



FIMBANK

condensed interim
financial statements
2018

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directors' report pursuant to listing rule 5.75.2

For the six months ended 30 June 2018

The Directors ("Board" or "Directors") are pleased to issue their Report pursuant to the Malta Financial Services Authority Listing Rules and the Prevention of Financial Markets Abuse Act, 2005. This Report, which shall be read in conjunction with the condensed interim financial statements of the Group and the Bank for the six months ended 30 June 2018, including the Notes thereto, forms part of the Half-Yearly Report of FIMBank p.l.c., drawn up in accordance with the requirements of Listing Rule 5.75.2.

group structure and principal activities

The Group comprises the Bank and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), FIM Holdings (Chile) S.p.A. ("FHC"), The Egyptian Company for Factoring S.A.E. ("Egypt Factors") and FIMFactors B.V. ("FIMFactors"). LFC and FIMFactors are themselves parents of a number of subsidiaries as set out below. The Group is supervised on a consolidated basis by the Malta Financial Services Authority ("MFSA"), whilst some of its subsidiaries and branches are subject to authorisation and regulation according to the respective jurisdictions in which they operate.

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

- The Bank is a public limited company registered under the laws of Malta, and listed on the Malta Stock Exchange. It is licensed as a credit institution under the Banking Act, 1994. The Bank is principally active in providing international trade finance and to act as an intermediary to other financial institutions for international settlements, factoring and loan syndications.
- LFC (100%) is registered in the United Kingdom as a private limited liability company. It was founded in 1984 and provides international trade finance services (with particular focus on forfaiting business) through an international network of offices. Some of these offices have distinct corporate status in the various jurisdictions where they are providing the service. LFC's activities include the trading of bills of exchange, promissory notes, loans, deferred payment letters of credit and the provision of other financial facilities to companies and banks.
- FBS (100%), registered in Malta, has as its primary purpose the provision of information technology and support services to the Group and its associated companies.
- FPI (100%), registered in Malta, owns and manages FIMBank's head office in Malta. FPI is responsible for the day-to-day management of the building and leasing of space for commercial purposes.
- Egypt Factors (100%), registered in Egypt, is active in providing factoring and forfaiting services to Egyptian companies.
- FHC (100%), registered in Chile, serves as the corporate vehicle for Latam Factors S.A. (51%), currently classified as a non-current asset held for sale, also registered in Chile, providing all types of factoring, financial leasing and other management services. The other shareholders are Inversiones El Mayorazgo Limitada, Marín y Compañía S.A., Asesoría e Inversiones CABS S.A., Compañía de Rentas Epulafquén Ltd., Compañía de Rentas Trigal Ltd. and Compañía General de Rentas Ltd.
- FIMFactors (100%), registered in the Netherlands, is the corporate vehicle for the Bank's holdings in factoring subsidiaries and associated companies. These are:
 - a. India Factoring and Finance Solutions (Private) Limited (86.05%), incorporated in Mumbai, India, to carry out the business of factoring, forfaiting and trade finance activities in India, the other shareholders being Banca IFIS (5.10%), India Factoring Employee Welfare Trust (8.34%) and Blend Financial Services Limited (1%). India Factoring is regulated by the Reserve Bank of India.
 - b. CIS Factors Holdings B.V. (100%), incorporated in the Netherlands which served as the holding vehicle for another factoring company, the latter currently under liquidation.
 - c. Menafactors Limited (100%), incorporated in the United Arab Emirates, and holding 50% in Levant Factors S.A.L., a company registered in Lebanon. Menafactors is currently in liquidation.
 - d. BrasilFactors S.A. (50%), currently classified as a non-current asset held for sale, incorporated in São Paulo, Brasil, with its core business focused on factoring services and forfaiting targeting small and medium-sized companies. The other shareholder is China Construction Bank ("CCB") (50%).

results for the year

The condensed interim financial statements have been prepared in accordance with EU adopted IAS 34 Interim Financial Reporting. These published figures have been extracted from the FIMBank p.l.c. Group's unaudited accounts for the six months ended 30 June 2018 as approved by the Board of Directors on 14 August 2018.

For the six months ended 30 June 2018, the FIMBank Group posted an after-tax profit of USD6.1 million, a 47% increase to the USD4.1 million registered for the same period in 2017. The Directors do not recommend the payment of an interim dividend for the period under review.

review of performance

The results for the first six months of 2018 are a manifestation of FIMBank's performing fundamentals and its realisation of a sustainable platform for further success. A statement of strategic intent was made with the raising of additional equity in the amount of \$105 million in the second quarter - **taking the Group's capital strength to a superior level and unlocking the potential for further asset growth**. In parallel, the core performance has improved across the key operational pillars covering business and revenue generation, risk management and expense management. **Notwithstanding the economic situation around the world, the Group's origination efforts have stepped up, growing client assets and demonstrating a strong pipeline of business across the different products and geographies within which it operates.** As a result, core income generation has rebounded on the back of increased volumes, improved yields and lower cost of funds. Complimenting this are successful measures in managing costs, improving key cost/income ratios both in absolute and relative terms. As much as origination and business development remain a priority for the Group, the focus on asset quality and acceptable risk levels has remained critically important resulting in improved provision coverage on delinquent loans, while recovery efforts yield expected results.

FIMBank, as the parent of the Group, has led the coordination of these improvement efforts. During the period under review, the Bank allocated more resources to the origination units, with further successes in the trade and commodity financing, shipping financing and factoring as well as encouraging results in the growing real estate portfolio in Malta. The Bank has also continued optimising its funding structures, preserving its correspondent business relationships and boosting its net margins through continued evaluation of the asset/liability management processes. Provisioning for delinquent loans at FIMBank was increased to reflect prevailing recovery conditions, also impacted by the introduction of more risk-driven impairment accounting rules.

LFC had another positive term, successfully building on its business model and specialised expertise to trade its portfolio on the secondary market. Whilst LFC has faced increased competition and heightened margin compression, its ability to churn its assets has ensured adequate revenue margins and marginal cost growth. The UK subsidiary leads other businesses in sourcing third party wholesale funding, providing a diversified funding mix to the Group.

India Factoring's performance demonstrated growing business strength. Business prospects remain positive and the effort to build a focused export factoring book is being successfully executed. The subsidiary recorded its highest level of client assets in June at attractive net revenue yields. A strong first half performance was impacted by higher impairment requirements on a non-performing loan, as recovery efforts are underway.

Egypt Factors has continued its transformation strategy following full acquisition by the Group in 2016. During the second quarter of this year the company achieved a profit break-even level returning a marginal operational profit for two consecutive months. The subsidiary has been resourced sufficiently with capital and liquidity to fully execute its business plan within the backdrop of improving local economic conditions, targeting domestic and export-oriented clients.

The Group has resolved to dispose of its investment in Latamfactors (Chile), matching a similar decision taken during the last financial year with respect to Brasifactors (Brazil). **These strategic outcomes reflect the Group's intent to exit businesses whose operating models and structures are not complementary to those of FIMBank.**

income statement

The results for the period under review are summarised in the table below which should be read in conjunction with the explanatory commentary that follows:

| | 2018 USD | Group 2017 USD | Movement USD |
|--|--------------|----------------------|-----------------|
| Net interest income | 13,442,515 | 12,780,856 | 661,659 |
| Net fee and commission income | 9,408,279 | 9,182,752 | 225,527 |
| Dividend income | 4,035,661 | 3,749,265 | 286,396 |
| Net results from foreign currency operations | 977,211 | (1,981,136) | 2,958,347 |
| Other operating income | 445,401 | 226,979 | 218,422 |
| Net operating income | 28,309,067 | 23,958,716 | 4,350,351 |
| Operating expenses | (18,516,181) | (21,218,882) | 2,702,701 |
| Net operating results | 9,792,886 | 2,739,834 | 7,053,052 |
| Net impairment (losses)/gains | (2,091,439) | 1,760,499 | (3,851,938) |
| Net results from trading assets and other financial instruments | 1,138,786 | (28,996) | 1,167,782 |
| Share of loss of equity accounted investees | 238,634 | (245,969) | 484,603 |
| Fair value loss on re-measurement of non-current asset held for sale | (2,078,082) | - | (2,078,082) |
| Profit before tax | 7,000,785 | 4,225,368 | 2,775,417 |
| Taxation | (947,712) | (101,477) | (846,235) |
| Profit for the period | 6,053,073 | 4,123,891 | 1,929,182 |

For the period under review, net operating results, that is operating revenues less operating costs, more than tripled from USD2.7 million to USD9.8 million – as the Group improved its revenues by USD4.4 million and reduced its costs by USD2.7 million.

The Group's net operating income (net revenues) increased by 18% from USD24.0 million to USD28.3 million. Net interest income, net fees and dividend income combined together increased by 5% to USD26.8m as a result of higher gross yields and lower cost on funding sources. The focused growth in yield-rewarding asset lines as well as the churning of existing portfolio into higher yielding assets has continued during the first half. Cost of funds decreased as the Group was more selective its funding sources, in managing its asset/liability composition and also as a result of the repayment of the subordinated loan as part of the Rights Issue. In addition, net results from foreign currency operations moved back to positive territory with a USD3.0 million improvement to prior period, primarily due to a marked decrease in the use of foreign currency swaps for risk management complemented by client-driven foreign currency profits.

Operating expenses for the six months under review dropped by 13% from USD21.2 million to USD18.5 million, reflecting the deconsolidation of Latamfactors in the current period and the non-recurrence of regulatory costs booked in the prior period. These decreases were marginally offset by increases in fixed and variable pay costs as the drive to engage and retain experienced staff continues across the Group.

During the current six months, the Group has fully implemented the new impairment requirements emanating from IFRS9, which also had an impact on the opening reserves at 01 January 2018. For the current six months, the Group improved its coverage on key non-performing loans and as a result increased the specific impairments (IFRS9 Stage 3) by USD3.4 million. In 2017, the results were positively impacted by one specific account which had contributed USD3.6 million net recoveries to the Income Statement. Separately, following an improvement in the risk profile of a number of financial assets, the IFRS9 Stage 1 and Stage 2 impairment allowances decreased by USD1.3 million.

Results from trading assets and other financial instruments increased by USD1.2 million following an improvement in the market values of a number of trading assets held in the forfeiting portfolio.

The Group's investment in Latamfactors contributed to a net share of profit (equity method) of USD0.2 million, compared to the share of loss from Brasilfactors in the comparative period. During the period ended June the Group resolved to dispose of its investment in Latamfactors and as a result a fair value loss of USD2.1 million has been recognised to account for the difference in the carrying amount of the investment and its realisable value. The investment in Brasilfactors was brought down to Nil on 31 December 2017 and as a result no further losses are to be recognised in the Group's income statements.

financial position

At 30 June 2018, total Consolidated Assets stood at USD1.95 billion, an increase of 19% over the USD1.64 billion reported at end-2017. The Group's loans and advances to customers increased by USD131 million, and wholesale lending by USD23 million. Treasury assets surged by USD108 million, attributable to changes in the minimum regulatory liquidity requirements and temporary excess liquidity. Trading assets and equity instruments increased by USD30 million and USD18 million respectively.

Total Consolidated Liabilities as at 30 June 2018 stood at USD1.67 billion, a rise of 14% over the USD1.47 billion reported at end 2017. The rise is mainly attributable to an increase in deposits from corporate and retail clients by USD226 million. Wholesale funding also increased by USD36 million. During the period, the Group repaid a USD50 million subordinated loan from Burgan Bank, which used to qualify as Tier 2 capital under CRD IV. This has been replaced by an increase in Tier 1 capital.

Group Equity as at Financial Reporting date stood at USD274 million (31 December 2017: USD173 million), with CET1 ratio standing at 16.7% and Total CAR at 17.3%. USD105 million new capital was raised following a Rights Issue of shares, which process was concluded in May 2018. Retained earnings at 1 January 2018 were impacted by an impairment recognition of USD 8.2 million on implementation of IFRS 9 (see note 4.1).

annual general meeting 2018

The Bank convened its Annual General Meeting on 9 May 2018. The Board composition following the Annual General Meeting is as follows:

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

related party transactions

Consistent with the 2017 Annual Report and Audited Financial Statements, the Bank maintained a related party relationship with its significant shareholders, subsidiaries, equity accounted investees, directors and executive officers. In particular, the following related party balances and/or transactions were undertaken during the period under review:

1. **"Loans and advances to subsidiaries"** at 30 June 2018, net of impairments, amounted to USD233.6 million (31 December 2017: USD148.7 million). Accrued Interest at 30 June 2018 stood at USD3.2 million (31 December 2017: USD0.05 million). Interest earned from subsidiaries for the six months ended 30 June 2018 amounted to USD3.2 million (six months ended 30 June 2017: USD3.4 million).
2. **"Loans and advances to associated companies"** at 30 June 2018, net of impairments, amounted to USD8.9 million (31 December 2017: USD8.9 million). Accrued Interest at 30 June 2018 stood at USD0.11 million (31 December 2017: USD0.06 million). Interest earned from Associated Companies for the six months ended 30 June 2018 amounted to USD0.22 million (six months ended 30 June 2017: USD0.22 million).
3. **"Loans and advances to customers"** at 30 June 2018 include loans to intermediate parents below the ultimate parent company of USD34.8 million (31 December 2017: USD36.0 million). Accrued Interest at 30 June 2018 stood at USD0.3 million (31 December 2017: USD0.2 million).
4. **"Amounts owed to banks"** at 30 June 2018 include loan funding from shareholders having significant influence of USD65.0 million (31 December 2017: USD95.0 million). Accrued Interest at 30 June 2018 stood at USD0.04 million (31 December 2017: USD0.9 million). Interest paid on this funding for the six months ended 30 June 2018 amounted to USD1.0 million (30 June 2017: USD1.5 million).

5. "Forward Contracts" outstanding with shareholders having significant influence were Nil at 30 June 2018 (31 December 2017: USD0.5 million).
6. Dividend received from subsidiary undertakings during the six months ended June 2018 was Nil (30 June 2017: USD1.45 million).

Related party transactions with shareholders and directors were undertaken in the ordinary course of business.

Related party transactions carried out by the Bank and its subsidiaries are reported to the Audit Committee which reviews them and assesses **their nature and arm's-length consideration. This responsibility arises from the Committee's Charter, which is drafted in accordance with the listing rules as well as current best recommendations and practices of good corporate governance.**

the second half of 2018

The performance of the Group in the first half of the year portrayed a set of key positive performance indicators across asset generation, liability management, credit quality and cost efficiencies. The approach adopted so far will continue evolving; in the months ahead the Group will exploit its strong expertise and improved operating culture to grow across its diversified product offering. The Group has been successful in turning its business around, generating profitability and providing a platform for growth over the last twelve quarters. With enhanced capital, the Group is poised to achieve its ambitious objectives for 2018 and beyond, and mark its ascendance as a Trade Finance provider of preferred choice.

Approved by the Board on 14 August 2018 and signed on its behalf by:



John C. Grech
Chairman



Masaud M. J. Hayat
Vice Chairman

condensed interim statements of financial position

| | Note | Group | | Bank | |
|--|------|----------------------|----------------------|----------------------|----------------------|
| | | 30 Jun 2018 USD | 31 Dec 2017 USD | 30 Jun 2018 USD | 31 Dec 2017 USD |
| ASSETS | | | | | |
| Balances with the Central Bank of Malta, Treasury Bills and cash | | 146,592,037 | 208,171,299 | 146,561,504 | 208,147,513 |
| Trading assets | | 282,221,164 | 252,509,144 | - | - |
| Derivative assets held for risk management | 12 | 2,265,093 | 722,256 | 2,275,131 | 722,256 |
| Loans and advances to banks | | 421,156,689 | 226,092,934 | 416,751,550 | 203,552,663 |
| Loans and advances to customers | | 697,219,376 | 566,361,530 | 771,650,933 | 581,529,952 |
| Investments available-for-sale | | - | 261,244,798 | - | 261,244,798 |
| Financial assets at fair value through other comprehensive income | | 102,320,989 | - | 102,320,989 | - |
| Financial assets at fair value through profit or loss | | 174,685,732 | - | 174,685,732 | - |
| Investments in subsidiaries | 13 | - | - | 94,050,884 | 94,050,884 |
| Interests in equity-accounted investees | 14 | - | 5,561,181 | - | - |
| Non-current assets held for sale | 14 | 2,690,995 | - | - | - |
| Property and equipment | | 29,233,890 | 29,660,743 | 1,059,952 | 1,035,490 |
| Investment property | | 16,238,869 | 16,238,869 | - | - |
| Intangible assets and goodwill | | 12,408,142 | 11,984,948 | 3,713,613 | 2,736,599 |
| Current tax assets | | 2,145,088 | 3,306,366 | - | 1,052,348 |
| Deferred tax assets | | 39,391,709 | 41,023,245 | 22,436,278 | 23,303,267 |
| Other assets | | 10,713,629 | 12,747,974 | 9,705,271 | 9,005,794 |
| Prepayments and accrued income | | 9,184,089 | 7,776,171 | 11,608,996 | 7,054,755 |
| Total assets | | 1,948,467,491 | 1,643,401,458 | 1,756,820,833 | 1,393,436,319 |
| LIABILITIES AND EQUITY | | | | | |
| Liabilities | | | | | |
| Derivative liabilities held for risk management | 12 | 350,757 | 722,922 | 350,757 | 723,454 |
| Amounts owed to banks | | 528,921,075 | 493,192,846 | 499,650,506 | 393,247,791 |
| Amounts owed to customers | | 1,072,886,915 | 847,198,005 | 1,020,429,581 | 815,812,570 |
| Debt securities in issue | 15 | 52,396,439 | 54,653,654 | - | - |
| Subordinated liabilities | 16 | - | 50,000,000 | - | 50,000,000 |
| Current tax liabilities | | 102,872 | 357,509 | - | - |
| Deferred tax liability | | 3,518,684 | 3,518,684 | - | - |
| Other liabilities | | 528,850 | 829,197 | 435,040 | 793,060 |
| Accruals and deferred income | | 15,521,242 | 20,034,283 | 8,736,084 | 7,818,090 |
| Total liabilities | | 1,674,226,834 | 1,470,507,100 | 1,529,601,968 | 1,268,394,965 |
| Equity | | | | | |
| Share capital | 16 | 252,720,108 | 157,265,562 | 252,720,108 | 157,265,562 |
| Share premium | 16 | 9,278,815 | 173,113 | 9,278,815 | 173,113 |
| Reserve for general banking risks | | 572,162 | 608,284 | 572,162 | 608,284 |
| Currency translation reserve | | (3,826,232) | (2,747,913) | - | - |
| Fair value reserve | | 9,411,280 | 9,533,453 | (40,672) | 81,501 |
| Other reserve | | 2,841,384 | 2,870,270 | 2,681,041 | 2,681,041 |
| Retained earnings/(accumulated losses) | | 4,875,705 | 6,901,064 | (37,992,589) | (35,768,147) |
| Total equity attributable to equity holders of the Bank | | 275,873,222 | 174,603,833 | 227,218,865 | 125,041,354 |
| Non-controlling interests | | (1,632,565) | (1,709,475) | - | - |
| Total equity | | 274,240,657 | 172,894,358 | 227,218,865 | 125,041,354 |
| Total liabilities and equity | | 1,948,467,491 | 1,643,401,458 | 1,756,820,833 | 1,393,436,319 |

condensed interim statements of financial position

| | | Group | | Bank | |
|------------------------|------|--------------------|--------------------|--------------------|--------------------|
| | Note | 30 Jun 2018 USD | 31 Dec 2017 USD | 30 Jun 2018 USD | 31 Dec 2017 USD |
| MEMORANDUM ITEMS | | | | | |
| Contingent liabilities | 17 | 3,282,900 | 1,186,426 | 50,090,509 | 57,601,096 |
| Commitments | 18 | 276,218,250 | 353,893,273 | 224,775,166 | 254,253,843 |

These condensed interim statements were approved by the Board of Directors and authorised for issue on 14 August 2018 and signed on its behalf by:



John C. Grech
Chairman



Masaud M. J. Hayat
Vice Chairman

condensed interim income statements

For the six months ended 30 June 2018

| | | Group | | Bank | |
|--|------|--------------|--------------|--------------|--------------|
| | | 2018 | 2017 | 2018 | 2017 |
| | Note | USD | USD | USD | USD |
| Interest income | | 26,246,124 | 26,458,792 | 17,105,569 | 15,385,578 |
| Interest expense | | (12,803,609) | (13,677,936) | (9,541,003) | (9,829,342) |
| Net interest income | | 13,442,515 | 12,780,856 | 7,564,566 | 5,556,236 |
| Fee and commission income | | 11,618,863 | 11,646,747 | 6,961,966 | 5,056,862 |
| Fee and commission expense | | (2,210,584) | (2,463,995) | (1,223,778) | (1,129,381) |
| Net fee and commission income | | 9,408,279 | 9,182,752 | 5,738,188 | 3,927,481 |
| Net trading results | 9 | 2,115,997 | (2,010,132) | 3,082,709 | (1,941,213) |
| Dividend income | 10 | 4,035,661 | 3,749,265 | 4,035,661 | 5,197,666 |
| Other operating income | | 445,401 | 226,979 | 62,299 | 2,138 |
| Operating income before net impairment (losses)/gains | | 29,447,853 | 23,929,720 | 20,483,423 | 12,742,308 |
| Net impairment (losses)/gains on financial assets | | (2,091,439) | 1,760,499 | (5,504,002) | 1,706,698 |
| Operating income | | 27,356,414 | 25,690,219 | 14,979,421 | 14,449,006 |
| Administrative expenses | | (17,527,378) | (19,987,494) | (12,038,565) | (11,390,218) |
| Depreciation and amortisation | | (988,803) | (1,231,388) | (484,043) | (429,405) |
| Total operating expenses | | (18,516,181) | (21,218,882) | (12,522,608) | (11,819,623) |
| Operating profit | | 8,840,233 | 4,471,337 | 2,456,813 | 2,629,383 |
| Share of results of equity accounted investees (net of tax) | | 238,634 | (245,969) | - | - |
| Fair value loss on re-measurement of non-current asset held for sale | 14 | (2,078,082) | - | - | - |
| Profit before income tax | | 7,000,785 | 4,225,368 | 2,456,813 | 2,629,383 |
| Taxation | 11 | (947,712) | (101,477) | (791,025) | (4,564) |
| Profit for the period | | 6,053,073 | 4,123,891 | 1,665,788 | 2,624,819 |
| Attributable to: | | | | | |
| Equity holders of the bank | | 6,043,385 | 4,062,284 | 1,665,788 | 2,624,819 |
| Non-controlling interests | | 9,688 | 61,607 | - | - |
| Profit for the period | | 6,053,073 | 4,123,891 | 1,665,788 | 2,624,819 |
| Earnings per share | | | | | |
| Basic earnings per share (US cents) | | 1.59 | 0.81 | 0.44 | 0.52 |
| Diluted earnings per share (US cents) | | 1.59 | 0.81 | 0.44 | 0.52 |

condensed interim statements of comprehensive income

For the six months ended 30 June 2018

| | Group | | Bank | |
|---|-------------|-----------|-----------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | USD | USD | USD | USD |
| Profit for the period | 6,053,073 | 4,123,891 | 1,665,788 | 2,624,819 |
| Other comprehensive income: | | | | |
| <i>Items that are, or may be, reclassified subsequently to profit or loss</i> | | | | |
| Foreign operations - foreign currency translation differences | (1,078,319) | 1,868,436 | - | - |
| Fair value reserve (available-for-sale financial assets), net of deferred tax | - | 739,050 | - | 739,050 |
| Fair value reserve – change in fair value and impairment of financial assets | (70,833) | - | (70,833) | - |
| Total comprehensive income for the period | 4,903,921 | 6,731,377 | 1,594,955 | 3,363,869 |

condensed interim statements of changes in equity

For the six months ended 30 June 2018

Group

| | Attributable to equity shareholders of the Bank | | | | | | | Total USD | Non- controlling interests USD | Total equity USD |
|---|---|-------------------------|--|---|------------------------------|----------------------|-----------------------------|--------------|---|---------------------|
| | Share capital USD | Share premium USD | Reserve for general banking risks USD | Currency translation reserve USD | Fair value reserve USD | Other reserve USD | Retained earnings USD | | | |
| At 31 December 2017 | 157,265,562 | 173,113 | 608,284 | (2,747,913) | 9,533,453 | 2,870,270 | 6,901,064 | 174,603,833 | (1,709,475) | 172,894,358 |
| Adjustment on initial application of IFRS 9 | - | - | - | - | (41,948) | - | (8,133,752) | (8,175,700) | (68,814) | (8,244,514) |
| Adjusted balance at 1 January 2018 | 157,265,562 | 173,113 | 608,284 | (2,747,913) | 9,491,505 | 2,870,270 | (1,232,688) | 166,428,133 | (1,778,289) | 164,649,844 |
| Total comprehensive income | | | | | | | | | | |
| <i>Comprehensive income for the period</i> | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | 6,043,385 | 6,043,385 | 9,688 | 6,053,073 |
| <i>Other comprehensive income</i> | | | | | | | | | | |
| Change in fair value of financial assets | - | - | - | - | (70,833) | - | - | (70,833) | - | (70,833) |
| Impairment of financial assets | - | - | - | - | (9,392) | - | - | (9,392) | - | (9,392) |
| Currency translation reserve | - | - | - | (1,078,319) | - | - | - | (1,078,319) | 136,036 | (942,283) |
| Total comprehensive income for the period | - | - | - | (1,078,319) | (80,225) | - | 6,043,385 | 4,884,841 | 145,724 | 5,030,565 |
| Transactions with owners of the Bank | | | | | | | | | | |
| <i>Contributions and distributions</i> | | | | | | | | | | |
| Issue of new shares, net of transaction costs | 95,454,546 | 9,105,702 | - | - | - | - | - | 104,560,248 | - | 104,560,248 |
| Total transactions with owners of the Bank | 95,454,546 | 9,105,702 | - | - | - | - | - | 104,560,248 | - | 104,560,248 |
| Transfer between reserves | - | - | (36,122) | - | - | (28,886) | 65,008 | - | - | - |
| At 30 June 2018 | 252,720,108 | 9,278,815 | 572,162 | (3,826,232) | 9,411,280 | 2,841,384 | 4,875,705 | 275,873,222 | (1,632,565) | 274,240,657 |

The equity position as at 1 January 2018 has been adjusted as disclosed in Note 4.1.

condensed interim statements of changes in equity

For the six months ended 30 June 2018

Group

| | Attributable to equity shareholders of the Bank | | | | | | | | | |
|---|---|-------------------------|--|---|------------------------------|----------------------|---|--------------------|---|---------------------|
| | Share capital USD | Share premium USD | Reserve for general banking risks USD | Currency translation reserve USD | Fair value reserve USD | Other reserve USD | (Accumulated losses)/ retained earnings USD | Total USD | Non- controlling interests USD | Total equity USD |
| At 1 January 2017 | 155,239,263 | 2,101,335 | 764,792 | (6,715,522) | 951,740 | 2,481,760 | (386,566) | 154,436,802 | 23,274,085 | 177,710,887 |
| Total comprehensive income | | | | | | | | | | |
| <i>Comprehensive income for the period</i> | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | 4,062,284 | 4,062,284 | 61,607 | 4,123,891 |
| <i>Other comprehensive income</i> | | | | | | | | | | |
| Change in fair value of available-for-sale assets | - | - | - | - | 739,050 | - | - | 739,050 | - | 739,050 |
| Currency translation reserve | - | - | - | 1,868,436 | - | - | - | 1,868,436 | 15,511 | 1,883,947 |
| Total comprehensive income for the period | - | - | - | 1,868,436 | 739,050 | - | 4,062,284 | 6,669,770 | 77,118 | 6,746,888 |
| Transactions with owners of the Bank | | | | | | | | | | |
| <i>Contributions and distributions</i> | | | | | | | | | | |
| Bonus issue of shares | 1,941,232 | (1,941,232) | - | - | - | - | - | - | - | - |
| Exercised share options | 58,893 | 10,637 | - | - | - | - | - | 69,530 | - | 69,530 |
| Total transactions with owners of the Bank | 2,000,125 | (1,930,595) | - | - | - | - | - | 69,530 | - | 69,530 |
| Transfer between reserves | - | - | (300,762) | - | - | 383,170 | (82,408) | - | - | - |
| At 30 June 2017 | 157,239,388 | 170,740 | 464,030 | (4,847,086) | 1,690,790 | 2,864,930 | 3,593,310 | 161,176,102 | 23,351,203 | 184,527,305 |

condensed interim statements of changes in equity

For the six months ended 30 June 2018

Bank

| | Share capital USD | Share premium USD | Reserve for general banking risks USD | Fair value reserve USD | Other reserve USD | Accumulated losses USD | Total USD |
|--|-------------------------|-------------------------|---|------------------------------|-------------------------|------------------------------|--------------|
| At 31 December 2017 | 157,265,562 | 173,113 | 608,284 | 81,501 | 2,681,041 | (35,768,147) | 125,041,354 |
| Adjustment on initial application of IFRS 9 | - | - | - | (41,948) | - | (3,926,352) | (3,968,300) |
| Adjusted balance at 1 January 2018 | 157,265,562 | 173,113 | 608,284 | 39,553 | 2,681,041 | (39,694,499) | 121,073,054 |
| Total comprehensive income <i>Total comprehensive income for the period</i> | | | | | | | |
| Profit for the period | - | - | - | - | - | 1,665,788 | 1,665,788 |
| <i>Other comprehensive income</i> | | | | | | | |
| Change in fair value of financial assets | - | - | - | (70,833) | - | - | (70,833) |
| Impairment of financial assets | - | - | - | (9,392) | - | - | (9,392) |
| Total comprehensive income for the period | - | - | - | (80,225) | - | 1,665,788 | 1,585,563 |
| Transactions with owners of the Bank <i>Contributions and distributions</i> | | | | | | | |
| Issue of new shares, net of transaction costs | 95,454,546 | 9,105,702 | - | - | - | - | 104,560,248 |
| Total transactions with owners of the bank | 95,454,546 | 9,105,702 | - | - | - | - | 104,560,248 |
| Transfer between reserves | | | | | | | |
| Transfer to reserve for general banking risks | - | - | (36,122) | - | - | 36,122 | - |
| At 30 June 2018 | 252,720,108 | 9,278,815 | 572,162 | (40,672) | 2,681,041 | (37,992,589) | 227,218,865 |

The equity position as at 1 January 2018 has been adjusted as disclosed in Note 4.1.

condensed interim statements of changes in equity

For the six months ended 30 June 2018

Bank

| | Share capital USD | Share premium USD | Reserve for general banking risks USD | Fair value reserve USD | Other reserve USD | Accumulated losses USD | Total USD |
|--|-------------------------|-------------------------|--|------------------------------|-------------------------|------------------------------|--------------------|
| At 1 January 2017 | 155,239,263 | 2,101,335 | 764,792 | (1,891,140) | 2,681,041 | (36,040,473) | 122,854,818 |
| Total comprehensive income <i>Total comprehensive income for the period</i> | | | | | | | |
| Profit for the period | - | - | - | - | - | 2,624,819 | 2,624,819 |
| <i>Other comprehensive income</i> | | | | | | | |
| Change in fair value of available-for-sale assets | - | - | - | 739,050 | - | - | 739,050 |
| Total comprehensive income for the period | - | - | - | 739,050 | - | 2,624,819 | 3,363,869 |
| Transactions with owners of the Bank <i>Contributions and distributions</i> | | | | | | | |
| Bonus issue of shares | 1,941,232 | (1,941,232) | - | - | - | - | - |
| Exercised share options | 58,893 | 10,637 | - | - | - | - | 69,530 |
| Total transactions with owners of the bank | 2,000,125 | (1,930,595) | - | - | - | - | 69,530 |
| Transfer between reserves | - | - | (300,762) | - | - | 300,762 | - |
| At 30 June 2017 | 157,239,388 | 170,740 | 464,030 | (1,152,090) | 2,681,041 | (33,114,892) | 126,288,217 |

condensed interim statements of cash flows

For the six months ended 30 June 2018

| | Group | | Bank | |
|--|---------------|--------------|---------------|---------------|
| | 2018 USD | 2017 USD | 2018 USD | 2017 USD |
| Cash flows from operating activities | | | | |
| Interest and commission receipts | 38,242,117 | 40,236,561 | 20,568,377 | 18,741,506 |
| Exchange (paid)/received | 74,191 | (3,386,784) | 2,570,887 | (4,207,496) |
| Interest and commission payments | (16,042,190) | (15,532,541) | (11,548,910) | (10,255,541) |
| Payments to employees and suppliers | (17,019,517) | (18,357,994) | (9,683,153) | (9,818,333) |
| Operating profit/(loss) before changes in operating assets / liabilities | 5,254,601 | 2,959,242 | 1,907,201 | (5,539,864) |
| (Increase)/decrease in operating assets: | | | | |
| - Trading assets and financial assets at fair value through profit or loss | (32,279,397) | 108,535,834 | - | - |
| - Loans and advances to customers and banks | (137,661,051) | 94,637,048 | (123,544,863) | 99,634,588 |
| - Other assets | 4,030,725 | (2,977,018) | (699,477) | (938,572) |
| Increase/(decrease) in operating liabilities: | | | | |
| - Amounts owed to customers and banks | 83,800,571 | (82,551,923) | 152,645,951 | (178,858,700) |
| - Other liabilities | (300,342) | (265,776) | (379,922) | (24,697) |
| - Net advances from/(to) subsidiary companies | - | - | (89,250,686) | 100,986,251 |
| Net cash generated from operating activities before income tax | (77,154,893) | 120,337,407 | (59,321,796) | 15,259,006 |
| Income tax refunded/(paid) | (536,369) | 384,654 | 994,306 | (4,564) |
| Net cash flows from operating activities | (77,691,262) | 120,722,061 | (58,327,490) | 15,254,442 |
| Cash flows from investing activities | | | | |
| - Payments to acquire property and equipment | (229,141) | (783,016) | (229,142) | (160,322) |
| - Payments to acquire intangible assets | (1,277,263) | (584,591) | (1,256,376) | (615,036) |
| - Payments to acquire shares in subsidiary companies | - | - | - | (10,000,000) |
| - Payments to acquire shares in other investments | (18,035,210) | - | (18,035,210) | - |
| - Proceeds from disposal of available-for-sale financial assets | - | 8,871,894 | - | 8,871,894 |
| - Proceeds on disposal of financial assets at FV through P&L | - | 17,870,000 | - | 17,870,000 |
| - Proceeds on disposal of sale of property and equipment | - | 1,174 | - | - |
| - Net investment in discontinued operations | - | - | - | - |
| - Receipt of dividend | 3,062,050 | 3,873,571 | 3,062,050 | 5,321,972 |
| Net cash flows from/(used in) investing activities | (16,479,564) | 29,249,032 | (16,458,678) | 21,288,508 |
| Cash flows from financing activities | | | | |
| - Proceeds from issue of share capital | 54,560,248 | 69,529 | 54,560,248 | 69,529 |
| - Net movement in debt securities | (2,257,214) | 34,303,383 | - | 35,000,000 |
| - Share issue costs | - | - | - | - |
| Net cash flows from/(used in) financing activities | 52,303,034 | 34,372,912 | 54,560,248 | 35,069,529 |
| Increase/(decrease) in cash and cash equivalents | (41,867,792) | 184,344,005 | (20,225,920) | 71,612,479 |
| Analysed as follows: | | | | |
| - Effect of exchange rate changes on cash and cash equivalents | (10,072,880) | (15,607,227) | (8,811,586) | (7,480,889) |
| - Net increase in cash and cash equivalents | (31,794,912) | 199,951,232 | (11,414,334) | 79,093,368 |
| Increase in cash and cash equivalents | (41,867,792) | 184,344,005 | (20,225,920) | 71,612,479 |
| Cash and cash equivalents at beginning of period | 178,676,622 | 35,550,126 | 153,393,147 | 43,676,465 |
| Cash and cash equivalents at end of period | 136,808,830 | 219,894,131 | 133,167,227 | 115,288,944 |

notes to the condensed interim financial statements

For the six months ended 30 June 2018

1 reporting entity

FIMBank p.l.c. (“the Bank”) is a credit institution domiciled in Malta with its registered address at Mercury Tower, The Exchange Financial and Business Centre, Elia Zammit Street, St. Julian’s, STJ3155, Malta. The condensed interim financial statements of the Bank as at and for the six months ended 30 June 2018 include the Bank and its subsidiaries (together referred to as the “Group” and individually as “Group Entities”).

The financial statements of the Group as at, and for the year ended, 31 December 2017 are available upon request from the Bank’s registered office and are available for viewing on its website at www.fimbank.com.

2 basis of accounting

The condensed interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, adopted by the EU. The interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of FIMBank p.l.c. as at and for the year ended 31 December 2017.

The condensed interim financial statements were approved by the Board of Directors on 14 August 2018.

3 significant accounting policies

Except for changes resulting from the adoption of IFRS 9, Financial Instruments (IFRS 9) (see Note 4.1), the significant accounting policies applied by the Group in these condensed interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2017.

3.1 standards issued but not yet effective

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15[®] Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group is currently undertaking an initial assessment of the potential impact on its consolidated financial statements. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group’s borrowing rate at 1 January 2019, the composition of the Group’s lease portfolio at that date, the Group’s latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

Thus far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of use of offices. As at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to USD2.3 million, on an undiscounted basis. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

No significant impact is expected for the Group's finance leases.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

4 changes in accounting policies

4.1 IFRS 9 financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained earnings and NCI (for a description of the transition method, see 4.1.3 below).

| | Impact of adopting IFRS9 on opening balance USD |
|---|--|
| Retained earnings | |
| Recognition of expected credit losses under IFRS9 | (7,356,661) |
| Share of transition adjustments from equity accounted investees | (777,091) |
| Impact at 1 January 2018 | <u>(8,133,752)</u> |
| Fair value reserve | |
| Recognition of expected credit losses under IFRS9 | (41,948) |
| Impact at 1 January 2018 | <u>(41,948)</u> |
| Non-controlling interests | |
| Recognition of expected credit losses under IFRS9 | (68,814) |
| Impact at 1 January 2018 | <u>(68,814)</u> |

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

4.1.1 classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of "held-to-maturity", "loans and receivables" and "available-for-sale".

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value through Other Comprehensive Income (FVOCI) – debt investment;
- fair value through Other Comprehensive Income (FVOCI)– equity investment; or
- fair value through Profit or Loss (FVTPL).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at “amortised cost” if it meets both of the following conditions and is not designated as at “FVTPL”:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at “FVOCI” if it meets both of the following conditions and is not designated as at “FVTPL”:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not “held-for-trading”, the Group may irrevocably elect to present subsequent changes in the investment’s fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at “amortised cost” or “FVOCI” as described above are measured at “FVTPL”. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at “amortised cost” or at “FVOCI” as at “FVTPL” if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

| | |
|------------------------------------|--|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| Debt investments at FVOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| Equity investments at FVOCI | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. |

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

| | Note | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 USD | New carrying amount under IFRS 9 USD |
|--|------|--------------------------------------|---------------------------------|---|--------------------------------------|
| Balances with Central Bank of Malta, treasury bills and cash | (a) | Loans and receivables | Amortised cost | 208,171,299 | 208,017,490 |
| Trading assets | | Held-for-trading | Mandatorily at FVTPL | 252,509,144 | 252,509,144 |
| Derivative assets | | Held-for-trading | Mandatorily at FVTPL | 722,256 | 722,256 |
| Loans and advances to banks and customers | (a) | Loans and receivables | Amortised cost | 792,454,464 | 785,384,395 |
| Debt securities | (b) | Available-for-sale | FVOCI – debt instrument | 104,592,448 | 104,550,500 |
| Equity securities | (c) | Available-for-sale | FVOCI – equity instrument | 40,314 | 40,314 |
| Equity securities | (d) | Available-for-sale | Mandatorily at FVTPL | 156,612,036 | 156,612,036 |
| Other receivables | (a) | Loans and receivables | Amortised cost | 355,079,699 | 354,878,102 |
| Total financial assets | | | | 1,870,181,660 | 1,862,714,237 |

- a) Loans and advances, Central Bank of Malta balances, Treasury Bills, Cash and Cash Equivalents and Other receivables that were classified as “loans and receivables” under IAS 39 are now classified at “amortised cost”. An increase of USD7,425,475 in the allowance for impairment over these instruments was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.
- b) The debt securities categorised as available-for-sale under IAS 39 are held by the Group's treasury unit in a separate portfolio mainly to support regulatory liquidity requirements. The securities provide interest income but may be sold to meet liquidity requirements arising in the normal course of business. The Group considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. The debt securities have specified maturities and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI under IFRS 9. On transition to IFRS 9, an allowance for impairment of USD41,948 was recognised as a decrease in opening retaining earnings and an increase in fair value reserves at 1 January 2018.
- c) These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.
- d) Under IAS 39, these securities representing units in investment funds were designated as at FVOCI. However, under IFRS9 only instruments meeting the definition of “equity instrument” under IAS32 can be classified as FVOCI. In view of the fact that these instruments do not meet this definition, these assets have been classified as mandatorily measured at FVTPL under IFRS 9.

4.1.2 impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets and commitments measured at amortised cost, and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets and commitments at amortised cost consist of loans and advances to banks and customer, balances with Central Bank of Malta, Treasury Bills and cash, other receivables, loan commitments and financial guarantees.

Under IFRS 9, loss allowances are measured on either of the following bases:

- *12-month ECLs*: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- assets for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition; and
- debt securities that are determined to have low credit risk at the reporting date;

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. Credit risk on a financial asset is also considered to have increased if its credit rating assigned by independent credit rating agencies deteriorates. Other quantitative and qualitative information is also taken into consideration in determining whether to apply a manual downgrade in the internal rating.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be Baa3 or higher based on external credit ratings by Moody's. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset.

impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows.

| | USD |
|--|-------------------|
| Loss allowance at 31 December 2017 under IAS 39 | 43,911,866 |
| Additional impairment recognised at 1 January 2018 on: | |
| Balances with Central Bank of Malta, Treasury Bills and Cash at 31 December 2017 | 153,808 |
| Loans and advances to banks and customers at 31 December 2017 | 7,070,070 |
| Debt securities at 31 December 2017 | 41,948 |
| Unfunded financial assets at 31 December 2017 | 201,597 |
| Loss allowance at 1 January 2018 under IFRS 9 | <u>51,379,289</u> |

The following analysis provides further detail about the calculation of ECLs on the adoption of IFRS 9. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The Group performed the calculation of ECL rates separately for wholesale customers and other customers.

The Group uses three scenarios in order to derive a weighted-average ECL, being: adverse, baseline and rebound using a 30%-40%-30% weight respectively.

ECL is derived by considering the probability of defaults (PD), loss-given default (LGD), exposure at default (EAD) and also the effective interest rate (EIR). The Group has implemented a suite of specialised risk measurement tools to be able to generate the necessary risk and financial metrics to measure impairment under IFRS9, namely:

- PDs, combined with internal ratings based on the management's professional judgement;
- LGDs;
- Macroeconomic variables used to condition PD curves; and
- Scenario-weighted ECLs.

The following table provides information about the exposure to credit risk and ECLs as at 1 January 2018.

| Internal rating for impairment calculation | Equivalent to Moodys credit rating | Weighted average loss rate % | Gross carrying amount USD | Impairment loss allowance USD | Credit impaired |
|--|------------------------------------|------------------------------|---------------------------|-------------------------------|-----------------|
| Grades 1 to 4- (<i>low risk</i>) | Baa3 to Aaa | 0% | 572,640,486 | 387,576 | No |
| Grades 5+ to 5- (<i>fair risk</i>) | Ba1 to Ba3 | 0% | 324,458,800 | 233,112 | No |
| Grades 6+ to 7 (<i>substandard</i>) | B1 to Caa2 | 1% | 481,789,836 | 3,044,952 | No |
| Grades 7- to 8- (<i>doubtful</i>) | Ca to Caa3 | 11% | 64,333,215 | 7,371,740 | No |
| Grades 9 to 10 (<i>loss</i>) | Default | 66% | 60,944,924 | 40,341,909 | Yes |
| | | | 1,504,167,261 | 51,379,289 | |

4.1.3 transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.
- All hedging relationships designated under IAS 39 at 31 December 2017 met the criteria for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

4.2 property and equipment and investment property – measurement

During the financial year ended 31 December 2017, the Group changed its accounting policy on the measurement of owned property classified as either 'property and equipment' or 'investment property'. In prior financial years, this property was measured at cost less accumulated depreciation and any accumulated impairment losses. Following the change in accounting policy, the property is being measured at fair value. This change in accounting policy is being adopted as the recognition of the fair value of owned property provides a more relevant measurement approach to the Group.

For the property classified as 'property and equipment', the effect of a change in accounting policy from the cost to the fair value model is measured as a revaluation under IAS 16 "Property, Plant and Equipment". Any surplus arising on the revaluation is recognised in Other Comprehensive Income whilst a deficit is recognised in the Income Statement, in both cases to the extent that the surplus or deficit does not reverse the impact of a previous revaluation in either Other Comprehensive Income or Income Statement respectively. The comparative financial statements are not restated to adjust for this revaluation.

For the property classified as 'investment property', the effect of a change in accounting policy from the cost to the fair value model is measured under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". In accordance with this standard, the Group has applied this change retrospectively by restating the opening balance of assets, liabilities and equity of the earliest prior period presented in these financial statements.

5 use of judgements and estimates

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

In preparing these condensed interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended 31 December 2017; except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 9, which is described in Note 4.1.

6 operating segments

The Group identified five significant reportable segments: Trade Finance, Forfaiting, Factoring, Treasury and Real Estate, which are represented by different Group entities. For each of the entities, Executive Management reviews internal management reports on a monthly basis.

information about operating segments

Group - June 2018

USD

| | Trade Finance | Forfaiting | Factoring | Treasury | Real Estate | Other | Total |
|---|-------------------|-------------------|-------------------|--------------------|------------------|----------------|-------------------|
| External revenue: | | | | | | | |
| Interest income | 8,819,789 | 7,421,664 | 7,753,272 | 891,693 | 1,326,714 | 32,992 | 26,246,124 |
| Fee and commission income | 5,307,891 | 3,075,616 | 2,796,520 | - | 424,929 | 13,907 | 11,618,863 |
| Trading income | - | 1,090,984 | 146,865 | 917,593 | - | (39,445) | 2,115,997 |
| | <u>14,127,680</u> | <u>11,588,264</u> | <u>10,696,657</u> | <u>1,809,286</u> | <u>1,751,643</u> | <u>7,454</u> | <u>39,980,984</u> |
| Intersegment revenue: | | | | | | | |
| Interest income | - | - | 3,225,017 | - | - | - | 3,225,017 |
| Fee and commission income | 3,149 | - | - | - | - | - | 3,149 |
| | <u>3,149</u> | <u>-</u> | <u>3,225,017</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,228,166</u> |
| Reportable segment profit/(loss) before income tax | <u>189,195</u> | <u>4,304,327</u> | <u>2,771,760</u> | <u>(3,201,864)</u> | <u>1,727,589</u> | <u>176,598</u> | <u>5,967,605</u> |

Group – June 2017

USD

| | Trade Finance | Forfaiting | Factoring | Treasury | Real Estate | Other | Total |
|---|-------------------|-------------------|-------------------|---------------------|----------------|------------------|-------------------|
| External revenue: | | | | | | | |
| Interest income | 8,909,154 | 7,295,692 | 8,854,169 | 949,117 | 447,636 | 3,024 | 26,458,792 |
| Fee and commission income | 3,983,028 | 4,957,291 | 2,435,210 | - | 201,677 | 69,541 | 11,646,747 |
| Trading income | - | (147,405) | 200,141 | (17,682,289) | - | (86,618) | (17,716,171) |
| | <u>12,892,182</u> | <u>12,105,578</u> | <u>11,489,520</u> | <u>(16,733,172)</u> | <u>649,313</u> | <u>(14,053)</u> | <u>20,389,368</u> |
| Intersegment revenue: | | | | | | | |
| Interest income | - | 2,242,375 | 681,524 | - | - | 557,880 | 3,481,779 |
| Fee and commission income | 4,288 | 60 | 11,992 | - | - | 54 | 16,394 |
| | <u>4,288</u> | <u>2,242,435</u> | <u>693,516</u> | <u>-</u> | <u>-</u> | <u>557,934</u> | <u>3,498,173</u> |
| Reportable segment profit/(loss) before income tax | <u>2,091,565</u> | <u>4,686,621</u> | <u>126,119</u> | <u>(5,158,997)</u> | <u>649,313</u> | <u>(518,039)</u> | <u>1,876,582</u> |

Group - June 2018
USD

| | Trade Finance | Forfaiting | Factoring | Treasury | Real Estate | Other | Total |
|--------------------------------|---------------|-------------|-------------|-------------|-------------|------------|---------------|
| Reportable segment assets | 609,297,552 | 291,629,352 | 331,538,248 | 593,651,963 | 55,061,963 | 60,662,514 | 1,941,841,592 |
| Reportable segment liabilities | 1,151,164,858 | 68,210,832 | 121,478,696 | 331,584,327 | - | 4,020,850 | 1,676,459,563 |

Group - December 2017
USD

| | Trade Finance | Forfaiting | Factoring | Treasury | Real Estate | Other | Total |
|--------------------------------|---------------|-------------|-------------|-------------|-------------|------------|---------------|
| Reportable segment assets | 488,893,079 | 270,236,931 | 309,580,788 | 457,847,454 | 46,077,650 | 60,991,095 | 1,633,626,997 |
| Reportable segment liabilities | 949,218,817 | 143,614,796 | 107,326,078 | 276,509,439 | - | 5,476,313 | 1,482,145,443 |

reconciliation of reportable segment profit or loss

| Group | 2018 USD | 2017 USD |
|--|------------------|------------------|
| Total profit or loss for reportable segments | 5,791,007 | 2,394,621 |
| Other profit or loss | 176,598 | (518,039) |
| | <u>5,967,605</u> | <u>1,876,582</u> |
| Share of loss of equity accounted investees | 238,634 | (245,969) |
| Fair value loss on re-measurement of non-current asset held for sale | (2,078,082) | - |
| Effect of other consolidation adjustments on segment results | 2,872,628 | 2,594,755 |
| Consolidated profit before income tax | <u>7,000,785</u> | <u>4,225,368</u> |

7 fair values of financial instruments

7.1 valuation of financial instruments

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

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

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

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

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

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

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

The Group has an established control framework with **respect to the measurement of fair values. This framework includes reports to the Group's Chief Financial Officer and Executive Management having overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. Market risk and related exposure to fair value movement is also a key function of the Group's Assets-Liabilities Committee and all valuations of financial instruments are reported to the Committee for review and approval. Significant valuation issues are reported to the Group's Audit Committee.**

7.2 financial instruments measured at fair value – fair value hierarchy

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

Group - 30 June 2018

| | Level 1 USD | Level 2 USD | Level 3 USD | Total USD |
|---|--------------------|--------------------|--------------------|--------------------|
| Trading assets | - | - | 282,221,164 | 282,221,164 |
| Derivative assets held for risk management | - | 2,265,093 | - | 2,265,093 |
| Financial assets at FVTPL | - | 159,703,723 | 14,982,009 | 174,685,732 |
| Financial assets at FVOCI | 102,245,465 | 75,524 | - | 102,320,989 |
| Investment property | - | - | 16,238,869 | 16,238,869 |
| | <u>102,245,465</u> | <u>162,044,340</u> | <u>313,442,042</u> | <u>577,731,847</u> |
| Derivative liabilities held for risk management | - | 350,757 | - | 350,757 |
| | <u>-</u> | <u>350,757</u> | <u>-</u> | <u>350,757</u> |

Group - 31 December 2017

| | Level 1 USD | Level 2 USD | Level 3 USD | Total USD |
|---|--------------------|--------------------|--------------------|--------------------|
| Trading assets | - | - | 252,509,144 | 252,509,144 |
| Derivative assets held for risk management | - | 722,256 | - | 722,256 |
| Investments available-for-sale | 104,592,448 | 141,659,778 | 14,992,572 | 261,244,798 |
| Investment property | - | - | 16,238,869 | 16,238,869 |
| | <u>104,592,448</u> | <u>142,382,034</u> | <u>283,740,585</u> | <u>530,715,067</u> |
| Derivative liabilities held for risk management | - | 722,922 | - | 722,922 |
| | <u>-</u> | <u>722,922</u> | <u>-</u> | <u>722,922</u> |

Bank - 30 June 2018

| | Level 1 USD | Level 2 USD | Level 3 USD | Total USD |
|---|--------------------|--------------------|-------------------|--------------------|
| Derivative assets held for risk management | - | 2,275,131 | - | 2,275,131 |
| Financial assets at FVTPL | - | 159,703,723 | 14,982,009 | 174,685,732 |
| Financial assets at FVOCI | 102,245,465 | 75,524 | - | 102,320,989 |
| | <u>102,245,465</u> | <u>162,054,378</u> | <u>14,982,009</u> | <u>279,281,852</u> |
| Derivative liabilities held for risk management | - | 350,757 | - | 350,757 |
| | <u>-</u> | <u>350,757</u> | <u>-</u> | <u>350,757</u> |

Bank - 31 December 2017

| | Level 1 USD | Level 2 USD | Level 3 USD | Total USD |
|---|--------------------|--------------------|-------------------|--------------------|
| Derivative assets held for risk management | - | 722,256 | - | 722,256 |
| Investments available-for-sale | 104,592,448 | 141,659,778 | 14,992,572 | 261,244,798 |
| | <u>104,592,448</u> | <u>142,382,034</u> | <u>14,992,572</u> | <u>261,967,054</u> |
| Derivative liabilities held for risk management | - | 723,454 | - | 723,454 |
| | <u>-</u> | <u>723,454</u> | <u>-</u> | <u>723,454</u> |

7.3 level 3 fair value measurements

7.3.1 reconciliation

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

Group – 30 June 2018

| | Trading assets USD | Financial assets at FVTPL USD | Total USD |
|--|-----------------------|-------------------------------------|---------------|
| Balance at 1 January 2018 | 252,509,144 | 14,992,572 | 267,501,716 |
| Total gains and losses in profit or loss | 944,189 | - | 944,189 |
| Purchases | 194,135,160 | - | 194,135,160 |
| Settlements | (163,499,274) | - | (163,499,274) |
| Net fair value movement | - | (10,563) | (10,563) |
| Effects of movement in exchange rates | (1,868,055) | - | (1,868,055) |
| Balance at 30 June 2018 | 282,221,164 | 14,982,009 | 297,203,173 |

Total gains or losses for the period in the above table are presented in the income statements and other comprehensive income as follows:

| | Trading assets USD | Financial assets at FVTPL USD | Total USD |
|--|-----------------------|-------------------------------------|--------------|
| Total gains and losses in profit or loss | | | |
| - Net trading results | (923,866) | - | (923,866) |
| - Net change in fair value | - | (10,563) | (10,563) |

Group – 31 December 2017

| | Trading assets USD | Financial assets designated at fair value through profit or loss USD | Investments available-for-sale USD | Total USD |
|--|-----------------------|--|--|---------------|
| Balance at 1 January 2017 | 379,397,964 | 17,799,900 | 5,575,795 | 402,773,659 |
| Total gains and losses in profit or loss | 13,713,784 | 70,100 | - | 13,783,884 |
| Total gains and losses in other comprehensive income | - | - | (130,334) | (130,334) |
| Purchases | 474,850,009 | - | 8,326,680 | 483,176,689 |
| Settlements | (615,452,613) | (17,870,000) | - | (633,322,613) |
| Effects of movement in exchange rates | - | - | 1,220,431 | 1,220,431 |
| Balance at 31 December 2017 | 252,509,144 | - | 14,992,572 | 267,501,716 |

Total gains or losses for the year in the above table are presented in the income statements and other comprehensive income as follows:

| | Trading assets USD | Financial assets designated at fair value through profit or loss USD | Investments available-for-sale USD | Total USD |
|---|-----------------------|--|--|--------------|
| Total gains and losses in profit or loss | | | | |
| - Net trading results | 13,713,784 | - | - | 13,713,784 |
| - Net gain from other financial instruments carried at fair value | - | 70,100 | - | 70,100 |
| Total gains and losses in other comprehensive income | | | | |
| - Net change in fair value of available-for-sale financial assets | - | - | (130,334) | (130,334) |

Bank – 30 June 2018

| | Financial assets at FVTPL USD | Total USD |
|---------------------------|-------------------------------------|-------------------|
| Balance at 1 January 2018 | 14,992,572 | 14,992,572 |
| Net fair value movement | (10,563) | (10,563) |
| Balance at 30 June 2018 | <u>14,982,009</u> | <u>14,982,009</u> |

Total gains or losses for the period in the above table are presented in the income statements and other comprehensive income as follows:

| | Financial assets at FVTPL USD | Total USD |
|----------------------------|-------------------------------------|--------------|
| - Net change in fair value | (10,563) | (10,563) |

Bank – 31 December 2017

| | Financial assets designated at fair value through profit or loss USD | Investments available-for-sale USD | Total USD |
|--|--|--|-------------------|
| Balance at 1 January 2017 | 17,799,900 | 5,575,795 | 23,375,695 |
| Total gains and losses in profit or loss | 70,100 | - | 70,100 |
| Total gains and losses in other comprehensive income | - | (130,334) | (130,334) |
| Purchases | - | 8,326,680 | 8,326,680 |
| Settlements | (17,870,000) | - | (17,870,000) |
| Effect of movement in exchange rates | - | 1,220,431 | 1,220,431 |
| Balance at 31 December 2017 | <u>-</u> | <u>14,992,572</u> | <u>14,992,572</u> |

Total gains or losses for the year in the above table are presented in the income statements and other comprehensive income as follows:

| | Financial assets designated at fair value through profit or loss USD | Investments available-for-sale USD | Total USD |
|---|--|--|--------------|
| Total gains and losses in profit or loss | | | |
| - Net gain from other financial instruments carried at fair value | 70,100 | - | 70,100 |
| Total gains and losses in other comprehensive income | | | |
| - Net change in fair value of available-for-sale financial assets | - | (130,334) | (130,334) |

7.3.2 unobservable inputs used in measuring fair value

The below sets out information about valuation techniques used in measuring Level 2 and Level 3 fair values at 30 June 2018 and 31 December 2017 as well as the significant unobservable inputs used.

trading assets

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

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

The Group uses the LIBOR yield curve as of each reporting date plus an adequate credit margin spread to discount the trading assets held. At 30 June 2018, the interest rates used range between 0% and 12.54% (31 Dec 2017: between 0.54% and 12.02%).

The effect of an estimated general increase of one percentage point in interest rate on trading assets at 30 June 2018 **would reduce the Group's profit before tax** by approximately USD430,295 (31 Dec 2017: USD282,068).

derivative assets and liabilities

Derivative assets and liabilities comprise Foreign-exchange forward contracts and interest-rate future contracts, classified as held for risk management. The forward contracts are over-the-counter derivatives whilst the interest-rate futures are traded on appropriate exchanges.

The Group establishes the fair value of:

- i) forward foreign-exchange contracts by reference to forward exchange rates published by financial information agencies on each valuation date;
- ii) interest rate futures by reference to independent valuations provided by portfolio custodians.

No significant unobservable inputs are used in valuing the derivative assets and liabilities.

financial assets at FVTPL

Financial assets at FVTPL mainly represent holdings in an unlisted sub-fund of a collective investment scheme whose underlying investments would be classified as Level 3 assets. These assets were previously classified as available-for-sale in accordance with IAS39. The sub-fund, independently run by a licensed investment manager, invests in sustainable energy plants with returns generated throughout the life of each plant.

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

The effect of a ten percentage point increase/(decrease) in the net asset value of the sub-fund at 30 June 2018 would increase/(decrease) the Bank and Group equity by approximately USD1,498,201 (31 December 2017: USD1,499,257).

8 classifications of financial assets and liabilities

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

Group - 30 June 2018

| | Trading assets USD | Financial assets at FVTPL USD | Financial assets at FVOCI USD | Loans and receivables USD | Liabilities at amortised cost USD | Total carrying amount USD |
|--|-----------------------|-------------------------------------|-------------------------------------|---------------------------------|---|---------------------------------|
| Financial assets measured at fair value | | | | | | |
| Trading assets | 282,221,164 | - | - | - | - | 282,221,164 |
| Derivative assets held for risk management | - | 2,265,093 | - | - | - | 2,265,093 |
| Financial assets at FVTPL | - | 174,685,732 | - | - | - | 174,685,732 |
| Financial assets at FVOCI | - | - | 102,320,989 | - | - | 102,320,989 |
| Financial assets not measured at fair value | | | | | | |
| Balances with the Central Bank of Malta, treasury bills and cash | - | - | - | 146,592,037 | - | 146,592,037 |
| Loans and advances to banks | - | - | - | 421,156,689 | - | 421,156,689 |
| Loans and advances to customers | - | - | - | 697,219,376 | - | 697,219,376 |
| Financial liabilities measured at fair value | | | | | | |
| Derivative liabilities held for risk management | - | 350,757 | - | - | - | 350,757 |
| Financial liabilities not measured at fair value | | | | | | |
| Amounts owed to banks | - | - | - | - | 528,921,075 | 528,921,075 |
| Amounts owed to customers | - | - | - | - | 1,072,886,915 | 1,072,886,915 |
| Debt securities in issue | - | - | - | - | 52,396,439 | 52,396,439 |

Group - 31 December 2017

| | Trading assets USD | Designated at fair value USD | Loans and receivables USD | Available-for- sale USD | Liabilities at amortised cost USD | Total carrying amount USD |
|--|-----------------------|------------------------------------|---------------------------------|-------------------------------|---|---------------------------------|
| Financial assets measured at fair value | | | | | | |
| Trading assets | 252,509,144 | - | - | - | - | 252,509,144 |
| Derivative assets held for risk management | - | 722,256 | - | - | - | 722,256 |
| Investments available-for-sale | - | - | - | 261,244,798 | - | 261,244,798 |
| Financial assets not measured at fair value | | | | | | |
| Balances with the Central Bank of Malta, treasury bills and cash | - | - | 208,171,299 | - | - | 208,171,299 |
| Loans and advances to banks | - | - | 226,092,934 | - | - | 226,092,934 |
| Loans and advances to customers | - | - | 566,361,530 | - | - | 566,361,530 |
| Financial liabilities measured at fair value | | | | | | |
| Derivative liabilities held for risk management | - | 722,922 | - | - | - | 722,922 |
| Financial liabilities not measured at fair value | | | | | | |
| Amounts owed to banks | - | - | - | - | 493,192,846 | 493,192,846 |
| Amounts owed to customers | - | - | - | - | 847,198,005 | 847,198,005 |
| Debt securities in issue | - | - | - | - | 54,653,654 | 54,653,654 |
| Subordinated liabilities | - | - | - | - | 50,000,000 | 50,000,000 |

Bank - 30 June 2018

| | Financial assets at FVTPL USD | Financial assets at FVOCI USD | Loans and receivables USD | Liabilities at amortised cost USD | Total carrying amount USD |
|--|-------------------------------------|-------------------------------------|---------------------------------|---|---------------------------------|
| Financial assets measured at fair value | | | | | |
| Derivative assets held for risk management | 2,275,131 | - | - | - | 2,275,131 |
| Financial assets at FVTPL | 174,685,732 | - | - | - | 174,685,732 |
| Financial assets at FVOCI | - | 102,320,989 | - | - | 102,320,989 |
| Financial assets not measured at fair value | | | | | |
| Balances with the Central Bank of Malta, treasury bills and cash | - | - | 146,561,504 | - | 146,561,504 |
| Loans and advances to banks | - | - | 416,751,550 | - | 416,751,550 |
| Loans and advances to customers | - | - | 771,650,933 | - | 771,650,933 |
| Financial liabilities measured at fair value | | | | | |
| Derivative liabilities held for risk management | 350,757 | - | - | - | 350,757 |
| Financial liabilities not measured at fair value | | | | | |
| Amounts owed to banks | - | - | - | 499,650,506 | 499,650,506 |
| Amounts owed to customers | - | - | - | 1,020,429,581 | 1,020,429,581 |

Bank - 31 December 2017

| | Designated at fair value USD | Loans and receivables USD | Available- for- sale USD | Liabilities at amortised cost USD | Total carrying amount USD |
|--|------------------------------------|---------------------------------|--------------------------------|---|---------------------------------|
| Financial assets measured at fair value | | | | | |
| Derivative assets held for risk management | 722,256 | - | - | - | 722,256 |
| Investments available-for-sale | - | - | 261,244,798 | - | 261,244,798 |
| Financial assets not measured at fair value | | | | | |
| Balances with the Central Bank of Malta, treasury bills and cash | - | 208,147,513 | - | - | 208,147,513 |
| Loans and advances to banks | - | 203,552,663 | - | - | 203,552,663 |
| Loans and advances to customers | - | 581,529,952 | - | - | 581,529,952 |
| Financial liabilities measured at fair value | | | | | |
| Derivative liabilities held for risk management | 723,454 | - | - | - | 723,454 |
| Financial liabilities not measured at fair value | | | | | |
| Amounts owed to banks | - | - | - | 393,247,791 | 393,247,791 |
| Amounts owed to customers | - | - | - | 815,812,570 | 815,812,570 |
| Subordinated liabilities | - | - | - | 50,000,000 | 50,000,000 |

9 net trading results

| | Group | | Bank | |
|---|------------------|--------------------|------------------|--------------------|
| | 2018 USD | 2017 USD | 2018 USD | 2017 USD |
| Net trading profit/(loss) from assets held for trading and at FVTPL | 1,138,786 | (72,288) | - | - |
| Foreign exchange rate fluctuations | (756,604) | (17,643,883) | (826,793) | (17,682,289) |
| Net income on derivatives held for risk management purposes | 1,733,815 | 15,706,039 | 3,909,502 | 15,741,076 |
| | <u>2,115,997</u> | <u>(2,010,132)</u> | <u>3,082,709</u> | <u>(1,941,213)</u> |

10 dividend income

| | Group | | Bank | |
|---|------------------|------------------|------------------|------------------|
| | 2018 USD | 2017 USD | 2018 USD | 2017 USD |
| Dividend income from financial assets at FVTPL | 4,035,661 | - | 4,035,661 | - |
| Dividend income from available-for-sale instruments | - | 3,749,265 | - | 3,749,265 |
| Dividend income from subsidiary | - | - | - | 1,448,401 |
| | <u>4,035,661</u> | <u>3,749,265</u> | <u>4,035,661</u> | <u>5,197,666</u> |

11 taxation

Taxation is recognised based on management's best estimate of the weighted-average annual income tax rate expected for the full financial year multiplied by the pre-tax income of the interim reporting period.

For the six months ended 30 June 2018, the Group is estimating a net taxation charge of USD947,712 (30 June 2017: charge of USD101,477). The change in effective tax rate when compared to the Malta corporate income tax rate of 35% was caused mainly by different rates of tax for non-Malta based entities (in the United Kingdom, India and Egypt).

12 derivatives held for risk management

| | Group | | Bank | |
|--------------------------|--------------------|--------------------|--------------------|--------------------|
| | 30 Jun 2018 USD | 31 Dec 2017 USD | 30 Jun 2018 USD | 31 Dec 2017 USD |
| Derivative assets | | | | |
| Held for risk management | | | | |
| – interest rate | - | - | 10,039 | - |
| – foreign exchange | 2,265,093 | 722,256 | 2,265,092 | 722,256 |
| | <u>2,265,093</u> | <u>722,256</u> | <u>2,275,131</u> | <u>722,256</u> |
| Derivative liabilities | | | | |
| Held for risk management | | | | |
| – interest rate | - | - | - | 532 |
| – foreign exchange | 350,757 | 722,922 | 350,757 | 722,922 |
| | <u>350,757</u> | <u>722,922</u> | <u>350,757</u> | <u>723,454</u> |

13 investments in subsidiaries

impairment assessment

At each reporting date the Bank carries out an impairment assessment to determine whether the recoverable amounts of its investments in subsidiaries (at cost) in its separate financial statements and the related goodwill arising on the acquisition of India Factoring and Egypt Factors reported in the consolidated financial statements are less than their carrying amount, therefore requiring a further impairment loss. At the reporting date the Bank assessed the reasonableness of the impairment in subsidiaries as disclosed in the audited financial statements for the year ended 31 December 2017. This was carried out on the basis of the underlying performance of each subsidiary during the period under review and with reference to the assumptions used in the 31 December 2017 assessment. The recoverable amounts for each investment have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of each entity.

In the separate financial statements, an impairment loss of USD3,731,127 related to the Bank's investment in FIM Holdings (Chile) – see below – was recognised during the period ended 30 June 2018 as the recoverable amounts of this investment was determined to be lower than the carrying amount. The impairment is included in the Income Statement under the Bank's "Net impairment losses/gains on financial assets". No further impairments were recognised during the period ended 30 June 2018.

FIM Holdings (Chile)

During the period ended 30 June 2018 the Group resolved to seek an orderly disposal of its investment in Latamfactors and the investment has thus been reclassified from "Investment in equity-accounted investees" to "Non-current assets held for sale" (see Note 14). The investment in Latamfactors is held by FIM Holdings (Chile), a fully-owned subsidiary of FIMBank p.l.c..

Following an assessment of the fair value of the Group's investment in Latamfactors, the recoverable amount of the investment in FIM Holdings (Chile) was determined to be lower than the carrying amount, and an impairment loss of USD3,731,127 has been recognised in "Net impairment losses/gains on financial assets" in the Bank's Income Statement.

India Factoring and Egypt Factors

As disclosed in the Financial Statements for the year ended 31 December 2017, Management has approved a set of budgets for India Factoring and Egypt Factors based on a strategy to grow the business in a changing market landscape, whilst ensuring an effective operational and control environment. These budgets formed the basis on which the recoverable amount is arrived at. In this respect, the recoverable amount for each subsidiary exceeds the carrying amount of the investment and the goodwill recognised on their initial accounting as a business combination. Whilst it is inherent that actual results may differ from those budgeted, and such variations may be significant, the Directors believe that the business plans can be supported, such that it will enable the Bank to recover the investments at least at the amount stated.

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

14 non-current assets held for sale

During the period ended 30 June 2018 the Group resolved to seek an orderly disposal of its investment in Latamfactors and the investment has been reclassified from "Investment in equity accounted investees" to "Non-current assets held for sale". This resulted in a change in measurement of the investment, as required by IFRS 5 "Non-current assets held for sale and discontinued operations", to the lower of its carrying amount and its fair value less costs to sell.

Following an assessment of the fair value of the company, the carrying amount of the investment was determined to be higher than its fair value and a loss of USD2,078,082 has been recognised in "Fair value loss on re-measurement of non-current asset held for sale" in the Group's Income Statement.

15 debt securities in issue

| | Group | | Bank | |
|----------------------------|--------------------|--------------------|--------------------|--------------------|
| | 30 Jun 2018 USD | 31 Dec 2017 USD | 30 Jun 2018 USD | 31 Dec 2017 USD |
| Unsecured promissory notes | 52,396,439 | 54,653,654 | - | - |
| | <u>52,396,439</u> | <u>54,653,654</u> | <u>-</u> | <u>-</u> |

At 30 June 2018, promissory notes in issue have a tenor of up to one year. The Group's effective interest rate ranges between 1.25% and 4.39% (31 December 2017: 1% and 3.7%).

16 rights issue

In March 2018, FIMBank launched a Rights Issue of 2 new ordinary shares for every 3 existing ordinary shares at an offer price of USD0.55 per new ordinary share. Following the conclusion of the Rights Issue, 190,909,091 new ordinary shares were allotted and listed on the Malta Stock Exchange, resulting in new equity of USD105,000,000. As part of the Rights Issue, the subordinated loan of USD50,000,000 outstanding on the closure of the offer period was used to set-off the subscription price against the amount owed by FIMBank. The increase in share capital and share premium, net of share issue costs, amounted to USD104,560,248.

17 contingent liabilities

| | Group | | Bank | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 30 Jun 2018 USD | 31 Dec 2017 USD | 30 Jun 2018 USD | 31 Dec 2017 USD |
| Guarantee obligations incurred on behalf of third parties | 3,282,900 | 1,186,426 | 50,090,509 | 57,601,096 |
| | <u>3,282,900</u> | <u>1,186,426</u> | <u>50,090,509</u> | <u>57,601,096</u> |

Guarantees issued to subsidiaries amount to USD46,807,609 (31 December 2017: USD56,508,748).

18 commitments

| | Group | | Bank | |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 30 Jun 2018 USD | 31 Dec 2017 USD | 30 Jun 2018 USD | 31 Dec 2017 USD |
| Commitments to purchase assets: | | | | |
| Undrawn credit facilities | 135,990,268 | 190,875,472 | 132,801,326 | 167,450,639 |
| Confirmed letters of credit | 46,618,359 | 39,270,259 | 45,414,524 | 45,944,596 |
| Documentary credits | 19,820,435 | 23,755,009 | 29,864,399 | 33,918,871 |
| Risk participations | 10,812,024 | 5,166,842 | 10,812,024 | 5,166,842 |
| Factoring commitments | - | 12,383 | 5,882,893 | 1,772,895 |
| Commitment to purchase assets | 47,310,247 | 47,236,123 | - | - |
| Credit default swaps | 25,666,917 | 47,577,185 | - | - |
| Commitments to sell assets: | | | | |
| Commitment to sell assets | (10,000,000) | - | - | - |
| | <u>276,218,250</u> | <u>353,893,273</u> | <u>224,775,166</u> | <u>254,253,843</u> |

19 changes to controlling shareholding

The ultimate parent company of FIMBank p.l.c. is by Kuwait Projects Company (Holding) K.S.C.P. ("KIPCO") a company registered in Kuwait. The registered address of KIPCO is KIPCO Tower, Khalid Bin Al Waleed Street, Sharq, Kuwait City.

On 15 March 2018 as part of an internal restructuring in within KIPCO, United Gulf Holding Company B.S.C., a joint stock company with its registered address at Flat 12, Building 440, road 1705, Block 317, Diplomatic Area, Kingdom of Bahrain acquired the entire investment previously held by United Gulf Bank B.S.C. – both entities themselves subsidiaries of KIPCO. As a result of this transaction United Gulf Holdings became the immediate parent company of the FIMBank Group.

statement pursuant to listing rule 5.75.3

We hereby confirm that to the best of our knowledge:

- the condensed interim financial statements give a true and fair view of the financial position of the Group and of the Bank as at 30 June 2018, as well as of the financial performance and cash flows for the period then ended, fully in compliance with IAS 34, Interim Financial Reporting, adopted by the EU; and
- the Interim Directors' Report includes a fair review of the information required in terms of Listing Rules 5.75.2 and 5.81 to 5.84.



Murali Subramanian
Chief Executive Officer



Ronald Mizzi
Chief Financial Officer



independent auditors' report on review of condensed interim financial statements

To the Board of Directors of FIMBank p.l.c.

introduction

We have reviewed the accompanying condensed interim financial statements of FIMBank p.l.c. ('the Bank') and of the Group of which the Bank is the parent ('the Condensed Interim Financial Statements') which comprise the condensed interim statements of financial position as at 30 June 2018, and the related condensed interim statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of the Condensed Interim Financial Statements in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU. Our responsibility is to express a conclusion on these Condensed Interim Financial Statements based on our review.

This report is made solely to the Board of Directors in accordance with the terms of our engagement and is released for publication in compliance with the requirements of Listing Rule 5.75.4 issued by the Listing Authority. Our review has been undertaken so that we might state to the Board of Directors those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors for our review work, for this report, or for the conclusions we have expressed.

scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Interim Financial Statements for the period ended 30 June 2018 are not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU.

emphasis of matter

We draw attention to note 13 to the Condensed Interim Financial Statements. At 31 December 2017, the Bank carried out an impairment assessment to determine whether the recoverable amounts of its investments in subsidiaries in its separate financial statements and the related goodwill arising on the acquisition of India Factoring and Finance Solutions Private Limited and The Egyptian Company for Factoring S.A.E reported in the consolidated financial statements are less than their carrying amounts, therefore requiring the recognition of a further impairment loss. One of the principal assumptions underlying the models used to calculate the recoverable amount relating to the equity held in India Factoring and Finance Solutions Private Limited and The Egyptian Company for Factoring S.A.E, is the attainment of the approved set of budgets used as a basis to arrive at the recoverable amounts of the respective investment in these subsidiaries and the goodwill recognized on their initial accounting as a business combination. The notes to the Condensed Interim Financial Statements explain that any significant adverse movement in a key assumption would lead to an impairment of the carrying amount of the investments and the related goodwill. Our conclusion is not modified in respect of this matter.

The Principal authorised to sign on behalf of KPMG on the review resulting in this independent auditors' report is Noel Mizzi.

KPMG
Registered Auditors

14 August 2018