,652	229,640,248
Other assets	-	-	-	-	-	59,590,687	59,590,687
Total assets	415,414,580	16,074,369	45,034,537	2,753,715	4,122,972	105,605,773	589,005,946

Liabilities & equity

Derivative liabilities held for risk management	-	-	-	-	-	1,159,079	1,159,079
Amounts owed to Banks	105,728,770	24,070,719	8,937,388	27,942,373	5,824,859	38,659,830	211,163,939
Amounts owed to customers	123,960,510	33,806,433	38,557,417	38,669,392	8,375,322	8,778,737	252,147,811
Subordinated convertible loan	-	-	6,000,000	-	-	-	6,000,000
Other liabilities	-	-	-	-	-	6,472,697	6,472,697
Equity	-	-	-	-	-	112,062,420	112,062,420
Total liabilities and equity	229,689,280	57,877,152	53,494,805	66,611,765	14,200,181	167,132,763	589,005,946

	Less than 3 months	Between 3 and 6 months	Between 6 months and 1 year	More than 1 year	Non- Interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	431,488,949	45,034,537	2,753,715	4,122,972	105,605,773	589,005,946
Liabilities	(287,566,432)	(53,494,805)	(66,611,765)	(14,200,181)	(167,132,763)	(589,005,946)
Interest sensitivity gap	143,922,517	(8,460,268)	(63,858,050)	(10,077,209)	(61,526,990)	-
Cumulative Gap	143,922,517	135,462,249	71,604,199	61,526,990	-	-
Change in interest rate for the period						
100bps increase	1,079,419	(42,301)	(53,215)			
100bps decrease	(1,079,419)	42,301	53,215			

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk (continued)

Interest rate risk (continued)

BANK

31 December 2007

	Less than 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	More than 1 year	Non- Interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	14,970,343	-	-	-	-	167,542	15,137,885
Derivative assets held for risk management	-	-	-	-	-	1,057,929	1,057,929
Financial assets designated at fair value through profit or loss	-	-	29,030,545	-	7,247,740	-	36,278,285
Loans and advances to banks	141,874,316	26,484,604	24,838,660	3,703,201	-	37,975,186	234,875,967
Loans and advances to customers	199,421,643	567,993	1,129,742	-	-	4,447,033	205,566,411
Other assets	-	-	-	-	-	56,858,816	56,858,816
Total assets	356,266,302	27,052,597	54,998,947	3,703,201	7,247,740	100,506,506	549,775,293
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	255,540	255,540
Amounts owed to Banks	175,240,796	7,948,983	40,348,048	8,765,600	-	40,077,655	272,381,082
Amounts owed to customers	115,790,167	25,930,465	27,953,696	4,165,673	2,625,073	3,569,289	180,034,363
Debt securities in issue	-	-	1,000,000	-	-	-	1,000,000
Subordinated convertible loan	-	-	6,000,000	-	-	-	6,000,000
Other liabilities	-	-	-	-	-	3,998,308	3,998,308
Equity	-	-	-	-	-	86,106,000	86,106,000
Total liabilities and equity	291,030,963	33,879,448	75,301,744	12,931,273	2,625,073	134,006,792	549,775,293
		Less than 3 months	Between 3 and 6 months	Between 6 months and 1 year	More than 1 year	Non- Interest bearing	Total
		USD	USD	USD	USD	USD	USD
Assets		383,318,899	54,998,947	3,703,201	7,247,740	100,506,506	549,775,293
Liabilities		(324,910,411)	(75,301,744)	(12,931,273)	(2,625,073)	(134,006,792)	(549,775,293)
Interest sensitivity gap		58,408,488	(20,302,797)	(9,228,072)	4,622,667	(33,500,286)	-
Cumulative Gap		58,408,488	38,105,691	28,877,619	33,500,286	-	-
Change in interest rate for the period							
100bps increase		438,064	(101,514)	(7,690)			
100bps decrease		(438,064)	101,514	7,690			

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk (continued)

Interest rate risk (continued)

Cash flow sensitivity analysis for repricing instruments

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

	GROUP		BANK	
	Equity	Profit or loss	Equity	Profit or loss
	USD	USD	USD	USD
31 December 2008				
Repricing instruments	255,214	255,214	983,903	983,903
31 December 2007				
Repricing instruments	165,986	165,986	328,860	328,860

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

Other price risk

	GROUP and BANK	
	2008	2007
	USD	USD
Non-derivative financial assets at fair value		
Bonds	4,373,116	8,098,285
Credit Linked notes	21,250,000	28,180,000
	<u>25,623,116</u>	<u>36,278,285</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk (continued)

Other price risk (continued)

	GROUP and BANK	
	2008 USD	2007 USD
10% increase in price for Bonds	437,312	809,828
1% increase in price for Credit Linked Notes	212,500	281,800

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

4.5 Operational risk

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

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 and disaster recovery and contingency systems to assist its Management to control this risk.

4.6 Capital management

Regulatory capital

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

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

As at 1 January 2008, the Group implemented Banking Rule (BR04) “Capital Requirements of Credit Institutions Authorised under the Banking Act 1994”, thereby becoming compliant with respect to Pillar 1 capital requirements under the Basel II framework, adopting the standardised approach to allocate capital against credit risk. Basel II also introduces capital requirements for market risk and operational risk calculated under the basic indicator approach.

The second pillar of Basel II (Supervisory Review and Evaluation Process) involves both banks and regulators taking a view on whether a bank should hold additional capital against risks not covered in Pillar 1. Part of the Pillar 2 process is the Internal Capital Adequacy Assessment Process (“ICAAP”) which is the Bank’s self assessment of risks not captured by Pillar 1. The Group completed its ICAAP in accordance with regulatory requirements in December 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

4 FINANCIAL RISK MANAGEMENT (continued)

4.6 Capital management (continued)

Regulatory capital (continued)

The Group's capital base is divided in two categories, as defined in Banking Rule (BR03) "Own Funds of Credit Institutions Authorised under the Banking Act, 1994":

- "Original own funds" comprise share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill and intangible assets are deducted in arriving at original own funds calculations.
- "Additional own funds" comprise qualifying subordinated loan capital, collective impairment allowance, and unrealised gains arising on the fair valuation of financial instruments held as available-for-sale. Additional own funds also include reserves arising from the revaluation of properties.

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

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

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

Capital Adequacy

GROUP

	Exposure Amount	Notional Risk Weight
	2008 USD	2008 USD
Type of Exposure:		
Institutions (Banks)	580,645,319	293,783,224
Corporates	223,146,072	176,935,916
Retail	621,487	446,847
Retail secured by real estate	157,884	74,205
Other items	72,463,280	44,379,962
	<hr/>	<hr/>
	877,034,042	515,620,154
		<hr/>
Operational risk		41,647,024
Foreign exchange risk		1,615,470
		<hr/>
		558,882,648
		<hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.6 Capital management (continued)

Capital Adequacy (continued)

	Exposure Amount	Notional Risk Weight
	2008	2008
	USD	USD
Gross Own Funds:		
Capital and reserves		91,857,670
Profit for the year		24,778,640
Add:		
Subordinated convertible loan (amortised in accordance with BR03)		4,800,000
General provisions		2,191,626
Less:		
Intangible assets		(1,193,393)
		<u>122,434,543</u>
Capital Adequacy Ratio		<u>21.9%</u>
Regulatory Minimum		8%

BANK

	Exposure Amount	Notional Risk Weight
	2008	2008
	USD	USD
Type of Exposure:		
Institutions (Banks)	497,436,610	218,514,499
Corporates	276,935,796	240,434,782
Retail	621,487	446,847
Retail secured by real estate	157,884	74,205
Other items	87,801,072	59,727,062
	<u>862,952,849</u>	<u>519,197,395</u>
Operational risk		30,096,250
Foreign exchange risk		1,615,470
		<u>550,909,115</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.6 Capital management (continued)

Capital Adequacy (continued)

	Exposure Amount	Notional Risk Weight
	2008	2008
	USD	USD
Gross Own Funds:		
Capital and reserves		81,525,913
Profit for the year		30,536,508
Add:		
Subordinated convertible loan (amortised in accordance with BR03)		4,800,000
General provisions		2,191,625
Less:		
Intangible assets		(589,825)
		<hr/> 118,464,221 <hr/>
Capital Adequacy Ratio		21.5% <hr/> <hr/>
Regulatory Minimum		8%

The capital solvency ratio of the Group and the Bank for the year ended 31 December 2007 stood at 36.93% and 25.83% respectively. The Regulatory Capital for the comparative period was calculated on Basel 1 requirements.

5 USE OF ESTIMATES AND JUDGEMENTS

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

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

5.1 Key sources of estimation uncertainty

5.1.1 Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.10.6.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

5 USE OF ESTIMATES AND JUDGEMENTS *(continued)*

5.1 Key sources of estimation uncertainty *(continued)*

5.1.2 Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10.5. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

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

5.2.1 Financial asset and liability classification

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

- In classifying financial assets as "trading", the Group determines that it meets the description of trading assets set out in accounting policy 3.12. No liabilities were classified as trading.
- In designating financial assets or liabilities at fair value through profit or loss, the Group determines that it has met one of the criteria for this designation set out in accounting policy 3.10.7.

5.3 Accounting estimates and judgements

5.3.1 Impairment losses on loans and advances

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

5.3.2 Impairment of investments available-for-sale

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

5.3.3 Forfeiting assets

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

6 SEGMENTAL INFORMATION

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

GROUP Geographical/Business segments	Malta		Other Countries		Total	
	2008	2007	2008	2007	2008	2007
	USD	USD	USD	USD	USD	USD
Interest receivable and similar income originated from:						
Trade finance	1,405,981	1,003,970	19,492,158	15,339,242	20,898,139	16,343,212
Forfaiting activities	-	-	11,514,125	11,930,919	11,514,125	11,930,919
Factoring activities	117,946	17,845	284,807	126,298	402,753	144,143
Fees and commissions receivable originated from:						
Trade finance	2,002,210	1,797,628	13,524,481	10,530,610	15,526,691	12,328,238
Forfaiting activities	-	-	4,231,119	3,455,508	4,231,119	3,455,508
Factoring activities	205,606	8,988	341,878	83,383	547,484	92,371
IT activities	35,000	35,000	217,063	245,557	252,063	280,557
Trading (losses) / income originated from:						
Trade finance	-	-	(5,090,676)	1,099,184	(5,090,676)	1,099,184
Forfaiting activities	-	-	(1,409,518)	804,664	(1,409,518)	804,664
Gross income	<u>3,766,743</u>	<u>2,863,431</u>	<u>43,105,437</u>	<u>43,615,365</u>	<u>46,872,180</u>	<u>46,478,796</u>
Interest payable originated from:						
Trade finance	(3,949,562)	(1,876,134)	(13,646,712)	(14,978,793)	(17,596,274)	(16,854,927)
Forfaiting activities	-	-	(1,024,515)	(1,081,985)	(1,024,515)	(1,081,985)
Fees and commissions payable originated from:						
Trade finance	(53,228)	(52,434)	(745,871)	(592,016)	(799,099)	(644,450)
Forfaiting activities	-	-	(657,940)	(1,204,165)	(657,940)	(1,204,165)
Factoring activities	-	-	(95,620)	(57,143)	(95,620)	(57,143)
IT activities	-	(66)	(73,288)	(40,117)	(73,288)	(40,183)
	<u>(4,002,790)</u>	<u>(1,928,634)</u>	<u>(16,243,946)</u>	<u>(17,954,219)</u>	<u>(20,246,736)</u>	<u>(19,882,853)</u>
Segmental profit:						
Trade finance	(594,599)	873,030	13,533,380	11,398,227	12,938,781	12,271,257
Forfaiting activities	-	-	12,653,271	13,904,941	12,653,271	13,904,941
Factoring activities	323,552	26,833	531,065	152,538	854,617	179,371
IT activities	35,000	34,934	143,775	205,440	178,775	240,374
Segmental profit c/f	<u>(236,047)</u>	<u>934,797</u>	<u>26,861,491</u>	<u>25,661,146</u>	<u>26,625,444</u>	<u>26,595,943</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

6 SEGMENTAL INFORMATION (continued)

GROUP						
Geographical/Business segments					Total	
					2008	2007
					USD	USD
Segmental profit b/f					26,625,444	26,595,943
Share of profits from equity accounted investees (net of tax):						
Factoring activities					1,743,495	4,632,878
Other operating income					77,969	166,109
Common costs:						
Trade finance					(19,290,965)	(13,246,738)
Forfaiting activities					(5,923,090)	(5,525,159)
Factoring activities					(1,106,483)	(778,643)
IT activities					(303,512)	(237,046)
Profit on disposal of investment in associate undertaking					33,626,234	-
Adjustment to goodwill					-	(1,129,726)
Profit from discontinued operations					7,740	-
Profit on ordinary activities before tax and net impairment losses					35,456,832	10,477,618
Segmental assets:						
Trade finance	33,082,008	51,264,162	372,692,841	323,119,426	405,774,849	374,383,588
Forfaiting activities	-	13,411,852	189,334,638	160,956,187	189,334,638	174,368,039
Factoring activities	-	-	28,471,361	21,811,962	28,471,361	21,811,962
IT activities	790,810	684,539	42,874	73,452	833,684	757,991
	33,872,818	65,360,553	590,541,714	505,961,027	624,414,532	571,321,580

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

7 FINANCIAL ASSETS AND LIABILITIES

Accounting classification and fair value

GROUP

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

	Trading	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
31 December 2008							
Balances with the Central Bank of Malta and cash	-	-	8,820,337	-	-	8,820,337	8,820,337
Trading assets	177,329,308	-	-	-	-	177,329,308	177,329,308
Derivative assets held for risk management	726,199	-	-	-	-	726,199	726,199
Financial assets designated at fair value through profit or loss	-	25,623,116	-	-	-	25,623,116	25,623,116
Loans and advances to banks	-	-	236,440,357	-	32,128,759	268,569,116	268,569,116
Loans and advances to customers	-	-	97,417,695	-	1,081,607	98,499,302	98,499,302
Investments available-for-sale	-	-	-	61,789	-	61,789	61,789
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Derivative liabilities held for risk management	1,058,376	-	-	-	-	1,058,376	1,058,376
Amounts owed to banks	-	-	-	-	210,169,468	210,169,468	210,169,468
Amounts owed to customers	-	-	-	-	251,494,010	251,494,010	251,494,010
Debt securities in issue	-	-	-	-	24,754,490	24,754,490	24,754,490
Subordinated convertible loan	-	-	-	-	6,000,000	6,000,000	6,000,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Financial assets not at fair value through profit or loss comprise loans and advances and balances with Central Bank. Loans and advances are reported net of impairment allowances to reflect the estimated recoverable amounts as at the balance sheet date. In the case of loans and advances which are repriceable in the short term, the carrying value approximates to fair value. 88% of the Group's (95% of the Bank's) loans and advances to customers are repriceable within six months. 87% of the Group's (84% of the Bank's) loans and advances to banks are repriceable within six months. The remaining loans and advances to banks represent funds held on nostro accounts.

Financial liabilities at amortised cost comprise debt securities in issue, subordinated loan and amounts owed to banks and customers. 72% of the Group's (72% of the Bank's) amounts owed to banks and customers are repriceable within 6 months. 17% of the other balances of the Group (17% in the case of the Bank) are held on vostro accounts. The Group's debt securities in issue and subordinated loan are subject to variable interest rates.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

7 FINANCIAL ASSETS AND LIABILITIES (continued)

Accounting classification and fair value (continued)

GROUP (continued)

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

	Trading	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
31 December 2007							
Balances with the Central Bank of Malta and cash	-	-	15,149,627	-	-	15,149,627	15,149,627
Trading assets	157,181,282	-	-	-	-	157,181,282	157,181,282
Derivative assets held for risk management	1,057,929	-	-	-	-	1,057,929	1,057,929
Financial assets designated at fair value through profit or loss	-	36,278,285	-	-	-	36,278,285	36,278,285
Loans and advances to banks	-	-	193,873,834	-	48,806,479	242,680,313	242,680,313
Loans and advances to customers	-	-	81,991,875	-	1,697,734	83,689,609	83,689,609
Investments available-for-sale	-	-	-	149,029	-	149,029	149,029
Derivative liabilities held for risk management	45,834	-	-	-	-	45,834	45,834
Amounts owed to banks	-	-	-	-	270,259,724	270,259,724	270,259,724
Amounts owed to customers	-	-	-	-	176,468,204	176,468,204	176,468,204
Debt securities in issue	-	-	-	-	11,554,888	11,554,888	11,554,888
Subordinated convertible loan	-	-	-	-	6,000,000	6,000,000	6,000,000

BANK

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

	Trading	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
31 December 2008							
Balances with the Central Bank of Malta and cash	-	-	8,811,029	-	-	8,811,029	8,811,029
Derivative assets held for risk management	726,199	-	-	-	-	726,199	726,199
Financial assets designated at fair value through profit or loss	-	25,623,116	-	-	-	25,623,116	25,623,116
Loans and advances to banks	-	-	232,485,908	-	32,128,759	264,614,667	264,614,667
Loans and advances to customers	-	-	228,558,641	-	1,081,607	229,640,248	229,640,248
Investments available-for-sale	-	-	-	61,789	-	61,789	61,789

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

7 FINANCIAL ASSETS AND LIABILITIES (continued)

Accounting classification and fair value (continued)

BANK (continued)

	Trading	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
31 December 2008							
Derivative liabilities held for risk management	1,159,079	-	-	-	-	1,159,079	1,159,079
Amounts owed to banks	-	-	-	-	211,163,939	211,163,939	211,163,939
Amounts owed to customers	-	-	-	-	252,147,811	252,147,811	252,147,811
Subordinated convertible loan	-	-	-	-	6,000,000	6,000,000	6,000,000

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

	Trading	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
31 December 2007							
Balances with the Central Bank of Malta and cash	-	-	15,137,885	-	-	15,137,885	15,137,885
Derivative assets held for risk management	1,057,929	-	-	-	-	1,057,929	1,057,929
Financial assets designated at fair value through profit or loss	-	36,278,285	-	-	-	36,278,285	36,278,285
Loans and advances to banks	-	-	186,069,488	-	48,806,479	234,875,967	234,875,967
Loans and advances to customers	-	-	203,868,677	-	1,697,734	205,566,411	205,566,411
Investments available-for-sale	-	-	-	149,029	-	149,029	149,029
Derivative liabilities held for risk management	255,540	-	-	-	-	255,540	255,540
Amounts owed to banks	-	-	-	-	272,381,082	272,381,082	272,381,082
Amounts owed to customers	-	-	-	-	180,034,363	180,034,363	180,034,363
Debt securities in issue	-	-	-	-	1,000,000	1,000,000	1,000,000
Subordinated convertible loan	-	-	-	-	6,000,000	6,000,000	6,000,000

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

8 NET INTEREST INCOME

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Interest income				
On loans and advances to banks	6,922,155	6,986,132	6,914,219	6,982,162
On loans and advances to customers	5,702,294	4,659,478	6,011,964	4,659,478
On loans and advances to subsidiary companies	-	-	4,501,229	6,383,076
On balances with Central Bank	410,530	78,178	410,530	78,178
	<u>13,034,979</u>	<u>11,723,788</u>	<u>17,837,942</u>	<u>18,102,894</u>
On debt securities	3,103,814	1,932,948	3,103,814	1,932,948
On forfeiting assets	11,506,189	11,926,950	-	-
On other trade finance activities	5,170,035	2,834,588	5,170,035	2,834,588
	<u>32,815,017</u>	<u>28,418,274</u>	<u>26,111,791</u>	<u>22,870,430</u>
Interest expense				
On amounts owed to banks	10,096,707	10,583,522	10,096,707	10,583,522
On amounts owed to customers	7,149,057	5,311,701	7,159,455	5,764,782
On debt securities in issue	1,028,180	1,591,874	3,664	60,073
On subordinated convertible loan	346,845	449,815	346,845	449,815
	<u>18,620,789</u>	<u>17,936,912</u>	<u>17,606,671</u>	<u>16,858,192</u>
Net interest income	<u>14,194,228</u>	<u>10,481,362</u>	<u>8,505,120</u>	<u>6,012,238</u>

9 NET FEE AND COMMISSION INCOME

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Fee and commission income				
Credit related fees and commission	2,628,932	2,271,329	2,628,932	2,271,329
On letters of credit	9,285,775	8,191,000	9,285,775	8,191,000
On financial instruments	1,402,603	-	1,402,603	-
On forfeiting activities	4,231,119	3,455,508	-	-
On IT Solutions	252,063	280,557	-	-
Other fees	2,756,865	1,958,280	2,810,865	1,958,280
	<u>20,557,357</u>	<u>16,156,674</u>	<u>16,128,175</u>	<u>12,420,609</u>
Fee and commission expense				
Credit related fees	67,512	274,746	67,512	274,746
Correspondent banking fees	428,779	294,826	409,283	279,285
On forfeiting activities	657,939	1,188,771	-	-
Other fees	471,717	187,598	811,293	392,672
	<u>1,625,947</u>	<u>1,945,941</u>	<u>1,288,088</u>	<u>946,703</u>
Net fee and commission income	<u>18,931,410</u>	<u>14,210,733</u>	<u>14,840,087</u>	<u>11,473,906</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

10 NET TRADING INCOME

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Net trading income from assets held for trading	(1,271,393)	840,905	-	-
Foreign exchange rate fluctuations	3,349,224	1,131,411	3,610,220	1,158,310
	<u>2,077,831</u>	<u>1,972,316</u>	<u>3,610,220</u>	<u>1,158,310</u>

11 NET LOSS FROM OTHER FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Net income on derivatives held for risk management purposes	(1,313,537)	686,932	(1,204,534)	740,474
Investment securities designated at fair value through profit or loss				
- net realised losses on sale of financial instruments	(82,122)	(36,418)	(82,122)	(36,418)
- fair value movements	(7,182,366)	(718,982)	(7,182,366)	(718,982)
	<u>(8,578,025)</u>	<u>(68,468)</u>	<u>(8,469,022)</u>	<u>(14,926)</u>

11.1 Fair value movements represent unrealised changes in the market prices of fixed term financial instruments. These changes will only be realised if the instrument is sold, or are reversed (net of any future possible impairment) if the instrument is kept till maturity and is redeemed at its nominal value.

12 DIVIDEND INCOME

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Dividend from a subsidiary company	-	-	1,529,537	-
Dividend from an equity accounted investee	-	-	-	599,752
Dividend from an available-for-sale equity instrument	564	371	564	371
	<u>564</u>	<u>371</u>	<u>1,530,101</u>	<u>600,123</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

13 OTHER OPERATING INCOME

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Profit on disposal of property and equipment	14,206	61,607	6,589	5,940
Support fees receivable	18,077	25,551	18,077	25,551
Other non-trading income	45,122	78,580	45,122	20,046
	<u>77,405</u>	<u>165,738</u>	<u>69,788</u>	<u>51,537</u>

14 NET IMPAIRMENT LOSSES

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Write downs:				
Loans and advances to banks				
- specific impairment allowances	(9,558)	(508)	(9,558)	(508)
- collective impairment allowances	(603,884)	(487,888)	(603,884)	(487,888)
	<u>(613,442)</u>	<u>(488,396)</u>	<u>(613,442)</u>	<u>(488,396)</u>
Loans and advances to customers				
- specific impairment allowances	41,303	(74,710)	41,303	(74,710)
- collective impairment allowances	(338,229)	(138,534)	(338,229)	(138,534)
- write-offs	(169,329)	(119,142)	(169,329)	(30,449)
	<u>(1,079,697)</u>	<u>(820,782)</u>	<u>(1,079,697)</u>	<u>(732,089)</u>

15 ADMINISTRATIVE EXPENSES

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

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Personnel expenses	15,017,754	11,615,003	11,012,744	8,142,829
Operating lease rentals	1,189,017	936,453	813,482	554,395
Other administrative expenses	7,873,462	6,428,812	6,311,384	4,904,413
Recharge of services by subsidiary	-	-	1,187,062	927,248
	<u>24,080,233</u>	<u>18,980,268</u>	<u>19,324,672</u>	<u>14,528,885</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

15 ADMINISTRATIVE EXPENSES (continued)

Included in other administrative expenses are fees charged by the Group's auditors for the year as follows:

31 December 2008	Audit services	Other assurance services	Tax advisory services	Other non-audit services
	USD	USD	USD	USD
Auditors' remuneration	331,714	21,836	23,384	31,278

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

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Directors' emoluments	494,065	221,792	494,065	221,792
Staff costs				
- wages, salaries and allowances	13,823,792	10,750,619	10,149,918	7,595,705
- defined contribution costs	699,897	642,592	368,761	325,332
	14,523,689	11,393,211	10,518,679	7,921,037
	15,017,754	11,615,003	11,012,744	8,142,829

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

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
	No. of employees	No. of employees	No. of employees	No. of employees
Executive and senior managerial	14	12	11	11
Other managerial, supervisory and clerical	138	132	102	104
Other staff	5	5	4	4
	157	149	117	119

15.4 The Bank has in place Executive Share Option Schemes that are approved by the shareholders by extraordinary resolutions at different General Meetings. The rules for these Schemes regulate the award of Share Options based on the Bank's performance for the year in respect of which the grant is made. Under the Executive Share Option Scheme rules, the Bank awards share options to executives for targeted performance based on the results of the preceding year at the exercise price established at grant date. When the options are exercised, equity is increased by the amount of the proceeds received based on the market price determined on grant date. As at 31 December 2008, there were four schemes under which awarded options are still unexercised.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

15 ADMINISTRATIVE EXPENSES (continued)

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

	GROUP and BANK	
	2008	2007
	No. of share options	No. of share options
At 1 January	1,428,804	1,024,321
Exercised	(808,085)	(95,317)
Awarded	852,641	500,116
Forfeited due to expiry of exercise period	-	(316)
At 31 December	<u>1,473,360</u>	<u>1,428,804</u>

Details of Share Options Granted:

	Total	Exercise Period				
		01.01.10 to 31.12.14	01.01.09 to 31.12.13	01.01.08 to 31.12.12	01.01.06 to 31.12.10	01.01.04 to 31.12.08
Exercise price per USD0.50 share	USD	USD1.3778	USD1.4841	USD0.6462	USD0.6371	USD0.644
Number of share options unexercised at 1 January 2008	1,428,804	-	500,000	638,400	229,200	61,204
Exercised	(808,085)	-	-	(572,400)	(162,240)	(73,445)
Awarded	500,000	500,000	-	-	-	-
Awarded (capital restructuring adjustment)	352,641	100,000	100,000	96,480	43,920	12,241
Number of share options unexercised at 31 December 2008	<u>1,473,360</u>	<u>600,000</u>	<u>600,000</u>	<u>162,480</u>	<u>110,880</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

15 ADMINISTRATIVE EXPENSES (continued)

Details of Share Options Granted:

	Total	Exercise Period				
		01.01.09 to 31.12.13	01.01.08 to 31.12.12	01.01.06 to 31.12.10	01.01.04 to 31.12.08	01.01.03 to 31.12.07
Exercise price per USD0.50 share	USD	USD1.7818	USD0.7763	USD0.7654	USD0.7737	USD0.5000
Number of share options unexercised at 1 January 2007	1,024,321	-	638,400	309,600	71,804	4,517
Exercised	(95,317)	-	-	(80,400)	(10,600)	(4,317)
Awarded	500,116	500,000	-	-	-	116
Forfeited due to expiry of exercise period	(316)	-	-	-	-	(316)
Number of share options unexercised at 31 December 2007	<u>1,428,804</u>	<u>500,000</u>	<u>638,400</u>	<u>229,200</u>	<u>61,204</u>	<u>-</u>

- 15.5 During the year, the Board authorised the award of 500,000 options at an exercise price of USD1.6926. This award is subject to the attainment of a Performance Target as laid down in the Executive Share Option Scheme Rules (2006 - 2009, Applicable Year 2008), and in the case of granting of award, the options can be exercised between 1 January 2011 and 31 December 2015.

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

Fair value of share options and assumptions:

	2008
Share price at grant date	USD1.73
Exercise price	USD1.69
Expected volatility	25%
Option life	3 years
Risk free interest rate (based on Malta Government bonds)	5.37%

The fair value of the services received in 2008 estimated at USD28,000 was not recognised in these financial statements.

- 15.6 The share option scheme approved in 2000 expired during the financial year ended 31 December 2007 and the share options related to the scheme issued in 2001 were all exercised by balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

16 TAXATION

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

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Current tax				
- current year	(9,848,839)	(1,116,743)	(10,097,040)	(866,503)
- adjustments for prior years	55,082	-	55,082	-
	<u>(9,793,757)</u>	<u>(1,116,743)</u>	<u>(10,041,958)</u>	<u>(866,503)</u>
Deferred tax				
- origination and reversal of temporary differences	200,977	499,756	78,496	471,814
- tax losses not previously recognised	(5,715)	1,422,201	-	-
	<u>195,262</u>	<u>1,921,957</u>	<u>78,496</u>	<u>471,814</u>
Taxation in income statement	<u>(9,598,495)</u>	<u>805,214</u>	<u>(9,963,462)</u>	<u>(394,689)</u>

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

The current tax charge is inclusive of USD9,807,012 taxation paid at source on the disposal by the Bank of its entire shareholding in Global Trade Finance Limited to State Bank of India (see note 25.3).

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

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Profit before tax	<u>34,369,395</u>	<u>9,656,836</u>	<u>40,499,970</u>	<u>3,503,089</u>
Tax expense income using the domestic income tax rate of 35%	(12,029,288)	(3,379,893)	(14,174,990)	(1,226,081)
Tax effect of:				
Non deductible expenses	(179,465)	(227,221)	(3,610)	(2,840)
Temporary differences previously not recognised	991,469	2,636,717	(1,453)	(576)
Exemption order in terms of the Income Tax Act	(1,088,055)	772,081	(1,088,055)	772,081
Investment tax credit	3,761	2,109	-	-
Non taxable income	(568,704)	-	-	-
Share of profit from equity accounted investees	610,223	994,422	-	-
Different tax rates	2,356,732	301,158	5,249,564	107,136
Over / (under) provision of taxation in prior years	304,832	(294,159)	55,082	(44,409)
Taxation	<u>(9,598,495)</u>	<u>805,214</u>	<u>(9,963,462)</u>	<u>(394,689)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

17 EARNINGS PER SHARE

17.1 Basic earnings per share

The calculation of the Group's and Bank's earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders of USD24,778,640 and USD30,536,508 (2007: USD10,462,050 and USD3,108,400) for the Group and Bank respectively divided by the weighted average number of ordinary shares in issue during the year ended 31 December 2008 of 133,234,535 (2007: 106,184,760).

17.2 Diluted earnings per share

The calculation of the Group's and Bank's diluted earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders of USD25,125,485 and USD30,883,353 (2007: USD10,911,865 and USD3,558,215) for the Group and Bank respectively divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2008 of 140,790,895 (2007: 114,039,426), calculated as follows:

Profit attributable to ordinary shareholders (diluted):

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Profit attributable to ordinary shareholders	24,778,640	10,462,050	30,536,508	3,108,400
After tax effect of interest on subordinated convertible loan	346,845	449,815	346,845	449,815
Profit attributable to ordinary shareholders (diluted)	<u>25,125,485</u>	<u>10,911,865</u>	<u>30,883,353</u>	<u>3,558,215</u>

Weighted average number of ordinary shares (diluted):

	2008	2007
	No. of shares	No. of shares
Weighted average number of ordinary shares at 31 December	133,234,535	106,184,760
Effect of conversion of subordinated convertible loan	7,176,023	7,169,344
Effect of share options in issue	380,337	685,322
Weighted average number of ordinary shares (diluted) at 31 December	<u>140,790,895</u>	<u>114,039,426</u>

17.3 Comparative earnings per share have been restated to reflect the bonus issue effected in April 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

18 BALANCES WITH THE CENTRAL BANK OF MALTA AND CASH

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Balances with the Central Bank of Malta	8,389,048	14,970,343	8,389,048	14,970,343
Cash	431,289	179,284	421,981	167,542
	8,820,337	15,149,627	8,811,029	15,137,885

Balances with the Central Bank of Malta include a reserve deposit in accordance with the Central Bank of Malta Directive No. 1.

19 TRADING ASSETS

Trading assets represent forfaiting assets held by LFC and comprise bills of exchange, promissory notes and transferable trade related loans. These assets are held for short-term trading.

20 DERIVATIVES HELD FOR RISK MANAGEMENT

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Derivative assets held for risk management				
- interest rate	-	123,354	-	123,354
- foreign exchange	726,199	934,575	726,199	934,575
	726,199	1,057,929	726,199	1,057,929
Derivative liabilities held for risk management				
- interest rate	352,176	45,834	452,879	255,540
- foreign exchange	706,200	-	706,200	-
	1,058,376	45,834	1,159,079	255,540

21 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

21.1

	GROUP and BANK	
	2008 USD	2007 USD
Designated at fair value through profit or loss		
- foreign listed debt securities	4,373,116	8,098,285
- unlisted debt securities issued by foreign banks	21,250,000	28,180,000
	25,623,116	36,278,285

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

21 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

- 21.2 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 the reference basket. In view that the embedded derivative modifies significantly the cashflows of the underlying host contract, the credit linked note is measured at fair value with changes in fair value recognised in the income statement. As a result, the embedded credit derivative is not required to be separated from the host contract represented by the debt instrument. The financial asset was therefore not bifurcated but accounted for as one contract.

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

22 LOANS AND ADVANCES TO BANKS

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Repayable on call and at short notice	62,441,119	101,429,942	57,492,198	91,504,238
Term loans and advances	210,678,348	145,187,280	211,672,820	147,308,638
Total loans and advances	273,119,467	246,617,222	269,165,018	238,812,876
Specific impairment	(3,142,032)	(3,132,474)	(3,142,032)	(3,132,474)
Collective impairment	(1,408,319)	(804,435)	(1,408,319)	(804,435)
Net loans and advances	268,569,116	242,680,313	264,614,667	234,875,967

Loans and advances to banks include blocked funds amounting to USD113,096 (2007: USD113,096) pursuant to US Sanctions and pledged funds amounting to USD14,218,745 (2007: USD74,167), of which USD13,600,000 relate to cash margins for unfunded credit linked notes.

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

The aggregate amount of impaired loans to banks amounted to USD4,365,337 (2007: USD4,131,154). Individual impairment is exclusive of USD1,147,550 (2007: USD922,920) in respect of suspended interest not recognised in interest receivable.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

23 LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Repayable on call and at short notice	42,722,607	43,674,243	42,722,607	43,674,243
Term loans and advances	65,965,308	49,907,053	81,625,288	49,907,053
	<u>108,687,915</u>	<u>93,581,296</u>	<u>124,347,895</u>	<u>93,581,296</u>
Amounts owed by subsidiary companies	-	-	115,480,966	121,876,802
Total loans and advances	108,687,915	93,581,296	239,828,861	215,458,098
Specific impairment	(9,405,306)	(9,446,609)	(9,405,306)	(9,446,609)
Collective impairment	(783,307)	(445,078)	(783,307)	(445,078)
Net loans and advances	<u>98,499,302</u>	<u>83,689,609</u>	<u>229,640,248</u>	<u>205,566,411</u>

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

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

The aggregate amount of impaired loans and advances to customers amounted to USD18,815,991 (2007: USD16,689,596). Individual impairment is exclusive of USD7,714,071 (2007: USD6,320,148) in respect of suspended interest not recognised in interest receivable.

24 INVESTMENTS AVAILABLE-FOR-SALE

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

	GROUP and BANK	
	2008 USD	2007 USD
Foreign unlisted	39,594	126,834
Local unlisted	22,195	22,195
	<u>61,789</u>	<u>149,029</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

25 INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

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

Name of Company	Country of Incorporation	Nature of Business	Class of Shares	Current Equity Interest %	GROUP	
					2008 USD	2007 USD
<i>Associates</i>						
Global Trade Finance Limited ("GTF")	India	Factoring	Ordinary Shares	-	-	16,502,533
The Egyptian Company for Factoring SAE ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	40.0	1,073,715	220,611
Menafactors Limited ("Menafactors")	United Arab Emirates	Factoring	Ordinary Shares	-	-	4,923,818
					1,073,715	21,646,962
At 1 January					21,646,962	11,115,152
Investment in Egypt Factors					1,300,000	13,425
Investment in GTF					(17,313,485)	-
Investment in Menafactors					(4,803,889)	5,000,000
Net share of profits					1,743,495	4,632,878
Dividend received					-	(628,583)
Currency translation difference					(1,499,368)	1,514,090
At 31 December					1,073,715	21,646,962

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

25 INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES (continued)

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

Name of Company	Country of Incorporation	Nature of Business	Class of Shares	Current Equity Interest %	BANK	
					2008 USD	2007 USD
<i>Associates</i>						
Globe Trade Finance Limited ("GTF")	India	Factoring	Ordinary Shares	-	-	7,853,934
The Egyptian Company for Factoring SAE ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	40.0	2,013,425	713,425
Menafactors Limited ("Menafactors")	United Arab Emirates	Factoring	Ordinary Shares	-	-	5,000,000
					2,013,425	13,567,359
At 1 January					13,567,359	8,553,934
Investment in Egypt Factors					1,300,000	13,425
Investment in GTF					(7,853,934)	-
Investment in Menafactors					(5,000,000)	5,000,000
At 31 December					2,013,425	13,567,359

25.3 Global Trade Finance Limited ("GTF")

On 28 March 2008, the Bank concluded the sale of its 38.5% investment in Global Trade Finance Limited to State Bank of India ("SBI"). The sale of the Bank's 29.7 million ordinary shares in GTF was executed at a price of 73 Indian Rupees per ordinary share, for a gross consideration of 2.168 billion Indian Rupees (USD54.1 million).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

25 INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES (continued)

25.3 Global Trade Finance Limited (continued)

	GROUP USD	BANK USD
Sale proceeds	54,128,074	54,128,074
<i>less</i>		
Foreign exchange losses arising from the conversion of sale proceeds pending release of funds	(3,147,428)	(3,147,428)
Net sale proceeds	50,980,646	50,980,646
Cost of investment	(7,853,934)	(7,853,934)
Effect of equity accounting on consolidation	(9,459,551)	-
Gross profit on disposal of investment	33,667,161	43,126,712
Other directly attributable costs		
- Other transaction costs	(40,927)	(40,927)
Net profit on disposal of investment	33,626,234	43,085,785
Taxation paid at source	(9,807,012)	(9,807,012)

25.4 The Egyptian Company for Factoring SAE (“Egypt Factors”)

In November 2006, the Bank incorporated Egypt Factors, a newly established company which provides factoring services in Egypt. On 31 December 2008 the Bank’s investment stood at USD2,013,425 with the other shareholders being Commercial International Bank (“CIB”) and International Finance Corporation (“IFC”) (holding 40% and 20% equity respectively).

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

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

The “Exercise Price” has been fixed at the higher of:

- The coefficient multiplied by the number of shares subject to the put option; and
- The investment costs per share (i.e. the total investment by IFC from time to time in Egypt Factors until the date of notice of exercise divided by the total number of shares subject to the put option).

25.5 Menafactors Limited (“Menafactors”)

During the financial year ended 31 December 2008, the Bank acquired the remaining 50% holding held by the other original shareholder in Menafactors, Emirates National Bank of Dubai (ENBD), with a view to dispose a substantial part of this investment within one year. As a result, the subsidiary is accounted for as a non-current asset classified as held for sale in accordance with IFRS 5 (see to note 26).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

25 INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES (continued)

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

In USD	Current Assets	Non current Assets	Total Assets	Current Liabilities	Non current Liabilities	Total Liabilities	Revenue	Expenses	Profit / Loss
31 December 2008									
Egypt Factors	2,689,032	130,584	2,819,616	168,891	-	168,891	19,247	1,153,796	(1,118,510)
31 December 2007									
GTF	673,022,987	4,720,505	677,743,492	6,983,052	620,540	7,603,592	60,494,748*	42,068,278*	11,964,771*
Egypt Factors	456,208	89,856	546,064	28,097	-	28,097	78,131	1,278,126	(1,232,034)
Menafactors Limited	11,476,000	21,000	11,497,000	1,674,000	-	1,674,000	198,000	367,000	(177,000)

* Figures for the 9-month period ended 31 December 2007

26 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Menafactors Limited was incorporated in May 2007 in the Dubai International Financial Centre, a newly established company providing international factoring and forfaiting services in the Gulf and MENA region.

During the financial year ended 31 December 2008, the Group acquired full control of Menafactors with a view to dispose a substantial part of the investment within one year from the date of acquisition.

The Group acquired the remaining 50% holding held by the other shareholder in Menafactors for a consideration of USD5,275,000. As a result of this transaction, Menafactors became a 100% owned subsidiary with a total investment of USD12,000,000. This holding is of a temporary nature only and the Board of Directors agreed to a plan to dispose of its controlling interest to an appropriate strategic partner within one year of the date of acquisition.

Accordingly, the subsidiary is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", and the Group disclosed the results of this subsidiary as a single amount in the income statement under results from discontinuing operations, amounting to USD7,740.

As part of the overall Group's strategy, the Bank transferred its holding in Menafactors Limited to FIMFactors B.V., a wholly owned subsidiary acting as the Group's corporate vehicle holding factoring investments.

Assets classified as held for sale

	GROUP
	2008
	USD
Property plant and equipment	251,400
Cash and cash equivalents	10,433,476
Trade and other receivables	16,712,770
	<hr/>
	27,397,646
	<hr/> <hr/>

Liabilities classified as held for sale

Trade and other payables	294,528
	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

27 INVESTMENTS IN SUBSIDIARIES

27.1 Capital subscribed

	BANK	
	2008	2007
	USD	USD
At 1 January	37,392,666	37,392,666
Additional investment in FIMFactors B.V.	12,000,000	-
Investment in FIM Property Investment Limited	2,000	-
	<u>49,394,666</u>	<u>37,392,666</u>
At 31 December	<u>49,394,666</u>	<u>37,392,666</u>

27.2 Investments in subsidiaries consist of:

Name of Company	Registered Office	Nature of Business	Current Equity Interest %	BANK	
				2008	2007
				USD	USD
London Forfaiting Company Limited	UK	Forfaiting	100	37,366,435	37,366,435
FIMFactors B.V.	Netherlands	Holding Company	100	12,021,231	21,231
FIM Business Solutions Limited	Malta	IT Services Provider	100	5,000	5,000
FIM Property Investment Limited	Malta	Property investor	100	2,000	-
				<u>49,394,666</u>	<u>37,392,666</u>

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

Name of Company	Country of Incorporation	Nature of Business	Current Equity Interest	
			2008	2007
London Forfaiting International Limited	UK	Holding company	100%	100%
London Forfaiting Americas Inc. *	United States of America	Marketing	100%	100%
London Forfaiting do Brasil Ltda. *	Brazil	Marketing	100%	100%
London Forfaiting Asia Pacific Limited * #	Cyprus	Marketing	-	100%
London Forfaiting Deutschland GmbH * ##	Germany	Marketing	100%	100%
London Forfaiting a Paris S.A. * ##	France	Marketing	100%	100%

* A wholly-owned subsidiary of London Forfaiting International Limited

Liquidation completed during the year ended 31 December 2008

In course of liquidation at the date of this report

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

Name of Company	Country of Incorporation	Nature of Business	Current Equity Interest	
			2008	2007
Menafactors Limited	United Arab Emirates	Factoring Company	100%	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

28 PROPERTY AND EQUIPMENT

GROUP

	Freehold Premises	Computer System	Improvement to Leasehold Premises	Computer Equipment	Others	Total
	USD	USD	USD	USD	USD	USD
Cost						
At 1 January 2007	1,503,214	809,796	1,062,005	1,782,438	1,783,332	6,940,785
Acquisitions during year	-	78,400	40,379	250,570	257,748	627,097
Disposals	(1,225,405)	-	-	-	(446,988)	(1,672,393)
At 31 December 2007	<u>277,809</u>	<u>888,196</u>	<u>1,102,384</u>	<u>2,033,008</u>	<u>1,594,092</u>	<u>5,895,489</u>
At 1 January 2008	277,809	888,196	1,102,384	2,033,008	1,594,092	5,895,489
Acquisitions during year	-	-	151,754	219,750	2,017,193	2,388,697
Disposals	-	-	-	(1,858)	(64,376)	(66,234)
At 31 December 2008	<u>277,809</u>	<u>888,196</u>	<u>1,254,138</u>	<u>2,250,900</u>	<u>3,546,909</u>	<u>8,217,952</u>
Depreciation and impairment						
At 1 January 2007	534,021	655,744	745,856	1,253,190	1,268,457	4,457,268
Charge for the year	4,434	69,370	32,294	221,514	271,928	599,540
Released on disposal	(458,488)	-	-	-	(446,702)	(905,190)
At 31 December 2007	<u>79,967</u>	<u>725,114</u>	<u>778,150</u>	<u>1,474,704</u>	<u>1,093,683</u>	<u>4,151,618</u>
At 1 January 2008	79,967	725,114	778,150	1,474,704	1,093,683	4,151,618
Charge for the year	4,584	44,974	91,342	267,384	192,606	600,890
Released on disposal	-	-	-	(1,200)	(64,856)	(66,056)
At 31 December 2008	<u>84,551</u>	<u>770,088</u>	<u>869,492</u>	<u>1,740,888</u>	<u>1,221,433</u>	<u>4,686,452</u>
Carrying amounts						
At 1 January 2007	<u>969,193</u>	<u>154,052</u>	<u>316,149</u>	<u>529,248</u>	<u>514,875</u>	<u>2,483,517</u>
At 31 December 2007	<u>197,842</u>	<u>163,082</u>	<u>324,234</u>	<u>558,304</u>	<u>500,409</u>	<u>1,743,871</u>
At 1 January 2008	<u>197,842</u>	<u>163,082</u>	<u>324,234</u>	<u>558,304</u>	<u>500,409</u>	<u>1,743,871</u>
At 31 December 2008	<u>193,258</u>	<u>118,108</u>	<u>384,646</u>	<u>510,012</u>	<u>2,325,476</u>	<u>3,531,500</u>

During the year ended 31 December 2008 FIM Property Investment Limited entered into a promise of sale and purchase agreement of land together with an apartment, still under construction, at The Exchange, Pendergardens, for the value of EUR4,612,000 and EUR116,500 respectively. Up to 31 December 2008, the Company settled USD1,444,820 representing 20% of the purchase consideration. Directly attributable costs incurred in the process of acquiring this property amounting to USD260,621 have been capitalised. The expenditure incurred up to the balance sheet date amounting to USD1,705,441 is included under 'Others'. No depreciation is provided on the capitalised expenditure as the asset is not available for use (see note 46).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

28 PROPERTY AND EQUIPMENT (continued)

BANK

	Freehold Premises USD	Computer System USD	Improvement to Leasehold Premises USD	Computer Equipment USD	Others USD	Total USD
Cost						
At 1 January 2007	221,708	809,796	447,064	1,266,648	1,214,449	3,959,665
Acquisitions during year	-	78,400	40,379	245,813	232,530	597,122
Disposals during the year	-	-	-	-	(54,079)	(54,079)
At 31 December 2007	<u>221,708</u>	<u>888,196</u>	<u>487,443</u>	<u>1,512,461</u>	<u>1,392,900</u>	<u>4,502,708</u>
At 1 January 2008	221,708	888,196	487,443	1,512,461	1,392,900	4,502,708
Acquisitions during year	-	-	151,754	205,894	265,842	623,490
Disposals during the year	-	-	-	-	(36,348)	(36,348)
At 31 December 2008	<u>221,708</u>	<u>888,196</u>	<u>639,197</u>	<u>1,718,355</u>	<u>1,622,394</u>	<u>5,089,850</u>
Depreciation						
At 1 January 2007	19,432	655,744	210,752	894,007	918,080	2,698,015
Charge for the year	4,434	69,370	32,294	205,479	105,368	416,945
Disposals during the year	-	-	-	-	(54,079)	(54,079)
At 31 December 2007	<u>23,866</u>	<u>725,114</u>	<u>243,046</u>	<u>1,099,486</u>	<u>969,369</u>	<u>3,060,881</u>
At 1 January 2008	23,866	725,114	243,046	1,099,486	969,369	3,060,881
Charge for the year	4,584	44,974	42,766	203,339	138,355	434,018
Disposals during the year	-	-	-	-	(36,354)	(36,354)
At 31 December 2008	<u>28,450</u>	<u>770,088</u>	<u>285,812</u>	<u>1,302,825</u>	<u>1,071,370</u>	<u>3,458,545</u>
Carrying amounts						
At 1 January 2007	<u>202,276</u>	<u>154,052</u>	<u>236,312</u>	<u>372,641</u>	<u>296,369</u>	<u>1,261,650</u>
At 31 December 2007	<u>197,842</u>	<u>163,082</u>	<u>244,397</u>	<u>412,975</u>	<u>423,531</u>	<u>1,441,827</u>
At 1 January 2008	<u>197,842</u>	<u>163,082</u>	<u>244,397</u>	<u>412,975</u>	<u>423,531</u>	<u>1,441,827</u>
At 31 December 2008	<u>193,258</u>	<u>118,108</u>	<u>353,385</u>	<u>415,530</u>	<u>551,024</u>	<u>1,631,305</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

29 INTANGIBLE ASSETS

29.1 Group

	Goodwill USD	Software Licences USD	Total USD
Cost			
At 1 January 2007	1,129,726	1,195,862	2,325,588
Additions	-	166,076	166,076
Adjustments resulting from the recognition by a subsidiary of deferred tax asset	(1,129,726)	-	(1,129,726)
At 31 December 2007	-	1,361,938	1,361,938
At 1 January 2008	-	1,361,938	1,361,938
Additions	-	361,765	361,765
At 31 December 2008	-	1,723,703	1,723,703
Amortisation and impairment			
At 1 January 2007	-	112,709	112,709
Charge for the year	-	207,778	207,778
At 31 December 2007	-	320,487	320,487
At 1 January 2008	-	320,487	320,487
Charge for the year	-	209,823	209,823
At 31 December 2008	-	530,310	530,310
Carrying Amount			
At 1 January 2007	1,129,726	1,083,153	2,212,879
At 31 December 2007	-	1,041,451	1,041,451
At 1 January 2008	-	1,041,451	1,041,451
At 31 December 2008	-	1,193,393	1,193,393

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

29 INTANGIBLE ASSETS (continued)

BANK

	Software Licences USD
Cost	
At 1 January 2007	442,676
Additions	166,076
	<hr/>
At 31 December 2007	608,752
	<hr/> <hr/>
At 1 January 2008	608,752
Additions	226,765
	<hr/>
At 31 December 2008	835,517
	<hr/> <hr/>
Amortisation and impairment	
At 1 January 2007	44,894
Charge for the year	100,180
	<hr/>
At 31 December 2007	145,074
	<hr/> <hr/>
At 1 January 2008	145,074
Charge for the year	100,618
	<hr/>
At 31 December 2008	245,692
	<hr/> <hr/>
Carrying Amount	
At 1 January 2007	397,782
	<hr/> <hr/>
At 31 December 2007	463,678
	<hr/> <hr/>
At 1 January 2008	463,678
	<hr/> <hr/>
At 31 December 2008	589,825
	<hr/> <hr/>

29.2 Subsequent changes in the carrying amount of goodwill

During 2007, one of the subsidiaries recognised the benefit of income tax loss carry-forwards that did not satisfy the criteria for separate recognition when the subsidiary was acquired. This resulted in the recognition of deferred tax income amounting to USD1,422,201 (see note 16). Accordingly, the Group adjusted the remaining gross carrying amount of goodwill to the amounts that would have been recorded if the deferred tax asset had been recognised as an identifiable asset at acquisition date (see note 30). The reduction in the carrying amount of goodwill was recognised in the income statement accordingly. As a result of this adjustment, the carrying amount of goodwill was reduced to zero.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

30 DEFERRED TAX ASSET

30.1 The deferred tax asset is analysed as follows:

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	(117,886)	(17,751)	(7,840)	(7,672)
- allowances for uncollectibility	1,276,853	1,186,775	1,276,853	1,186,775
- unabsorbed capital allowances	276,711	65,677	16,242	27,656
- unabsorbed tax losses	6,571,680	6,577,395	-	-
	<u>8,007,358</u>	<u>7,812,096</u>	<u>1,285,255</u>	<u>1,206,759</u>

At balance sheet date, subsidiaries within the Group had unused tax losses and unused tax credits amounting to USD36.3 million and USD0.5m respectively available against future taxable profits. A deferred tax asset amounting to USD3,483,937 (2007: USD3,945,593) was utilised during the year to absorb taxable income. An equivalent amount was recognised in the financial statements as a deferred tax asset on the basis of three-year profit forecasts and the results for the current year.

30.2 Movements in temporary differences during the year:

GROUP	Opening balance	Recognised in profit or loss	Closing balance
	USD	USD	USD
2007			
Excess of capital allowances over depreciation	(5,290)	(12,461)	(17,751)
Allowances for uncollectibility	724,996	461,779	1,186,775
Unabsorbed capital allowances	15,239	50,438	65,677
Unabsorbed tax losses	5,155,194	1,422,201	6,577,395
	<u>5,890,139</u>	<u>1,921,957</u>	<u>7,812,096</u>
2008			
Excess of capital allowances over depreciation	(17,751)	(100,135)	(117,886)
Allowances for uncollectibility	1,186,775	90,078	1,276,853
Unabsorbed capital allowances	65,677	211,034	276,711
Unabsorbed tax losses	6,577,395	(5,715)	6,571,680
	<u>7,812,096</u>	<u>195,262</u>	<u>8,007,358</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

30 DEFERRED TAX ASSET

30.2 Movements in temporary differences during the year:

GROUP

	Opening balance	Recognised in profit or loss	Closing balance
	USD	USD	USD
2007			
Excess of capital allowances over depreciation	(5,290)	(2,382)	(7,672)
Allowances for uncollectibility	724,996	461,779	1,186,775
Unabsorbed capital allowances	15,239	12,417	27,656
	<u>734,945</u>	<u>471,814</u>	<u>1,206,759</u>
2008			
Excess of capital allowances over depreciation	(7,672)	(168)	(7,840)
Allowances for uncollectibility	1,186,775	90,078	1,276,853
Unabsorbed capital allowances	27,656	(11,414)	16,242
	<u>1,206,759</u>	<u>78,496</u>	<u>1,285,255</u>

31 OTHER ASSETS

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

32 PREPAYMENTS AND ACCRUED INCOME

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Accrued income	1,273,112	788,508	1,634,545	1,066,891
Prepayments	599,606	635,959	409,867	436,457
	<u>1,872,718</u>	<u>1,424,467</u>	<u>2,044,412</u>	<u>1,503,348</u>

Accrued income of the Bank includes amounts receivable from subsidiary companies amounting to USD99,336 (2007: USD278,383).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

33 AMOUNTS OWED TO BANKS

	GROUP		BANK	
	2008	2007	2008	2007
	USD	USD	USD	USD
Term deposits	174,428,573	174,908,360	175,423,044	177,029,718
Repayable on demand	35,740,895	95,351,364	35,740,895	95,351,364
	<u>210,169,468</u>	<u>270,259,724</u>	<u>211,163,939</u>	<u>272,381,082</u>

34 AMOUNTS OWED TO CUSTOMERS

	GROUP		BANK	
	2008	2007	2008	2007
	USD	USD	USD	USD
Term deposits	144,349,971	85,428,221	144,349,971	85,428,221
Repayable on demand	107,144,039	91,039,983	107,145,104	91,039,983
	<u>251,494,010</u>	<u>176,468,204</u>	<u>251,495,075</u>	<u>176,468,204</u>
Amounts owed to subsidiary companies	-	-	652,736	3,566,159
	<u>251,494,010</u>	<u>176,468,204</u>	<u>252,147,811</u>	<u>180,034,363</u>

Included in customer accounts there are deposits amounting to USD9,860,804 (2007: USD11,519,036) held as collateral for irrevocable commitments.

Amounts owed to customers include deposits by a shareholder having more than 10% of the shares in the Bank, which at balance sheet date amounted to USD2,090,061 (2007: USD3,651). Interest amounting to USD41,649 (2007: USD13,348) was credited to this shareholder during the year.

35 DEBT SECURITIES IN ISSUE

GROUP

Debt securities in issue comprise unsecured promissory notes with a tenor of one year, issued by the subsidiary London Forfaiting Company Limited and avalised by the Bank. Interest on these promissory notes is paid semi-annually in arrears at an effective interest rate for 2008 of 3.99% (2007: 5.88%).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

36 SUBORDINATED CONVERTIBLE LOAN

36.1	GROUP and BANK	
	2008 USD	2007 USD
Initial recognition:		
Face value of subordinated convertible loan on 23 June 2005	10,000,000	10,000,000
Amounts classified as equity on exercise of option on 27 October 2005 (see note 27.2 below)	(4,000,000)	(4,000,000)
Carrying amount as at 31 December	<u>6,000,000</u>	<u>6,000,000</u>

36.2 On 23 June 2005 the Bank signed a subordinated convertible loan agreement whereby International Finance Corporation ('IFC') agreed to invest:

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

In terms of the agreement the Bank granted an irrevocable conversion option to IFC to convert up to the full amount of the loan into fully paid up shares in the Bank which option expires on 22 June 2010. The conversion requires the issue of a variable number of shares determined by reference to the net asset value of the Bank multiplied by a coefficient which reflect a close approximation of the market price during the period of negotiation of the agreement. Accordingly, the subordinated long term convertible loan was determined to reflect a liability at the date of the agreement.

At 31 December 2008, the loan incurred interest at 5.12% (2007: 7.39%) and is repayable in full by 22 June 2013 unless converted by 22 June 2010 into fully paid up ordinary shares as noted above.

37 PROVISIONS

37.1 Legal and other provisions	GROUP USD	BANK USD
Balance at 1 January 2007	809,371	-
Additional charges during the year	249,750	-
Exchange difference	95,951	-
Balance at 31 December 2007	<u>1,155,072</u>	<u>-</u>
Balance at 1 January 2008	1,155,072	-
Additional charges during the year	6,782,242	6,782,242
Provisions reversed during the year	(5,298,888)	(5,049,138)
Exchange difference	(38,106)	-
Balance at 31 December 2008	<u>2,600,320</u>	<u>1,733,104</u>
Non-current balance at 31 December 2007	<u>1,155,072</u>	<u>-</u>
Non-current balance at 31 December 2008	<u>2,600,320</u>	<u>1,733,104</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

37 PROVISIONS (continued)

37.2 Global Trade Finance Limited (“GTF”)

As a result of the disposal of shares in Global Trade Finance Limited (see Note 25.3), the Bank provided State Bank of India with an indemnity for any future tax claims against GTF pertaining to the period prior to the disposal of the investment. The Bank’s indemnity, which is given severally with that of the other seller EXIMBank as well as GTF, is capped at 10% of the sale consideration, i.e. INR216,810,000 and with the first INR50,000,000 of any future claims to be met separately by GTF. The indemnity specifically covers any claim/s which are made to State Bank of India within six years from 28 March 2008, representing the disposal date. As a result of this, on 30 June 2008 the Bank provided for the amount of INR216,810,000 (USD5,049,138 at 30 June 2008).

The probability that this claim may arise was assessed on 31 December 2008 in the light of developments occurring during the second half of the year. In particular, consideration was given to: (a) the issuance of tax assessments relating to part of the period covered by the indemnity, which assessments resulted in an immaterial tax liability; and (b) the likelihood that such a claim may arise under a subsequent assessment. The Bank deems that, albeit it is still possible that a claim may arise in the future, the probability of this occurring has been significantly reduced and the provision recognised on 30 June 2008 has been reversed (see note 40.2).

37.3 Pending litigation

In July 2008, a judgement was delivered by a court of first instance in respect of proceedings initiated against the Bank for the payment of USD1,733,104 (inclusive of interest and court fees) under a documentary credit. In its judgement, the court found against FIMBank and ordered the Bank to pay the claimed amount. On the basis of legal advice and the merits of the case, the Bank is in the process of formalising its appeal submissions. It is expected that proceedings before the Court of Appeal will commence in 2009.

Further to this court decision, the amount of USD1,733,104 is recognised as a liability in these financial statements.

37.4 Other provisions

A provision of USD249,750 recognised in prior years for a claim against a subsidiary was reversed during the year ended 31 December 2008.

38 ACCRUALS AND DEFERRED INCOME

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Accrued interest	3,096,058	1,976,784	2,709,172	1,780,948
Other accruals	8,308,692	5,287,055	2,028,141	1,578,447
	11,404,750	7,263,839	4,737,313	3,359,395

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

39 EQUITY

39.1 Share capital

	2008		2007	
	Shares	USD	Shares	USD
Authorised				
Ordinary shares at 31 December	<u>400,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>	<u>100,000,000</u>
Issued and fully paid up				
Ordinary shares at 31 December	<u>134,856,392</u>	<u>67,428,196</u>	<u>109,893,905</u>	<u>54,946,953</u>

Ordinary Shares

	2008	2007
	No.	No.
	of shares	of shares
On issue at 1 January	109,893,905	86,168,679
Rights issue of shares	-	22,894,699
Share options issued for cash (see note 15.4)	808,085	95,317
Bonus shares issued	22,012,168	-
Scrip dividend	2,142,234	735,210
On issue at 31 December	<u>134,856,392</u>	<u>109,893,905</u>

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

Issue of share capital

In April 2008, the Bank made a Bonus Issue of 22,012,168 new Ordinary Shares of a nominal value of USD 0.50 per share by allotting one bonus share for every five shares held by those members on the register of the Central Securities Depository of the Malta Stock Exchange as at the close of trading on 13 March 2008.

Scrip dividend

In April 2008, the Annual General Meeting approved the payment of a scrip dividend amounting to USD4,184,821, representing a net dividend per Ordinary Share of US cents 3.80232493. Shareholders were given the option to receive the dividend either in the form of Cash or new Ordinary Shares at the attribution price of USD1.6235. Consequent to the Scrip Issue, the Bank's equity base was increased by a further USD1,708,476.

Moreover, in August 2008, the Board approved the payment of another scrip dividend amounting to USD4,397,685, representing a net dividend per Ordinary Share of US cents 3.290924. Shareholders were given the option to receive the dividend either in the form of Cash or new Ordinary Shares at the attribution price of USD1.60. Consequent to the Scrip Issue, the Bank's equity base was increased by a further USD1,742,830.

39.2 Share premium

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

39 EQUITY (continued)

39.3 Currency translation reserve

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

39.4 Other reserve

The reserve includes an amount of USD2,681,041 representing the difference between the net proceeds received on the sale of own shares net of the relative acquisition costs. In addition USD6,630,207 represents the appropriation from Retained Earnings for any unforeseen future risks which may affect the Group's financial assets held-for-trading.

39.5 Dividends

The following dividends were declared and paid by the Group:

	2008	2007
	USD	USD
Dividends declared and paid during the year	<u>8,582,506</u>	<u>3,036,929</u>

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

	2008	2007
	USD	USD
US cents 2.251215 per qualifying ordinary share (2007: 3.80232493)	<u>3,035,907</u>	<u>4,184,820</u>

In view of the Bonus Issue of shares which took place in April 2008, the effective dividend per share paid to ordinary shareholders in respect of the financial year ended 31 December 2007 amounts to 3.1685977 US cents.

39.6 Availability of reserves for distribution

The Bank's retained earnings as at balance sheet date include an amount of USD32,295,085 (2007: USD10,341,083) that is available for distribution.

40 CONTINGENT LIABILITIES

40.1

	GROUP		BANK	
	2008	2007	2008	2007
	USD	USD	USD	USD
Guarantee obligations incurred on behalf of third parties	<u>11,148,490</u>	<u>8,804,574</u>	<u>36,148,490</u>	<u>19,804,574</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

40 CONTINGENT LIABILITIES (continued)

40.2 Global Trade Finance Limited (“GTF”)

During the financial year ending 31 December 2008, the Bank reversed a provision against a future tax claim arising on the disposal of investment in GTF. This claim still represents a contingent liability since the indemnity constitutes a present obligation that does not however meet the criteria to be recognised as a provision. The maximum amount the contingent liability remains INR216,810,000 (USD4,463,000) at 31 December 2008.

40.3 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.

41 COMMITMENTS

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Undrawn credit facilities	27,652,030	44,317,039	27,652,030	44,422,149
Unfunded products	38,400,000	-	38,400,000	-
Commitment to purchase assets	2,552,001	79,277,641	-	-
Factoring commitments	592,028	-	592,028	-
Documentary credits	13,197,421	27,195,829	15,297,539	27,195,829
Confirmed letters of credit	157,727,572	157,661,377	153,903,280	167,569,527
	<u>240,121,052</u>	<u>308,451,886</u>	<u>235,844,877</u>	<u>239,187,505</u>

There were no undrawn credit facilities assigned to subsidiary companies as at balance sheet date (2007: USD140,000).

The Bank has total sanctioned limits to customers amounting to USD217,197,990 (2007: USD209,668,552).

In addition, as at balance sheet date the Bank had open back-to-back documentary credits amounting to USD35,051,160 (2007: USD43,663,497)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

42 CASH AND CASH EQUIVALENTS

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

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Balances with the Central Bank of Malta and cash	8,820,337	15,149,627	8,811,029	15,137,885
Loans and advances to banks	205,557,634	170,936,305	200,608,714	161,010,601
Amounts owed to banks	(123,828,443)	(175,240,805)	(123,828,443)	(175,240,805)
Cash and cash equivalents	90,549,528	10,845,127	85,591,300	907,681
Adjustment to reflect balances with contractual maturity of more than three months	(23,329,543)	(23,274,911)	(23,329,543)	(23,274,911)
Per balance sheet	67,219,985	(12,429,784)	62,261,757	(22,367,230)
Analysed as follows:				
Balances with the Central Bank of Malta and cash	8,820,337	15,149,627	8,811,029	15,137,885
Loans and advances to banks	268,569,116	242,680,313	264,614,667	234,875,967
Amounts owed to banks	(210,169,468)	(270,259,724)	(211,163,939)	(272,381,082)
	67,219,985	(12,429,784)	62,261,757	(22,367,230)

43 OPERATING LEASES

Leases as lessee

The Group leases motor vehicles and office premises under operating lease arrangements. During the year ended 31 December 2008, operating lease charges amounting to USD1,189,017 (2007: USD936,453) were recognised as an expense in the income statement of the Group, while operating lease charges amounting to USD813,482 (2007: USD554,395) were recognised as an expense in the income statement of the Bank.

Non-cancellable operating lease rentals are payable as follows:

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Less than one year	685,818	557,453	660,137	531,933
Between one and five years	2,522,495	5,121,876	2,378,977	4,965,272
More than five years	13,452	43,744	-	-
	3,221,765	5,723,073	3,039,114	5,497,205

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

44 RELATED PARTIES

44.1 Identity of related parties

The Bank has a related party relationship with its subsidiaries, associates and jointly controlled entities, directors and executive officers.

44.2 Transactions with key management personnel

Directors of the Group control 11 per cent of the voting shares of the Bank and the Group respectively. There were no loans and advances to directors as at 31 December 2008 and as at 31 December 2007 and included in “loans and advances to customers”. On 31 December 2008, an amount of USD336,241 (2007: USD223,428) was receivable from executive officers.

Deposits by Directors as at 31 December 2008 amounted to USD84,397 (2007: USD420,871) and are included in “amounts owed to customers”. Interest payable to Directors as at 31 December 2008 amounted to USD15,833 (2007: USD13,628).

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers. Directors’ compensations are disclosed in note 15.2 to these financial statements. Total remuneration payable to executive officers amounting to USD860,000 (2007: USD1,520,164) is included in “personnel expenses” (see note 15.2). This amount includes the remuneration of an Executive Vice President who resigned from the position with effect from 16 January 2008, the remuneration of an Executive Vice President appointed with effect from 1 March 2008, as well as the remuneration of a Senior Executive Vice President appointed with effect from 3 November 2008.

During the financial year ended 31 December 2008, executive officers were allocated a total of 150,000 share options (2007: 121,000 share options) under share option schemes. As at 31 December 2008, executive officers had a total of 327,600 unexercised share options.

44.3 Other related party transactions

The Group has a related party transaction with an entity in which it has neither control nor significant influence but has a right to appoint a Director. The Group charged this entity a consultancy fee of USD50,000 (2007: USD50,000) arising from a consultancy agreement entered into on its formation. This fee is included with other income. Additionally the Bank received a dividend of USD564 (2007: USD371) from this entity. Furthermore, the Bank received a dividend of USD1,529,537 (2007: Nil) from one of its subsidiary companies. No dividend (2007: USD599,752) was received from associated companies during the financial year.

On 31 December 2008 deposits by shareholders having significant influence amounted to USD2,090,062 (2007: USD3,651) (see note 34).

Amounts equivalent to USD111,527 (2007: USD154,865) and USD100,311 (2007: USD69,687) were charged by a shareholding company and Directors respectively for travelling and accommodation expenses in connection with the Board and Board Committee meetings of the Bank. Insurance services and consultancy and professional fees amounting to USD5,257 (2007: USD5,124) and USD808,527 (2007: USD374,547) respectively were charged by companies owned, directly and indirectly by the Bank’s Directors and key management personnel.

44.4 Related party balances

Information on amounts due to/by subsidiary companies, associated companies and jointly-controlled entities are set out in notes 23, 25, 26, 31 and 34 to these financial statements. Amounts due to/by directors are disclosed in note 44.2 above. Amounts due to/by shareholders are disclosed in notes 34 and 36 to these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

45 FINANCIAL COMMITMENTS

45.1 Egypt Factors

The Group has committed a further investment of USD4,000,000 in Egypt Factors, an associated company engaged in providing factoring activities from Egypt. The timing of this further injection is dependant on the performance and growth requirements of the company.

45.2 Other

During 2007, the Board approved the commencement of negotiations with selected strategic partners for the acquisition of equity stakes in established factoring and leasing companies in the Latin American region. Whilst the agreement involving Banco Latinoamericano de Exportaciones S.A. ("BLADEX") was not pursued during the year under review, the Group is still exploring factoring joint-venture or acquisition opportunities, particularly in Brazil and also in other markets.

46 CAPITAL COMMITMENTS

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

	GROUP		BANK	
	2008 USD	2007 USD	2008 USD	2007 USD
Authorised and contracted for	6,824,943	-	-	-
Authorised but not contracted for	20,301,719	31,563,325	-	31,563,325
	27,126,662	31,563,325	-	31,563,325
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

On the 3 September 2008, the Group, entered into a promise of sale agreement (konvenju) for the purchase of a plot of land in Pendergardens, in St. Julians. The konvenju, signed with the proposed seller Pender Ville Limited, was executed through FIM Property Investment Limited by means of a public deed. The plot of land will be developed in a building block where the Group intends to house its head office. The price to be paid for the land is EUR4,612,000 and is staggered in installments upon the reaching of certain milestones (such as the issuance of the excavation permits and the completion of the excavation works) within stipulated timelines. The konvenju expires on 31 March 2009.

47 EVENTS AFTER BALANCE SHEET DATE

47.1 Bond issue

On 9 March 2009 the Board approved the Prospectus for a Bond in respect of an Issue of an aggregate of EUR15,000,000 Subordinated Bonds 2012-2019 subject to an over-allotment option of EUR15,000,000, in any one or a combination of the following issues: 7% EUR Bonds 2012-2019 of a nominal value of EUR 100 per bond issued at par and/or 7% USD Bonds 2012-2019 of a nominal value of USD 100 per bond.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2008

47 EVENTS AFTER BALANCE SHEET DATE *(continued)*

47.2 Acquisition of shareholding in a factoring company

Moreover, on 3 March 2009, Menafactors Limited (“Menafactors”) acquired 25% of LCI Factors S.A.L. (“LCI”), a factoring company incorporated in Beirut, Lebanon. The other major shareholder (73.86%) in LCI is The Lebanese Credit Insurer S.A.L., a joint venture between ATRADIUS Re (the second largest credit insurer in the world) and a group of local and regional insurance companies and investors. Further to this acquisition, made for a consideration of USD100,000, Menafactors will hold 150,000 LCI newly issued shares with a nominal value of Lebanese Pounds (LBP) 1,000 each.

48 COMPARATIVE FIGURES

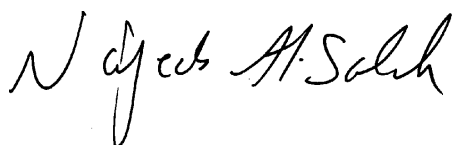
Certain comparative amounts have been reclassified to conform with the current year’s presentation.

STATEMENT OF THE DIRECTORS PURSUANT TO LISTING RULE 9.40.5

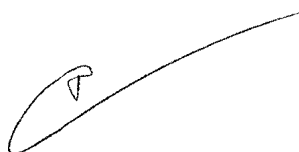
For the Year Ended 31 December 2008

We, the undersigned, declare that to the best of our knowledge, the financial statements set out on pages 30 to 110 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 9 March 2009 by:



Najeeb H.M. Al-Saleh
Chairman



John C. Grech
Vice Chairman

REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders of FIMBank p.l.c.

Pursuant to Listing Rule 8.39

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

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

We read the Statement of Compliance and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this Statement is consistent with other information included in the Annual Report.

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

In our opinion, the Statement of Compliance set out on pages 22 to 28 provides the disclosures required by the Listing Rules 8.37 and 8.38 issued by the Listing Authority.



Noel Mizzi (Partner) for and on behalf of

KPMG

Registered Auditors

9 March 2009

INDEPENDENT AUDITORS' REPORT

To the Shareholders of FIMBank p.l.c.

Report on the Financial Statements

We have audited the accompanying financial statements of FIMBank p.l.c. ('the Bank') and of the Group of which the Bank is the parent ('the financial statements') set out on pages 30 to 110, which comprise the balance sheets as at 31 December 2008, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

As described on page 29, the Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Article 179 of the Companies Act, 1995 and Article 31 of the Banking Act, 1994 enacted in Malta and may not be appropriate for any other purpose.

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

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

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

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2008, 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.

INDEPENDENT AUDITORS' REPORT *(continued)*

Report on Other Legal and Regulatory Requirements

The Banking Act, 1994 requires us to report:

- whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- whether in our opinion, proper books of account have been kept by the bank so far as appears from our examination thereof;
- whether the financial statements are in agreement with the books; and
- whether these give the information required by any law in force in the manner so required and give a true and fair view.

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

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

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

Opinion

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

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



Noel Mizzi (Partner) for and on behalf of

KPMG

Registered Auditors

9 March 2009

SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule I INCOME STATEMENT *Five Year Summary*

BANK

	2008 USD	2007 USD	2006 USD	2005 USD	2004 USD
Interest income	26,111,791	22,870,430	17,800,866	8,511,348	4,273,583
Interest expense	(17,606,671)	(16,858,192)	(12,728,467)	(4,328,442)	(1,416,423)
Net interest income	8,505,120	6,012,238	5,072,399	4,182,906	2,857,160
Fee and commission income	16,128,175	12,420,609	10,326,421	7,682,567	6,147,131
Fee and commission expense	(1,288,088)	(946,703)	(1,011,842)	(644,204)	(307,177)
Net fee and commission income	14,840,087	11,473,906	9,314,579	7,038,363	5,839,954
Net trading income	(4,858,802)	1,143,384	1,336,923	360,885	409,450
Dividend income	1,530,101	600,123	1,167,161	327,476	-
Profit on disposal of associate	43,085,785	-	-	-	-
Other operating income	69,788	51,537	22,122	50,000	51,321
Net operating income before impairment losses	63,172,079	19,281,188	16,913,184	11,959,630	9,157,885
Net impairment losses	(1,079,697)	(732,089)	(884,565)	(365,677)	(810,834)
Net operating income	62,092,382	18,549,099	16,028,619	11,593,953	8,347,051
Administrative expenses	(19,324,672)	(14,528,885)	(11,826,533)	(7,919,185)	(6,512,918)
Depreciation	(534,636)	(517,125)	(388,855)	(421,395)	(409,496)
Provision for liabilities and charges	(1,733,104)	-	-	-	-
Total operating expenses	(21,592,412)	(15,046,010)	(12,215,388)	(8,340,580)	(6,922,414)
Profit before taxation	40,499,970	3,503,089	3,813,231	3,253,373	1,424,637
Taxation	(9,963,462)	(394,689)	(335,671)	(243,520)	(34,261)
Profit for the year	30,536,508	3,108,400	3,477,560	3,009,853	1,390,376

SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule II

BALANCE SHEET

Five Year Summary

BANK

	2008	2007	2006	2005	2004
	USD	USD	USD	USD	USD
ASSETS					
Balances with the Central Bank of Malta and cash	8,811,029	15,137,885	93,322	215,071	59,834
Financial assets at fair value through profit or loss	26,349,315	37,336,214	20,739,111	10,239,158	-
Loans and advances to banks	264,614,667	234,875,967	200,848,606	111,419,004	106,813,271
Loans and advances to customers	229,640,248	205,566,411	166,021,629	101,622,616	85,939,813
Investments available-for-sale	61,789	149,029	149,029	133,600	133,600
Investments in equity accounted investees	2,013,425	13,567,359	8,553,934	6,259,188	4,703,330
Investments in subsidiaries	49,394,666	37,392,666	37,392,666	37,392,666	2
Property and equipment	1,631,305	1,441,827	1,261,650	1,351,629	1,527,189
Intangible assets	589,825	463,678	397,782	-	-
Current tax recoverable	210,811	-	-	-	-
Deferred tax	1,285,255	1,206,759	734,945	619,840	742,288
Other assets	2,359,199	1,134,150	965,444	1,060,753	1,054,458
Prepayments and accrued income	2,044,412	1,503,348	1,203,991	1,406,345	1,886,267
Total assets	589,005,946	549,775,293	438,362,109	271,719,870	202,860,052
LIABILITIES AND EQUITY					
Liabilities					
Financial liabilities at fair value through profit or loss	1,159,079	255,540	263,248	202,727	-
Amounts owed to banks	211,163,939	272,381,082	246,296,826	116,336,809	65,697,692
Amounts owed to customers	252,147,811	180,034,363	121,995,315	89,893,658	86,619,942
Debt securities in issue	-	1,000,000	-	944,102	-
Subordinated convertible loan	6,000,000	6,000,000	6,000,000	6,000,000	-
Provisions	1,733,104	-	-	-	-
Other liabilities	2,280	638,913	44,727	7,293	58,101
Accruals and deferred income	4,737,313	3,359,395	4,072,521	2,232,008	1,341,512
Total Liabilities	476,943,526	463,669,293	378,672,637	215,616,597	153,717,247
Equity					
Called up share capital	67,428,196	54,946,953	43,084,340	35,586,870	33,005,316
Share premium	9,658,098	18,136,923	3,654,479	10,231,432	8,862,371
Other reserve	2,681,041	2,681,041	2,681,041	2,681,041	2,681,041
Retained earnings	32,295,085	10,341,083	10,269,612	7,603,930	4,594,077
Total Equity	112,062,420	86,106,000	59,689,472	56,103,273	49,142,805
Total liabilities and equity	589,005,946	549,775,293	438,362,109	271,719,870	202,860,052
MEMORANDUM ITEMS					
Contingent liabilities	36,148,490	19,804,574	26,339,473	1,720,516	4,221,546
Commitments	235,844,877	239,187,505	214,271,759	150,826,326	109,628,881

SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule III CASH FLOW STATEMENT

Five Year Summary

BANK

	2008 USD	2007 USD	2006 USD	2005 USD	2004 USD
Net cash flows from operating activities	56,618,404	(43,226,381)	(7,761,251)	10,414,323	7,153,512
Cash flows from investing activities					
Net payments to acquire property and equipment	(616,906)	(591,182)	(253,983)	(251,700)	(676,760)
Payments to acquire intangible assets	(226,765)	(166,076)	(442,674)	-	-
Purchase of equity shares	(8,300,000)	(5,013,425)	(2,294,746)	(1,593,301)	(4,648,205)
Investment in subsidiary	(2,000)	-	-	-	-
Proceeds from disposal of shares in equity accounted investees	41,173,634	-	-	-	-
Payment to acquire subsidiary companies	-	-	-	(11,630,958)	-
Purchase of other investment	-	-	(15,429)	-	-
Proceeds from other investments	87,239	-	-	-	-
Receipt of dividend	1,530,101	600,123	1,167,161	302,029	-
Cash flows used in investing activities	33,645,303	(5,170,560)	(1,839,671)	(13,173,930)	(5,324,965)
Cash flows from financing activities					
Proceeds from issue of share capital	551,112	25,205,753	241,630	44,974	789,617
Debt securities in issue	(1,000,000)	1,000,000	(944,102)	944,102	-
Subordinated convertible loan	-	-	-	10,000,000	-
Dividends paid	(5,131,200)	(1,897,625)	(132,991)	-	(792,077)
Net cash flows (used in) / from financing activities	(5,580,088)	24,308,128	(835,463)	10,989,076	(2,460)
Increase / (decrease) in cash and cash equivalents	84,683,619	(24,088,813)	(10,436,385)	8,229,469	1,826,087
Cash and cash equivalents at beginning of year	907,681	24,996,494	35,432,879	27,203,410	25,377,323
Cash and cash equivalents at end of year	85,591,300	907,681	24,996,494	35,432,879	27,203,410

SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule IV

ACCOUNTING RATIOS

Five Year Summary

BANK

	2008	2007	2006	2005	2004
	%	%	%	%	%
Interest receivable and other operating income to total assets	10.94	3.68	4.09	4.64	4.67
Operating expenses to total assets	4.07	3.04	3.22	3.44	3.96
Profit before tax to total assets	6.88	0.64	0.87	1.20	0.70
Pre-tax return on capital employed	36.14	4.07	6.39	5.80	2.90
Profit after tax to equity	27.25	3.61	5.83	5.36	2.83
	2008	2007	2006	2005	2004
Weighted average number of shares in issue (000's)	133,235	88,487	85,986	80,765	66,007
Net assets per share (cents)*	84.11	81.09	57.85	70.32	62.04
Basic earnings per share *					
(cents)					
Basic	22.92	2.93	3.37	3.11	1.76
Diluted	21.94	3.12	3.49	2.96	1.76

* Ratios for 2004 to 2007 have been restated to reflect the number of shares in issue.

SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule V

OTHER RELEVANT COMPANY INFORMATION

Shareholder Information

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

Directors' interest in the shareholding of the Company at 31 December 2008

	Number of Shares
Najeeb H.M. Al-Saleh	787,889
John C. Grech	509,438
Fouad M.T. Alghanim	7,015,112
Mohammed I.H. Marafie	5,990,101

Directors' interest in the shareholding of the Company at 12 February 2009

	Number of Shares
Najeeb H.M. Al-Saleh	787,889
John C. Grech	509,438
Fouad M.T. Alghanim	7,152,412
Mohammed I.H. Marafie	5,990,101

As at 31 December 2008 and 12 February 2009, the following Directors had beneficial interests in shareholders of the Company, as listed below:

Najeeb H.M. Al-Saleh	- in Massaleh Investments KSCC
Hamad M.B.M. Al-Sayer	- in Astrolabe General Contracting Co.
John C. Grech	- in EMCS Investments Limited in EMCSI Holdings Limited in Melita Unipol Insurance Agency Limited in Melita Insurance Brokers Limited

Shareholders holding 5% or more of the Share Capital as at 31 December 2008

	Ordinary Share of USD0.50 each	
	Number of Shares	Percentage Holding
Massaleh Investments KSCC	59,685,970	44.26
International Finance Corporation	7,876,711	5.84
Astrolabe General Trading & Contracting Company	7,829,384	5.81
Fouad M.T. Alghanim	7,015,112	5.20

SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule V (continued)

OTHER RELEVANT COMPANY INFORMATION (continued)

Shareholder Information (continued)

Shareholders Holding 5% or more of the Share Capital as at 12 February 2009

	Ordinary Share of USD0.50 each	
	Number of Shares	Percentage Holding
Massaleh Investments KSCC	59,685,970	44.26
International Finance Corporation	7,876,711	5.84
Astrolabe General Trading & Contracting Company	7,829,384	5.81
Fouad M T Alghanim	7,152,412	5.30

Additionally, EMCSI Holdings Limited, EMCS Investments Limited, Melita Unipol Insurance Agency Limited and Melita Insurance Brokers Limited held 15,158, 57,169, 4,083 and 8,471 shares respectively as at both dates.

Number of shareholders

The total number of registered shareholders as at 31 December 2008 was 844, while that as at 12 February 2008 was 850.

Shareholding details as at 31 December 2008

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

Range	Total Shareholders	Shares
1 - 500	38	10,863
501 - 1000	47	34,469
1001 - 5000	301	849,420
5001 and over	458	133,961,640
Totals	844	134,856,392

Shareholding details as at 12 February 2009

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

Range	Total Shareholders	Shares
1 - 500	38	10,863
501 - 1000	48	35,069
1001 - 5000	308	865,665
5001 and over	456	133,944,795
Totals	850	134,856,392

SCHEDULES TO THE FINANCIAL STATEMENTS

Schedule V *(continued)*

OTHER RELEVANT COMPANY INFORMATION *(continued)*

Company Secretary, Registered Address and Contact Number

Raffaella Bonadies

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

Tel: 00 356 2132 2100

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