

FIMBANK

annual report
& financial statements
2009

UNIVERSITY OF MADRID BANK



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chairman's statement to the shareholders



The global economy entered 2009 on a very pessimistic note, in the aftermath of a severe financial crisis which created an acute recession the likes of which had not been seen for decades. Although signs of a rebound, especially in markets like China, Brazil and India, have now been manifest for at least the second half of the year under review, the road to recovery in the developed economies, as well as in the emerging markets where FIMBank is particularly active, has proved harder. Protracted problems in Central European and ex-CIS economies, coupled by dented business confidence in certain Gulf states, have not made the situation better. Moreover, the reduction in global liquidity that characterized a good part of 2009 did not help the flow of international trade, the life-blood of our business, which consequently suffered as a result. While our model has again stood the test of last year's very challenging times, our performance has shown the marks of all this. Yet, as indeed predicted in my statement of last year, we have managed to do fairly well during very hard and turbulent times.

The FIMBank Group ended 2009 with a profit, a stronger and bigger balance-sheet and very healthy capital and liquidity ratios. At the peak of the crisis, we successfully tested the capital market and raised the equivalent of USD40 million of 7% Subordinated 2012-2019 Bonds – the issue was over-subscribed shortly after opening. We also strengthened our funding, increased our client base and business relationships and continued to make progress with our international factoring strategy. In the midst of difficult market conditions we incorporated our new joint-ventures in Russia and India, in both cases with strong local and international banking partners and supranational organizations. In Dubai, Egypt and Lebanon, where we are also involved in other factoring joint-ventures, we maintained our market presence despite difficult business conditions.

This year's consolidated post-tax profit of USD1.6 million was made on the strength of profit results generated by the main entities in the FIMBank Group, namely FIMBank p.l.c. and London Forfaiting Company Limited. Although both companies operated through challenging market conditions which continued to impact on their trading books, operating income was maintained at respectable levels. Like I commented in my statement last year, our success at being able to avoid greater adversity is not accidental. We remained clearly focused on international trade finance and we chose to preserve liquidity rather than pursue business which could have improved our revenue now but presented us with inordinate risks going forward. Once again we have benefited from operating within the framework of rigorous risk management policies and a well-regulated environment which continued to characterize the Maltese banking system as one of the soundest in the world. Throughout all this we also maintained our current Fitch rating and the outlook at 'Stable'. Last year we anticipated that 2009 would prove to be a challenging year, as it started with considerable nervousness and uncertainty spilling over from the previous year. In many markets the extent and duration of the crisis prolonged for longer than expected, however we still managed to find opportunities to selectively develop and grow the business.

My Board's decision to recommend to the Annual General Meeting a full payout of current year profits by way of scrip dividend is a vote for the future of the FIMBank Group. The Group is well-capitalised for its foreseeable development and the Board of Directors views its dividend recommendation as a bridge between the past and the future -- maintaining rewards to shareholders even in challenging times because there is confidence in the business strategy over the medium to long term. If approved at the Annual General Meeting, the net scrip dividend would amount to US cents 1.15 per ordinary share (2008 – US cents 5.54, inclusive of the extraordinary distribution made in September 2008 out of the one-time gain on the sale of our holding in Global Trade Finance, India).

At the 2009 Annual General Meeting amendments to our Memorandum and Articles of Association were approved which, amongst other things, included an increase in the maximum number of Directors to 12. Consequently the Directors agreed to invite Gerard Lohier to join the Board. Gerard is a highly respected banker who comes with years of international executive experience at major financial groups. The Board has since also appointed Gerard as chairman of the Group Executive Committee, and I extend to him a warm welcome.

In conclusion, I thank our Customers for their loyalty, especially in these challenging times. To our increasing number of Shareholders I will this year add our new family of Bond-holders -- their support and confidence are highly appreciated. I also extend a word of gratitude to my Board of Directors who bring their experience and advice to bear on all of our decisions. My last thanks go to the Management and Staff for their dedication, diligence and commitment.


Najeeb H.M. Al-Saleh

CHAIRMAN

بيان رئيس مجلس الإدارة للمساهمين

وقد تحقق الربح الموحد بعد الضريبة هذا العام والبالغ ١,٦ مليون دولار أمريكي من نتائج الأرباح التي حققتها الكيانات الرئيسية في مجموعة FIMBank، وهي تحديداً فيم بنك ب.ل. س (FIMBank) ولندن فورفيتينج كومباني ليميتد (London Forfaiting Company Limited). ورغم أن كلتا الشركتين باشرت عملها في ظل ظروف السوق الصعبة التي واصلت تأثيرها على دفاثرهم التجارية، إلا أنه تم الحفاظ على دخل التشغيل عند مستويات جديرة بالاحترام. وكما عُلِّت في بياني العام الماضي، فإن نجاحنا في تجنب ضرر أكبر ليس عرضياً أو من محض المصادفة. فنحن لا نزال نركز بوضوح على تمويل التجارة الدولية وقد اخترنا الحفاظ على السيولة بدلاً من متابعة عمل كان من الممكن أن يُحسّن عوائدنا الآن لكنه سيعرضنا لمخاطر جمةً مستقبلياً. وأنه مرة أخرى إلى أننا استفدنا من العمل ضمن إطار من سياسات إدارة المخاطر الصارمة وبيئة مُنظمة جيداً أدبت على أن تجعل النظام المصرفي المالي أحد أصح النظم وأكثرها ملاءمة في العالم. وقد حافظنا خلال كل ذلك على تصنيفنا لدى وكالة Fitch والتوقعات الاقتصادية عند "مستقرة". لقد توقعنا العام الماضي أن يكون ٢٠٠٩ عاماً صعباً ومليئاً بالتحديات، وقد بدأ فعلياً بتوتر هائل وغموض يمتد أثره من العام السابق. واستمر نطاق الأزمة ومدتها في أسواق عديدة لأكثر مما هو متوقع، ورغم ذلك تمكنا من إيجاد فرص لتطوير العمل وتنميته بشكل انتقائي.

إن قرار مجلس الإدارة بأن يوصي لاجتماع الجمعية العمومية السنوية بالدفع الكامل لأرباح العام الحالي عن طريق شهادات أسهم هو تعزيز الثقة من أجل مستقبل مجموعة FIMBank. تتمتع المجموعة برأس مال جيد للتطوير المستقبلي ويرى مجلس الإدارة أن توصيته بشأن توزيع الأرباح جسر يربط بين الماضي والمستقبل – إذ يحتفظ بالمكافآت للمساهمين حتى في ظل الظروف الصعبة بفضل وجود الثقة في استراتيجية العمل على المدى المتوسط والمدى الطويل. وفي حالة الموافقة على هذا القرار في اجتماع الجمعية العمومية السنوية، فسوف يبلغ صافي شهادة توزيع أرباح الأسهم ١,١٥ سنت للسهم العادي (بينما كان قد وصل في عام ٢٠٠٨ إلى ٥,٥٤ سنت أمريكي، شاملاً التوزيع الاستثنائي في سبتمبر ٢٠٠٨ للربح نتيجة بيع ملكيتنا في شركة جلوبال تريدي فاينانس، الهند).

وقد تم في اجتماع الجمعية العمومية السنوية لعام ٢٠٠٩ الموافقة على إدخال تعديلات على عقد التأسيس والنظام الأساسي لشركتنا، وقد تضمنت التعديلات، من بين أشياء أخرى، زيادة العدد الأقصى لأعضاء مجلس الإدارة إلى ١٢ عضواً. ومن ثم وافق أعضاء مجلس الإدارة على دعوة جيرارد لوهير للانضمام إلى عضوية مجلس الإدارة. جدير بالذكر أن جيرارد هو شخصية مصرفية تحظى باحترام كبير كما أنه يتمتع بخبرة تنفيذية دولية في مجموعات مالية كبرى. كما عيّن مجلس الإدارة جيرارد رئيساً للجنة التنفيذية للمجموعة، وأرحب به ترحيباً حاراً.

وختاماً، أشكر عملاءنا على ولائهم، لا سيما في ظل هذه الأوقات الصعبة. وسوف أضيف إلى عدد المساهمين المتزايد هذا العام عائلتنا الجديدة من حاملي السندات – ونحن نقدر دعمهم وثقتهم بشدة. كما أنني أتوجه بالشكر والعرفان إلى أعضاء مجلس الإدارة الذين يؤثرون بخبراتهم ونصائحهم على جميع قراراتنا. وأخيراً أتوجه بالشكر إلى الإدارة وطواقم العمل على تفانيهم واجتهادهم والتزامهم.

دخل الاقتصاد العالمي عام ٢٠٠٩ بتوقعات متشائمة للغاية، إثر أزمة مالية قاسية خلقت ركوداً حاداً لم نشهد مثله من قبل على مدار العقود الماضية. ورغم أن مؤشرات الرجوع إلى الحالة الطبيعية، خصوصاً في أسواق مثل الصين والبرازيل والهند، أظهرت خلال النصف الثاني على الأقل من العام الجاري استعراضه، إلا أن الطريق إلى التحسن في الاقتصاديات المتطورة، إلى جانب الأسواق الناشئة حيث يزال FIMBank نشاطه بشكل بارز، أثبتت أنها أكثر صعوبة. فالمشكلات المطولة في اقتصاديات وسط أوروبا ودول الكومنولث المستقلة السابقة، مقرونة بتراجع الثقة في الأعمال في دول خليجية معينة، لم تعمل على تحسين الوضع. وعلاوة على ذلك، فإن الانخفاض في السيولة العالمية الذي اتسم به جزء كبير من عام ٢٠٠٩ لم يساعد على تدفق التجارة الدولية، القوام الرئيسي للعمل، والتي عانت نتيجة لذلك. وعلى الرغم من أن نموذجنا قد صمد أمام اختبار الأوقات العارمة بالتحديات الضخمة في العام الماضي، إلا أن أداءنا أظهر مؤشرات لكل هذه الأوضاع. ومع ذلك، وحسب ما توقعته فعلياً في بياني العام الماضي، تمكنا من أن نبلي بلاءً حسناً أثناء أوقات صعبة ومضطربة جداً.

لقد أنهت مجموعة FIMBank عام ٢٠٠٩ بتحقيق أرباح وميزانية عمومية أكثر قوة وحجماً ورأسمال ونسب سيولة صحية للغاية. جدير بالذكر أننا نجحنا في ذروة الأزمة في اختبار سوق رأس المال وجمّعنا ما يعادل ٤٠ مليون دولار أمريكي من ٧٪ من السندات التابعة للأعوام ٢٠١٢-٢٠١٩ - وقد تم تجاوز حد الاكتتاب على الأسهم المصدره بعد فترة وجيزة من الطرح. كما عزّزنا من تمويلنا وقمنا بزيادة قاعدة عملائنا وعلاقات العمل وواصلنا إحرار تقديم مع استراتيجيتنا الدولية لتحصيل الديون (Factoring). وقد نجحنا في خضم ظروف السوق الصعبة في تأسيس مشاريع مشتركة جديدة في روسيا والهند، مع شركاء محليين ودوليين ومنظمات فوق وطنية قوية في قطاع الخدمات البنكية. ونحن مشتركون أيضاً في دبي ومصر ولبنان في مشاريع مشتركة أخرى لتحصيل الديون، وقد حافظنا على تواجدها في السوق على الرغم من ظروف العمل الصعبة.



Najeeb H.M. Al-Saleh

CHAIRMAN

message du président aux actionnaires

L'économie mondiale a entamé l'année 2009 sur une note bien pessimiste dans le sillage de la crise financière, à l'origine d'une récession telle que nous n'en avons plus connue depuis des décennies. Bien que des signes de reprise se soient manifestés, du moins au second semestre et plus particulièrement dans des pays tels que la Chine, le Brésil et l'Inde, le chemin du redressement s'est avéré plus difficile pour les économies développées, de même que sur les marchés émergents où FIMBank est particulièrement active. La persistance des problèmes en Europe Centrale et dans la CEI, associée à une érosion de la confiance des entreprises dans certains États du Golfe, n'a guère contribué à améliorer la situation. La baisse de la liquidité au cours de l'année 2009, a de facto affecté l'ensemble du commerce international, essence même de notre activité. Bien que notre modèle d'entreprise ait à nouveau résisté aux épreuves de l'année écoulée, nos performances s'en sont néanmoins ressenties. Mais comme annoncé l'année dernière, nous avons toutefois obtenu des résultats satisfaisants malgré cette période difficile et mouvementée.

Le groupe FIMBank a clôturé 2009 avec des bénéfices, un bilan plus solide ainsi que d'excellents ratios de fonds propres et de liquidités. Au plus fort de la crise, nous avons éprouvé la confiance des marchés financiers avec la levée de USD40 millions au travers d'obligations subordonnées à 7 % échéant de 2012 à 2019; peu après l'ouverture des souscriptions, la demande dépassait déjà l'émission. Nous avons également renforcé notre structure de financement, élargi notre clientèle et nos relations d'affaires, et maintenu la progression de notre stratégie internationale d'affacturage. En dépit de conditions de marché difficiles, nos nouvelles coentreprises en Russie et en Inde, menées dans les deux cas avec de solides partenaires bancaires locaux et internationaux ainsi qu'avec des organisations supranationales, ont été intégrées au groupe. À Dubaï, en Égypte et au Liban, où nous sommes également impliqués dans des coentreprises dans le secteur de l'affacturage, nous avons maintenu notre présence sur le marché malgré une activité difficile.

Le bénéfice consolidé après impôt de l'exercice, qui s'élève à USD1,6 million, s'explique par la solidité des résultats générés par les entités principales du groupe FIMBank, à savoir FIMBank plc et London Forfaiting Company Limited. Bien que les deux sociétés aient été confrontées à un environnement très exigeant qui n'a guère épargné leurs portefeuilles respectifs, le produit d'exploitation s'est maintenu à un niveau respectable. Comme indiqué l'année dernière, notre résistance aux événements ne doit rien au hasard. Nous sommes restés clairement concentrés sur le financement du

commerce international et avons choisi de préserver notre liquidité plutôt que de privilégier des activités susceptibles d'améliorer notre chiffre d'affaires mais présentant des risques inconsidérés. Une fois encore, le strict respect des règles en matière de gestion des risques ainsi que la réglementation rigoureuse régissant le système bancaire maltais, un des meilleurs au monde, s'est avéré payant. Au cours de cette période difficile, nous avons conservé notre notation Fitch, ainsi que la perspective « Stable ». Nous prévoyions l'année dernière un exercice 2009 plein de défis, celui-ci ayant débuté dans une grande nervosité teintée d'incertitude suite aux événements de 2008. L'ampleur et la durée de la crise ont été sous-estimées sur de nombreux marchés mais nous sommes néanmoins parvenus à identifier des opportunités ciblées de développement de notre activité.

La décision du Conseil d'Administration de recommander à l'Assemblée Générale Ordinaire le versement intégral des bénéfices de l'exercice via des certificats de dividende provisoire est un vote de confiance dans l'avenir du groupe FIMBank. Ce dernier jouit d'une solide assise financière lui permettant d'asseoir son développement futur ; le Conseil d'Administration considère cette recommandation de versement d'un dividende comme un trait d'union entre passé et avenir en maintenant la rétribution des actionnaires malgré cette période difficile tout en conservant notre stratégie à moyen et long terme. En cas d'approbation par l'Assemblée Générale Ordinaire, le certificat de dividende provisoire s'élèverait à USD1,15 cents par action ordinaire (2008 : USD5,54 cents avec prise en compte de la distribution exceptionnelle effectuée en septembre 2008 sur la plus-value ponctuelle réalisée par la vente de notre participation dans la société Global Trade Finance en Inde).

Lors de l'Assemblée Générale Ordinaire de 2009, des amendements aux statuts ont été approuvés, portant notamment sur l'augmentation du nombre maximal d'administrateurs à douze. En conséquence, les administrateurs ont convenu d'inviter Gérard Lohier à rejoindre le Conseil d'Administration. Gérard est un banquier jouissant d'une excellente réputation et possédant des années d'expérience en tant que cadre international au sein d'importants groupes financiers. Le Conseil d'Administration a depuis également nommé Gérard Président du Comité Exécutif du Groupe. Je lui adresse par conséquent un chaleureux message de bienvenue.

Pour conclure, je remercie nos clients pour leur loyauté, tout particulièrement en ces temps difficiles. À nos actionnaires toujours plus nombreux s'ajoutent cette année des titulaires d'obligations : leur soutien et leur confiance sont appréciés à leur juste valeur. J'adresse également mes remerciements au Conseil d'Administration, dont l'expérience et les recommandations sont à la base de toutes nos décisions. Enfin, tous mes remerciements vont à la Direction et au personnel pour leur dévouement, leur diligence et leur engagement professionnel.



Najeeb H.M. Al-Saleh

CHAIRMAN

review of operations

For the year ended 31 December 2009

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"). Coverage is also given to the associated undertakings Egypt Factors and LCI Factors and the start-ups in Russia and India.

introduction

The acute phase of the deep global recession and financial crisis has passed, with a growth rebound under way. The recovery, albeit still weak, remains supported by unprecedented wide-ranging public interventions in both developing and developed countries, in particular. Confidence rebounded slowly on both the financial and real fronts, as this extraordinary policy support forestalled another Great Depression. Global industrial production and trade rebounded in the second half of 2009, although they remain depressed and below the pre-crisis level. Financial markets have recovered and stabilized, but remain weak. This sluggish recovery reflects the still high unemployment, weak balance sheets and depressed trade levels. World economic growth is estimated to have contracted by almost 1% in 2009, contrasting an average growth rate of 4.5% in the previous five years. The main drag on global growth is coming from developed economies, whose output

contracted by 3.2% in 2009. Global investment fell by an estimated 9.7% in 2009, reflecting uncertainty regarding future economic prospects and shortage of funds.

The rebound in global economic growth was also marked by a decline in sovereign spreads and increased sovereign issues, in both advanced and emerging economies, as a pick-up in portfolio flows was observed, particularly in developing countries. The revival in stock market activity supported new equity placements by emerging economies, particularly on the strength of large deals by China, Brazil and India. Recovery in the bond market eased access to international capital markets, in tandem with the reopening of the high-yield markets. In contrast, cross-border bank lending, which has dried up significantly during the financial crisis, remains weak as global banks continue to consolidate and deleverage in an effort to restore their balance sheets, particularly in face of the possibility of further credit impairments. Countries with heavy dependence on external financing, particularly Emerging and Central Europe, continue to face shortage of funds to support a rebound in credit and economic growth. Meanwhile, lending to resource rich countries remains strong.

While the growth of emerging economies was reported at 2.1% in 2009, developed economies reported a negative growth rate of 3.2% in 2009. Despite being significantly hit by the crisis, as evidenced by the heavy economic slowdown, economic recovery in most of the emerging economies remains generally further ahead of developed economies. The global rebound was initially driven by an investment rebound in emerging economies, particularly in China and in newly industrialized economies of East Asia. This has spilled over to higher-income countries through stronger export demand. Global crisis affected emerging economies first and foremost through a sharp slowdown in global industrial activity, hindered by suspended investment programs and lower consumer durable demand. Falling export demand, commodity prices and capital inflows accentuated and prolonged the economic downturn. Developing Europe and Central Asian economies,



hobbled by large current account deficits owing to external financing of the countries' consumption boom, were hit hardest by the crisis. In East Asia and South Asia, particularly in China and India, growth has been more resilient supported by stronger initial conditions and unprecedented policy stimulus. The latter, on the other hand, has worsened fiscal balances globally. As financial market sentiment improved, borrowing costs for emerging market borrowers declined, although remain above the pre-crisis level. Nevertheless, some of the risk appetites have been hobbled by the Dubai World event and credit downgrading of Greece and Mexico at the end of 2009, signalling a still weak and asymmetric global recovery.

In the commodity markets, the US dollar price of energy contracted by almost 70% while metal prices plummeted by more than 50% between July 2008 and February 2009. Prices of agricultural goods, in dollar terms, declined by 30% in the same period, reflecting in part lower energy prices – a core cost component in agricultural goods. Energy and metal prices began to recover in March 2009, in line with the broader global economic environment and depreciation of the US dollar. Subsequently, commodity prices rose strongly during the early stages of the recovery, despite still generally high inventories. To a large extent, this revival was due to the buoyant recovery in emerging Asia. In particular, the strong fiscal stimulus in place by the Chinese authorities has boosted domestic demand in China – the largest global metal importer – and boosted commodity exports in other countries. Despite the rebound in commodity prices, these remain below their pre-crisis level on the back of the above-average inventory levels and substantial spare capacity in many commodity sectors.

emerging and developing markets in focus

developing asia

The region was hit hard by the crisis, primarily through the collapse in demand in its major global markets hitting the region's exports. This region, strong in the production of durable and investment goods, has experienced significant declines in its trade and production volumes, particularly between September 2008 and March 2009. Nonetheless, economies in the region witnessed the most robust recovery worldwide, with regional growth reported at 6.5% – contrasting the negative growth in advanced economies. The rebound in developing Asia was primarily supported by large unprecedented fiscal and monetary policy stimuli, followed by a rebound in capital markets and rapid inventory adjustment. Despite having experienced a drop in exports, China, Indonesia and India have escaped a severe recession. These economies have not been burdened with debt, allowing monetary and fiscal policies to gain traction more quickly. The financial system in the region contained relatively few toxic assets and the system's resilience reflected banking reforms following the East Asian financial crisis of the 1990s. Strong economic recovery in China, whose GDP growth stood at a strong 8.7% in 2009, was supported by a USD575 billion fiscal stimulus – supporting a revival of exports in China's trade partners and commodity prices. The Indian economy grew by 5.9% in 2009, supported by strong economic fundamentals and supportive policies. Unprecedented aggressive monetary policy easing by regional central banks also contributed to Asia's recovery. Consequently, overall domestic demand has held up remarkably well, despite weak private demand which remains hobbled by the legacy of the crisis. The rebound in equity markets and the resumption of capital inflows into the region,



amidst a decline in risk aversion, has provided further impetus for the Asian economies. Most currencies in developing Asia strengthened, albeit remaining below pre-crisis level. Financial constraints on corporates and households eased, as reflected in lower spreads for Asian corporate debt. Credit growth has stabilized in several Asian economies, including India and newly industrialized Asian economies, as private demand picked up and banks benefited from ample liquidity and sound capital positions. Nevertheless, the region remains highly dependent on exports -- particularly on US consumption.

latin america

Aggressive policy measures, coupled with the global recovery, have ensured a brief recession in Latin America. Economies in the region contracted by 2.3% in 2009 compared to a growth rate of 4.2% in the previous year. Contrasting the policy in the previous decades, fiscal policy in the region has been countercyclical supported by improved macroeconomic frameworks, lower debt levels and larger reserve buffers. This has enabled the region to weather the crisis much better than earlier ones. In addition, the financial systems in Latin America have held up relatively well to the crisis, reflecting pre-crisis improvements in the systems' framework. Since the second half of 2009, economies started to show signs of recovery, mainly via stronger domestic demand, with most economies in the region posting strong quarter on quarter growth in the latter half of 2009. As commodity exporters, many countries in the region have benefited from the strength in global commodity prices. This has boosted the region's terms of trade and, in conjunction with increased risk appetite, has supported a recovery in capital inflows. Brazil led the region's recovery with soaring equities and currency exchange rate against the dollar. Mexico, on the other hand, is the hardest hit economy in the region owing to its trade linkages with the US and reliance on manufacturing exports. Inflation in the region eased, despite continued

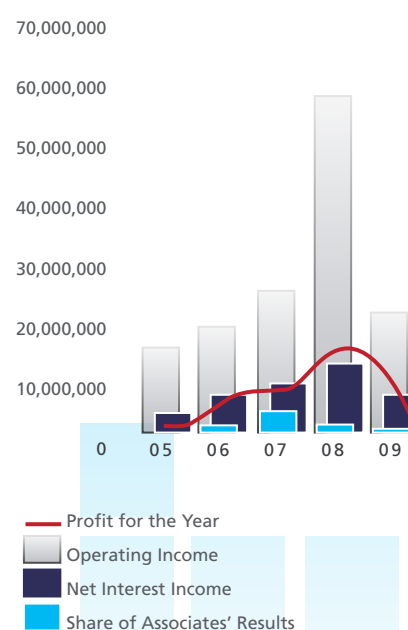
inflationary pressures in Venezuela and Argentina, reflecting weakness in economic activity and economic slack. Notwithstanding these circumstances, exchange rates have held up relatively well, with virtually all of the countries in the region having regained their pre-crisis exchange rate level relative to the US dollar. Equity markets have also been recovering and spreads on regional sovereigns have narrowed, increasing access to international capital markets.


central and emerging europe

The reversal of international sentiment at the onset of the crisis led to a sharp adjustment in economies in Central and Emerging Europe. The region's economy shrank by 4.3% in 2009, compared to a positive growth rate of 3.1% in the previous year, with the recovery remaining fragile. Pre-existing vulnerabilities, including large current account deficits, fragile banking sectors,

income

(in US\$)





excessive reliance on foreign funding and sizeable fiscal imbalances, made the region more vulnerable to downside risks of the global economic crisis. Despite efforts by domestic authorities and foreign bodies, the region remains particularly hit by the crisis. The region suffered primarily through a drop in capital inflows, leading to significant contractions in the Baltic economies, Bulgaria and Romania. During the last quarter of 2009, however, the pace of contraction eased on the back of increased risk appetite, stronger exports and slower inventory drawdown. Turkey and Poland were among the best performers in the region. Nonetheless private credit remained weak, in tandem with the region's weak labour market, depressing domestic consumption in 2009. Weak initial conditions continue to limit room for major policy stimulus, crippled by capital outflows, with some countries facing pressures to consolidate their macroeconomic imbalances. The fragile banking sectors in the region also led to tighter credit conditions, hindering a rebound in domestic demand. In particular, emerging Europe remains vulnerable to further contractions in cross-border funding while financial institutions remain vulnerable to further asset quality deterioration and still-weak capitalization.

ex-commonwealth of independent states

Economies in the Ex-Commonwealth of Independent States (Ex-CIS) were severely affected by the economic fallout of the global crisis, with output contracting by 7.5% in 2009, contrasting a growth rate of 5.5% in the previous year. Recovery in the region was well below that observed in other emerging economies, owing to significant financial weaknesses and fragile internal demand in the region. Russia – the largest economy in the region – contracted by 9% in 2009. Faced with dramatic tightening of external financing conditions, regional authorities responded with a mix of domestic macroeconomic adjustment initiatives and extensive resort to official financing from international bodies to restore foreign reserves, support fiscal initiatives and limit

downward pressures on local currencies. Public finances in Russia, which suffered a significant deterioration in investor confidence during the economic downturn, weakened during the crisis owing to the large economic contraction and large financial sector stress. The drop in commodity prices and the sudden reversal of capital flows led to a fall in fixed investment. The sharp contraction in Russia also led the Russia-dependent economies to suffer weaker remittances and export earnings. In addition, the crisis depressed domestic demand and inflows of foreign capital markets in the region. On the other hand, most of the energy-exporting economies in the Ex-CIS weathered the impacts of the financial turmoil and the drop in energy prices relatively well on the back of the large reserve buffers and less dependence on Russia for commodities. Unlike other energy exporters, Kazakhstan suffered further blows to its financial sector, already weakened by a sudden reversal of capital inflows in early 2008, and a real estate meltdown. Ukraine was particularly hit by the crisis, with GDP shrinking by 14% in 2009, hindered by its domestic currency devaluation, weak public finances, shortage of external financing, weak asset quality in the financial system coupled with suppressed bank lending. After the currency devaluations earlier in 2009, monetary policy in the region has been directed toward safeguarding stability through higher interest rates.

middle east and north africa

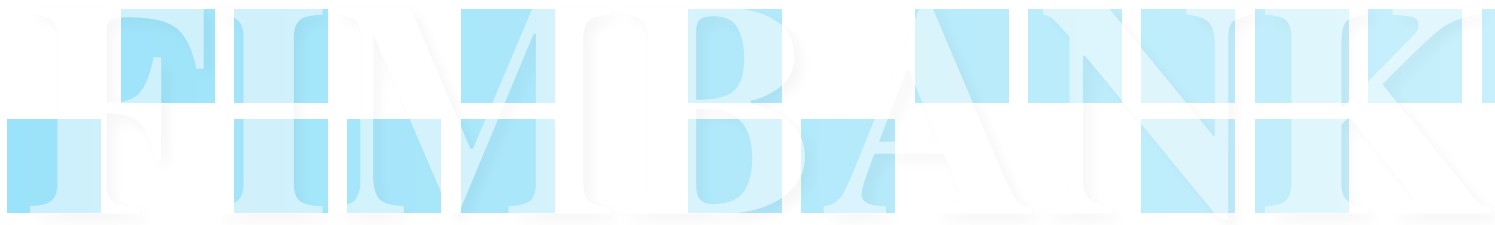
Economies in the Middle East were also hit by the economic and financial crisis, with regional economic growth decelerating to 2.2% in 2009, from a 5.3% growth in the previous year. The global slowdown led to lower worker remittances, oil prices and foreign direct investment into the region. GDP growth of oil exporting economies was more suppressed than that of oil importers, as the former cut back oil production, in line with efforts by Organization of Petroleum Exporting Countries (OPEC) to stabilize falling oil prices. The virtual collapse of key export markets yielded sharp declines in goods exports from North Africa. Inflation

in the region slowed down, hovering around 8% in 2009, reflecting the economic slowdown in the region. Lebanon and Jordan experienced the largest contraction in inflation, while the pace of consumer price growth in Egypt and Iran remained high. Egypt and Lebanon, in particular, reported the strongest economic growth rates in the region. The slowdown in inflation has triggered various interest rate cuts in various economies in the region, supporting domestic demand. The sharp reduction in oil exports has narrowed the region's account surplus, although the Gulf Cooperation Council (GCC) oil producers still maintain strong fiscal surpluses. At the onset of the crisis, equity markets among the GCC economies plummeted, with the decline in output surpassing that of other emerging economies. Fiscal policies have been mainly supportive of domestic demand in the region, especially in oil-exporting countries, with Saudi Arabia in particular. Central banks in the region injected liquidity, with some pledging guarantees and increased deposits in commercial banks to shore up confidence in the system. Currencies of many oil exporters in the region remained weak owing to the deterioration of the US dollar, to which many currencies are pegged. Bank credit to the private sector in the Middle East contracted following the financial crisis in Bahrain and Dubai, hindering the strength of the recovery and investor confidence in the region. These financial difficulties indicated that institutions in the region are not insulated from the global financial crisis, hurting the pace of economic recovery in the region.

sub-saharan africa

Growth in Sub-Saharan Africa also deteriorated sharply in 2009, with GDP growth down to 1.6% in 2009 from an average of 5% in the previous decade. This led the region's per capita income to drop for the first time in the last decade. The economic fallout of the crisis fed into the region via its trade and investment linkages. Demand for the region's exports fell, capital flows were reversed, commodity prices declined and remittance flows weakened. South Africa, the strongest economy

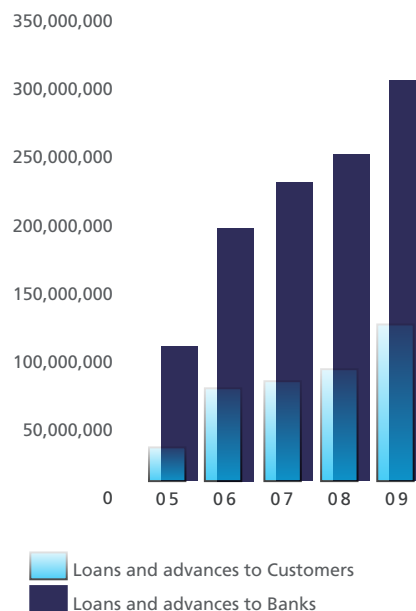




in the region, was the first to be hit by the slowdown owing to its deep financial and trade linkages. This marked the country's first recession in almost two decades. Export dependent countries, including Angola and Nigeria (which together account 60% of the region's GDP), transmitted the shock to other economies in the region. Commodity dependent countries faced weaker terms of trade and deterioration in external balances while many commodity exporters found it hard to raise capital to fund trade. Expansionary monetary and fiscal policies, however, in conjunction with the recovery in global trade limited the economic contraction in the region. The limited economic openness of the region also helped cushion the impact from the recession. Inflation in the region also slowed down, albeit still high at 10.5% in 2009, with countries in the CFA franc zone reporting the lowest inflation rates in the region. Financial institutions in the region withstood the downturn relatively well, reflecting the relatively low integration in global financial markets. Despite South Africa's integration in the global financial markets, more prudential lending has put banks in the country in a relatively strong position. However, the reduction in global liquidity and bank lending created vulnerabilities for banks with reliance on foreign funding, especially in Nigeria. Nigerian banks were particularly affected by equity losses, with the government injecting capital into several banks and replacing management. The rally in commodity prices following the onset of the world economic recovery, contributed to currency appreciation in most of the region, with the currencies of most African countries tied to commodity prices. This contrasted the sharp depreciation pressure observed towards the end of 2008.

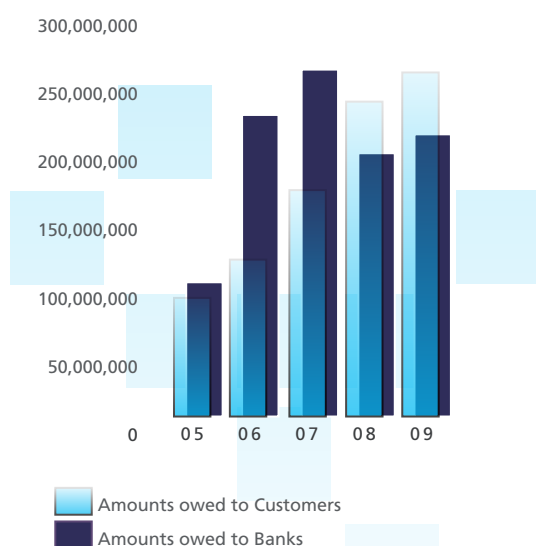
loans and advances

(in US\$)



fund raising

(in US\$)



fimbank group activities and operations

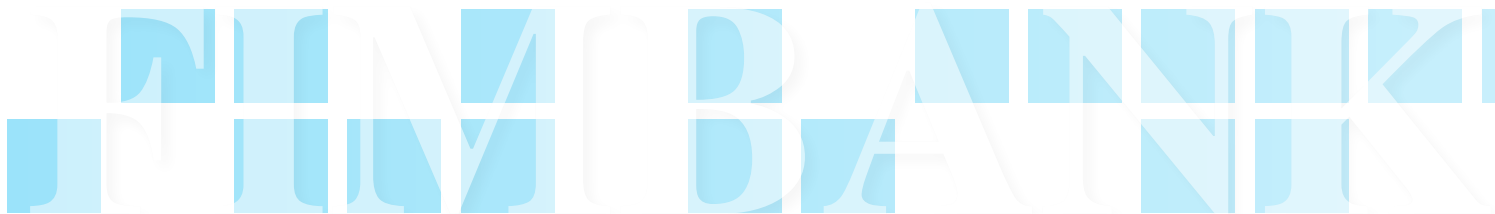
On a micro-level, the prolonged shortage of liquidity, which characterised the first months of 2009, coupled with the higher threat of potential credit issues, have made business sentiment more cautious and the prospects of growing business more challenging throughout 2009. The FIMBank Group continued to weather the turmoil and volatility shown by the global financial markets and remained well above the regulatory levels in terms of capital and liquidity requirements. Cost management measures, improved efficiency through optimisation of work processes and prudent treasury management were given top priority, while the drive to diversify the matrix of products, clients and geographies continued.

In this demanding environment, the Group adopted additional prudence and caution in developing the business, at the same time recognising that flexibility is important to take advantage of opportunities, as risk premia in promising markets, ventures and undertakings, respectively, are priced more realistically. In 2009, the Group continued to expand its client and product base cautiously in both emerging and developed markets. Steps were also taken at resolving certain credit issues related to some of the financial assets, namely debt securities and other loan instruments, for which unrealised mark-to-market write-downs have been in the books since 2008. Some positive results have been obtained and some other write-backs are anticipated in the near future. 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 funding. Efforts were also directed at tapping new sources of funding both by the parent as well as by its main subsidiaries.

In 2009, the Bank maintained a consistent flow of letter of credit transactions, structured finance and documentary credits, international payments, institutional deposits, post-export financing and foreign exchange, with a gradual pick-up in activity being witnessed in the latter part of the year in line with a slow return of confidence. During the first half of the year, the Bank saw its combined Euro and US Dollar 7% 2012-2019 Subordinated Bond Issue heavily over-subscribed shortly after opening of the subscription lists. Investment interest came from a wide cross-section of private, corporate and institutional investors. EUR 23.6 million and USD 8.1 million in Bonds were issued to over 2,600 investors. In a statement issued to accompany the announcement of the allotment policy, the Directors considered the results of the Bond Issue to be a vote of confidence in the Group's business model and strategy, underpinned by selective international expansion through joint ventures and acquisitions.

2009 proved to be a challenging year for LFC, which was not immune to the turmoil and volatility of financial markets worldwide. The global crises started to affect LFC's performance in the last quarter of 2008 and continued during 2009. Margins and funding costs rose sharply and market liquidity was extremely restricted for most of 2009. The lack of market liquidity forced LFC to hold a smaller portfolio while turnover (defined as the total value of forfeiting assets held for trading sold/matured during the year) declined by 28%, highlighting the difficult operating environment. LFC's financial expenses also increased considerably, as a result of the tight market liquidity. Furthermore, the higher margins and restructuring of assets in its trading book resulted in a negative fair value adjustment in LFC's forfeiting portfolio. These same market conditions, characterised by limited secondary market appetite for assets and high margins for new business have however provided LFC with an opportunity to increase its profitability



on new transactions. As a result, applying its trading experience and maximising arbitrage opportunities, LFC booked strong net fee and commission income which enabled it to cover the downward asset valuations and still posted a solo post-tax profit of USD1.4 million (2008: USD3.8 million).

The Group continued with its strategy of pursuing factoring ventures and projects in the midst of challenging market conditions. In 2009, breakthroughs were made in the formation of factoring joint-ventures in the important markets of Russia and India. In Russia, the Group, with its 40% shareholding, is in partnership with Transcapitalbank (40%) and IFC, the International Finance Corporation (20%). Transcapitalbank is a strong private-sector bank with supranational shareholders that include EBRD, the European Bank for Reconstruction and Development, and DEG, one of Germany's largest government-sponsored development institutions. For its return to the Indian trade finance market, FIMBank will be joining forces with Punjab National Bank, one of India's leading public-sector banks, and Italy's Banca IFIS, amongst others. Both joint-ventures are planned to be operational during 2010.

In Dubai, the Group remains committed to seek an important partner for a significant holding in its factoring subsidiary Menafactors. Although this has been the original intention since 2008, market circumstances and subdued investment sentiment were not conducive for such a plan to make progress. During 2009, Menafactors witnessed a steady increase in activity but was not immune from the credit issues which hit the region. The Group is also seeing the gradual emergence of LCI Factors S.A.L., a small factoring company in Lebanon, in which a 25% stake was acquired in March 2009 and is held through Menafactors. Encouraging growth in business volumes and turnovers was also registered in the Egyptian-based factoring associated undertaking as well as in FIMBank's own factoring unit which promotes factoring in Malta and neighbouring countries.

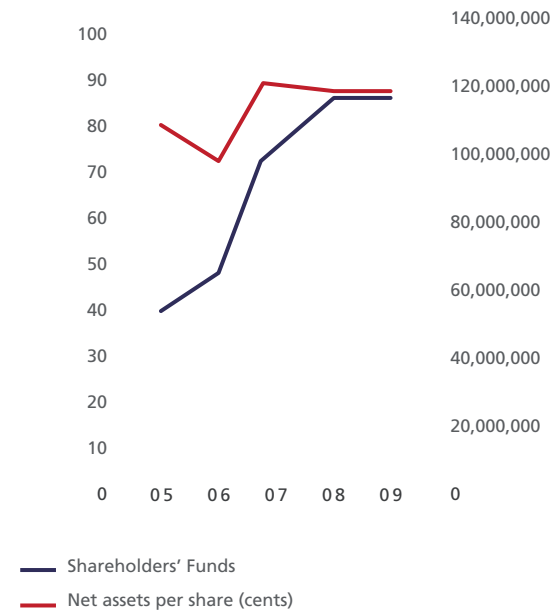


FIM Business Solutions Limited, the IT subsidiary, continued to offer technical and back-office support to the associated ventures, to the parent as well as to third party clients. In 2009, FIM Property Investment Limited, a wholly-owned subsidiary, concluded the acquisition of a site at The Exchange, Pendergardens, St Julian's Malta, for development as the Group's Head Offices.

On the operational side, a major reorganisation of the Banking Group was under way in 2009. Units were re-arranged into front, middle and back-office functions namely Corporate and Institutional Banking (CIB), Product Sales Department (PSD), Transaction Management and Control (TMC), and Banking Operations. New heads were appointed and resources were streamlined to ensure a seamless business flow and client service. A review of the client book, including by size and segment of relationships, took place. With the support of improved management information processes, a review of the Bank's tariff and a focus on cross-selling into the more remunerative relationships, should lead to an overall more efficient and profitable Banking operation. Efforts to generate more funding opportunities for the Group were stepped up during the year under review, with products and initiatives across various markets and maturities taking place. The Group also continued consolidating its internal policies, procedures and processes. During 2009, the Board Risk Committee and Management Risk Committee were re-organised to better cover their risk responsibilities and to better respond to changing market conditions. Changes to the limits and composition of each of the Risk Committees were also approved. Accompanying such developments, extensive training, professional development and education programmes were continuing both in-house and externally. The year under review also saw significant activity taking place on projects for upgrading the Bank's and Group's physical infrastructure. Excavation works for the construction of the new headquarters in St Julian's, Malta commenced, while a major upgrade of the Bank's core systems was successfully executed. Upgrades and improvements to other systems in the Group, all with a view to enhance the efficiency and service offering, were also concluded.

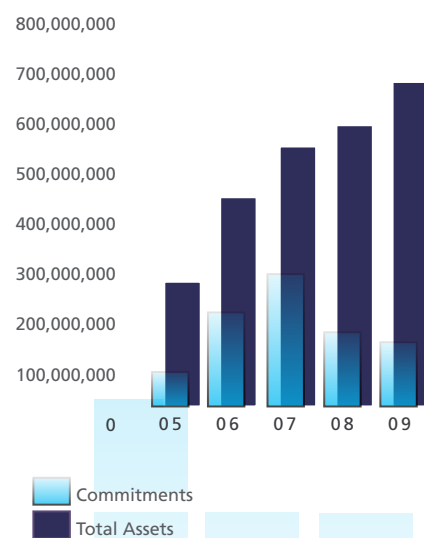
Shareholders' funds

(in US\$)



Assets and commitments

(in US\$)



review of financial performance

For the year ended 31 December 2009, FIMBank and its subsidiaries delivered an after-tax profit of USD1.6 million. While this represents a decline when compared to the USD24.8 million after-tax profit booked for the same period in 2008, it must be highlighted that in 2008 the Group booked an outlier-after-tax profit of USD23.8 million on disposal of its shareholding in Global Trade Finance Ltd ("GTF").

income statement

During the year under review, the Group booked a total operating income after impairments of USD23.9 million, a drop of 7% when compared to 2008, after allowing for the one-time gain generated from the disposal of GTF. Interest and fee-based operating sources of income have not shown the same levels of improvement as for the same period of last year. Group Net Interest Income dropped by 38%, from USD14.2 million in 2008 to USD8.8 million, albeit the Net Interest Margin improved to 50% (2008: 43%). Net Fee and Commission income increased by 7% when compared to 2008, demonstrating that the Group managed to maintain a consistent flow of fee-driven transactions, and optimising on the profitability of new business. The continued pressure on global risk perception had a negative impact on the fair value adjustments of the Group's Trading Assets, which resulted in an aggregate downward mark-to-market adjustment of USD6.9 million (2008: USD2.7 million), all unrealised as at Balance Sheet date. This was partly offset by realised gains on trading assets of USD1.0 million (2008: USD1.5 million) and foreign exchange profits of USD1.6 million (USD3.3 million). The Group also reported realised and unrealised gains on other Financial Assets carried at Fair Value of USD3.8 million, which compare positively with the USD8.6 million unrealised markdowns that marked the Group's performance in 2008. These write-

backs were the result of improved trends in the bond markets and restructurings which started in 2009 and are still under way. Included in Specific Impairments is a realised loss on the disposal of financial assets of USD2.6 million, of which USD2.5 million were already marked down in 2008 -- hence the new impairment in 2009 was of only USD100,000. As part of their disposal, these financial assets were exchanged with instruments of longer maturity but enhanced credit quality. Other impairment losses reflect movements in Collective and Specific Impairment charges, together amounting to USD2.0 million, increasing net impairment losses to USD4.7 million. During 2009, the Group disposed the minority interest held by the Bank in LB Factors Limited, a local unlisted captive factoring company, realising a small gain on the disposal. The Group also benefitted from improvements in cost efficiencies and cost management, with operating expenses (excluding provisions for liabilities and charges) decreasing by 12% -- which costs continue to include expenditure related to start-ups and acquisitions of new ventures. Staff costs declined by 17% when compared to 2008, whereas general and administrative expenses dropped by 7%.

In 2009, the Egyptian-based factoring associated undertaking (40% held) contributed a loss of USD0.4 million to the Group's performance. This compares negatively with the share of profits of USD1.74 million booked in 2008, which included the contribution from the investment in GTF before its disposal in the second quarter. The Group continued to measure the shareholding in Menafactors in accordance with IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations". This investment contributed a negative result of USD0.07 million.

The Group posted an after-tax profit for the period ended 31 December 2009 of USD1.6 million, with Group Basic Earnings per Share amounting to US cents 1.16 (2008: US cents 18.60).

The Group's performance is largely mirrored in that of the Bank, which, as the parent, continued to support

the operations and start-up activities of its subsidiaries and associates. As in the case of the Group, the Bank's main sources of income have not shown the same levels of improvement as for the same period last year with important write-backs in financial assets being recognised as a result of the improved trends in the bond market and restructurings which started in 2009. Improved cost management and efficiencies resulted in a drop in the Bank's operating costs (excluding provisions for liabilities and charges) of 12% when compared to same period in 2009. As a result, the Bank posted an after-tax profit of USD1.1 million (2008: USD30.5 million) for the period under review.

balance sheet

At 31 December 2009, total Consolidated Assets stood at USD695 million, an increase of 11% over the levels reported at end-2008. Loans and Advances to Banks increased by 16%, with a wider distribution of risk amongst money market and bank exposures in emerging markets. Notable increases were recorded in discounting and negotiations of bank exposures as well as funded participations. Loans and Advances to Customers increased to USD133 million, a growth of 35% when compared to same period in 2008. These refer to corporate relationships outside the Group, generating trade-related transactional financing facilities, discountings as well as syndications. The Group's Trading Assets, made up mainly of LFC's forfaiting portfolio, decreased by USD50 million, from USD177 million reported at 31 December 2008 to USD127 million, reflecting in large part the restricted liquidity prevalent in 2009 which limited LFC's appetite to grow its book. Financial Assets carried at Fair Value declined by 8%, resulting from maturing debt securities that were partly impacted by write-backs in the fair value of these assets. Investments in equity accounted investees stood at USD4.6 million at end-2009. The increase is mainly attributed to the Group's equity investment in CIS Factors, a new factoring company incorporated in the Russian Federation to provide factoring services in Russia. The increase was partly offset by the





consolidation of share of losses incurred through Egypt Factors. Non-current assets held for sale, reflecting the Group's exposure to the wholly-owned Menafactors, stood at USD52 million, significantly higher than the amounts recorded as at 31 December 2008, reflecting the increased portfolios and business volumes of the Dubai-based factoring subsidiary. The Group, through its fully owned subsidiary FPI, also acquired a freehold land and property for development at The Exchange, Pendergardens, for which a consideration of USD7.1 million had been settled at Balance Sheet. The Deferred Tax Asset remained at same levels of 2008, with no further recognition of deferred tax asset taking place at LFC level during 2009 and with minimal increases recognised at the level of the Bank.

Total Consolidated Liabilities at Balance Sheet date stood at USD580 million, an increase of 14% on the figures reported as at 31 December 2008. Amounts Owed to Banks and Customers increased by 6% and 8% respectively, mainly arising from increases in utilisations under Bank lines, callable deposits as well as trade-related term deposits arising from corporate relationships. During the period under review the Group successfully raised the equivalent of USD40 million in 2012-2019 Subordinated Bonds. The issue is eligible for inclusion as Tier 2 Capital, thus strengthening the Group's and Bank's eligible Own Funds. The IFC Subordinated Convertible

Term Loan remained unchanged at USD6 million with no conversion taking place. Consolidated Debt Securities in issue decreased by USD17 million, as some of the maturing promissory notes were not renewed. Notable increases were recorded under "Liabilities directly associated with Non-Current Assets held for sale". These mirror efforts undertaken by Menafactors during 2009 to secure their own funding with the Bank's support.

Group Equity as at 31 December 2009 stood at USD116 million (2008: USD117 million), reflecting the Group's performance in 2009 and the dividend paid out in April 2009. The Group's Basle II Capital Adequacy Ratio remained very robust at 29.3% (2008: 21.9%) and well above the regulatory minimum of 8%.

Group commitments, consisting mainly of confirmed letters of credit, documentary credits and commitments to purchase forfeiting assets, stood at USD192 million at 2009 year-end, a drop of 5% compared to the levels recorded at the end of 2008, reflecting drops in confirmed letters of credits and factoring commitments. Contingent Liabilities have decreased to USD26 million from USD50 million at 2008 year-end.

The Bank's Total Assets stood at USD668 million, an increase of 13% over the levels reported as at 31 December 2008. Loans and Advances to Banks increased by 19% with Loans and Advances to Customers growing by 11%. The later include the funding support provided by the Bank to its subsidiary companies, which increased to USD123 million at 31 December 2009, an increase of 6% over 2008 year-end. Increases in other loans and advances extended to banks and corporates outside the Group as well as drops in financial assets carried at fair value mirror those of the Group. In 2009, the Bank's investment in subsidiaries increased to USD53 million, an increase attributed mainly to equity injection in FIMFactors for acquiring the 40% holding in CIS Factors. Furthermore, the Bank's investment in available for sale assets has dropped to USD0.04 million after disposing of its shareholding in LB Factors Limited. Funding trends for the Bank mirror by and large those of the Group. The Bank's total Liabilities stood at USD558 million at end-

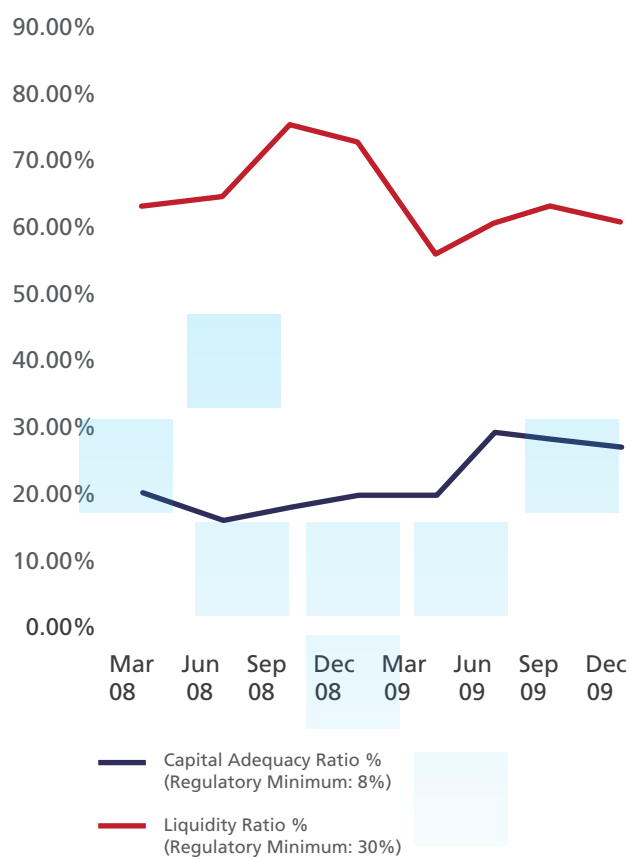
2009, an increase of 17% over the levels recorded as at 31 December 2008. Amounts owed to Banks and Customers increased by 8% respectively while its Subordinated Debts increased to USD47 million, as a result of the Subordinated Bonds issued during the first half of 2009. The Bank also raised USD4.9 million in promissory notes through its bank relationships with the support of IFC's aval. The Bank's equity stood at USD111 million at 2009 year-end (2008: USD112 million).

outlook for 2010

2009 proved to be quite a difficult and challenging year which can by no measure be compared to the exceptional one-time gain that characterised the 2008 results. Although efforts at resolving certain credit issues related to some of the financial assets, namely debt securities and other loan instruments, for which unrealised mark-to-market write-downs have been in the books since end-2008 were strenuous in 2009, the anticipated positive results had not been obtained by year-end. The outlook is more positive for 2010 and write-backs may be expected; additionally, efforts to recover past losses which have been fully impaired continue to be stepped up through legal proceedings and other recovery actions. With liquidity and capital adequacy ratios at healthy levels, continued improvements in efficiencies, more available and diversified access to funding and a more optimistic economic outlook for 2010, there is room for some optimism that the business will gradually return to its normal levels. The Board notes with satisfaction that the breakthroughs made in the formation of factoring joint-ventures in the important markets of Russia and India, during times when investment sentiment remained largely subdued, are significant in their own way and demonstrate confidence in the Group's business strategy. The outlook is therefore one of improved business sentiment and strengthened profitability and the Board is also optimistic that as the Group entities mature and acquire further scale and scope, plus the timely pick-up in activity for the new and existing joint-ventures, they will provide further opportunities for growth and long-term profit.



Solvency and liquidity





directors' report

For the Year Ended 31 December 2009

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 2009. This report is prepared in terms of the Companies Act, 1995 (Chapter 386, Laws of Malta, "The Companies Act") and complies with the disclosure requirements of the Sixth Schedule to the same Act.

results for the year

The Bank and the Group reported a profit after tax of USD1,072,485 and USD1,565,048 respectively for the year under review.

Further information about the results is provided in the "Income Statements" on page 42 and in the "Review of Operations" on pages 7 to 19.

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 (Chapter 371, Laws of Malta). The Bank is principally active in providing international trade finance and to act as an intermediary to other financial institutions for international settlements, forfaiting, factoring and loan syndications. The Group is supervised on a consolidated basis by the Malta Financial Services Authority, whilst Menafactors and FIMBank's Branch in the United Arab Emirates are licensed and regulated by the Dubai Financial Services Authority.

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.

directors' report - continued

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 Group 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.

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

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 7 to 19.

dividends and reserves

The Directors will be recommending to the Annual General Meeting of shareholders the payment of a scrip dividend amounting to USD1,565,048 (2008: USD3,035,907), representing a net dividend per ordinary share of US cents 1.155640 (2008: US cents 2.251).

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 23 April 2009. Along with the statutory Ordinary Resolutions, the Meeting also approved Ordinary Resolutions presented as special business to the shareholders, namely: the disclosure of unpublished price-sensitive information under certain circumstances and a new Executive Share Option Scheme for Year 2010. Furthermore, four Extraordinary Resolutions were approved, namely: (a) amendments to the Bank's Memorandum and Articles of Association; (b) renewal of the Directors' authority to: (i) issue new equity securities and to (ii) restrict or withdraw statutory pre-emption rights; and (c) authority to the Bank to acquire its own shares.

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.
- 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.

directors' report - continued

- d) In accordance with Article 6A of the Articles of Association of the Bank, for a number of reserved matters, the Bank needs to obtain the prior written consent of the International Finance Corporation (IFC). The reserved matters are the following:
- Reduction in the capital of the Bank;
 - Change in the nominal value of, or the rights attached to any shares of any class of the Bank, unless this is specifically required by Maltese law;
 - Merger or consolidation of the Bank;
 - Material reorganization of the Bank;
 - Sale of all or substantially all of the Bank's assets;
 - Change in the Bank's capital structure, except for the issuance of any new shares or securities convertible into shares. In case of issue of new shares or securities convertible into shares, the Bank needs to inform the IFC 90 days prior to the issuance of such shares; and
 - Alteration or amendment to the Memorandum or Articles of Association.

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

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

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

g) 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 2009 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 2010. 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



directors' report - continued

view to dispose of them in an orderly manner and within a reasonable time-frame; they will neither be retained as own shares for a considerable period of time nor cancelled as part of a capital reduction exercise. The price range was established on the basis of a range of up to 50% below and above the trade weighted average price of the shares for the period of seven months up to and including 28 February 2009, with discretion being given to the Directors in the use of such range. This basis was consistent with that used in the preceding two Annual General Meetings.

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

events after the balance sheet date

In February 2010, the Group, through its fully owned subsidiary FIMFactors B.V., subscribed INR24,500,000 (USD5,279,035) in India Factoring and Finance Solutions Private Limited ("India Factors").

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:

Najeeb Hamad Musaad Al-Saleh (Chairman)
John C. Grech (Vice Chairman)
Tareq M. Al-Saleh
Hamad Musaed Bader Mohammed Al-Sayer
Fouad M.T. Alghanim
Pierre-Olivier Fragnière
John D. Freeman
Rogers David LeBaron
Jacques Leblanc
Gerard Lohier (appointed 18 May 2009)
Mohammed Ibrahim Husain Marafie
Francis J. Vassallo



directors' report - continued


independent auditors

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

Approved by the Board of Directors on 16 March 2010 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, as obtaining prior to the coming into effect of Circular 01/2010 issued to all Company Secretaries and Stockbroking Firms, by the Malta Financial Services Authority (the "Authority"), which Circular came into effect on 11th January 2010, 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;

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

- 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 7 to 19.

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.



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

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

	Year when first appointed	No. of shares held in the Bank directly in his name
Najeeb H.M. Al-Saleh (Chairman)	1994	787,889
John C. Grech (Vice-Chairman)	2004	519,864
Tareq M. Al-Saleh	2004	Nil
Hamad Musaed Bader Mohammed Al-Sayer	2002	Nil
Fouad M. T. Alghanim	1997	7,604,791
Pierre-Olivier Fragnière	2007	Nil
John D. Freeman	2008	Nil
Rogers David LeBaron	2006	Nil
Jacques Leblanc	2004	Nil
Gerard Lohier	2009	Nil
Mohamed I.H. Marafie	1994	490,101
Francis J. Vassallo	2003	Nil

Mr Gerard Lohier was appointed Director with effect from 18 May 2009. The appointment was made by the Board of Directors pursuant to Article 106 of the Articles of Association, which permits any vacancy in the Board to be filled by co-option. Since the Annual General Meeting held on 23 April 2009 approved amendments to the Memorandum and Articles of Association, amongst which the increase in the number of Directors from 11 to 12, Mr Lohier's appointment by co-option took place accordingly.

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



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

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.

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.

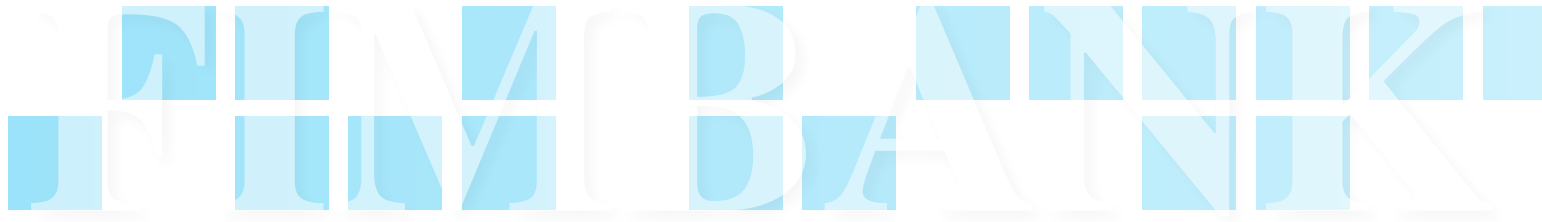
The Board held four meetings during 2009, and the overall attendance rate for these meetings was 85%.

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 Committees
- Asset-Liability Committee



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

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:

Gerard Lohier (Chairman)

Najeeb H. M. Al-Saleh

Tareq M. Al-Saleh

Pierre-Olivier Fragnière

Jacques Leblanc

Francis J. Vassallo

Margrith Lütschg-Emmenegger

Armin Eckermann (appointed on 23 April 2009)

Marcel Cassar

Simon Lay

Mr Gerard Lohier was appointed Member of the Executive Committee on 23 April 2009 and eventually appointed Chairman on 1 October 2009. Mr Jacques Leblanc retired from Chairman of the Executive Committee on 1 October 2009.

The Executive Committee met on seven occasions during 2009, 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 meets periodically to consider and monitor remuneration policy, 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)

Tareq M. Al-Saleh

Pierre-Olivier Fragnière

Jacques Leblanc

Gerard Lohier

Francis J. Vassallo

Margrith Lütschg-Emmenegger

During 2009, the Compensation Sub-Committee met on three occasions.



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

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 in terms of written procedures which detail 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)

Tareq M. Al-Saleh

Hamad Musaed Bader Mohammed Al-Sayer

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.

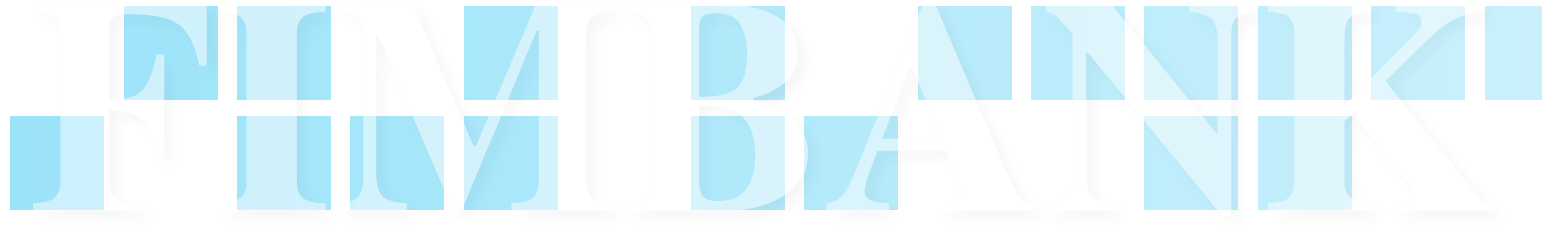
The Internal Auditor attends all meetings and acts as Secretary of the Audit Committee.

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

The Audit Committee held four meetings during 2009, at one of which the independent external 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 committees

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



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

Certain powers of the Board Risk Committee have been delegated to the Management Risk Committee (formerly "Risk Sub-Committee"). Consequently, the Management Risk Committee decides on credit applications up to and including USD10 million. Credit applications exceeding USD10 million up to the Bank's legal lending limit are decided by the Board Risk Committee.

During 2009, changes to the composition and limits of each of the Risk Committees were approved. Beside changes to the name of the Committees, the authority limit of the Management Risk Committee was increased by USD5 million to USD10 million and additional limits of authority based on specific criteria and up to a maximum of USD3 million have been delegated to Management.

The Board Risk Committee members are:

Francis J. Vassallo (Chairman)
Gerard Lohier (appointed on 1 September 2009)
John C. Grech (retired on 1 September 2009)
Margrith Lütschg-Emmenegger (Vice Chairman)
Armin Eckermann
Marcel Cassar

Dr John C. Grech retired from the Board Risk Committee on 1 September 2009 after changes to its composition were approved by the Board of Directors.

The Management Risk Committee members are:

Margrith Lütschg-Emmenegger (Chairman)
Armin Eckermann (Vice Chairman, appointed on 13 August 2009)
Giovanni Bartolotta (appointed on 13 August 2009)
Marcel Cassar
Simon Lay
Carmelo Occhipinti
Renald Theuma

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

During 2009, the Board Risk Committee met on 23 occasions and the Management Risk Committee met on 23 occasions.



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

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

Armin Eckermann

Marcel Cassar

Nassif A. Chehab (resigned on 24 September 2009)

Carmelo Occhipinti

Mr Nassif A. Chehab was a member of the ALCO until his resignation on 24 September 2009.

The ALCO met on two occasions during 2009.

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 23 April 2009, the shareholders approved the maximum aggregate emoluments of the Directors for the financial year ended 31 December 2009 at USD350,000, and the ratification of emoluments of USD200,000 paid to Directors in 2008 for services rendered in prior years. Further details about the aggregate remuneration received by Directors in 2009 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.

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.

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

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 2009 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 19 May 2009 and 16 November 2009 respectively.

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

dealings by directors, management and staff

The "FIMBank Financial Instruments Internal Code of Dealing" which has been drawn up in accordance with the requirements of the Listing Rules contains dealings restriction guidelines and reporting procedures to be observed by Directors, Management and Staff when dealing, or prospecting to deal, in the Bank's equity securities.

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



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

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.

During 2009 the Bank continued supporting and sponsoring the National Battery Buster Campaign in Malta, an environmental awareness initiative organised by the National Waste Management Agency. The aim of this campaign, which will continue into 2010, is to raise awareness about the need for the proper disposal of used batteries. Through this campaign 10.2 tonnes of batteries were collected from schools, commercial outlets and other specific locations, which batteries will be sent overseas for appropriate treatment.

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 16 March 2010 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 (Chapter 386, Laws of Malta) requires the directors of FIMBank p.l.c. (the "Bank") to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and the Group as at the end of the financial year and of the profit or loss of the Bank and the Group for that period in accordance with the requirements of International Financial Reporting Standards, as adopted by the EU.

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

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

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

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

Signed on behalf of the Board of Directors by:



Najeeb H.M. Al-Saleh
Chairman



John C. Grech
Vice Chairman

statements of financial position

As at 31 December 2009

	Note	Group		Bank	
		2009 USD	2008 USD	2009 USD	2008 USD
ASSETS					
Balances with the Central Bank of Malta and cash	18	8,844,589	8,820,337	8,833,204	8,811,029
Trading assets	19	126,931,253	177,329,308	-	-
Derivative assets held for risk management	20	721,728	726,199	721,728	726,199
Financial assets designated at fair value through profit or loss	21	23,558,628	25,623,116	23,558,628	25,623,116
Loans and advances to banks	22	312,665,003	268,569,116	315,235,568	264,614,667
Loans and advances to customers	23	133,136,026	98,499,302	255,714,115	229,640,248
Investments available-for-sale	24	39,595	61,789	39,595	61,789
Investments in equity accounted investees	25	4,554,353	1,073,715	2,013,425	2,013,425
Non-current assets classified as held for sale	26	52,120,843	27,397,646	-	-
Investments in subsidiaries	27	-	-	53,412,291	49,394,666
Property and equipment	28	10,400,335	3,531,500	2,241,239	1,631,299
Intangible assets	29	1,319,006	1,193,393	549,270	589,825
Current tax recoverable		508,275	210,811	508,275	210,811
Deferred tax asset	30	8,341,764	8,007,358	1,683,183	1,285,255
Other assets	31	9,779,650	1,498,224	1,870,871	2,359,199
Prepayments and accrued income	32	2,312,378	1,872,718	2,110,959	2,044,418
Total assets		695,233,426	624,414,532	668,492,351	589,005,946
LIABILITIES AND EQUITY					
Liabilities					
Derivative liabilities held for risk management	20	1,026,810	1,058,376	1,152,782	1,159,079
Amounts owed to banks	33	222,813,489	210,169,468	227,151,376	211,163,939
Amounts owed to customers	34	270,270,939	251,494,010	271,532,067	252,147,811
Liabilities directly associated with non-current assets classified as held for sale	26	11,775,785	294,528	-	-
Debt securities in issue	35	7,745,568	24,754,490	4,931,904	-
Subordinated debt	36	47,062,828	6,000,000	47,062,828	6,000,000
Provisions	37	2,618,708	2,600,320	1,733,104	1,733,104
Other liabilities		113,806	2,280	113,806	2,280
Accruals and deferred income	38	16,176,912	11,404,750	4,101,948	4,737,313
Total liabilities		579,604,845	507,778,222	557,779,815	476,943,526
Equity					
Share capital	39	67,713,477	67,428,196	67,713,477	67,428,196
Share premium	39	9,986,355	9,658,098	9,986,355	9,658,098
Currency translation reserve	39	(146,618)	3,790	-	-
Other reserve	39	6,495,973	9,311,248	2,681,041	2,681,041
Retained earnings	39	31,579,394	30,234,978	30,331,663	32,295,085
Total equity		115,628,581	116,636,310	110,712,536	112,062,420
Total liabilities and equity		695,233,426	624,414,532	668,492,351	589,005,946

statements of financial position

As at 31 December 2009

	Note	Group		Bank	
		2009 USD	2008 USD	2009 USD	2008 USD
MEMORANDUM ITEMS					
Contingent liabilities	40	25,565,381	49,548,490	27,021,667	74,548,490
Commitments	41	191,902,440	201,721,052	167,848,294	197,444,877

The official middle rate of exchange issued by the European Central Bank between US Dollar and Euro as at 31 December 2009 was 1.4406.

The notes on pages 46 to 135 are an integral part of these financial statements.

The financial statements on pages 38 to 135 were approved by the Board of Directors on 16 March 2010 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 2009

Group

	Share capital USD	Share premium USD	Currency translation reserve USD	Other reserve USD	Retained earnings USD	Total USD
At 1 January 2008	54,946,953	18,136,923	1,501,139	8,988,067	14,362,025	97,935,107
Transfer to other reserves	-	-	-	323,181	(323,181)	-
Profit for the year	-	-	-	-	24,778,640	24,778,640
Other comprehensive income						
Currency translation reserve	-	-	(1,497,349)	-	-	(1,497,349)
Total other comprehensive income	-	-	(1,497,349)	-	-	(1,497,349)
Total comprehensive income for the year	-	-	(1,497,349)	323,181	24,455,459	23,281,291
Transactions with owners, recorded directly in equity						
Issue of share capital	11,006,084	(11,006,084)	-	-	-	-
Shares issued on exercise of options	404,043	147,069	-	-	-	551,112
Dividends to equity holders	-	-	-	-	(8,582,506)	(8,582,506)
Scrip issue of ordinary shares	1,071,116	2,380,190	-	-	-	3,451,306
Total contributions by and distributions to owners	12,481,243	(8,478,825)	-	-	(8,582,506)	(4,580,088)
As at 31 December 2008	67,428,196	9,658,098	3,790	9,311,248	30,234,978	116,636,310
At 1 January 2009	67,428,196	9,658,098	3,790	9,311,248	30,234,978	116,636,310
Transfer to retained earnings	-	-	-	(2,815,275)	2,815,275	-
Profit for the year	-	-	-	-	1,565,048	1,565,048
Other comprehensive income						
Currency translation reserve	-	-	(150,408)	-	-	(150,408)
Total other comprehensive income	-	-	(150,408)	-	-	(150,408)
Total comprehensive income for the year	-	-	(150,408)	(2,815,275)	4,380,323	1,414,640
Transactions with owners, recorded directly in equity						
Shares issued on exercise of options	15,120	4,342	-	-	-	19,462
Dividends to equity holders	-	-	-	-	(3,035,907)	(3,035,907)
Scrip issue of ordinary shares	270,161	323,915	-	-	-	594,076
Total contributions by and distributions to owners	285,281	328,257	-	-	(3,035,907)	(2,422,369)
As at 31 December 2009	67,713,477	9,986,355	(146,618)	6,495,973	31,579,394	115,628,581

statements of changes in equity

For the year ended 31 December 2009

Bank

	Share capital USD	Share premium USD	Other reserve USD	Retained earnings USD	Total USD
At 1 January 2008	54,946,953	18,136,923	2,681,041	10,341,083	86,106,000
Profit for the year	-	-	-	30,536,508	30,536,508
Total comprehensive income for the year	-	-	-	30,536,508	30,536,508
Transactions with owners, recorded directly in equity					
Issue of share capital	11,006,084	(11,006,084)	-	-	-
Shares issued on exercise of options	404,043	147,069	-	-	551,112
Dividends to equity holders	-	-	-	(8,582,506)	(8,582,506)
Scrip issue of ordinary shares	1,071,116	2,380,190	-	-	3,451,306
Total contributions by and distributions to owners	12,481,243	(8,478,825)	-	(8,582,506)	(4,580,088)
As at 31 December 2008	67,428,196	9,658,098	2,681,041	32,295,085	112,062,420
At 1 January 2009	67,428,196	9,658,098	2,681,041	32,295,085	112,062,420
Profit for the year	-	-	-	1,072,485	1,072,485
Total comprehensive income for the year	-	-	-	1,072,485	1,072,485
Transactions with owners, recorded directly in equity					
Shares issued on exercise of options	15,120	4,342	-	-	19,462
Dividends to equity holders	-	-	-	(3,035,907)	(3,035,907)
Scrip issue of ordinary shares	270,161	323,915	-	-	594,076
Total contributions by and distributions to owners	285,281	328,257	-	(3,035,907)	(2,422,369)
As at 31 December 2009	67,713,477	9,986,355	2,681,041	30,331,663	110,712,536

The notes on pages 46 to 135 are an integral part of these financial statements.

income statements

For the year ended 31 December 2009

	Note	Group		Bank	
		2009 USD	2008 USD	2009 USD	2008 USD
Continuing Operations					
Interest income	8	17,580,193	32,815,017	13,321,974	26,111,791
Interest expense	8	(8,790,564)	(18,620,789)	(9,047,203)	(17,606,671)
Net interest income	8	8,789,629	14,194,228	4,274,771	8,505,120
Fee and commission income	9	21,510,520	20,557,357	14,925,150	16,128,175
Fee and commission expense	9	(1,283,088)	(1,625,947)	(1,556,711)	(1,288,088)
Net fee and commission income	9	20,227,432	18,931,410	13,368,439	14,840,087
Net trading (expense)/income	10	(4,252,249)	2,077,831	1,756,838	3,610,220
Net profit/(loss) from other financial instruments carried at fair value	11	3,781,559	(8,578,025)	3,756,788	(8,469,022)
Dividend income	12	604	564	604	1,530,101
Profit on disposal of available-for-sale investment	24	46,956	-	46,956	-
Profit on disposal of associated undertaking	25	-	33,626,234	-	43,085,785
Other operating income	13	18,013	77,405	18,013	69,788
Operating income before net impairment losses		28,611,944	60,329,647	23,222,409	63,172,079
Net impairment loss on financial assets	14	(4,712,221)	(1,079,697)	(4,712,221)	(1,079,697)
Operating income		23,899,723	59,249,950	18,510,188	62,092,382
Administrative expenses	15	(20,813,179)	(24,080,233)	(16,761,113)	(19,324,672)
Depreciation and amortisation	28/29	(1,025,401)	(810,713)	(707,771)	(534,636)
Provision for liabilities and charges	37	-	(1,733,104)	-	(1,733,104)
Total operating expenses		(21,838,580)	(26,624,050)	(17,468,884)	(21,592,412)
Operating profit		2,061,143	32,625,900	1,041,304	40,499,970
Share of (loss)/profit of equity accounted investees (net of tax)	25	(388,193)	1,743,495	-	-
Profit before income tax		1,672,950	34,369,395	1,041,304	40,499,970
Taxation	16	(33,620)	(9,598,495)	31,181	(9,963,462)
Profit from continuing operations		1,639,330	24,770,900	1,072,485	30,536,508
Discontinued operations	26	(74,282)	7,740	-	-
Profit for the year		1,565,048	24,778,640	1,072,485	30,536,508
Basic earnings per share	17	1.16c	18.60c	0.79c	22.92c
Diluted earnings per share	17	1.25c	17.85c	0.90c	21.94c

statements of comprehensive income

For the year ended 31 December 2009

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Profit for the year	1,565,048	24,778,640	1,072,485	30,536,508
Other comprehensive income:				
Exchange differences on translating foreign operations	(150,408)	(1,497,349)	-	-
Total comprehensive income for the year	1,414,640	23,281,291	1,072,485	30,536,508

The notes on pages 46 to 135 are an integral part of these financial statements.

statements of cash flows

For the year ended 31 December 2009

	2009 USD	Group 2008 USD	2009 USD	Bank 2008 USD
Cash flows from operating activities				
Interest and commission receipts	48,441,112	53,624,287	28,306,014	41,735,510
Exchange received	1,816,914	6,119,977	1,924,884	2,737,417
Interest and commission payments	(11,193,357)	(19,096,580)	(11,338,504)	(17,935,654)
Payments to employees and suppliers	(21,449,538)	(23,809,394)	(17,053,368)	(18,898,306)
Operating profit before changes in operating assets / liabilities	17,615,131	16,838,290	1,839,026	7,638,967
(Increase) / decrease in operating assets:				
- Financial assets at fair value through profit or loss	46,970,548	(18,762,818)	5,657,701	3,390,681
- Loans and advances to customers and banks	(57,726,796)	1,330,946	(42,077,555)	(17,898,324)
- Other assets	(8,281,424)	(31,577)	488,328	(1,225,050)
Increase / (decrease) in operating liabilities:				
- Amounts owed to customers and banks	22,554,593	57,860,113	22,345,655	62,685,574
- Other liabilities	111,529	510	122,265	510
- Net advance to subsidiary companies	-	-	(5,953,346)	3,108,947
Net cash inflows / (outflows) from operating activities before income tax	21,243,581	57,235,464	(17,577,926)	57,701,305
Income tax paid	(665,494)	(1,084,448)	(664,203)	(1,082,901)
Net cash inflows / (outflows) from operating activities	20,578,087	56,151,016	(18,242,129)	56,618,404
Cash flows from investing activities				
- Payments to acquire property and equipment	(7,604,570)	(2,388,698)	(1,189,397)	(623,495)
- Payments to acquire intangible assets	(415,277)	(361,765)	(87,759)	(226,765)
- Proceeds on disposal of property and equipment	-	14,388	-	6,589
- Purchase of shares in subsidiary companies	(4,017,625)	-	(4,017,625)	(2,000)
- Purchase of shares in equity accounted investees	-	(1,300,000)	-	(8,300,000)
- Proceeds from disposal of shares in equity accounted investees	-	41,173,634	-	41,173,634
- Increase in net assets classified as held for sale	(13,316,221)	(22,291,491)	-	-
- Proceeds from disposal of other investment	69,151	87,239	69,151	87,239
- Receipt of dividend	604	564	604	1,530,101
Net cash flows (used in) / from investing activities	(25,283,938)	14,933,871	(5,225,026)	33,645,303
(Decrease) / increase in cash equivalents c/f	(4,705,851)	71,084,887	(23,467,155)	90,263,707

statements of cash flows

For the year ended 31 December 2009

	Note	2009 USD	Group 2008 USD	2009 USD	Bank 2008 USD
(Decrease) / increase in cash equivalents b/f		(4,705,851)	71,084,887	(23,467,155)	90,263,707
Cash flows from financing activities					
- Proceeds from issue of shares on exercise of options		19,462	551,112	19,462	551,112
- Proceeds from issue of subordinated bonds		39,061,687	-	39,061,687	-
- Debt securities in issue		(17,008,922)	13,199,602	4,931,904	(1,000,000)
- Dividends paid		(2,441,831)	(5,131,200)	(2,441,831)	(5,131,200)
Net cash flows from/(used in) financing activities		19,630,396	8,619,514	41,571,222	(5,580,088)
Increase in cash and cash equivalents		14,924,545	79,704,401	18,104,067	84,683,619
Analysed as follows:					
- Effect of exchange rate changes on cash and cash equivalents		2,797,837	(799,676)	2,575,112	(634,111)
- Net increase in cash and cash equivalents		12,126,708	80,504,077	15,528,955	85,317,730
Increase in cash and cash equivalents		14,924,545	79,704,401	18,104,067	84,683,619
Cash and cash equivalents at beginning of year		90,549,528	10,845,127	85,591,300	907,681
Cash and cash equivalents at end of year 42		105,474,073	90,549,528	103,695,367	85,591,300

The notes on pages 46 to 135 are an integral part of these financial statements.

notes to the financial statements

For the year ended 31 December 2009

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notes to the financial statements

For the year ended 31 December 2009

1 reporting entity

FIMBank p.l.c. (the “Bank”) is a company domiciled in Malta. The address of the Bank’s registered office is 7th Floor, The Plaza Commercial Centre, Bisazza Street, Sliema SLM 1640, Malta. The consolidated financial statements of the Bank as at and for the year ended 31 December 2009 comprise the Bank and its subsidiaries (together referred to as the “Group” and individually as “Group entities”).

2 basis of preparation

2.1 statement of compliance

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

These financial statements have also been drawn up in accordance with the provisions of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Companies Act, 1995 (Chapter 386, Laws of Malta), to the extent that such provisions do not conflict with the applicable framework.

The financial statements were authorised for issue by the Board of Directors on 16 March 2010.

2.2 basis of measurement

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

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

2 *basis of preparation - continued*

2.3 *functional and presentation currency*

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

2.4 *use of estimates and judgements*

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

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

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

2.5 *changes in accounting policies*

2.5.1 *overview*

Effective 1 January 2009 the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments;
- Presentation of financial statements.

2.5.2 *determination and presentation of operating segments*

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to Executive Management, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting. The new accounting policy in respect of operating segment disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of this standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the

2 basis of preparation - continued

2.5.2 determination and presentation of operating segments - continued

Group's other components, whose operating results are reviewed regularly by Executive Management to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to Executive Management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

2.5.3 presentation of financial statements

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

2.6 other accounting developments

2.6.1 disclosures pertaining to fair values and liquidity risk for financial instruments

The Group has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of fair values of financial instruments are included in note 5.

In addition, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

2 basis of preparation - continued

2.6.1 disclosures pertaining to fair values and liquidity risk for financial instruments - continued

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

Revised disclosures in respect of liquidity risk are included in note 4.

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, except as explained in note 2.5, which addresses changes in accounting policies.

3.1 basis of consolidation

3.1.1 subsidiaries

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

3.1.2 associates and jointly-controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The 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

3 significant accounting policies - continued

3.1.2 associates and jointly-controlled entities - continued

carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3.1.3 transactions eliminated on consolidation

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

3.2 foreign currency

3.2.1 foreign currency transactions

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

3.2.2 foreign operations

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

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income. When a foreign operation is disposed of, the relevant amount in the translation is transferred to

3 *significant accounting policies - continued*

3.2.2 *foreign operations - continued*

profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

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

3.3 **interest**

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

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

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

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

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

3 significant accounting policies - continued

3.4 fees and commissions

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

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

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

3.5 net trading income

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.

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

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

3.7 dividends

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

3.8 lease payments

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

3 significant accounting policies - continued

3.9 income tax

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

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

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

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

3.10 financial assets and liabilities

3.10.1 recognition

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

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

3 significant accounting policies - continued

3.10.2 classification

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

3.10.3 derecognition

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

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

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

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

3.10.4 offsetting

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

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

3 significant accounting policies - continued

3.10.5 *amortised cost measurement*

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

3.10.6 *fair value measurement*

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, 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 on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

3 significant accounting policies - continued

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

3.10.7 identification and measurement of impairment

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

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

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

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

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

3 significant accounting policies - continued

3.10.7 identification and measurement of impairment - continued

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

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

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

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

3.10.8 designation at fair value through profit or loss

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

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- 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 central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3 significant accounting policies - continued

3.12 trading assets and liabilities

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

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

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

3.13 derivatives held for risk management purposes

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

3.14 loans and advances

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

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

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

3 *significant accounting policies - continued*

3.15 *investment securities*

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

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

3.15.1 *designated at fair value through profit or loss*

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

3.15.2 *available-for-sale*

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

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

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

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

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

3 significant accounting policies - continued

3.17 property and equipment

3.17.1 recognition and measurement

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

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

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

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

3.17.2 subsequent costs

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

3.17.3 depreciation

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

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

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

3 significant accounting policies - continued

3.17.3 depreciation - continued

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

3.18 intangible assets

3.18.1 goodwill

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

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain gain was recognised immediately in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisitions.

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 capitalised borrowing costs, 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.

3 significant accounting policies - continued

3.18.2 software - continued

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

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

3.19 leased assets – lessee

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

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

3.20 impairment of non-financial assets

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

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.

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

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

3 significant accounting policies - continued

3.21 deposits, debt securities issued and subordinated liabilities

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

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

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

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

3.22 provisions

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

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

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

3 significant accounting policies - continued

3.23 financial guarantees

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

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

3.24 employee benefits

3.24.1 defined contribution plans

The 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.

3.24.2 share-based payment transactions

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

3.25 share capital and reserves

3.25.1 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 significant accounting policies - continued

3.25.2 *repurchase of share capital*

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

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

3.26 *earnings per share*

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

3.27 *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.

3.28 *segment reporting*

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by Executive Management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available (see note 2.5.2).

3.29 *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 2009, and have not been applied in preparing these financial statements. The Directors

- 3 *significant accounting policies - continued*
3.29 *new standards and interpretations not yet adopted - continued*

anticipate that the adoption of other IFRS that were in issue at the date of authorisation of these financial statements will have no material impact on the financial statements of the Group in the period of initial application.

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

4 *financial risk management - continued*

4.1 *introduction and overview - continued*

by the regulatory framework in relation to capital adequacy, solvency ratios, liquidity ratios, credit management, quality of assets and financial reporting.

4.2 credit risk

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

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

The Group also ensures that it has a reasonable mix of loans to customers. This diversification of credit among different economic sectors is a policy adopted by the Group to 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.

4 financial risk management - continued

4.2 credit risk - continued

maximum exposure

Amounts that best represent the Bank and the Group's maximum exposure net of impairment allowances 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	
	2009 USD	2008 USD	2009 USD	2008 USD
Individually impaired	46,952	46,960	784,786	1,540,604
Neither past due nor impaired	312,618,051	268,522,156	132,351,240	96,958,698
Total carrying amount	312,665,003	268,569,116	133,136,026	98,499,302

Bank

	Loans and advances to banks		Loans and advances to customers	
	2009 USD	2008 USD	2009 USD	2008 USD
Individually impaired	46,952	46,960	784,786	1,540,604
Neither past due nor impaired	315,188,616	264,567,707	254,929,329	228,099,644
Total carrying amount	315,235,568	264,614,667	255,714,115	229,640,248

For the Group, amounts of USD39,595 (2008: USD61,789) representing "Investments available-for-sale", USD4,554,353 (2008: USD1,073,715) representing "Investments in equity accounted investees" are classified as Neither past due nor impaired.

For the Bank amounts of USD39,595 (2008: USD61,789) representing "Investments available-for-sale", USD53,412,291 (2008: USD49,394,666) representing "Investments in subsidiaries", USD2,013,425 (2008: USD2,013,425) representing "Investments in equity accounted investees" are classified as Neither past due nor impaired.

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	
	2009 USD	2008 USD	2009 USD	2008 USD	2009 USD	2008 USD
AAA/AA	47,629,031	55,600,053	-	-	-	-
A/BBB	113,027,442	82,536,789	29,750,200	-	24,642,059	20,812,186
BB/C	41,301,729	27,134,143	-	-	56,133,187	120,153,578
Unrated	110,659,849	103,251,171	102,601,040	96,958,698	69,714,635	61,986,660
	312,618,051	268,522,156	132,351,240	96,958,698	150,489,881	202,952,424

Bank	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss	
	2009 USD	2008 USD	2009 USD	2008 USD	2009 USD	2008 USD
AAA/AA	45,861,706	50,651,135	-	-	-	-
A/BBB	113,027,442	82,536,789	29,750,200	-	-	-
BB/C	41,301,729	27,134,143	-	-	23,558,628	25,372,972
Unrated	114,997,739	104,245,640	225,179,129	228,099,644	-	250,144
	315,188,616	264,567,707	254,929,329	228,099,644	23,558,628	25,623,116

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

4 financial risk management - continued

4.2 credit risk - continued

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.

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 2009 and 31 December 2008.

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.

4 financial risk management - continued

4.2 credit risk - continued

Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2009 and 2008.

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

Group and Bank	Loans and advances to banks		Loans and advances to customers	
	2009 USD	2008 USD	2009 USD	2008 USD
Against neither past due nor impaired				
Cash or quasi cash	14,533,858	21,812,295	18,312,914	13,642,182
Property	-	-	18,284,391	26,993,336
Other	644,877	1,652,833	2,363,939	15,834,336
Against impaired				
Cash or quasi cash	46,963	46,963	274,310	274,310
Property	-	-	604,816	433,272
Other	-	-	-	671,302
	15,225,698	23,512,091	39,840,370	57,848,738

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	
	2009 USD	2008 USD	2009 USD	2008 USD
Industrial raw materials	17,640,121	23,291,863	17,640,121	23,291,863
Ship pre-demolition	17,583,291	28,198,387	17,583,291	28,198,387
Wholesale and retail trade	52,936,395	43,445,285	52,936,395	43,445,285
Financial intermediation	317,048,632	271,378,865	446,066,113	398,565,362
Other services	57,363,476	15,492,982	53,494,649	15,492,982
	462,571,915	381,807,382	587,720,569	508,993,879

4 financial risk management - continued

4.2 credit risk - continued

concentration of credit risk by region

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

Country risk refers to risks associated with the economic, social and political environment of the obligor's exposure country. A component of country risk is transfer risk which arises when a borrower's obligation is not denominated in 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.

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

Group

	Loans and advances to banks		Loans and advances to customers		Trading assets and Financial assets designated at fair value through profit or loss		Investments available-for-sale	
	2009	2008	2009	2008	2009	2008	2009	2008
	USD	USD	USD	USD	USD	USD	USD	USD
Europe	198,090,026	166,853,928	59,884,776	59,334,581	48,299,553	39,985,803	17,148	39,342
Sub-Sahara Africa (SSA)	61,635,290	75,242,294	-	2,620,731	10,800,422	5,888,884	-	-
Middle East and North Africa (MENA)	12,410,764	10,053,244	21,020,986	19,802,833	7,290,928	10,894,747	-	-
Commonwealth of Independent States (CIS)	18,380,432	1,380,432	-	-	46,241,717	66,731,119	22,447	22,447
Others	24,489,336	16,447,537	53,075,240	17,524,464	37,857,261	79,451,871	-	-
	315,005,848	269,977,435	133,981,002	99,282,609	150,489,881	202,952,424	39,595	61,789
Collective impairment	(2,340,845)	(1,408,319)	(844,976)	(783,307)	-	-	-	-
	312,665,003	268,569,116	133,136,026	98,499,302	150,489,881	202,952,424	39,595	61,789

4 financial risk management - continued

4.2 credit risk - continued

Bank

	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	
	2009	2008	2009	2008	2009	2008	2009	2008
	USD	USD	USD	USD	USD	USD	USD	USD
Europe	200,660,591	165,352,216	152,648,019	174,815,547	-	250,145	17,148	39,342
Sub-Sahara Africa (SSA)	61,635,290	75,242,294	-	2,620,731	-	-	-	-
Middle East and North Africa (MENA)	12,410,764	10,053,244	50,835,832	35,462,813	-	5,000,000	-	-
Commonwealth of Independent States (CIS)	18,380,432	1,380,432	-	-	19,698,189	7,872,971	22,447	22,447
Others	24,489,336	13,994,800	53,075,240	17,524,464	3,860,439	12,500,000	-	-
	317,576,413	266,022,986	256,559,091	230,423,555	23,558,628	25,623,116	39,595	61,789
Collective impairment	(2,340,845)	(1,408,319)	(844,976)	(783,307)	-	-	-	-
	315,235,568	264,614,667	255,714,115	229,640,248	23,558,628	25,623,116	39,595	61,789

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

settlement risk

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

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

4.3 liquidity risk

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

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

4 financial risk management - continued

4.3 liquidity risk - continued

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.

management of liquidity risk

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

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

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

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

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

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

4 financial risk management - continued

4.3 liquidity risk - continued

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:

	2009	2008
At 31 December	62.4%	75.4%
Average for the year	63.2%	58.3%
Maximum for the year	89.3%	88.6%
Minimum for the year	39.9%	36.1%

residual contractual maturities of financial assets and liabilities

Group – 31 December 2009

	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	8,844,589	8,844,589	8,844,589	-	-	-	-	-
Trading assets	126,931,253	126,931,253	126,931,253	-	-	-	-	-
Derivative assets held for risk management	721,728	721,728	29,270	275,692	333,888	82,878	-	-
Financial assets designated at fair value through profit or loss	23,558,628	23,558,628	23,558,628	-	-	-	-	-
Loans and advances to banks	312,665,003	326,407,355	232,728,889	32,366,821	33,938,909	4,734,458	955,960	21,682,318
Loans and advances to customers	133,136,026	168,409,361	38,846,819	55,497,578	7,766,191	7,142,375	2,958,793	56,197,605
Derivative liabilities held for risk management	(1,026,810)	(1,026,810)	(131,504)	(248,686)	(644,780)	(1,840)	-	-
Amounts owed to banks	(222,813,489)	(224,297,467)	(121,536,290)	(26,710,693)	(33,092,880)	(40,607,179)	(1,152,433)	(1,197,992)
Amounts owed to customers	(270,270,939)	(271,986,691)	(185,857,152)	(37,151,649)	(22,396,812)	(24,221,431)	(2,359,647)	-
Debt securities in issue	(7,745,568)	(7,884,754)	-	-	(5,000,000)	(2,884,754)	-	-
Subordinated debt	(47,062,828)	(76,182,929)	(90,927)	-	(1,490,521)	(1,589,637)	(3,171,085)	(69,840,759)

4 financial risk management - continued

4.3 liquidity risk - continued

Group – 31 December 2008

	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	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 debt	(6,000,000)	(7,221,597)	-	-	-	-	-	(7,221,597)

Bank – 31 December 2009

	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	8,833,204	8,833,204	8,833,204	-	-	-	-	-
Derivative assets held for risk management	721,728	721,728	29,270	275,692	333,888	82,878	-	-
Financial assets designated at fair value through profit or loss	23,558,628	23,558,628	23,558,628	-	-	-	-	-
Loans and advances to banks	315,235,568	328,977,920	232,894,304	34,339,244	34,371,636	4,734,458	955,960	21,682,318
Loans and advances to customers	255,714,115	290,987,449	39,271,770	55,497,578	7,766,191	129,295,512	2,958,793	56,197,605
Derivative liabilities held for risk management	(1,152,782)	(1,152,782)	(212,889)	(248,686)	(644,781)	(46,426)	-	-
Amounts owed to banks	(227,151,376)	(228,635,354)	(123,469,028)	(28,683,116)	(33,525,606)	(40,607,179)	(1,152,433)	(1,197,992)
Amounts owed to customers	(271,532,067)	(273,248,035)	(187,118,495)	(37,151,650)	(22,396,812)	(24,221,431)	(2,359,647)	-
Debt securities in issue	(4,931,904)	(5,000,000)	-	-	(5,000,000)	-	-	-
Subordinated debt	(47,062,828)	(76,182,929)	(90,927)	-	(1,490,521)	(1,589,637)	(3,171,085)	(69,840,759)

4 financial risk management - continued

4.3 liquidity risk - continued

Bank - 31 December 2008

	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	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	229,640,248	248,752,666	53,450,146	13,037,591	20,453,914	149,126,100	11,905,754	779,161
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)	-
Debt securities in issue	-	-	-	-	-	-	-	-
Subordinated debt	(6,000,000)	(7,221,597)	-	-	-	-	-	(7,221,597)

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.

As at 31 December 2009, the Group and Bank had outstanding guarantees incurred on behalf of third parties amounting to USD25,565,381 and USD27,061,667 respectively which are callable upon the request of the third party.

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.

4 financial risk management - continued

4.4 market risk - continued

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 2009

All amounts are expressed in USD

	USD	EUR	GBP	Other Currencies	Total
Balances with the Central Bank of Malta and cash	94,263	8,723,568	25,430	1,328	8,844,589
Trading assets	70,311,107	42,534,691	-	14,085,455	126,931,253
Derivative assets held for risk management	721,728	-	-	-	721,728
Financial assets designated at fair value through profit or loss	22,051,050	-	1,507,578	-	23,558,628
Loans and advances to banks	56,978,488	240,129,491	9,893,731	5,663,293	312,665,003
Loans and advances to customers	98,352,089	31,416,473	2,905,092	462,372	133,136,026
Other assets	19,213,572	697,462	134,145	172,099	20,217,278
Derivative liabilities held for risk management	(990,030)	(8,059)	(28,721)	-	(1,026,810)
Amounts owed to banks	(66,677,921)	(151,176,028)	(423,429)	(4,536,111)	(222,813,489)
Amounts owed to customers	(101,688,472)	(153,131,837)	(14,340,107)	(1,110,523)	(270,270,939)
Debt securities in issue	(4,931,904)	(2,813,664)	-	-	(7,745,568)
Subordinated debt	(13,052,299)	(34,010,529)	-	-	(47,062,828)
Provisions	(1,733,104)	(885,604)	-	-	(2,618,708)
Other liabilities	(13,043,687)	(2,173,088)	(683,577)	(390,366)	(16,290,718)
Net on balance sheet financial position	65,604,880	(20,697,124)	(1,009,858)	14,347,547	58,245,445
Derivative instruments held for risk management	(4,539,012)	13,135,385	-	(8,596,373)	-

4 financial risk management - continued

4.4 market risk - continued

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 debt	(6,000,000)	-	-	-	(6,000,000)
Provisions	(2,600,320)	-	-	-	(2,600,320)
Other liabilities	(7,415,273)	(2,737,342)	(571,387)	(287,796)	(11,011,798)
Net on balance sheet financial position	87,014,606	(4,091,725)	(426,931)	910,541	83,406,491
Derivative instruments held for risk management	(2,323,292)	4,126,857	(1,258,111)	(545,454)	-

4 financial risk management - continued

4.4 market risk - continued

Bank - 31 December 2009

All amounts are expressed in USD

	USD	EUR	GBP	Other Currencies	Total
Balances with the Central Bank of Malta and cash	91,016	8,719,153	22,036	999	8,833,204
Derivative assets held for risk management	721,728	-	-	-	721,728
Financial assets designated at fair value through profit or loss	22,051,050	-	1,507,578	-	23,558,628
Loans and advances to banks	60,166,510	239,661,387	9,744,378	5,663,293	315,235,568
Loans and advances to customers	165,176,986	78,461,324	3,038,141	9,037,664	255,714,115
Other assets	4,732,761	644,760	122,796	155,680	5,655,997
Derivative liabilities held for risk management	(1,131,398)	7,337	(28,721)	-	(1,152,782)
Amounts owed to banks	(70,638,867)	(151,552,969)	(423,429)	(4,536,111)	(227,151,376)
Amounts owed to customers	(102,685,031)	(153,131,837)	(14,340,107)	(1,375,092)	(271,532,067)
Debt securities in issue	(4,931,904)	-	-	-	(4,931,904)
Subordinated debt	(13,052,299)	(34,010,529)	-	-	(47,062,828)
Other liabilities	(4,343,679)	(1,520,539)	(78,974)	(5,666)	(5,948,858)
Net on balance sheet financial position	56,156,873	(12,721,913)	(436,302)	8,940,767	51,939,425
Derivative instruments held for risk management	(4,539,012)	13,135,385	-	(8,596,373)	-

4 financial risk management - continued

4.4 market 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 debt	(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)	-

The following exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
USD	2009	2008	2009	2008
1 EUR	1.3913	1.3703	1.4424	1.4745
1 GBP	1.5600	2.0022	1.6124	1.9980

4 financial risk management - continued

4.4 market risk - continued

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

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
31 December 2009				
EUR	(529,322)	(529,322)	28,943	28,943
GBP	(70,690)	(70,690)	(30,541)	(30,541)
Other	402,582	402,582	24,108	24,108
31 December 2008				
EUR	2,459	2,459	(147,902)	(147,902)
GBP	(117,953)	(117,953)	(16,920)	(16,920)
Other	25,556	25,556	25,873	25,873

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

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.

4 financial risk management - continued

4.4 market risk - continued

Group - 31 December 2009

	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non- interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	8,619,718	-	-	-	-	224,871	8,844,589
Trading assets	22,266,909	28,610,566	47,110,262	18,556,009	10,387,507	-	126,931,253
Derivative assets held for risk management	-	-	-	-	-	721,728	721,728
Financial assets designated at fair value through profit or loss	-	13,000,000	8,750,276	110,163	1,698,189	-	23,558,628
Loans and advances to banks	194,847,892	26,059,895	49,095,936	8,381,418	-	34,279,862	312,665,003
Loans and advances to customers	76,585,837	-	-	7,909,957	29,750,200	18,890,032	133,136,026
Other assets	-	-	-	-	-	89,376,199	89,376,199
Total assets	302,320,356	67,670,461	104,956,474	34,957,547	41,835,896	143,492,692	695,233,426

Liabilities & equity

Derivative liabilities held for risk management	-	-	-	-	-	1,026,810	1,026,810
Amounts owed to banks	100,950,251	12,133,074	2,884,754	46,136,721	-	60,708,689	222,813,489
Amounts owed to customers	171,956,380	29,123,540	21,261,483	35,051,877	7,037,231	5,840,428	270,270,939
Debt securities in issue	-	-	-	7,745,568	-	-	7,745,568
Subordinated debt	-	-	6,000,000	-	41,062,828	-	47,062,828
Other liabilities	-	-	-	-	-	30,685,211	30,685,211
Equity	-	-	-	-	-	115,628,581	115,628,581
Total liabilities and equity	272,906,631	41,256,614	30,146,237	88,934,166	48,100,059	213,889,719	695,233,426

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non- interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	369,990,817	104,956,474	34,957,547	41,835,896	143,492,692	695,233,426
Liabilities	(314,163,245)	(30,146,237)	(88,934,166)	(48,100,059)	(213,889,719)	(695,233,426)
Interest sensitivity gap	55,827,572	74,810,237	(53,976,619)	(6,264,163)	(70,397,027)	-
Cumulative gap	55,827,572	130,637,809	76,661,190	70,397,027	-	-

change in interest rate for the period

100bps increase	418,707	374,051	(44,981)
100bps decrease	(418,707)	(374,051)	44,981

4 financial risk management - continued

4.4 market risk - continued

Group - 31 December 2008

	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non- interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	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 debt	-	-	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 & 6 months	Between 6 months & 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

4 financial risk management - continued

4.4 market risk - continued

Bank - 31 December 2009

	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non- interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	8,619,718	-	-	-	-	213,486	8,833,204
Derivative assets held for risk management	-	-	-	-	-	721,728	721,728
Financial assets designated at fair value through profit or loss	-	13,000,000	8,750,276	110,163	1,698,189	-	23,558,628
Loans and advances to banks	193,080,569	26,059,895	49,095,936	8,381,418	-	38,617,750	315,235,568
Loans and advances to customers	199,163,925	-	-	7,909,957	29,750,200	18,890,033	255,714,115
Other assets	-	-	-	-	-	64,429,108	64,429,108
Total assets	400,864,212	39,059,895	57,846,212	16,401,538	31,448,389	122,872,105	668,492,351

Liabilities & equity

Derivative liabilities held for risk management	-	-	-	-	-	1,152,782	1,152,782
Amounts owed to banks	100,950,251	12,133,074	2,884,754	46,136,721	-	65,046,576	227,151,376
Amounts owed to customers	171,956,380	29,273,540	21,261,483	35,051,877	7,037,231	6,951,556	271,532,067
Debt securities in issue	-	-	-	4,931,904	-	-	4,931,904
Subordinated debt	-	-	6,000,000	-	41,062,828	-	47,062,828
Other liabilities	-	-	-	-	-	5,948,858	5,948,858
Equity	-	-	-	-	-	110,712,536	110,712,536
Total liabilities and equity	272,906,631	41,406,614	30,146,237	86,120,502	48,100,059	189,812,308	668,492,351

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non- interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	439,924,107	57,846,212	16,401,538	31,448,389	122,872,105	668,492,351
Liabilities	(314,313,245)	(30,146,237)	(86,120,502)	(48,100,059)	(189,812,308)	(688,492,351)
Interest sensitivity gap	125,610,862	27,699,975	(69,718,964)	(16,651,670)	(66,940,203)	-
Cumulative gap	125,610,862	153,310,837	83,591,873	66,940,203	-	-

change in interest rate for the period

100bps increase	942,081	138,500	(58,099)
100bps decrease	(942,081)	(138,500)	58,099

4 financial risk management - continued

4.4 market risk - continued

Bank - 31 December 2008

	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	months & 1 year	Between 6 More than 1 year	interest bearing	Non- 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 debt	-	-	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 & 6 months	Between 6 months & 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			

4 financial risk management - continued

4.4 market 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 USD	Profit or loss USD	Equity USD	Profit or loss USD
31 December 2009				
Repricing instruments	747,777	747,777	1,022,482	1,022,482
31 December 2008				
Repricing instruments	255,214	255,214	983,903	983,903

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	
	2009 USD	2008 USD
Non-derivative financial assets at fair value		
Bonds	1,808,628	4,373,116
Credit link notes	21,750,000	21,250,000
	23,558,628	25,623,116

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.

4 financial risk management - continued

4.4 market risk - continued

cash flow sensitivity analysis for market risk

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

Group and Bank

	2009 USD	2008 USD
10% increase in price for Bonds	180,863	437,312
1% increase in price for Credit Linked Notes	217,500	212,500

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 financial risk management - continued

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.

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.

4 financial risk management - continued

4.6 capital management - continued

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

capital adequacy

Group

Type of Exposure:	Exposure Amount	Notional Risk Weight
	2009 USD	2009 USD
Sovereign	4,028,752	2,014,376
Institutions (Banks)	564,818,852	244,644,000
Corporates	212,106,832	157,823,454
Retail	2,483,708	503,561
Retail secured by real estate	3,633,123	2,544,343
Other items	128,409,941	88,778,923
	915,481,208	496,308,657
Operational risk		54,967,943
Foreign exchange risk		4,428,723
		555,705,323
Gross Own Funds:		
Capital and reserves		114,063,533
Profit for the year		1,565,048
Add:		
Subordinated debt		45,234,883
General provisions		3,185,821
Less:		
Intangible assets		(1,319,006)
		162,730,279
Capital adequacy ratio		29.3%
Regulatory minimum		8%

4 financial risk management - continued

4.6 capital management - continued

capital adequacy

Bank

	Exposure Amount 2009 USD	Notional Risk Weight 2009 USD
Type of Exposure:		
Institutions (Banks)	465,390,385	180,866,148
Corporates	291,183,593	233,002,182
Retail	2,483,708	503,561
Retail secured by real estate	3,633,123	2,544,343
Other items	104,221,200	64,601,567
	866,912,009	481,517,801
Operational risk		40,477,883
Foreign exchange risk		4,428,723
		526,424,407
Gross Own Funds:		
Capital and reserves		109,640,051
Profit for the year		1,072,485
Add:		
Subordinated debt		45,234,883
General provisions		3,185,821
Less:		
Intangible assets		(549,270)
		158,583,970
Capital adequacy ratio		30.1%
Regulatory minimum		8%

The capital adequacy ratio of the Group and the Bank for the year ended 31 December 2008 stood at 21.9% and 21.5% respectively.

5 use of estimates and judgements

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

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

5.1 key sources of estimation uncertainty

5.1.1 *allowances for credit losses*

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

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

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

5.1.2 *determining fair values*

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

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

5.2.1 *impairment losses on loans and advances*

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

5.2.2 *impairment of investments available-for-sale*

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

5.2.3 *valuation of financial instruments*

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

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

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

5.2 *critical accounting judgements in applying the Group's accounting policies - continued*

5.2.3 *valuation of financial instruments - continued*

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

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

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

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

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

5.2.3 valuation of financial instruments - continued

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

Group - 31 December 2009

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	19	-	-	126,931,253	126,931,253
Derivative assets held for risk management	20	-	721,728	-	721,728
Financial assets designated at fair value through profit or loss	21	1,808,628	-	21,750,000	23,558,628
		1,808,628	721,728	148,681,253	151,211,609
Derivative liabilities held for risk management	20	113,917	912,893	-	1,026,810
		113,917	912,893	-	1,026,810

Bank - 31 December 2009

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	20	-	721,728	-	721,728
Financial assets designated at fair value through profit or loss	21	1,808,628	-	21,750,000	23,558,628
		1,808,628	721,728	21,750,000	24,280,356
Derivative liabilities held for risk management	20	195,303	957,479	-	1,152,782
		195,303	957,479	-	1,152,782

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

5.2.3 valuation of financial instruments - continued

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

Group	Trading Assets USD	Financial assets designated at fair value through profit or loss USD	Total USD
Balance at 1 January 2009	177,329,309	21,250,000	198,579,309
Total gains and losses in trading income	(5,937,744)	-	(5,937,744)
Purchases	312,787,380	13,000,000	325,787,380
Settlements	(357,247,692)	(12,500,000)	(369,747,692)
Balance at 31 December 2009	126,931,253	21,750,000	148,681,253

Bank	Financial assets designated at fair value through profit or loss USD	Total USD
Balance at 1 January 2009	21,250,000	21,250,000
Purchases	13,000,000	13,000,000
Settlements	(12,500,000)	(12,500,000)
Balance at 31 December 2009	21,750,000	21,750,000

For Level 3 "Trading Assets", the Group establishes fair value using a valuation technique based on the discounted expected future principal and interest cash flows. The discount rate is an estimate based on current expected credit margin spreads and interest rates at the reporting date. Inputs to valuation technique reasonably represent market expectation and measures of risk-return factors inherent in the financial instrument. The effect of an estimated general increase of one percentage point in interest rates as at 31 December 2009 would reduce the Group profit before tax by approximately USD454,447 (2008: USD359,878).

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

6 operating segments

The Group has 3 significant reportable segments, Trade Finance, Forfaiting and IT Solutions which are represented by different Group entities. For each of the entities, Executive Management reviews internal management reports on a monthly basis.

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

information about operating segments

Group - 2009
USD

	Trade Finance	Forfaiting	IT Solutions	Other	Total
External revenue:					
Interest income	9,612,911	7,967,282	-	-	17,580,193
Fee & commission income	14,925,150	6,324,222	525,128	1,021	21,775,521
Trading income	1,756,838	(5,849,204)	(4,702)	(170,392)	(4,267,460)
	26,294,899	8,442,300	520,426	(169,371)	35,088,254
Intersegment revenue:					
Interest receivable	3,709,063	-	2,851	-	3,711,914
Fee & commission income	-	502,624	95,833	-	598,457
	3,709,063	502,624	98,684	-	4,310,371
Reportable segment profit/(loss) before income tax	1,041,303	1,408,291	176,892	(197,442)	2,429,044
Reportable segment assets	668,492,351	145,063,940	1,583,358	23,212,822	838,352,471
Reportable segment liabilities	557,779,815	100,271,649	1,057,388	12,352,636	671,461,488

6 operating segments - continued

Group - 2008
USD

	Trade Finance	Forfaiting	IT Solutions	Other	Total
External revenue:					
Interest income	21,610,562	11,514,125	-	-	33,124,687
Fee & commission income	16,128,175	4,231,119	522,063	-	20,881,357
Trading income	3,610,220	(1,558,578)	(200)	43,990	2,095,432
	41,348,957	14,186,666	521,863	43,990	56,101,476
Intersegment revenue:					
Interest receivable	4,501,229	-	10,398	-	4,511,627
Fee & commission income	-	398,631	50,000	-	448,631
	4,501,229	398,631	60,398	-	4,960,258
Reportable segment (loss)/profit before income tax	(2,585,816)	3,550,484	213,665	8,304	1,186,637
Reportable segment assets	589,005,946	191,228,318	1,407,639	12,784,392	794,426,295
Reportable segment liabilities	476,943,526	147,844,318	993,758	1,803,095	627,584,697

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

	2009 USD	2008 USD
REVENUES		
Total revenue for reportable segments	39,567,996	61,017,744
Other revenue	(169,371)	43,990
	39,398,625	61,061,734
Elimination of inter-segment revenue	(4,310,371)	(4,960,258)
Elimination of discontinued operations	(265,000)	(644,091)
Effect of other consolidation adjustments on segment results	15,210	(7,180)
Consolidated revenue	34,838,464	55,450,205
PROFIT OR LOSS		
Total profit or loss for reportable segments	2,626,486	1,178,333
Other profit or loss	(197,442)	8,304
	2,429,044	1,186,637
Disposal of shares in equity accounted investee	-	33,626,234
Elimination of discontinued operations	(339,282)	(619,588)
Share of loss of equity accounted investee	(388,193)	1,743,495
Effect of other consolidation adjustments on segment results	(102,901)	(1,559,643)
Consolidated profit before income tax	1,598,668	34,377,135

6 operating segments - continued

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

	2009 USD	2008 USD
ASSETS		
Total assets for reportable segments	815,139,650	781,641,903
Other assets	23,212,821	12,784,392
	838,352,471	794,426,295
Elimination of inter-segment assets	(195,448,100)	(197,547,432)
Discontinued operations	52,120,843	27,397,646
Unallocated amounts	208,212	138,023
Consolidated assets	695,233,426	624,414,532
LIABILITIES		
Total liabilities for reportable segments	659,108,852	625,781,601
Other assets	12,352,636	1,803,096
	671,461,488	627,584,697
Elimination of inter-segment assets	(104,222,292)	(120,480,966)
Discontinued operations	11,775,785	294,528
Unallocated amounts	589,864	379,963
Consolidated liabilities	579,604,845	507,778,222

geographical areas

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

GROUP

	Malta		Other Countries		Total	
	2009 USD	2008 USD	2009 USD	2008 USD	2009 USD	2008 USD
External revenues	2,700,585	3,558,471	32,387,669	52,543,005	35,088,254	56,101,476
Non-current assets	11,435,000	4,548,154	284,341	176,737	11,719,341	4,724,891

7 financial assets and liabilities accounting classification and fair value

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

Group

	Trading USD	Designated at fair value USD	Loans and receivables USD	Available- for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD	Fair value USD
31 December 2009							
Balances with the Central Bank of Malta and cash	-	-	8,844,589	-	-	8,844,589	8,844,589
Trading assets	126,931,253	-	-	-	-	126,931,253	126,931,253
Derivative assets held for risk management	721,728	-	-	-	-	721,728	721,728
Financial assets designated at fair value through profit or loss	-	23,558,628	-	-	-	23,558,628	23,558,628
Loans and advances to banks	-	-	312,665,003	-	-	312,665,003	312,665,003
Loans and advances to customers	-	-	133,136,026	-	-	133,136,026	133,136,026
Investments available-for-sale	-	-	-	39,595	-	39,595	39,595
Derivative liabilities held for risk management	1,026,810	-	-	-	-	1,026,810	1,026,810
Amounts owed to banks	-	-	-	-	222,813,489	222,813,489	222,813,489
Amounts owed to customers	-	-	-	-	270,270,939	270,270,939	270,270,939
Debt securities in issue	-	-	-	-	7,745,568	7,745,568	7,745,568
Subordinated debt	-	-	-	-	47,062,828	47,062,828	47,062,828
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	-	-	268,569,116	-	-	268,569,116	268,569,116
Loans and advances to customers	-	-	98,499,302	-	-	98,499,302	98,499,302
Investments available-for-sale	-	-	-	61,789	-	61,789	61,789
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 debt	-	-	-	-	6,000,000	6,000,000	6,000,000

7 financial assets and liabilities accounting classification and fair value - continued

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

Bank

	Designated Trading USD	Loans and at fair value USD	Available- receivables USD	Liabilities at amortised for-sale USD	Total carrying cost USD	amount USD	Fair value USD
31 December 2009							
Balances with the Central Bank of Malta and cash	-	-	8,833,204	-	-	8,833,204	8,833,204
Derivative assets held for risk management	721,728	-	-	-	-	721,728	721,728
Financial assets designated at fair value through profit or loss	-	23,558,628	-	-	-	23,558,628	23,558,628
Loans and advances to banks	-	-	315,235,568	-	-	315,235,568	315,235,568
Loans and advances to customers	-	-	255,714,115	-	-	255,714,115	255,714,115
Investments available-for-sale	-	-	-	39,595	-	39,595	39,595
Derivative liabilities held for risk management	1,152,782	-	-	-	-	1,152,782	1,152,782
Amounts owed to banks	-	-	-	-	227,151,376	227,151,376	227,151,376
Amounts owed to customers	-	-	-	-	271,532,067	271,532,067	271,532,067
Debt securities in issue	-	-	-	-	4,931,904	4,931,904	4,931,904
Subordinated debt	-	-	-	-	47,062,828	47,062,828	47,062,828
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	-	-	264,614,667	-	-	264,614,667	264,614,667
Loans and advances to customers	-	-	229,640,248	-	-	229,640,248	229,640,248
Investments available-for-sale	-	-	-	61,789	-	61,789	61,789
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 debt	-	-	-	-	6,000,000	6,000,000	6,000,000

7 *financial assets and liabilities accounting classification and fair value - continued*

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. 58% of the Group's (78% of the Bank's) loans and advances to customers are repriceable within six months. 86% of the Group's (85% of the Bank's) loans and advances to banks are repriceable within six months.

Financial liabilities at amortised cost comprise debt securities in issue, subordinated debt and amounts owed to banks and customers. 69% of the Group's (68% of the Bank's) amounts owed to banks and customers are repriceable within 6 months. The Group's debt securities in issue are subject to variable interest rates. 87% of the Bank's and Group's subordinated debt is subject to fixed interest rates.

8 **net interest income**

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Interest income				
On loans and advances to banks	1,512,040	6,922,155	1,496,135	6,914,219
On loans and advances to customers	3,643,313	5,702,294	3,643,313	6,011,964
On loans and advances to subsidiary companies	-	-	3,709,063	4,501,229
On balances with Central Bank of Malta	105,708	410,530	105,708	410,530
	5,261,061	13,034,979	8,954,219	17,837,942
On debt securities in issue	1,590,355	3,103,814	1,590,355	3,103,814
On forfeiting assets	7,951,377	11,506,189	-	-
On other trade finance activities	2,777,400	5,170,035	2,777,400	5,170,035
	17,580,193	32,815,017	13,321,974	26,111,791
Interest expense				
On amounts owed to banks	2,489,485	10,096,707	2,489,485	10,096,707
On amounts owed to customers	3,709,921	7,149,057	4,258,229	7,159,455
On debt securities in issue	332,473	1,028,180	40,804	3,664
On subordinated debt	2,258,685	346,845	2,258,685	346,845
	8,790,564	18,620,789	9,047,203	17,606,671
Net interest income	8,789,629	14,194,228	4,274,771	8,505,120

9 net fee and commission income

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Fee and commission income				
Credit related fees and commission	1,826,692	2,628,932	1,826,692	2,628,932
On letters of credit	8,845,597	9,285,775	8,845,597	9,285,775
On financial instruments	1,104,264	1,402,603	1,104,264	1,402,603
On forfeiting activities	6,324,221	4,231,119	-	-
On IT Solutions	260,128	252,063	-	-
Other fees	3,149,618	2,756,865	3,148,597	2,810,865
	21,510,520	20,557,357	14,925,150	16,128,175
Fee and commission expense				
Credit related fees	230,881	67,512	230,881	67,512
Correspondent banking fees	493,958	428,779	449,726	409,283
On forfeiting activities	145,380	657,939	-	-
Other fees	412,869	471,717	876,104	811,293
	1,283,088	1,625,947	1,556,711	1,288,088
Net fee and commission income	20,227,432	18,931,410	13,368,439	14,840,087

10 net trading (expense)/income

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Net trading income from assets held for trading				
Foreign exchange rate fluctuations	(5,871,823)	(1,271,393)	-	-
	1,619,574	3,349,224	1,756,838	3,610,220
	(4,252,249)	2,077,831	1,756,838	3,610,220

11 net profit/(loss) from other financial instruments carried at fair value

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Net income on derivatives held for risk management purposes				
Investment securities designated at fair value through profit or loss	188,346	(1,313,537)	163,575	(1,204,534)
	3,593,213	(7,264,488)	3,593,213	(7,264,488)
	3,781,559	(8,578,025)	3,756,788	(8,469,022)

For 2009, profits on investments securities include an amount of USD2,500,000 resulting from the swapping of an asset originally designated at fair value through profit or loss to an asset measured at amortised cost. The swapped asset was eventually disposed by the Bank realising a loss of USD2,623,901 (see Note 14).

12 dividend income

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Dividend from subsidiary company	-	-	-	1,529,537
Dividend from an available-for-sale investment	604	564	604	564
	604	564	604	1,530,101

13 other operating income

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Profit on disposal of equipment	-	14,206	-	6,589
Support fees receivable	15,000	18,077	15,000	18,077
Other non-trading income	3,013	45,122	3,013	45,122
	18,013	77,405	18,013	69,788

14 net impairment loss on financial assets

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Write-downs				
Loans and advances to banks				
- specific impairment allowances	(1,274)	(9,558)	(1,274)	(9,558)
- collective impairment allowances	(932,526)	(603,884)	(932,526)	(603,884)
- write-offs	(2,623,901)	-	(2,623,901)	-
	(3,557,701)	(613,442)	(3,557,701)	(613,442)
Loans and advances to customers				
- specific impairment allowances	(1,036,453)	41,303	(1,036,453)	41,303
- collective impairment allowances	(61,669)	(338,229)	(61,669)	(338,229)
- write-offs	(56,398)	(169,329)	(56,398)	(169,329)
	(1,154,520)	(466,255)	(1,154,520)	(466,255)
Net impairment losses	(4,712,221)	(1,079,697)	(4,712,221)	(1,079,697)

For 2009, write-offs of USD2,623,901 represent the disposal of a swapped financial instrument originally designated at fair value through profit or loss. Upon swapping the original instrument, profits of USD2,500,000 were recorded (see Note 11).

15 administrative expenses

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

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Personnel expenses	12,423,103	15,017,754	8,948,593	11,012,744
Operating lease rentals	1,188,240	1,189,017	784,917	813,482
Other administrative expenses	7,201,836	7,873,462	5,771,925	6,311,384
Recharge of services by subsidiaries	-	-	1,255,678	1,187,062
	20,813,179	24,080,233	16,761,113	19,324,672

Included in other administrative expenses of the Group are fees charged by auditors as follows:

	Audit services USD	Other assurance services USD	Tax advisory services USD	Other non audit services USD
By the auditors of the parent	140,852	26,011	20,937	34,953
Other auditors	219,853	-	29,949	-

All fees are inclusive of indirect taxes.

15.2 personnel expenses incurred during the year

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Directors' emoluments	291,381	494,065	291,381	494,065
Staff costs				
- wages, salaries and allowances	11,507,385	13,823,792	8,331,010	10,149,918
- defined contribution costs	624,337	699,897	326,202	368,761
	12,423,103	15,017,754	8,948,593	11,012,744

15.3 average number of employees

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

	Group		Bank	
	2009 No. of employees	2008 No. of employees	2009 No. of employees	2008 No. of employees
Executive and senior managerial	17	14	14	11
Other managerial, supervisory and clerical	142	138	103	102
Other staff	5	5	4	4
	164	157	121	117

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 2009, there were five schemes under which awarded options are still unexercised.

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

	Group and Bank	
	2009 No. of share options	2008 No. of share options
As at 1 January	1,473,360	1,428,804
Exercised	(30,240)	(808,085)
Awarded	500,000	852,641
Forfeited due to termination of employment	(88,800)	-
As at 31 December	1,854,320	1,473,360

Details of share options granted:

	Total	exercise period				
		01/01/11 to 31/12/15	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
Exercise price per USD0.50 share	USD	USD1.6926	USD1.3778	USD1.4841	USD0.6462	USD0.6371
Number of share options unexercised at 1 January 2009	1,473,360	-	600,000	600,000	162,480	110,880
Exercised	(30,240)	-	-	-	(21,600)	(8,640)
Awarded	500,000	500,000	-	-	-	-
Forfeited due to termination of employment	(88,800)	(24,000)	(28,800)	(36,000)	-	-
Number of share options unexercised at 31 December 2009	1,854,320	476,000	571,200	564,000	140,880	102,240

15 administrative expenses - continued

15.4 executive share option schemes - continued

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	1,473,360	600,000	600,000	162,480	110,880	-

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 2009).

In accordance with the applicable Scheme Rules, the Board has determined that for the year ended 31 December 2009 no share options will be allocated to qualifying executives.

16 taxation

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

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Current tax				
- current year	(368,026)	(9,848,839)	(366,747)	(10,097,040)
- adjustments for prior years	-	55,082	-	55,082
	(368,026)	(9,793,757)	(366,747)	(10,041,958)
Deferred tax				
- origination and reversal of temporary differences	334,406	200,977	397,928	78,496
- tax losses not previously recognised	-	(5,715)	-	-
	334,406	195,262	397,928	78,496
Taxation in income statement	(33,620)	(9,598,495)	31,181	(9,963,462)

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

16 *taxation - continued*

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	
	2009 USD	2008 USD	2009 USD	2008 USD
Profit before tax	1,672,950	34,369,395	1,041,304	40,499,970
Tax expense income using the domestic income tax rate of 35%	(585,532)	(12,029,288)	(364,456)	(14,174,990)
Tax effect of:				
Non deductible expenses	(202,908)	(179,465)	(6,686)	(3,610)
Temporary differences previously not recognised	403,049	991,469	(2,491)	(1,453)
Exemption order in terms of the Income Tax Act	400,649	(1,088,055)	400,649	(1,088,055)
Investment tax credit	3,464	3,761	-	-
Non taxable income	(18,586)	(568,704)	-	-
Share of profit from equity accounted investees	(135,867)	610,223	-	-
Different tax rates	102,464	2,356,732	4,165	5,249,564
Over / (under) provision of taxation in prior years	(353)	304,832	-	55,082
Taxation	(33,620)	(9,598,495)	31,181	(9,963,462)

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 2009 was based on the profit attributable to ordinary shareholders of USD1,565,048 and USD1,072,485 (2008: USD24,778,640 and USD30,536,508) for the Group and Bank respectively divided by the weighted average number of ordinary shares in issue during the year ended 31 December 2009 of 135,230,947 (2008: 133,234,535).

17.2 **diluted earnings per share**

The calculation of the Group's and Bank's diluted earnings per share at 31 December 2009 was based on the profit attributable to ordinary shareholders of USD1,765,535 and USD1,272,972 (2008: USD25,125,485 and USD30,883,353) for the Group and Bank respectively divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2009 of 141,496,487 (2008: 140,790,895).

17 earnings per share - continued

17.2 diluted earnings per share - continued

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

Profit attributable to ordinary shareholders (diluted):

	2009 USD	Group 2008 USD	2009 USD	Bank 2008 USD
Profit attributable to ordinary shareholders	1,565,048	24,778,640	1,072,485	30,536,508
After tax effect of interest on subordinated convertible loan	200,487	346,845	200,487	346,845
Profit attributable to ordinary shareholders (diluted)	1,765,535	25,125,485	1,272,972	30,883,353

Weighted average number of ordinary shares (diluted):

	2009 No. of shares	2008 No. of shares
Weighted average number of ordinary shares at 31 December	135,230,947	133,234,535
Effect of conversion of subordinated convertible loan	6,146,663	7,176,023
Effect of share option on issue	118,877	380,337
Weighted average number of ordinary shares (diluted) at 31 December	141,496,487	140,790,895

18 balances with the central bank of malta and cash

	2009 USD	Group 2008 USD	2009 USD	Bank 2008 USD
Balances with the Central Bank of Malta	8,619,718	8,389,048	8,619,718	8,389,048
Cash	224,871	431,289	213,486	421,981
	8,844,589	8,820,337	8,833,204	8,811,029

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 forfeiting 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	
	2009 USD	2008 USD	2009 USD	2008 USD
Derivative assets held for risk management				
- foreign exchange	721,728	726,199	721,728	726,199
	721,728	726,199	721,728	726,199
Derivative liabilities held for risk management				
- interest rate	113,917	352,176	195,303	452,879
- foreign exchange	912,893	706,200	957,479	706,200
	1,026,810	1,058,376	1,152,782	1,159,079

21 financial assets designated at fair value through profit or loss

	Group and Bank	
	2009 USD	2008 USD
Designated at fair value through profit or loss		
- foreign listed debt securities	1,808,628	4,373,116
- unlisted debt securities	21,750,000	21,250,000
	23,558,628	25,623,116

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	
	2009 USD	2008 USD	2009 USD	2008 USD
Repayable on call and at short notice	41,938,360	65,630,112	40,171,037	60,681,192
Term loans and advances	276,210,794	207,489,355	280,548,682	208,483,826
Total loans and advances	318,149,154	273,119,467	320,719,719	269,165,018
Specific impairment	(3,143,306)	(3,142,032)	(3,143,306)	(3,142,032)
Collective impairment	(2,340,845)	(1,408,319)	(2,340,845)	(1,408,319)
Net loans and advances	312,665,003	268,569,116	315,235,568	264,614,667

Loans and advances to banks include blocked funds amounting to USD113,096 (2008: USD113,096) pursuant to US Sanctions and pledged funds amounting to USD232,679 (2008: USD14,218,745). In 2008, 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 USD4,528,404 (2008: USD4,365,337). Individual impairment is exclusive of USD1,309,347 (2008: USD1,147,550) in respect of suspended interest not recognised in interest receivable.

23 loans and advances to customers

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Repayable on call and at short notice	49,906,693	42,722,607	49,906,693	42,722,607
Term loans and advances	94,516,068	65,965,308	94,516,068	81,625,288
	144,422,761	108,687,915	144,422,761	124,347,895
Amounts owed by subsidiary companies	-	-	122,578,089	115,480,966
Total loans and advances	144,422,761	108,687,915	267,000,850	239,828,861
Specific impairment	(10,441,759)	(9,405,306)	(10,441,759)	(9,405,306)
Collective impairment	(844,976)	(783,307)	(844,976)	(783,307)
Net loans and advances	133,136,026	98,499,302	255,714,115	229,640,248

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

23 *loans and advances to customers - continued*

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 USD20,025,105 (2008: USD18,815,991). Individual impairment is exclusive of USD8,822,551 (2008: USD7,714,071) in respect of suspended interest not recognised in interest receivable.

24 **investments available-for-sale**

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

	Group and Bank	
	2009 USD	2008 USD
Foreign unlisted	39,595	39,595
Local unlisted	-	22,194
	39,595	61,789

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 such investments. The movement in "local unlisted investments" refer to the disposal of a minority stake in LB Factors Limited for a profit on disposal of USD46,956.

25 **investments in equity accounted investees**

25.1 The Group's investment in associates is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Current equity interest %	Group	
					2009 USD	2008 USD
CIS Factors Holdings B.V.	The Netherlands	Factoring	Ordinary Shares	40.0	3,861,977	-
The Egyptian Company for Factoring SAE ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	40.0	692,376	1,073,715
					4,554,353	1,073,715
At 1 January					1,073,715	21,646,962
Investment in CIS Factors Holdings B.V.					4,013,166	-
Investment in Egypt Factors					-	1,300,000
Investment in GTF					-	(17,313,485)
Investment in Menafactors					-	(4,803,889)
Net share of (losses)/profits					(388,193)	1,743,495
Currency translation difference					(144,335)	(1,499,368)
At 31 December					4,554,353	1,073,715

25 *investments in equity accounted investees - continued*

25.2 The Bank's investment in associates entities is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Current equity interest %	Bank	
					2009 USD	2008 USD
The Egyptian Company for Factoring SAE ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	40.0	2,013,425	2,013,425
					2,013,425	2,013,425
At 1 January and 31 December					2,013,425	2,013,425

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

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

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

The "Put Period" is defined as the period beginning on the 5th anniversary of the date on which IFC first subscribes for shares in CIS Factors under the Subscription Agreement, and ending on the date on which IFC shall have delivered to the Sponsors and CIS Factors a notice stating that all of the requirements set out below have been met:

- a Listing has occurred on a Relevant Market;
- at least twenty five percent (25%) of the issued and outstanding ordinary shares of CIS Factors are held by Persons other than Affiliates (including IFC) and are tradable without restriction on such Relevant Market;
- the average trading volume of the ordinary shares of CIS Factors (excluding direct or indirect trading by the Sponsors, CIS Factors or their respective Affiliates) on such Relevant Market, during any period of six consecutive months is not less than two times the total number of the ordinary shares of CIS Factors owned by IFC at that date;
- the average price per share of the ordinary shares of CIS Factors traded on such Relevant Market during any period of six consecutive months is not lower than the price per share as of the date of the Listing;

25 *investments in equity accounted investees - continued*

25.3 *CIS Factors Holdings B.V. ("CIS Factors") - continued*

- (e) IFC has received a certificate executed by the Sponsors and CIS Factors certifying that the conditions stated in sub-sections (c) and (d) have been met; and
- (f) all shares of CIS Factors and all Share Equivalents held by IFC are immediately convertible, exercisable or exchangeable into ordinary shares of the CIS Factors and can be traded without restriction on such Relevant Market;

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

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

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

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

In November 2006, the Bank incorporated Egypt Factors, a company which provides factoring services in Egypt. On 31 December 2009 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:

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

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

25 investments in equity accounted investees - continued

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

		Total assets	Total liabilities	Total revenue	Total expenses	Loss for the year
31 December 2009						
CIS Factors	USD	7,745,154	24,626	-	(17,135)	(17,135)
Egypt Factors	USD	20,151,859	18,454,433	942,878	(1,903,328)	(957,004)
31 December 2008						
Egypt Factors	USD	2,857,265	202,835	19,783	(1,159,899)	(1,114,804)

26 non-current assets classified as held for sale

26.1 Menafactors Limited was incorporated in May 2007 in the Dubai International Financial Centre. During 2008, the Group acquired full control of Menafactors and upon such acquisition, 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 has been 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 "Discontinued Operations".

During the year following the full acquisition of Menafactors, the Group actively marketed the company and received genuine interest from potential buyers to invest in Menafactors. However, due to the exceptional market circumstances experienced since the last quarter of 2008, which circumstances were considered unlikely at the time of acquiring the entire shareholding in Menafactors, the Group did not dispose of its investment in the company. The Group took the necessary and appropriate action to respond to the change in market circumstances and remains committed to its original plan to dispose of a substantial holding in Menafactors.

In view of this, the Group extended the sale-period of its investment in Menafactors by an additional one year and keeps measuring the same investment in accordance with IFRS 5. In 2010 the Group will start consolidating Menafactors in line with IAS 27 "Consolidated and Separate Financial Statements".

	Group	
	2009 USD	2008 USD
Assets classified as held for sale		
Property, plant and equipment	136,885	251,400
Cash and cash equivalents	14,168,364	10,433,476
Trade and other receivables	37,815,594	16,712,770
	52,120,843	27,397,646
Liabilities classified as held for sale		
Trade and other payables	11,775,785	294,528
	11,775,785	294,528

26 non-current assets classified as held for sale - continued

- 26.2 In 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. The associate is being accounted for in Menafactors by applying the Equity Method and consolidated in FIMBank together with the results of Menafactors under "Discontinued Operations".

27 investments in subsidiaries

27.1 capital subscribed

	2009 USD	Bank 2008 USD
At 1 January	49,394,666	37,392,666
Additional investment in FIMFactors B.V.	4,017,625	12,000,000
Investment in FIM Property Investment Limited	-	2,000
At 31 December	53,412,291	49,394,666

27.2 investments in subsidiaries

Name of Company	Registered office	Nature of business	Current equity interest %	2009 USD	Bank 2008 USD
London Forfaiting Company Limited	UK	Forfaiting Holding Company	100	37,366,435	37,366,435
FIMFactors B.V.	Netherlands	IT Services Provider	100	16,038,856	12,021,231
FIM Business Solutions Limited	Malta	Property Management	100	5,000	5,000
FIM Property Investment Limited	Malta		100	2,000	2,000
				53,412,291	49,394,666

27 investments in subsidiaries - continued

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	
			2009	2008
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 Deutschland GmbH * #	Germany	Marketing	100%	100%
London Forfaiting a Paris S.A. * #	France	Marketing	100%	100%

* A wholly-owned subsidiary of London Forfaiting International Limited

In course of liquidation at the date of this report

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	
			2009	2008
Menaufactors Limited	United Arab Emirates	Factoring Company	100%	100%

28 property and equipment

Group	Freehold land	Freehold premises	Computer system	Improvement to leasehold premises	Computer equipment	Others	Total
	USD	USD	USD	USD	USD	USD	USD
Cost							
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	-	277,809	888,196	1,254,138	2,250,900	3,546,909	8,217,952
At 1 January 2009	-	277,809	888,196	1,254,138	2,250,900	3,546,909	8,217,952
Reclassification to freehold land	1,409,166	-	-	-	-	(1,409,166)	-
Acquisitions during year	5,482,891	-	1,024,391	59,194	274,028	764,066	7,604,570
Disposals	-	-	-	-	-	(664)	(664)
At 31 December 2009	6,892,057	277,809	1,912,587	1,313,332	2,524,928	2,901,145	15,821,858
Depreciation							
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	-	84,551	770,088	869,492	1,740,888	1,221,433	4,686,452
At 1 January 2009	-	84,551	770,088	869,492	1,740,888	1,221,433	4,686,452
Charge for the year	-	4,434	108,286	161,180	268,655	193,180	735,735
Released on disposal	-	-	-	-	-	(664)	(664)
At 31 December 2009	-	88,985	878,374	1,030,672	2,009,543	1,413,949	5,421,523
Carrying amounts							
At 1 January 2008	-	197,842	163,082	324,234	558,304	500,409	1,743,871
At 31 December 2008	-	193,258	118,108	384,646	510,012	2,325,476	3,531,500
At 1 January 2009	-	193,258	118,108	384,646	510,012	2,325,476	3,531,500
At 31 December 2009	6,892,057	188,824	1,034,213	282,660	515,385	1,487,196	10,400,335

Included in "Others" are amounts carried by a fully-owned subsidiary "Fim Property Investment Limited", representing the cost of developing the Group's Head Office at Pendergardens, St Julian's, Malta. This asset is not yet available for use and in line with IAS 16 "Property, Plant and Equipment" it is therefore not being depreciated.

28 property and equipment - continued

Bank	Freehold premises	Computer system	Improvement to leasehold premises	Computer equipment	Others	Total
	USD	USD	USD	USD	USD	USD
Cost						
At 1 January 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	221,708	888,196	639,197	1,718,355	1,622,394	5,089,850
At 1 January 2009	221,708	888,196	639,197	1,718,355	1,622,394	5,089,850
Acquisitions during year	-	1,024,391	82,320	75,847	6,839	1,189,397
Disposals during the year	-	-	-	-	(664)	(664)
At 31 December 2009	221,708	1,912,587	721,517	1,794,202	1,628,569	6,278,583
Depreciation						
At 1 January 2008	23,868	725,114	251,658	1,099,486	960,761	3,060,887
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	28,452	770,088	294,424	1,302,825	1,062,762	3,458,551
At 1 January 2009	28,452	770,088	294,424	1,302,825	1,062,762	3,458,551
Charge for the year	4,435	108,287	130,092	191,932	144,711	579,457
Disposals during the year	-	-	-	-	(664)	(664)
At 31 December 2009	32,887	878,375	424,516	1,494,757	1,206,809	4,037,344
Carrying amounts						
At 1 January 2008	197,840	163,082	235,785	412,975	432,139	1,441,821
At 31 December 2008	193,256	118,108	344,773	415,530	559,632	1,631,299
At 1 January 2009	193,256	118,108	344,773	415,530	559,632	1,631,299
At 31 December 2009	188,821	1,034,212	297,001	299,445	421,760	2,241,239

29 intangible assets

Group

Software licences
USD

Cost

At 1 January 2008	1,361,938
Additions	361,765
At 31 December 2008	1,723,703
At 1 January 2009	1,723,703
Additions	415,277
At 31 December 2009	2,138,980

Amortisation

At 1 January 2008	320,487
Charge for the year	209,823
At 31 December 2008	530,310
At 1 January 2009	530,310
Charge for the year	289,664
At 31 December 2009	819,974

Carrying Amount

At 1 January 2008	1,041,451
At 31 December 2008	1,193,393
At 1 January 2009	1,193,393
At 31 December 2009	1,319,006

29 intangible assets - continued

Bank

Software licences
USD

Cost

At 1 January 2008	608,752
Additions	226,765
At 31 December 2008	835,517
At 1 January 2009	835,517
Additions	87,759
At 31 December 2009	923,276

Amortisation

At 1 January 2008	145,074
Charge for the year	100,618
At 31 December 2008	245,692
At 1 January 2009	245,692
Charge for the year	128,314
At 31 December 2009	374,006

Carrying Amount

At 1 January 2008	463,678
At 31 December 2008	589,825
At 1 January 2009	589,825
At 31 December 2009	549,270

30 deferred tax asset

30.1 the deferred tax asset is analysed as follows:

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	(178,706)	(117,886)	(18,512)	(7,840)
- allowances for uncollectibility	1,655,013	1,276,853	1,655,013	1,276,853
- unabsorbed capital allowances	293,777	276,711	46,682	16,242
- unabsorbed tax losses	6,571,680	6,571,680	-	-
	8,341,764	8,007,358	1,683,183	1,285,255

At balance sheet date, subsidiaries within the Group had unused tax losses and unused tax credits amounting to USD57.4 million and USD0.5m respectively available against future taxable profits. A deferred tax asset amounting to USD1,540,345 (2008: USD3,483,937) 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 USD	Recognised in profit or loss USD	Closing balance USD
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
	7,812,096	195,262	8,007,358
2009			
Excess of capital allowances over depreciation	(117,886)	(60,820)	(178,706)
Allowances for uncollectibility	1,276,853	378,160	1,655,013
Unabsorbed capital allowances	276,711	17,066	293,777
Unabsorbed tax losses	6,571,680	-	6,571,680
	8,007,358	334,406	8,341,764

30 *deferred tax asset - continued*

30.2 *movements in temporary differences during the year - continued*

Bank

	Opening balance USD	Recognised in profit or loss USD	Closing balance USD
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
	1,206,759	78,496	1,285,255
2009			
Excess of capital allowances over depreciation	(7,840)	(10,672)	(18,512)
Allowances for uncollectibility	1,276,853	378,160	1,655,013
Unabsorbed capital allowances	16,242	30,440	46,682
	1,285,255	397,928	1,683,183

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	
	2009 USD	2008 USD	2009 USD	2008 USD
Accrued income	1,587,589	1,273,112	1,593,669	1,634,551
Prepayments	724,789	599,606	517,290	409,867
	2,312,378	1,872,718	2,110,959	2,044,418

Accrued income of the Bank includes amounts receivable from subsidiary companies amounting to USD6,080 (2008: USD99,336).

33 amounts owed to banks

	Group		Bank	
	2009	2008	2009	2008
	USD	USD	USD	USD
Term deposits	176,147,408	174,428,573	180,485,295	175,423,044
Repayable on demand	46,666,081	35,740,895	46,666,081	35,740,895
	222,813,489	210,169,468	227,151,376	211,163,939

34 amounts owed to customers

	Group		Bank	
	2009	2008	2009	2008
	USD	USD	USD	USD
Term deposits	123,831,987	144,349,971	123,831,987	144,349,971
Repayable on demand	146,438,952	107,144,039	146,438,952	107,145,104
	270,270,939	251,494,010	270,270,939	251,495,075
Amounts owed to subsidiaries	-	-	1,261,128	652,736
	270,270,939	251,494,010	271,532,067	252,147,811

Included in customer accounts are deposits amounting to USD14,676,487 (2008: USD9,860,804) 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 USD51,850 (2008: USD2,090,061). Interest amounting to USD7,269 (2008: USD41,649) was credited to this shareholder during the year.

35 debt securities in issue

35.1 group and bank

Debt securities in issue comprise unsecured promissory notes issued by the Bank and a subsidiary company. Notes issued by the Bank have a tenor of nine months with interest payable on maturity at an effective interest rate of 1.93% (2008: nil). Notes issued by the subsidiary company have a tenor of one year with interest payable semi-annually in arrears. The Group's effective interest rate for 2009 is 1.24% (2008: 3.99).

36 subordinated debt

36.1

	2009 USD	Group and Bank 2008 USD
Subordinated convertible loan (Note 36.2)	6,000,000	6,000,000
Subordinated bonds (Note 36.3)	41,062,828	-
	47,062,828	6,000,000

36.2 subordinated convertible loan

	2009 USD	Group and Bank 2008 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 below)	(4,000,000)	(4,000,000)
Carrying amount as at 31 December	6,000,000	6,000,000

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 2009, the loan carried interest at 2.97% (2008: 5.12%) and is repayable in full by 22 June 2013 unless converted by 22 June 2010 into fully paid up ordinary shares as noted above.

36 *subordinated debt - continued*36.3 **subordinated bonds**

During the year ended 31 December 2009, the Bank issued an aggregate of EUR30 million Subordinated Bonds 2012-2019 in a combination of 7% EUR Bonds of a nominal value of EUR100 per bond and 7% USD Bonds of a nominal value of USD100 per bond. The Subordinated Bonds are redeemable at par on 30 April 2019 or earlier, at the Bank's option, starting from 1 May 2012 up to maturity date. The Subordinated Bonds are listed on the Malta Stock Exchange and trade on its Official List.

	Group and Bank	
	2009 USD	2008 USD
Initial recognition:		
7% EUR Subordinated Bonds 2012-2019	34,010,529	-
7% USD Subordinated Bonds 2012-2019	8,107,800	-
	42,118,329	-
Unamortised issue costs	(1,055,501)	-
Carrying amount as at 31 December	41,062,828	-

37 **provisions**

	Group USD	Bank USD
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	2,600,320	1,733,104
Balance at 1 January 2009	2,600,320	1,733,104
Exchange difference	18,388	-
Balance at 31 December 2009	2,618,708	1,733,104
Non-current balance at 31 December 2008	2,600,320	1,733,104
Non-current balance at 31 December 2009	2,618,708	1,733,104

Provisions represent the best estimate of potential liabilities which may be required as a result of pending court cases.

38 accruals and deferred income

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Accrued interest	1,895,717	3,096,058	1,893,945	2,709,172
Other accruals	14,281,195	8,308,692	2,208,003	2,028,141
	16,176,912	11,404,750	4,101,948	4,737,313

Other accruals comprise an amount payable to a subsidiary company amounting to USD333,808 (2008: Nil).

39 equity

39.1 share capital

	2009 Shares of 50 cents		2008 Shares of 50 cents	
	Shares	USD	Shares	USD
Authorised Ordinary shares at 31 December	400,000,000	200,000,000	400,000,000	200,000,000
Issued and fully paid up Ordinary shares at 31 December	135,426,954	67,713,477	134,856,392	67,428,196

	Ordinary Shares	
	2009 No of shares	2008 No of shares
On issue at 1 January	134,856,392	109,893,905
Share options issued for cash (see note 15.4)	30,240	808,085
Bonus shares issued	-	22,012,168
Scrip dividend	540,322	2,142,234
On issue at 31 December	135,426,954	134,856,392

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.

39 equity - continued

39.1 share capital - continued

Scrip dividend

In April 2009, the Annual General Meeting approved the payment of a scrip dividend amounting to USD3,035,907, representing a net dividend per Ordinary Share of US cents 2.251215. Shareholders were given the option to receive the dividend either in the form of Cash or new Ordinary Shares at the attribution price of USD1.1000. Consequent to the Scrip Issue, the Bank's capital was increased by a further USD270,161.

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.

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 USD3,814,932 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:

	2009 USD	2008 USD
Dividends declared and paid during the year	3,035,907	8,582,506

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

	2009 USD	2008 USD
US cents 1.155640 per qualifying ordinary share (2008: 2.251215)	1,565,048	3,035,907

39 equity - continued

39.6 availability of reserves for distribution

The Bank's retained earnings as at balance sheet date include an amount of USD30,331,663 (2008: USD32,295,085) that is available for distribution.

40 contingent liabilities

40.1

	Group		Bank	
	2009	2008	2009	2008
	USD	USD	USD	USD
Guarantee obligations incurred on behalf of third parties	25,565,381	49,548,490	27,021,667	74,548,490

40.2 Global Trade Finance Limited ("GTF")

During 2008, the Bank disposed of an equity investment in Global Trade Finance Limited ("GTF"). As a result of the disposal of shares, the Bank provided State Bank of India with an indemnity for any future tax claims against GTF pertaining to the period prior to the disposal of the investment. The Bank's indemnity, which is given severally with that of the other seller EXIMBank as well as GTF, is capped at 10% of the sale consideration, 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.

The probability that this claim may arise was assessed on 31 December 2009 in the light of a likelihood that such a claim may arise under a future assessment. The Bank deems that, albeit it is still possible that a claim may arise in the future, the probability of this occurring is remote. However, this event still represents a contingent liability since the indemnity constitutes a present obligation that does not however meet the criteria to be recognised as a provision. The maximum amount the contingent liability remains INR216,810,000 (USD4,614,000) at 31 December 2009 (31 December 2008: USD4,463,000).

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	
	2009 USD	2008 USD	2009 USD	2008 USD
Undrawn credit facilities	39,406,146	27,652,030	39,406,146	27,652,030
Commitment to purchase assets	26,958,373	2,552,001	-	-
Factoring commitments	52,451	592,028	52,451	592,028
Documentary credits	13,461,445	13,197,421	13,461,445	15,297,539
Confirmed letters of credit	112,024,025	157,727,572	114,928,252	153,903,280
	191,902,440	201,721,052	167,848,294	197,444,877

The Bank has total sanctioned limits to customers amounting to USD259,690,421 (2008: USD217,197,990).

In addition, as at balance sheet date the Bank had open back-to-back documentary credits amounting to USD34,214,260 (2008: USD35,051,160).

42 cash and cash equivalents

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

	Group		Bank	
	2009 USD	2008 USD	2009 USD	2008 USD
Balances with the Central Bank of Malta and cash	8,844,589	8,820,337	8,833,204	8,811,029
Loans and advances to banks	219,695,377	205,557,634	217,928,056	200,608,714
Amounts owed to banks	(123,065,893)	(123,828,443)	(123,065,893)	(123,828,443)
Cash and cash equivalents	105,474,073	90,549,528	103,695,367	85,591,300
Adjustment to reflect balances with contractual maturity of more than three months	(6,777,970)	(23,329,543)	(6,777,881)	(23,329,543)
Per balance sheet	98,696,103	67,219,985	96,917,486	62,261,757
Analysed as follows:				
Balances with the Central Bank of Malta and cash	8,844,589	8,820,337	8,833,204	8,811,029
Loans and advances to banks	312,665,003	268,569,116	315,235,658	264,614,667
Amounts owed to banks	(222,813,489)	(210,169,468)	(227,151,376)	(211,163,939)
	98,696,103	67,219,985	96,917,486	62,261,757

43 operating leases

leases as lessee

The Group leases motor vehicles and office premises under operating lease arrangements. During the year ended 31 December 2009, operating lease charges amounting to USD1,188,240 (2008: USD1,189,017) were recognised as an expense in the income statement of the Group, while operating lease charges amounting to USD784,917 (2008: USD813,482) were recognised as an expense in the income statement of the Bank.

Non-cancellable operating lease rentals are payable as follows:

	Group		Bank	
	2009	2008	2009	2008
	USD	USD	USD	USD
Less than one year	1,152,958	685,818	754,639	660,137
Between one and five years	3,647,218	2,522,495	2,967,153	2,378,977
More than five years	5,535	13,452	-	-
	4,805,711	3,221,765	3,721,792	3,039,114

44 related parties

44.1 identity of related parties

The Bank has a related party relationship with its subsidiaries, associates, Directors and executive officers.

44.2 transactions with key management personnel

Directors of the Group control 7 per cent of the voting shares of the Bank and the Group respectively. Details of directors having beneficial interest in shareholders of the group are disclosed in schedule 5 to these financial statements. There were no loans and advances to Directors as at 31 December 2009 and as at 31 December 2008. On 31 December 2009, an amount of USD308,097 (2008: USD336,241) was receivable from executive officers. Interest earned from executive officers during the financial year ending 31 December 2009 amounted to USD866 (2008: USD2,407).

Deposits by Directors as at 31 December 2009 amounted to USD156,284 (2008: USD84,397) and are included in "amounts owed to customers". No Interest was paid to Directors for the period ended 31 December 2009 (2008: USD15,833).

44 *related parties - continued*44.2 *transactions with key management personnel - continued*

Deposits by Executive Officers as at 31 December 2009 amounted to USD170,746 (2008: USD77,667) and are included in "amounts owed to customers". Interest paid to Executive Officers during the financial year ending 31 December 2009 amounted to USD4,851 (2008: USD133). Furthermore, Guarantees in favour of Executive Officers as at 31 December 2009 amounted to USD3,360 (2008: nil).

In addition to their salaries, the Group also provides non-cash benefits to Directors and Executive Officers. Directors' compensations are disclosed in note 15.2 to these financial statements. Total remuneration payable to executive officers amounting to USD1,285,000 (2008: USD860,000) is included in "personnel expenses" (see note 15.2). This amount includes salary of an Executive Vice President who was appointed with effect from 1 March 2009. During the financial year ended 31 December 2009, Executive Officers were not allocated any share options (2008: 150,000 share options) under share option schemes. As at 31 December 2009, executive officers had a total of 533,000 unexercised share options.

44.3 *other related party transactions*

During 2009, the Group disposed of its investment in an entity in which it had neither control nor significant influence but had a right to appoint a Director. The Group charged this entity a consultancy fee of USD50,000 (2008: 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 USD604 (2008: USD564) from this entity. No dividend was received from any of the Bank's subsidiary companies (2008: USD1,529,537). No dividend (2008: nil) was received from associated companies during the financial year.

On 31 December 2009 deposits by shareholders having significant influence amounted to USD51,850 (2008: USD2,090,062).

Amounts equivalent to USD53,505 (2008: USD111,527) and USD97,766 (2008: USD100,311) 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 USD3,131 (2008: USD5,257) and USD516,676 (2008: USD808,527) respectively were charged by companies owned, directly and indirectly by the Bank's Directors and key management personnel. Moreover the Group has in place a project management agreement, extending over the duration of the Group's Head Office development, with a company beneficially owned by a Substantial Shareholder and indirectly controlled by a Director of the Bank. This contract, deemed significant in terms of Listing Rule 9.44e, has an outstanding balance of EUR473,942 (USD683,603) and is included in Note 46 to these financial statements.

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 and 34 to these financial statements. Amounts due to/by Key Management Personnel are disclosed in note 44.2 above. Amounts due to/by shareholders are disclosed in notes 34 and 36 to these financial statements.

45 financial commitments

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

The Group has committed a further investment of USD1,200,000 in its associated company Egypt Factors (see Note 25). The timing of this further injection is dependent on the performance and growth requirements of the company.

45.2 CIS Factors Holdings B.V.

The Group has committed a further investment of USD6 million in its associated company CIS Factors Holdings B.V. (see Note 25). The timing of this further injection is dependant on the satisfaction of all conditions laid down in the associate's incorporation agreements, including a satisfactory performance of the company.

45.3 India Factoring and Finance Solutions Private Limited

The Group has committed 49 million Indian Rupees (cc USD10 million as at 31 December 2009) towards the share capital investment of an associated company India Factoring and Finance Solutions Private Limited ("India Factors"). This company, which was established after the Balance Sheet date (see Note 47), has been incorporated in Mumbai, India and will carry out the business of factoring, forfaiting and trade finance and related activities in India.

46 capital commitments

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

	Group	
	2009 USD	2008 USD
Authorised and contracted for	10,597,932	6,824,943
Authorised but not contracted for	10,726,405	20,301,719
	21,324,337	27,126,662

Group capital commitments relate to the development of a plot of land in Pendergardens, St Julian's, Malta into a building where the Group intends to house its head office. The expected completion year for this project is 2012.

47 events after balance sheet date

In February 2010, the Group, through its fully owned subsidiary FIMFactors B.V., subscribed INR24,500,000 (USD5,279,035) in India Factoring and Finance Solutions Private Limited (“India Factoring”), a newly established company set-up under Indian law with its registered office in Mumbai, India. India Factors will carry out the business of factoring, forfaiting and trade finance and related activities in India. Through this investment, which is still subject to Regulatory Approval in India, the Group will hold a 49% shareholding, with the other shareholders being Punjab National Bank (“PNB”), Banca IFIS (“IFIS”) and Blend Financial Services Limited (“Blend”) holding 30%, 10% and 1% respectively. The remaining 10% will be held by the India Factoring Employee Welfare Trust.

48 comparative information

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



statement of the directors pursuant to listing rule 9.44c

For the year ended 31 December 2009

We, the undersigned, declare that to the best of our knowledge, the financial statements set out on pages 38 to 135 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 16 March 2010 by:



Najeeb H.M. Al-Saleh
Chairman



John C. Grech
Vice Chairman

independent auditors' report

to the members of FIMBank p.l.c.

report on the financial statements

We have audited the financial statements of FIMBank p.l.c. (the "Bank") and of the Group of which the Bank is the parent, as set out on pages 38 to 135, which comprise the statements of financial position as at 31 December 2009 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

directors' responsibility for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 37, the Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, the Companies Act, 1995 (Chapter 386, Laws of Malta), and the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, 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 (Chapter 386, Laws of Malta) and Article 31 of the Banking Act, 1994 (Chapter 371, Laws of Malta), and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report and Financial Statements 2009 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

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



independent auditors' report - continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation 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 on financial statements

In our opinion, the financial statements:

- give a true and fair view of the Group's and the Bank's financial position as at 31 December 2009, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation.

report on other legal and regulatory requirements

matters on which we are required to report by the banking act, 1994 (chapter 371, laws of malta)

In our opinion:

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

independent auditors' report - continued

matters on which we are required to report by exception by the companies act, 1995 (chapter 386, laws of malta) ("the act"), other than those reported upon above

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

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

report required by listing rule 8.38 issued by the listing authority in malta on the directors' statement of compliance with the code of principles of good corporate governance ("the principles") outlined in appendix 8.1 to chapter 8 (continuing obligations) of the listing rules ("the appendix")

Listing Rule 8.36 requires an Issuer whose securities are admitted to trading on a Regulated Market operating in Malta to prepare a corporate governance statement. In addition, as an Issuer registered in Malta, Listing Rule 8.36b requires that the Bank endeavours to adopt the Principles and to prepare a report explaining how it has complied with the provisions of the Appendix.

Our responsibility as independent auditors of the Bank, is laid down by Listing Rule 8.38, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out in pages 26 to 36.

We review the Directors' Statement of Compliance and report as to whether this statement provides the disclosures required by Listing Rules 8.37 and 8.38 as obtaining prior to the coming into effect of Circular 01/2010 issued to all Company Secretaries and Stockbroking Firms, by the Listing Authority (Malta Financial Services Authority), which circular came into effect on 11 January 2010. We are not required to, and we do not, consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures, nor on the ability of the Group to continue in operational existence.



independent auditors' report - continued

In our opinion, the Directors' Statement of Compliance set out in pages 26 to 36 provides the disclosures required by the aforementioned Listing Rules 8.37 and 8.38 as obtaining prior to the coming into effect of Circular 01/2010 issued to all Company Secretaries and Stockbroking Firms, by the Listing Authority (Malta Financial Services Authority), which circular came into effect on 11 January 2010.

Noel Mizzi
(Partner) for and on behalf of

KPMG
Registered Auditors

16 March 2010



schedule I

income statement

Five Year Summary

Bank

	2009 USD	2008 USD	2007 USD	2006 USD	2005 USD
Interest income	13,321,974	26,111,791	22,870,430	17,800,866	8,511,348
Interest expense	(9,047,203)	(17,606,671)	(16,858,192)	(12,728,467)	(4,328,442)
Net interest income	4,274,771	8,505,120	6,012,238	5,072,399	4,182,906
Fee and commission income	14,925,150	16,128,175	12,420,609	10,326,421	7,682,567
Fee and commission expense	(1,556,711)	(1,288,088)	(946,703)	(1,011,842)	(644,204)
Net fee and commission income	13,368,439	14,840,087	11,473,906	9,314,579	7,038,363
Net trading income/(expense)	5,513,626	(4,858,802)	1,143,384	1,336,923	360,885
Dividend income	604	1,530,101	600,123	1,167,161	327,476
Profit on disposal of available-for-sale investment	46,956	-	-	-	-
Profit on disposal of associate	-	43,085,785	-	-	-
Other operating income	18,013	69,788	51,537	22,122	50,000
Operating income before net impairment losses	23,222,409	63,172,079	19,281,188	16,913,184	11,959,630
Net impairment loss on financial assets	(4,712,221)	(1,079,697)	(732,089)	(884,565)	(365,677)
Operating income	18,510,188	62,092,382	18,549,099	16,028,619	11,593,953
Administrative expenses	(16,761,113)	(19,324,672)	(14,528,885)	(11,826,533)	(7,919,185)
Depreciation and amortisation	(707,771)	(534,636)	(517,125)	(388,855)	(421,395)
Provision for liabilities and charges	-	(1,733,104)	-	-	-
Total operating expenses	(17,468,884)	(21,592,412)	(15,046,010)	(12,215,388)	(8,340,580)
Profit before taxation	1,041,304	40,499,970	3,503,089	3,813,231	3,253,373
Taxation	31,181	(9,963,462)	(394,689)	(335,671)	(243,520)
Profit for the year	1,072,485	30,536,508	3,108,400	3,477,560	3,009,853

schedule II

statement of financial position

Five Year Summary

Bank	2009 USD	2008 USD	2007 USD	2006 USD	2005 USD
ASSETS					
Balances with the Central Bank of Malta and cash	8,833,204	8,811,029	15,137,885	93,322	215,071
Financial assets at fair value through profit or loss	24,280,356	26,349,315	37,336,214	20,739,111	10,239,158
Loans and advances to banks	315,235,568	264,614,667	234,875,967	200,848,606	111,419,004
Loans and advances to customers	255,714,115	229,640,248	205,566,411	166,021,629	101,622,616
Investments available-for-sale	39,595	61,789	149,029	149,029	133,600
Investments in equity accounted investees	2,013,425	2,013,425	13,567,359	8,553,934	6,259,188
Investments in subsidiaries	53,412,291	49,394,666	37,392,666	37,392,666	37,392,666
Property and equipment	2,241,239	1,631,305	1,441,827	1,261,650	1,351,629
Intangible assets	549,270	589,825	463,678	397,782	-
Current tax recoverable	508,275	210,811	-	-	-
Deferred tax	1,683,183	1,285,255	1,206,759	734,945	619,840
Other assets	1,870,871	2,359,199	1,134,150	965,444	1,060,753
Prepayments and accrued income	2,110,959	2,044,412	1,503,348	1,203,991	1,406,345
Total assets	668,492,351	589,005,946	549,775,293	438,362,109	271,719,870
LIABILITIES AND EQUITY					
Liabilities					
Financial liabilities at fair value through profit or loss	1,152,782	1,159,079	255,540	263,248	202,727
Amounts owed to banks	227,151,376	211,163,939	272,381,082	246,296,826	116,336,809
Amounts owed to customers	271,532,067	252,147,811	180,034,363	121,995,315	89,893,658
Debt securities in issue	4,931,904	-	1,000,000	-	944,102
Subordinated debt	47,062,828	6,000,000	6,000,000	6,000,000	6,000,000
Provisions	1,733,104	1,733,104	-	-	-
Other liabilities	113,806	2,280	638,913	44,727	7,293
Accruals and deferred income	4,101,948	4,737,313	3,359,395	4,072,521	2,232,008
	557,779,815	476,943,526	463,669,293	378,672,637	215,616,597
Equity					
Share capital	67,713,477	67,428,196	54,946,953	43,084,340	35,586,870
Share premium	9,986,355	9,658,098	18,136,923	3,654,479	10,231,432
Other reserve	2,681,041	2,681,041	2,681,041	2,681,041	2,681,041
Retained earnings	30,331,663	32,295,085	10,341,083	10,269,612	7,603,930
	110,712,536	112,062,420	86,106,000	59,689,472	56,103,273
Total liabilities and equity	668,492,351	589,005,946	549,775,293	438,362,109	271,719,870
MEMORANDUM ITEMS					
Contingent liabilities	27,021,667	74,548,490	19,804,574	26,339,473	1,720,516
Commitments	167,848,294	197,444,877	239,187,505	214,271,759	150,826,326

schedule III

cash flow statement

Five Year Summary

Bank	2009 USD	2008 USD	2007 USD	2006 USD	2005 USD
Net cash flows from operating activities	(18,242,136)	56,618,404	(43,226,381)	(7,761,251)	10,414,323
Cash flows from investing activities					
Net payments to acquire property and equipment	(1,189,390)	(616,906)	(591,182)	(253,983)	(251,700)
Payments to acquire intangible assets	(87,759)	(226,765)	(166,076)	(442,674)	-
Purchase of equity shares	-	(8,300,000)	(5,013,425)	(2,294,746)	(1,593,301)
Investment in subsidiary	(4,017,625)	(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	69,151	87,239	-	-	-
Receipt of dividend	604	1,530,101	600,123	1,167,161	302,029
Cash flows (used in) / generated from investing activities	(5,225,019)	33,645,303	(5,170,560)	(1,839,671)	(13,173,930)
Cash flows from financing activities					
Proceeds from issue of share capital	19,462	551,112	25,205,753	241,630	44,974
Debt securities in issue	4,931,904	(1,000,000)	1,000,000	(944,102)	944,102
Subordinated debt	39,061,687	-	-	-	10,000,000
Dividends paid	(2,441,831)	(5,131,200)	(1,897,625)	(132,991)	-
Net cash flows from / (used in) financing activities	41,571,222	(5,580,088)	24,308,128	(835,463)	10,989,076
Increase / (decrease) in cash and cash equivalents	18,104,067	84,683,619	(24,088,813)	(10,436,385)	8,229,469
Cash and cash equivalents at beginning of year	85,591,300	907,681	24,996,494	35,432,879	27,203,410
Cash and cash equivalents at end of year	103,695,367	85,591,300	907,681	24,996,494	35,432,879



schedule IV

accounting ratios

Five Year Summary

Bank	2009 %	2008 %	2007 %	2006 %	2005 %
Net interest income and other operating income to total assets	3.71	10.94	3.68	4.09	4.64
Operating expenses to total assets	2.85	3.88	2.91	3.02	3.31
Profit before tax to total assets	0.16	6.88	0.64	0.87	1.20
Pre-tax return on capital employed	0.94	36.14	4.07	6.39	5.80
Profit after tax to equity	0.97	27.25	3.61	5.83	5.36
	2009	2008	2007	2006	2005
Weighted average number of shares in issue (000's)	135,231	133,235	88,487	85,986	80,765
Net assets per share (cents)*	81.75	84.11	81.09	57.85	70.32
Basic earnings per share (cents) *					
Basic	0.79	22.92	2.93	3.37	3.11
Diluted	0.90	21.94	3.12	3.49	2.96

* Ratios for 2005 to 2007 have been restated to reflect the number of shares in issue.



schedule V

other relevant company information

Shareholder Information

The following shareholder information is being published in terms of Listing Rule 9.43 issued by the Listing Authority.

Directors' interest in the shareholding of the Company at 31 December 2009

	Number of Shares
Najeeb H.M. Al-Saleh	787,889
John C. Grech	519,864
Fouad M.T. Alghanim	7,604,791
Mohammed I.H. Marafie	490,101

Directors' interest in the shareholding of the Company at 24 February 2010

	Number of Shares
Najeeb H.M. Al-Saleh	787,889
John C. Grech	519,864
Fouad M.T. Alghanim	7,604,791
Mohammed I.H. Marafie	490,101

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

Najeeb H.M. Al-Saleh	in Massaleh Investments K.S.C.C.
Hamad M.B.M. Al-Sayer	in Astrolabe General Contracting Company
John C. Grech	in EMCS Investments Limited
	in EMCSI Holdings Limited
	in Melita Unipol Insurance Agency Limited
	in Melita Unipol Insurance Brokers Limited
Mohammed I.H. Marafie	in Al-Nour International Holding Co. K.S.C.C.

schedule V - continued

other relevant company information - continued

Shareholders holding 5% or more of the Share Capital as at 31 December 2009

	Ordinary Share of USD0.50 each	
	Number of Shares	Percentage Holding
Massaleh Investments K.S.C.C.	59,685,970	44.07
International Finance Corporation	7,876,711	5.82
Astrolabe General Trading & Contracting Company	7,829,384	5.78
Fouad M. T. Alghanim	7,604,791	5.62

Shareholders Holding 5% or more of the Share Capital as at 24 February 2010

	Ordinary Share of USD0.50 each	
	Number of Shares	Percentage Holding
Massaleh Investments K.S.C.C.	59,685,970	44.07
International Finance Corporation	7,876,711	5.82
Astrolabe General Trading & Contracting Company	7,829,384	5.78
Fouad M. T. Alghanim	7,604,791	5.62

Additionally, EMCSI Holdings Limited, EMCS Investments Limited, Melita Unipol Insurance Agency Limited and Melita Unipol Insurance Brokers Limited held 15,158, 58,306, 4,083 and 8,471 shares respectively as at both dates. Al-Nour International Holding Co. K.S.C.C. held 5,000,000 shares as at both dates.

Number of shareholders

The total number of registered shareholders as at 31 December 2009 was 971, while that as at 24 February 2010 was 990.

Shareholding details as at 31 December 2009

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

Range	Total Shareholders	Shares
1 – 500	85	20,509
501 – 1000	62	47,183
1001 – 5000	355	979,322
5001 and over	469	134,379,940
Totals	971	135,426,954

schedule V - continued

other relevant company information - continued

Shareholding details as at 24 February 2010

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

Range	Total Shareholders	Shares
1 – 500	85	20,195
501 – 1000	67	51,717
1001 – 5000	361	1,001,998
5001 and over	477	134,353,044
Totals	990	135,426,954

Company Secretary, Registered Address and Contact Number

Marcel Cassar

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directors and senior management

board of directors

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John C. Grech (Vice Chairman)
Tareq M. Al-Saleh
Hamad Musaed Bader Mohammed Al-Sayer
Fouad M.T. Alghanim
Pierre-Olivier Fragnière
John D. Freeman
Rogers David LeBaron
Jacques Leblanc
Gerard Lohier (appointed 18 May 2009)
Mohammed Ibrahim Husain Marafie
Francis J. Vassallo

company secretary

Marcel Cassar (appointed 16 November 2009)
Raffaella Bonadies (resigned 16 November 2009)

senior management

president

Margrith Lütschg-Emmenegger

senior executive vice president

Armin Eckermann Head of Banking, Deputy to the President

first executive vice presidents

Marcel Cassar Chief Financial Officer
Simon Lay Managing Director, London Forfaiting
Company Limited

executive vice presidents

Silvio Mifsud Head of Information & Administration
Renald Theuma Head of Product Sales
(appointed 1 March 2009)

senior vice presidents

Bruno Cassar Head of Human Resources
Ivan Fsadni Head of Internal Audit
Nigel Harris Chief Representative, FIMBank DIFC Branch
Carmelo Occhipinti Head of Risk Management and Treasury
Richard Scerri Head of Finance
Charles Wallbank Head of Banking Operations

first vice presidents

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Aly Siby Corporate and Institutional Banking



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