FIMBANK
GROUP

annual report & financial statements 2011

Annual Report & Financial Statements

Schedules to the Annual Report

chairman's statement to the shareholders

Although the outlook for 2011 was generally expected to be positive, events in North Africa and the Middle East, together with the effects of earthquakes, floods and other natural crisis in different parts of the world, led to uncertainty with a confused outlook. Meanwhile, investor and consumer confidence was further eroded by Standard and Poor's downgrade of US debt and the worsening of the European sovereign debt crisis. Inflationary pressures fuelled by rising commodity prices also contributed to thwarting prospects for economic recovery while limiting the expansion of trade during 2011. In September 2011, the International Monetary Fund (IMF) lowered its projections for global GDP growth to 4.0% for both the year in review and 2012, compared to the 5.1% rate registered in 2010.

The FIMBank Group ended 2011 with a much stronger balance sheet and very healthy capital and liquidity ratios. In the midst of a turbulent financial and economic climate, the agreement signed with the International Finance Corporation (IFC) and the Saudi Fund for Development for a funding facility of US$60 million was an important demonstration of confidence in the Group. Meanwhile, the international joint ventures we have been setting up with major financial institutions are developing into success stories, with good news filtering in from our factoring operations in Dubai, India and Russia. Our most recent joint venture, in Brazil, has strong potential to benefit from this country's emergence as a major player in global trade.
In a global scenario characterised by uncertainty, our business model - built, refined and relentlessly pursued over the years - has enabled us to continue identifying and successfully exploiting opportunities in a diverse range of product niches and geographical markets. It demonstrated FIMBank`s ability to quickly adapt and manoeuvre. This has resulted in a 2011 after-tax profit for the FIMBank Group of USD9.13 million, an increase of 35% over the previous year. At the time when major banks and financial institutions are shrinking their balance sheet, we have succeeded in increasing our Balance Sheet by 15%, exceeding for the first time the USD1 billion mark.

Inspired by the growth strategy and opportunities being pursued by the Group, the Board of Directors will be recommending a dividend distribution made up of a net scrip dividend per ordinary share of US cents 2.00 (2010: US cents 2.48) and a 1 for 25 Bonus Issue of Ordinary Shares (2010: nil) by way of capitalisation of Share Premium.

From where we stand today, the global economy is witnessing significant changes and is difficult to predict. What we do see, however, is the continuing growth in markets where we already have an established presence. Our core banking business, with LFC our wholly owned subsidiary and the strategic Factoring partnerships, have all contributed to a means to keep in step with these changes, and we will be taking advantage of the Group's focus and manoeuvrability to expand in new markets as we see opportunities, for the benefit of our clients, our partners and our shareholders.

Our results have always been driven by a steady focus on what we do best, Trade Finance. It is a challenging business that took a long time to develop but also one the risks of which we understand and where we have built up expertise and a competitive advantage over the years. The steady growth in our balance sheet size and profitability since 2008 when the worst banking crisis in history affected major financial institutions and economies is a clear indication of the success of our model, and in this regard, I also have no qualms in acknowledging the benefits we derive by operating from Malta and within the well-regulated Maltese banking system, which has retained its status as one of the world's soundest.

In conclusion, I would like to extend our sincere thanks to all our shareholders, customers, and business partners, for their trust in us. I also thank the various government bodies and financial institutions for supporting us in our activities. My appreciation goes to management and all our employees for their commitment and fundamental contribution in delivering value for shareholders and customers around the world. Finally, I would like to express my gratitude to my colleagues on the Board, who have always been ready to provide valuable guidance and support throughout these challenging years.

Najeeb H.M. Al-Saleh
CHAIRMAN

بيان رئيس مجلس الإدارة

على الرغم من أن التوقعات لسنة 2011 كانت إيجابية بوجه عام، فإن الأحداث التي جرت في شمال أفريقيا والشرق الأوسط، بالإضافة إلى آثار الزلازل والسيول والأزمات الطبيعية الأخرى التي حلت ببقاع مختلفة من العالم، أدت إلى حالة من انعدام اليقين والتوقعات المشوشة. وفي هذه الأثناء، شهدت ثقة المستثمرين والمستهلكين مزيداً من التراجع بفعل تخفيض مؤسسة ستاندارد آند بورز للتصنيف الائتماني لتقييم سندات الدين الأمريكي وتفاقم أزمة الديون السيادية الأوروبية. كما ساهمت الضغوط التضخمية المحفزة بأسعار السلع المتزايدة في عرقلة تباشير الانتعاش الاقتصادي وحدّت في الوقت نفسه من توسع التجارة في 2011. وفي سبتمبر/أيلول 2011، خفّض صندوق النقد الدولي توقعاته لنمو إجمالي الناتج المحلي العالمي إلى 4 في المائة بالنسبة لسنتي 2011 و2012 على حد سواء مقارنة بالمعدل البالغ 5.1 في المائة المسجل في 2010.

أنهت مجموعة فيم بنك سنة 2011 بميزانية عمومية أقوى بكثير وبنسب رؤوس أموال وسيولة تنم عن عافية شديدة. وفي خضم مناخ مالي واقتصادي مضطرب، جاءت الاتفاقية الموقعة بين مؤسسة التمويل الدولية والصندوق السعودي للتنمية لتقديم تسهيل تمويلي بمبلغ 60 مليون دولار كدليل مهمّ على الثقة في المجموعة. في هذه الأثناء، بدأت المشاريع المشتركة الدولية التي أقمناها مع مؤسسات مالية كبرى تصير قصص نجاح في ظل توارد أنباء طيبة من عملياتنا لشراء الدين في دبي والهند وروسيا. كما يمتلك أحدث مشاريعنا المشتركة، وهو مقام في البرازيل، إمكانات هائلة للاستفادة من علوّ نجم البرازيل كلاعب رئيسي في التجارة العالمية.

وفي وضع عالمي يتسم بانعدام اليقين، مكنا نموذج أعمالنا الذي بنيناه ونقّحناه والتزمنا به دون انقطاع على مر السنين من مواصلة تحديد الفرص واستغلالها بنجاح في مجموعة متنوعة من المنتجات المخصوصة والأسواق الجغرافية. كما أثبت قدرة فيم بنك على سرعة التكيف والمناورة. وأسفر هذا عن تحقيق مجموعة البنك في 2011 أرباحاً صافية بعد خصم الضرائب مقدارها 9.13 مليون دولار، بزيادة 35 في المائة عن السنة السابقة. وبينما كانت البنوك والمؤسسات المالية الكبرى تعمل على تقليص ميزانياتها العمومية، نجحنا نحن في زيادة ميزانيتنا العمومية بنسبة 15 في المائة لنتخطى لأول مرة حاجز المليار دولار.

وإن مجلس الإدارة، إذْ يستلهم من إستراتيجية النمو التي تنتهجها المجموعة والفرص التي تسعى لاغتنامها، سيوصي بتوزيع حصص أرباح تتألف من ربح غير نقدي بقيمة صافية 2 سنت أمريكي لكل سهم عادي (2010: 2.48 سنت أمريكي) وأسهم عادية مجانية بنسبة 1 إلى 25 (2010: لا شيء) عن طريق رسملة علاوة الإصدار.

وإذْ نحن هنا اليوم، يشهد الاقتصاد العالمي تغيرات كبيرة ويصعب التنبؤ بها. لكن ما نلمسه هو النمو المتواصل في الأسواق التي لنا فيها بالفعل حضور راسخ. فأعمالنا المصرفية الأساسية، بالإضافة إلى شركة لندن لشراء مستندات التصدير التابعة المملوكة لنا بالكامل وشراكات شراء الدين الإستراتيجية، كلها ساهمت في قدرتنا على مواكبة هذه التغيرات، وسوف نستفيد من محور تركيز المجموعة وقدرتها على المناورة للتوسع في أسواق جديدة كلما رأينا فرصاً سانحة تحقيقاً لمصلحة عملائنا وشركائنا ومساهمينا.

ولطالما كانت نتائجنا مدفوعة بالتركيز المستمر على الشيء الذي نتقنه وهو تمويل التجارة. وهذا مجال عمل مليء بالتحديات واستغرق تطوره زمناً طويلاً. لكنه أيضاً مجال عمل نفهم مخاطره، وتكونت لدينا خبرة به وميزة تنافسية فيه على مر السنين. يعدّ النمو المطرد في ميزانيتنا العموميةوارباحنا منذ عام 2008 الذي شهد أسوأ أزمة مصرفية في التاريخ أثرت على المؤسسات المالية الكبرى والاقتصاد مؤشراً واضحاً على نجاح النموذج الذي نتبعه، وأنا أعترف في هذا الصدد وضميري مطمئن تماماً بالثمار التي نجنيها من عملنا انطلاقاً من مالطا وفي إطار نظامها المصرفي جيد التنظيم الذي حافظ على مكانته باعتباره واحداً من أسلم الأنظمة المصرفية في العالم.

وفي الختام أود أن أتقدم بخالص الشكر لكافة مساهمينا وعملائنا وشركائنا على ثقتهم بنا. كما أشكر مختلف الهيئات الحكومية والمؤسسات المالية على مساندتنا في أنشطتنا. وأعرب عن تقديري للإدارة ولكافة موظفينا على التزامهم ومساهمتهم التي لا غنى عنها لتحقيق نتائج قيّمة لمساهمينا وعملائنا في كل أنحاء العالم. وأخير أود أن أعرب عن عرفاني لزملائي أعضاء مجلس الإدارة الذين لم يبخلوا أبداً بإرشاداتهم الثمينة ومساندهم القيّمة طوال هذه السنوات المليئة بالتحديات.

Najeeb H.M. Al-Saleh
CHAIRMAN

mot du président

Alors que les perspectives pour 2011 s'annonçaient globalement positives, les événements qui se sont déroulés en Afrique du Nord et au Moyen-Orient ainsi que les conséquences des tremblements de terre, des inondations et des autres catastrophes naturelles partout dans le monde ont conduit à une incertitude quant à ces perspectives. La confiance des investisseurs et des consommateurs a par ailleurs été érodée par la dégradation de la note de la dette américaine par Standard & Poor's et l'amplification de la crise financière en Europe. Les pressions inflationnistes dues à la hausse des prix de base ont également contribué à contrecarrer les chances de relance économique, en freinant les échanges au cours de l'année 2011. En septembre 2011, le Fonds Monétaire International (FMI) a revu à la baisse ses prévisions de croissance du PIB mondial à 4,0 % pour l'année en cours ainsi que pour 2012, alors que le taux enregistré en 2010 était de 5,1 %.

FIMBank Group a terminé l'année 2011 avec un bilan beaucoup plus solide et d'excellents ratios de fonds propres et de liquidités. Dans un contexte financier et économique turbulent, l'accord signé avec la Société Financière Internationale (IFC) et le Fonds Saoudien de Développement pour un financement de 60 millions de dollars US a été une véritable preuve de confiance envers le groupe. Par ailleurs, les nouveaux partenariats que nous avons établis avec de grandes institutions financières se révèlent être des succès, notamment dans le domaine de l'affacturage à Dubaï, en Inde et en Russie. Notre partenariat le plus récent, au Brésil, devrait très probablement bénéficier de l'émergence de ce pays qui joue un rôle clé dans le commerce international.

Dans une conjoncture internationale caractérisée par l'incertitude, le modèle de notre entreprise - construit, amélioré et suivi sans relâche au fil des années - nous a permis de continuer à identifier et à exploiter avec succès les opportunités dans un portefeuille diversifié de produits et de marchés géographiques, démontrant la capacité de FIMBank à s'adapter et à réagir rapidement. Cela a permis à FIMBank Group de générer un bénéfice après impôt de 9,13 millions de dollars en 2011, soit une augmentation de 35 % par rapport à l'année précédente. Alors que les principales banques et institutions financières voient leur bilan diminuer, nous avons réussi à augmenter notre bilan de 15 %, dépassant pour la première fois le milliard de dollars.

Inspiré par la stratégie de croissance et les opportunités suivies par le Groupe, le conseil d'administration propose de recommander une distribution de dividende consistant en un dividende net par action ordinaire de 2,00 cents de dollar (2010 : 2,48 US cents) et 1 action gratuite pour 25 actions ordinaires (2010 : inexistant) en incorporant la prime d'émission d'actions.

L'économie mondiale fait face aujourd'hui à d'importants changements et est difficilement prévisible. Nous pouvons toutefois entrevoir une croissance continue dans les marchés où nous sommes déjà établis. Nos principales activités bancaires réalisées avec LFC, notre filiale en propriété exclusive, et nos partenariats stratégiques dans le domaine de l'affacturage nous ont aidés à nous adapter à ces changements, et nous continuerons à tirer avantage de la spécialisation et de la capacité du groupe à conquérir de nouveaux marchés identifiant de nouvelles opportunités de satisfaire nos clients, nos partenaires et nos actionnaires.

Nos résultats ont toujours été obtenus grâce à notre volonté de rester spécialisés dans ce que nous faisons de mieux, le financement des transactions commerciales. Il s'agit d'une branche d'activité exigeante dont le développement s'est inscrit sur la durée. C'est également un secteur dont nous comprenons les risques et dans lequel nous avons acquis de l'expérience et un avantage compétitif au fil des années. La croissance régulière de notre bilan et de nos profits depuis 2008, alors que la plus grave crise financière de l'histoire touchait les principales institutions et économies, démontre clairement le succès de notre modèle. À cet égard, je n'ai également aucun doute quant aux avantages dont nous avons bénéficié en développant nos activités depuis Malte et au sein du système bancaire maltais qui est parfaitement réglementé et qui reste l'un des plus sûrs du monde.

Pour conclure, je souhaiterais adresser mes sincères remerciements à tous nos actionnaires, nos clients et nos partenaires commerciaux pour leur confiance. Je remercie également les différents organismes gouvernementaux et les institutions financières pour le soutien qu'ils nous apportent dans nos activités. J'aimerais exprimer ma reconnaissance à la direction et à tous nos employés pour leur engagement et leur contribution essentielle de services de qualité aux actionnaires et aux clients dans le monde entier. Enfin, je souhaite exprimer ma gratitude à mes collègues du conseil d'administration qui ont toujours été prêts à fournir de précieux conseils et un soutien inestimable pendant ces années difficiles.

Najeeb H.M. Al-Saleh
CHAIRMAN

FIMBank Group review 2011

Margrith Lüthschg-Emmenegger FIMBank Group President

selective and focused diversification

At FIMBank we see change and innovation as a way of thinking about and managing our business. It is woven into the culture of our organisation, and the way we approach issues and decision making. We also make it a point to have a firm grasp and understanding of the diverse and complex nature of the global trade finance market and the networks of its key players.

Being a specialist trade finance bank, our customers take particular comfort in our expertise and commitment to servicing their requirements to the highest professional standards. By leveraging these qualities, we have therefore been able not only to maintain our client portfolio but indeed to grow.

Trade Finance is critical for the global economy and therefore it is essential that it be supported by the financial markets. Generally speaking, Trade Finance boasts a positive track record, as trade has a preferred payment status for countries, corporates and banks. These considerations have boosted our efforts to expand our client base and to maintain a healthy relationship with all our customers. However, in the prevailing market and political conditions, we will be particularly selective in our approach towards developing new banking and structured Trade Finance business, focusing on cross-border Trade Finance with an emphasis on emerging markets. Meanwhile, we will continue to strengthen all the integral aspects of our business model, such as equity, funding and human capital.

goals for 2011

Although the record expansion of trade and the revival of economic activity for 2010 were showing how trade, in the words of WTO Director-General Pascal Lamy "helped the world escape recession" during that year, the after-effects of the financial crisis and global recession are likely to persist for some time. Although the general outlook for global trade in 2011 remained positive, expectations for global growth during the year reflected more the limited performance in Asia and Latin America, namely due to tighter policies reacting to inflationary pressures. The outlook for Europe, on the other hand, was even more cautious as sovereign risk concerns raised their heads again towards the end of 2010 and the beginning of 2011. All of this coincided with the wave of unrest throughout North Africa and the Middle East in the first quarter of the year, which impacted on the price of oil and also affected the general mood of the market.

During 2010, we had set our sights on making inroads into new geographic and product markets and to strengthen our presence in important trading centres. This policy of diversification, a prime contributor to

FIMBank's positive financial performance that year - characterised by strong liquidity, prudent capital adequacy ratios and good asset quality - would remain a hallmark of our approach throughout 2011. Strategically speaking, our future remains tied to Trade Finance and the ability to maintain our competitive advantage in the areas of Forfaiting, Factoring and Structured Trade Finance, providing a range of Trade Finance solutions to customers with limited or no access to traditional banking solutions.

In particular, we made major inroads in international factoring during 2009 and 2010, and these were highlighted by the encouraging contribution of Menafactors in Dubai, the promising start of factoring operations in India and our belief in the potential of other markets, where we have set up joint operations with major institutional partners, such as Russia and Egypt. As one of the fastest growing emerging economies in the world, Brazil was pinpointed as the location for our next factoring joint venture.

getting the banking basics right

As we look to implementing our strategy and reaching our business goals, adherence to the basics of banking remains pivotal to our disciplined approach, especially vis-à-vis business liquidity, capital, credit and operational risk, as well as cost.

liquidity

Perennially a critical element of the management of any institution, liquidity management took on a crucial role in 2008 when it became synonymous with survival. During the year under review, we have maintained our conservative approach with regard to liquidity and successfully kept our deposit base at levels which were well above our loans, thus ensuring that we are in a comfortable position to repay the former. The Group continues to benefit from a well diversified funding base with a healthy mix of customer deposits, inter-bank funding, debt instruments with medium to long-term maturities and funding from development institutions such as the IFC.

capital

During 2011 we stuck to our mantra of keeping the values in the Group for its continuous growth, by maintaining solid capital ratios and a conservative scrip dividend policy. Meanwhile, we kept our eyes open for opportunities to attract strategic investors to support and accelerate our plans for expansion, with a view to further strengthening our capital base in anticipation of the implementation of Basle III.

The Bank's Annual Cocktail Party was held at Palazzo Parisio, an 18th century palace located in Naxxar.

As at 31 December 2011, Total Consolidated Assets exceeded, for the first time ever, the US$1 billion mark, standing at US$1.018 billion or an increase of 18 per cent over end-2010 levels. In 2002, the Balance Sheet size was of US$120 million, meaning that it has increased eightfold since then. This is considered to be a great achievement by our team.

credit and operational risk

Effective risk management underpins all the commercial decisions we take. With Trade Finance being our bread and butter, we cannot and would not want to avoid risk at all costs. Banking is, after all, a risk taking business. However, we do have solid risk management policies, as indicated by the level of our asset quality over the last years. Particularly in this environment, operational excellence and efficiencies are more critical than ever, and our systems are primed to uncover any operational weakness, such as system or process failures, documentation errors, fraud, and compliance issues. The Group's strong risk culture means that structures are in place to ensure that we are consistently taking the right risks, that we understand them fully and that we are managing them effectively.

costs

For a fast growing bank such as ours, cost control and the undertaking of investments requires a careful balancing act. In 2011, we once again managed to reduce our Group Cost Income Ratio. This fact, coupled with our intention to continue investing in expanding our business, underlines our determination to optimise the benefits we can derive from opportunities which present themselves on the market.

innovation and diversification

Ever since the Bank's inception in 1995, one of the mainstays of our corporate culture has persistently been a customer driven and accessible approach. The partnerships and long-term relationships we continue to build with shareholders, bondholders, clients, correspondent banks and associates, constitute the foundation of our success.

However, we are always aware of the risks of complacency and constantly challenge the status quo by looking for ways to engender innovation and creativity, not only to meet the challenging requirements of our clients but also to mitigate the financial risks involved in trade and to retain overall profitability. Helping our customers respond to the challenges of market conditions, and indeed our stature as an effective global player in Trade Finance, requires that we be dynamic in our approach to creating new products, ideas and structures, backed by cutting-edge technology, all the while maintaining efficient support for traditional products. This commitment has been, and will remain, an integral part of our customer promise.

We acknowledge and embrace diversification as a critical component in our quest to attain our goals by opening up opportunities, maximising return while minimizing risk. FIMBank's diversification across products, sectors and regions means that the Bank is in a position to have a presence in and make an impact across the trade flows, practically from seed to store, allowing it to offer full supply chain finance. The diverse range of services provided by the Bank continues to facilitate excellent relationships between our clients and their associates, thus also fostering their respective business growth.

Throughout 2011, our core Trade Finance product portfolio was enhanced by means of the introduction of additional supply chain finance applications. This was accompanied by an expansion in the range of our banking products which in turn reinforced our position in our downstream traditional markets in West and Central Africa.

This year's annual team building activity for local and international management involved the creation of an artistic piece by each team.

London Forfaiting who have now been at the forefront of the forfaiting industry for over 27 years have experienced a positive year with a substantial increase in its trading volumes. The establishment of factoring joint ventures in Russia, India and most recently in has extended our regional reach.

During 2011, we stepped up our efforts to bolster funding sources and build upon our equity and balance sheet base. We are always looking for ways to obtain "critical mass" with regard to equity and balance sheet size, which in turn will allow us to optimise our capabilities and potential. Attracting funding, both internationally as well as locally, remained high on our agenda throughout the year in review.

Among the highlights during 2011 was a US$60 million loan agreement with the International Finance Corporation (IFC), a FIMBank shareholder since 2005 and a partner in our factoring joint ventures in Russia, Egypt and Brazil. The loan agreement consisted of a US$15 million IFC senior loan, with a further US$45 million from the Saudi Fund for Development to be administered through an IFC trust fund. These funds are being used to support trade in emerging market countries and to help contribute to growth in major sectors of their economies, by financing trade transactions for firms in consumer goods, small machinery, raw materials and components.

The year under review also saw the Bank launching Easisave, an innovative online banking product. Easisave is designed to appeal to customers who are seeking flexibility, a high return on their savings and no fees or bank charges. This foray into retail banking, initially limited to the Maltese market, has delivered extremely encouraging results, and has served to widen our consumer base, initially in Malta but also with an eye to offering the same at a European level. As a matter of fact, by the end of the 2010, the Bank was evaluating the potential of other European markets where Easisave could be marketed and operated successfully. In the latter half of the year, the Bank finalised preparations for the launch of an Easisave joint savings account option, designed to further enhance the product's desirability. The fact that Easisave is entirely internet based and does not require a physical distribution network in the form of bank branches means that relatively low overheads are needed to develop and maintain this product.

the pursuit of excellence

During 2011, our reputation as a reliable global partner in the dynamic and specialist world of Trade Finance was further enhanced by the industry's recognition of our commitment to offer the best service possible to our clients.

Easisave, the Bank's online savings solution was launched in February of 2011.

In March, Trade Finance Magazine indicated a complex structured trade finance solution provided by FIMBank to Bauche SA as "2010 Best Deal of the Year". Later on in the year, our services were acclaimed in an international readers' poll conducted by prestigious international publication Trade & Forfaiting Review (TFR), where FIMBank p.l.c. was recognised as 'Best Factoring Institution', while London Forfaiting Company Ltd was awarded Gold for 'Best Forfaiting Institution' as well as Silver for 'Best Trade Finance Boutique'.

Towards the end of 2011, FIMBank received a double accolade. In November, FIMBank and LFC were declared 'Best Factoring House' and 'Best Boutique Trade Finance Institution' respectively by international trade finance magazine Global Trade Review (GTR). FIMBank has won the award for three consecutive years while London Forfaiting Company Ltd has won either this title or that of Best Forfaiting House many times over the last years. Finally in December, Global Finance, a leading global corporate finance monthly magazine, proclaimed FIMBank as the Best Trade Finance Bank in Malta for 2012.

our people... our most formidable asset

Trade finance hinges very much on relationships, and if the extent and quality of these relationships is any indicator of success in this business, we owe it all to our people. FIMBank's corporate culture has always laid extraordinary emphasis on the value of its human resources and acknowledges the decisive contribution of its people to the Group's growing reputation as a reliable global partner in the dynamic and specialist world of Trade Finance.

The key to optimal performance across the Group is having engaged committed people. Over the years, we have managed to forge a team of exceptionally capable multi-lingual professionals, each of whom has brought a wealth of experience, technical skills and specialist knowledge to the provision of services delivered with competence, courtesy, efficiency and overall proficiency. On the whole, our team is fairly young - young people are our future and we need to provide them with the right environment to develop and prosper - however, we also have quite a few seasoned and experienced bankers guiding and channelling the energies and dynamism of the younger professionals.

FIMBank supported the National Theatre with the purchase of Manoel Theatre's first Harpsichord.

As a result of a strategy which seeks to constantly review and reinforce our ability to meet the needs of our clients and partners across the globe, and in the light of the expanded scope of our activities, we are always looking for experienced and highly skilled professionals to bolster our team. During the year in review we announced several key appointments - all top specialists in their respective fields - to further boost our level of expertise and the Bank's senior management team. A programme of staff development courses designed to enhance the technical skills and specialist knowledge of our people at all levels was once again implemented. These initiatives are central to the strengthening of our competitive edge and will undoubtedly contribute towards the achievement of our strategic objectives.

Once again, our senior executives were brought together in Malta for our annual Offsite Team Building event. This year, in addition to the cross fertilisation of business experiences and ideas, which is essential to a global concern such as FIMBank, the more informal part of the agenda took the form of a very interesting showcase of our colleagues' diverse artistic inspirations and abilities.

sound, efficient management

Our management and business model has been tested relentlessly over the past two years and has proven to be resilient within the context of a persistently challenging environment.

This year's positive outcome owes a lot to this robust set up, which is based on a strong focus on our core competence, international Trade Finance, while maintaining healthy diversification, not only with regard to risks but just as importantly, in relation to income streams and trade flows.

The fact that we operate within the well-regulated environment of the Maltese banking system has also proven beneficial and complementary to the way we operate. These factors contributed to FIMBank maintaining its Fitch rating which is a significant development since, FIMBank remains one of few banks in the world which have never been downgraded.

Being a specialist Trade Finance bank, we seek a good balance between generating adequate returns and supporting trade, customers and countries. Compliance, Anti-Money Laundering and Anti-Terrorism Prevention is important in all businesses but it is a more complex challenge in Trade Finance, and here again FIMBank has applied the highest standards possible. We also apply a healthy and balanced policy with regard to payments of bonuses, designed to reward and motivate without being excessive – a policy which appears to be paying off.

FIMBank's innovative, customized structure trade finance solutions add value and go beyond the classical off-the-shelf trade finance products.

India Factoring was officially inaugurated in New Delhi, India in the presence of India's Union Minister of State for Finance Shri Namo Narain Meena and the Chairman of Punjab National Bank Shri K. R. Kamath.

the future is factoring

As more and more buyers demand open account conditions rather than letters of credit, the role of Factoring in international trade continues to assume greater relevance and importance, particularly with regard to exports from emerging markets to the more developed countries and regions. The liquidity crisis brought Factoring and its benefits to the forefront and today, this product's ability to facilitate domestic and international trade while mitigating risks and improving cash flows is becoming increasingly recognised. Factoring has been confirmed as the fastest growing product in trade finance, outperforming all other tools. The place which Factoring occupies within FIMBank's map of strategic priorities also reflects our acknowledgement of the importance of SMEs as the backbone of international trade and our long-standing commitment to support them.

India Factoring, which was officially launched in January 2011, has experienced an encouraging start to our operations in India, while in Dubai we hope to see a continued strengthening of the business and economic environment in the region, which will boost the performance of MENAFactors. We continue to believe in the medium to long-term prospects of markets such as Russia, where FactorRus is already breaking even. Egypt Factors, on the other hand, faces a difficult scenario as the country seeks to implement political and economic reforms. However, we are confident that the management team there is well organised to take advantage of opportunities which will undoubtedly arise in this market. Meanwhile, the economic growth and trade expansion prevalent in Brazil should enhance the prospects for our BrasilFactors venture, which was launched in the latter part of 2011.

Our partners in these joint ventures, all leaders in their respective markets, are attracted to FIMBank by our expertise in these highly specialist products, our quality and our determination in bringing these products to our target markets in line with the highest professional standards. FIMBank's technical expertise and ISO certified factoring back-office operations offers partners additional comfort when evaluating international factoring ventures. We are pleased to state that our work to date sees FIMBank in a strong strategic position and well placed to launch the next phase of our journey.

part of the community

At FIMBank we understand that Corporate Social Responsibility (CSR) should reflect the commitments we make to our clients, shareholders, employees and the Maltese community, within the ambit of our core values. We are a Malta-based bank with a global mission, and as such we recognise the fact that our conduct - whether social, environmental or ethical - has an impact on the Bank's reputation and on the community within which we operate. Consequently, we take our corporate social responsibilities seriously.

We consider ourselves fortunate to have Malta as our home, and we always make it a point to emphasise how much we have benefited from basing our operations on these islands. Our CSR projects are therefore primarily aimed at giving something back to the Maltese people, and throughout the year under review we supported a number of initiatives that benefit the local community.

In June, we announced our intention to sponsor the conservation of the nine monuments which adorn the Maglio Gardens in Floriana, better known to the Maltese as "il-Mall". This project will be implemented once all the relevant planning permits are in hand. During the year in review, we also reached an agreement with the Teatru Manoel, Malta's National Theatre, whereby FIMBank sponsored the acquisition of a harpsichord for the theatre. The arrival of this baroque instrument at Malta's national theatre and its inauguration was celebrated at a press launch held in October.

The Bank also supported a number of diverse cultural events held on the island throughout the year, including the renowned Malta Jazz Festival, a major crowd puller for jazz aficionados worldwide, and MADC's popular Christmas pantomime, a family favourite over the holidays.

Meanwhile, as the civil war in Libya escalated in September, FIMBank embarked on an initiative intended to facilitate the urgent shipment of medicinal supplies to Libya. This was endorsed by Actavis, one of the world's leading players in the development, manufacture, and sale of first-class generic pharmaceuticals. Actavis, which operates a manufacturing plant in Malta, also agreed to provide part of the required supplies free of charge. On its part, FIMBank waived all fees and interest charges for international trade services connected with this shipment. The initiative received the support of Maltese government and other public agencies, including the Sanctions Board, the Customs Department and the Malta Financial Services Authority, which expedited the bureaucratic process involved.

we're here to stay

If nothing else, the way FIMBank has managed to ride the turbulence of these past years, while retaining a robust level of profitability and diversifying successfully both product and market-wise, has shown the mettle of the Bank in financial terms as well as in the way it does business. As often happens when partners face tough times together, this experience has also further reinforced our already strong bond with associates and customers worldwide. Now more than ever, we remain committed to providing added value to our shareholders, our clients worldwide, our global associates and to the local community.

As part of its Corporate Social Responsibility FIMBank will be supporting the conservation of all monuments with the Maglio Gardens in Floriana.

Our mission is to provide Trade Finance solutions globally, and to do so profitably, securing ever higher returns while mitigating risks. In this regard, we will continue to be innovative in the way we service our customers' requirements and in the choice of markets we decide to operate in. The global nature of Trade Finance requires our presence in countries as diverse as the United Kingdom, Brazil, Russia and India. Being based in Malta, a forward-looking and reputable financial centre and the hub of Mediterranean trade routes throughout the millennia, undoubtedly complements our standing as an institution which sets great store by its role as a facilitator of trade between developed and emerging economies.

Meanwhile, in 2012 we plan to relocate to our new Malta head office at Mercury Tower, which forms part of the 'The Exchange', the financial and business centre in the heart of St. Julian's. FIMBank's head office will become a prominent feature of the St. Julian's skyline.

The implementation of effective cost control and value engineering methods have been a key element of the project since its inception, and these have resulted in maximised value in terms of cost, quality and time. We consider location, functionality, flexibility and sustainability as the four key features of our new home. The architectural design of the headquarters, both internally and externally, has been crafted by leading Mediterranean design and architecture professionals, which has added to the development's iconic appeal and advanced functionality. However, the building's design will not only be aesthetically pleasing but also energy efficient and environmentally friendly.

the year ahead

The year 2011 was one of contrasting fortunes. Developed countries showed marginal growth amidst an escalating sovereign debt crisis in Europe whilst the developing world forged strongly ahead, significantly contributing to overall world growth. The political upheavals in North Africa and the Middle East have opened up the future of these regions to a plethora of potential scenarios. It is too early to say what the long-term repercussions of these events will be.

Operating in a volatile global economic environment has become the norm. We will all be affected by the relentless shocks which the financial markets are being subjected to. Some countries will benefit from these, while others will suffer. However, FIMBank is involved in implementing short term trade finance and is amply diversified with regard to exposure as well as products, a factor which will prove critical in lessening the impact for us. At the end of the day we are confident that it will all balance out and that the outcome can be managed.

We remain guided by our culture and values, particularly in relation to the way we implement our

An artistic impression of the Bank's new Lobby within Mercury Tower, the Bank's new head office in St. Julian's.

A growing network of international factoring joint ventures.

modus operandi across continents, products and market segments. We will maintain focus on developing deep and long-standing relationships with our clients and partners, and on refining further our service and solutions. Even though we have an enviable record in this regard, we will pursue with renewed vigour the basics of banking, balancing our quest for growth with a fiscal regime of cost and risk management, while building on our strong capital and liquidity positions.

Growth will be coming from the emerging markets, and Africa especially certainly has considerable potential – however this continent needs time and patience to develop due to the politically unstable environment. The commodities which emerging markets can offer will play an important part in the future of international trade.

We see positive opportunities for our specialist and diverse trade finance activities this year; and we face the challenging future with optimism, knowing that the Group is well positioned to succeed in the new financial landscape.

directors' report

For the Year Ended 31 December 2011

The Directors are pleased to present their report together with the audited financial statements of the Bank and the Group for the year ended 31 December 2011. This report is prepared in terms of the Companies Act, 1995 (Chapter 386, Laws of Malta, "The Companies Act") and complies with the disclosure requirements of the Sixth Schedule to the same Act.

results for the year

The Bank and the Group reported a profit after tax of USD1,839,234 and USD9,126,779 respectively for the year under review.

Further information about the results is provided in the "Income Statements" and the "Statements of Comprehensive Income" on pages 40 to 41 and in the "Review of Performance" below.

principal activities

The FIMBank Group of Companies (the "Group") comprises FIMBank p.l.c. (the "Bank"), and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), and FIMFactors B.V. ("FIMFactors"). LFC is itself a parent of a number of subsidiaries as set out in note 26.1 to the financial statements whilst FIMFactors is the parent of a wholly owned subsidiary Menafactors Limited ("Menafactors"). A brief description of the activities in the FIMBank Group follows (% shareholding follows after the name):

a. The Bank is a public limited company registered under the laws of Malta, and listed on the Malta Stock Exchange. It is licensed as a credit institution under the Banking Act, 1994. The Bank is principally active in providing international trade finance and to act as an intermediary to other financial institutions for international settlements, forfaiting, factoring and loan syndications. The Group is supervised on a consolidated basis by the Malta Financial Services Authority, whilst Menafactors and FIMBank's Branch in the United Arab Emirates are licensed and regulated by the Dubai Financial Services Authority.

b. LFC (100%) is registered in the United Kingdom as a private limited liability company. It was founded in 1984 and provides international trade finance services (with particular focus on forfaiting business) through an international network of offices. Some of these offices have distinct corporate status in the various jurisdictions where they are providing the service. LFC's activities include the trading of bills of exchange, promissory notes, loans, deferred payment letters of credit and the provision of other financial facilities to companies and banks.

c. Menafactors (100%) is incorporated in the United Arab Emirates and is licensed and regulated by the Dubai Financial Services Authority to provide international factoring and forfaiting services in the Gulf and MENA region. The Bank's holding in Menafactors is through FIMFactors. Menafactors, in turn, holds 50% in Levant Factors S.A.L. (2010 – 25%), a company registered in Lebanon.

d. FIMFactors B.V. (100%), registered in the Netherlands, is the corporate vehicle for FIMBank's holdings in factoring joint ventures and associated companies.

e. 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, to correspondent banks as well as to third party factoring services providers.

f. FPI (100%), registered in Malta has been set up with the primary objective to plan, construct and complete FIMBank's head office in Malta. FIM Property Investment Limited will also be responsible for the day-to-day management of the purposely built office block and leasing, if any, of space for commercial purposes.

The Bank also holds the following equity investments:

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

h. through its wholly owned subsidiary FIMFactors in:

   i. CIS Factors Holdings B.V. ("CIS Factors" - 40%), a company set-up under the laws of the Netherlands with the aim to serve as an investment vehicle for a factoring company incorporated under the laws of the Russian Federation and which provides factoring services in Russia. CIS Factors' other shareholders are the Joint Stock Bank Transcapitalbank ("Transcapitalbank") and the International Finance Corporation ("IFC"), holding 40% and 20% respectively.

   ii. India Factoring and Finance Solutions Private Limited ("India Factoring" – 49%), a company incorporated under Indian law with the aim to provide factoring, forfaiting and trade finance related activities in India. The other shareholders are Punjab National Bank (30%), Banca IFIS (10%), Blend Financial Services Limited (1%) and India Factoring Employee Welfare Trust (10%). India Factoring is regulated by the Reserve Bank of India.

   iii. BRASILFACTORS (40%), a joint venture with headquarters in São Paulo, Brasil, with its core business focused on factoring services and forfaiting targeting small and medium-sized companies. The other shareholders are Banco Industrial e Comercial S.A. ("BICBANCO") with 40% and the IFC with 20%. BRASILFactors' was inaugurated in November 2011 with an initial paid-up capital equivalent to USD10 million, which may increase to the equivalent of USD25 million in progressive future calls as the business develops.

review of performance

After a reasonably optimistic start to 2011 and the hope that wide-ranging monetary and fiscal measures across major economies could help revive confidence in international trade and bring back some stability in the financial markets, the political turmoil that spread across North Africa and the Middle East brought caution again to the fore. Most of the year remained characterized by continued uncertainty in Libya, a cautious return to normality in other parts of North Africa and deepening economic problems around the Mediterranean rim which have been threatening the stability of the Eurozone. As the Group's exposures in Libya and Egypt were kept well under control, the search started for opportunities that may present themselves once things become more stable, the FIMBank Group's strongest credentials being its experience and expertise in supporting trade and ability to attract new business in the region.

For the year ended 31 December 2011, FIMBank Group delivered an after tax profit of USD9.13 million, compared with USD6.74 million in 2010, with Group Basic Earnings per Share of US cents 6.69 (2010 – US cents 4.97).

income statement

The Group's Operating Income after Net Impairment increased by 16% over the same period in 2010, from USD32.24 million to USD37.40 million. Net Interest Income increased by 4% with net interest margin of 46% of Gross Interest Income (2010: 58%). Group Interest Income increased by 30% to USD29.18 million as a result of increases in trade finance and discounting facilities, syndications, forfaiting and factoring business. Financing costs increased by 66% over the levels recorded in 2010, reflecting the Group's continued efforts to grow its deposit base from banks and corporates, in a macroeconomic environment dominated by limited liquidity and more expensive pricing. Net Fees and Commission decreased by 4% mainly as a result of a more prudent approach towards documentary credit business in the MENA countries in view of the political events and subsequent economic turmoil in the region. This decrease was compensated by an increase in net profits from the Group's Forfaiting Assets of USD1.63 million – such assets having a different regional exposure which experienced less volatility during the year under review. The Group also reported net realised and unrealised foreign exchange profits of USD0.54 million (2010 – loss of USD2.29 million). These were coupled by realised gains on derivative instruments, mainly currency forward and swap contracts, used in hedging the Group's currency exposures, which amounted to USD3.69 million. Losses on other financial assets carried at fair value, namely marked-to-market losses on the Bank's Trading Book, amounted to USD1.05 million. Net Impairment losses amounted to USD0.13 million, well below the levels reported for 2010.

directors' report - continued

This was a result of a) reversals of USD0.48 million in the Collective Impairment charge due to a decrease in the level of non-collaterised funded and unfunded lending portfolio; and b) charge of USD0.61 million in Specific Impairment allowances and write-offs, well below the USD2.28 million reported in 2010, which comparative year was impacted by charges booked in the factoring book of Menafactors.

Group Operating Expenses amounted to USD28.92 million, a 16% increase over the levels for the same period in 2010. Administrative costs, including staff costs, increased by 19% to USD27.80 million. The Group's Associated Entities returned a net loss of USD0.19 million, comparing favourably with 2010 net losses of USD1.0 million. This as a result of improved performance registered in India and Russia, compensated by losses registered in Egypt. The Group booked a net tax credit of USD0.85 million for 2011, mainly as a result of previously unrecognized deductible temporary differences.

The Bank's Operating Income after Impairment Allowances increased by 13% over the same period in 2010, to USD22.37 million. Net Interest Income increased by 16%, whilst Net Fee and Commission decreased by 5% or USD0.65 million, largely mirroring the performance of the Group. Realised and unrealised foreign exchange profits amounted to USD0.32 million (2010 – loss of USD3.03 million) coupled with realised gains on derivative instruments held for risk management purposes, mainly currency forwards and swaps, which amounted to USD3.70 million. The Bank's Financial Assets carried at Fair Value returned a loss of USD1.11 million. Net Impairment Allowances moved from net impairment loss of USD1.49 million to net impairment reversals of USD0.33 million, due to a reversal in Collective Impairment charges of USD0.52 million, offset by net Specific Impairment charges and Write-offs on the Bank's exposures of USD0.19 million. Total Operating costs for the Bank amounted to USD21.35 million, increasing by 21% over the 2010 levels. After accounting for net tax credits of USD0.82 million, the Bank posted an after tax profit for the year ended 31 December 2011 of USD1.84 million (2010 – USD2.63 million).

financial position developments

Total Consolidated Assets as at 31 December 2011 exceeded the USD1 billion mark and stood at USD1,018 million, an increase of 18% over end-2010 figures. Loans and Advances to Banks saw the largest increase of USD91 million, an increase of 28% reflected in increases in short-term money market placements and deposits partially offset by drops in discountings and advances. Trading Assets, mainly made up of LFC's forfaiting portfolio, increased by USD27 million to USD230 million, reflecting LFC's ability to capitalize on new business opportunities arising from improved marketed conditions and increased funding. Loans and Advances to Customers increased by USD22 million, an increase of 10% over end-2010, reflecting increases in loans and advances compensated by decreases in discountings and syndications. Financial Assets carried at Fair Value stood at USD41 million at year-end, a decrease of 9% when compared to the levels reported in 2010, the decrease mainly as a result of the disposal of the investment portfolio at Menafactors and marked-to-market reductions in the Bank's portfolio. Investments in equity-accounted investees increased by 47% (USD7 million) to USD23 million, an increase mainly attributable to new equity investment in Brasil and fresh injections of equity in India Factoring. The Group, through FPI, continued with the development of its Head Office at The Exchange, Pendergardens, with a further investment of USD10 million in 2011. The construction of the Group's Head Office will be finalised during 2012.

Total Consolidated Liabilities as at financial reporting date stood at USD893 million, up by 21% (USD153 million) on 2010. Significant increases were recorded in Amounts owed to Customers, increasing by 41% (USD120 million), reflecting the USD60 million Syndicated Loan arranged by the International Finance Corporation ("IFC") and an increase of USD60 million in Collateral Accounts held against advances and discounted documentary credits. Amounts Owed to Banks stood at USD365 million as at 31 December 2011, increasing by USD33 million (10%) over end-2010. Movement in the Group's debt securities and subordinated debt largely reflects the currency fluctuations in the Euro-denominated 7% and 4.25% Bonds. During 2011, LFC continued developing its own funding resources through issues of promissory notes and the Bank also redeemed part of the IFC Subordinated Loan in line with the loan agreement.

Group Equity as at 31 December 2011 stood at USD125 million, up by 3% when compared to the equity levels reported at 31 December 2010, reflecting the profit performance for the year as well as the equity retention resulting from the scrip dividend approved in May. Consolidated Basle II Capital Adequacy ratio of 19.3% (2010 – 20.6%), remained very strong and well above the regulatory minimum of 8%. Liquidity, with ratios averaging 53% during 2011, was prudently and consistently maintained above the 30% minimum regulatory requirement.

Group commitments, comprising mainly confirmed letters of credits, documentary credits, commitments to purchase forfaiting assets, factoring commitments and undrawn credit facilities, increased to USD164 million (2010 – USD197 million), with reported increases in commitments to purchase assets set-off by decreases in issued and confirmed documentary credits and undrawn credits. Contingent liabilities stood at USD67 million at 31 December 2011, up by 75% on 2010.

While 2011 has proved once more the FIMBank Group's ability to navigate the troubled waters of prolonged economic difficulties in major advanced nations coupled with political unrest in key markets, 2012 should bring much needed hope that the worst may indeed be over. The Group has a demonstrated track record of turning problem times into opportunities, and 2011 has been no exception, however current market conditions continue to call for prudence, attention to strong risk management, compliance and focus on doing what the Group knows best – trade finance and emerging markets. 2012 will also start to see the business landscape affected by the onset of Basle III which, in the coming years, will introduce more stringent requirements for capital adequacy and liquidity, in particular. Despite these stiff challenges, the FIMBank Group has now established a wide and diversified product range which, driven by strong business fundamentals, will continue to provide it with opportunities to grow and profit.

dividends and reserves

The Directors will be recommending to the Annual General Meeting of shareholders the payment of a scrip dividend amounting to USD2,738,034 (2010: USD3,371,955), representing a net dividend per ordinary share of US cents 2.003884 (2010: US cents 2.480242). Moreover, the Directors will be recommending a 1 for 25 Bonus Issue of Ordinary Shares by way of capitalisation of the Share Premium Account.

standard licence conditions and regulatory sanctions

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

approvals at the annual general meeting of shareholders

The Bank convened its Annual General Meeting on 5 May 2011. Along with the statutory Ordinary Resolutions, the Meeting also approved Ordinary Resolutions presented as special business to the shareholders, namely authorising the disclosure of unpublished price-sensitive information under certain circumstances and renewing the Directors' authority to issue new equity securities. Furthermore, two Extraordinary Resolutions were approved, namely: renewal of the Directors' authority to restrict or withdraw statutory pre-emption rights and authority to the Bank to acquire its own shares.

A number of other Extraordinary Resolutions were presented and approved all connected with the Prospectus dated 6 April, 2011 and issued by FIM Holdings p.l.c. and the share for share Exchange Offer made by FIM Holdings p.l.c. to the shareholders of FIMBank p.l.c. by means of the Prospectus.

These Resolutions consisted of amendments to:

a. the Executive Share Option Scheme Rules in existence; and
b. the Articles of Association of FIMBank by the insertion of a new Article 48A on Limited Drag-Along Rights as detailed in the Notice to Members and subject to the applicable regulatory approvals.

Moreover, in terms of the requirements of Appendix 1.1 of Chapter 1 of the Listing Rules, the Meeting then proceeded to take a poll on the final Resolution, which requested that:

a. subject to the necessary regulatory approvals;
b. subject to the Exchange Offer becoming unconditional as per the terms and conditions of the Prospectus; and
c. with effect from such date and time as may be decided in conjunction with the Listing Authority and the Malta Stock Exchange,

all the ordinary shares of FIMBank p.l.c. be de-listed from the Official List of the Malta Stock Exchange.

The vote was carried.

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

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

disclosure in terms of the listing rules

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

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

b. Except as provided for by Articles 6A and 41 of the Articles of Association of the Bank, or where the consents of the supervisory authorities may be required, there are no restrictions on the transfer of securities, or limitations on the holding of securities, or the need to obtain the approval of the Bank or other holders of securities of the Bank for any such transfer or holding.

c. Shareholders holding 5% or more of the Share Capital as at 31 December 2011 are as follows:

	Number of Shares	Percentage Holding
Massaleh Investments K.S.C.C.	55,196,120	40.40%
Fouad M. T. Alghanim	8,399,344	6.15%
International Finance Corporation	7,967,738	5.83%
Astrolabe General Trading & Contracting Company	7,829,384	5.73%

d. In accordance with Article 6A of the Articles of Association of the Bank, for a number of reserved matters, the Bank needs to obtain the prior written consent of the International Finance Corporation. The reserved matters are the following:

- Reduction in the capital of the Bank;
- Change in the nominal value of, or the rights attached to any shares of any class of the Bank, unless this is specifically required by Maltese law;
- Merger or consolidation of the Bank;
- Material reorganization of the Bank;
- Sale of all or substantially all of the Bank's assets;
- Change in the Bank's capital structure, except for the issuance of any new shares or securities convertible into shares. In case of issue of new shares or securities convertible into shares, the Bank needs to inform the IFC 90 days prior to the issuance of such shares; and
- Alteration or amendment to the Memorandum or Articles of Association.

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

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

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

g. Except for the effects, if any, of the Put Option and Share Retention Agreement in place between IFC and Massaleh Investments K.S.C.C. whereby Massaleh may not, without the express consent of IFC, transfer or in any manner permit a lien on its shareholding if this will result in its holding to fall below 30%, there are no agreements between shareholders, known to the Bank, which may result in restrictions on the transfer of securities and/or voting rights.

h. The rules and procedures governing the appointment and replacement of Board members are provided by the Articles of Association and are referred to in the "Statement of Compliance with the Principles of Good Corporate Governance". Any amendments to the Articles shall be by means of an Extraordinary Resolution in accordance with the provisions of Articles 90 and 91.

i. At the 2011 Annual General Meeting the Bank requested and obtained a renewal authorisation from the shareholders to buy back its own shares, as indeed empowered to do so by Article 23 of the Articles of Association. Such authorisation is required in terms of the Companies Act and is valid until the Annual General Meeting in 2012. The number of shares which the Company is authorised to buy back may not exceed the maximum permissible at law, i.e. up to 10% of the issued share capital. Any prospective acquisition will be financed from profits available for distribution in terms of law. The Bank has declared that it would be its intention to acquire such shares with a view to dispose of them in an orderly manner and within a reasonable time-frame; they will neither be retained as own shares for a considerable period of time nor cancelled as part of a capital reduction exercise. The price range was established to be between USD 0.500 and USD 1.500, per ordinary share.

j. Unless otherwise disclosed in this Annual Report, there are no significant agreements to which the Bank is a party and which take effect, alter or terminate upon a change of control of the Bank following a takeover bid and the effects thereof.

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

events after the financial reporting date

There were no material events or transactions which took place after the financial reporting date which would require disclosure in or adjustment to this annual report and financial statements.

going concern

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

directors

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

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

directors' report - continued

independent auditors

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

Approved by the Board of Directors on 12 March 2012 and signed on its behalf by:

Najeeb H.M. Al-Saleh
Chairman

John C. Grech
Vice Chairman

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

statement of compliance with the principles of good corporate governance

For the Year Ended 31 December 2011

introduction

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

part 1: compliance with the principles

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

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

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

principle 1: roles and responsibilities of the board

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

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

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

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

principle 2: roles and responsibilities of the chairman and of the president

The roles of Chairman and President (or Chief Executive Officer) are completely separate from one another. The Chairman is a non-executive office who is selected from amongst the Directors. The Chairman is responsible for leading the Board and setting its agenda, ensuring that the Directors receive precise, timely and objective information so that they can properly execute their duties, encouraging their active engagement in meetings and issues and ensuring effective communication with shareholders.

The President is the most senior executive of the Group. She is responsible to lead the Management in the execution of the strategy and to run the day-to-day activities of the Group.

principle 3: board composition and appointment of directors

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

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

	Year when first appointed
Najeeb H.M. Al- Saleh (Chairman)	1994
John C. Grech (Vice-Chairman)	2004
Tareq M. Al-Saleh	2004
Hamad Musaed Bader Mohammed Al-Sayer	2002
Fouad M. T. Alghanim	1997
Pierre Olivier Fragnière	2007
John D. Freeman	2008
Rogers David LeBaron	2006
Jacques Leblanc	2004
Gerard Lohier	2009
Mohamed I.H. Marafie	1994
Francis J. Vassallo	2003

Except for their involvement in Board Committees as described in Principle 8 below, all Directors hold office in a non-executive capacity.

Although the Directors have not so far been asked to make a written declaration of independence, this will be addressed early in 2012. Notwithstanding this, that a number of Directors hold shares in the Bank or are associated with beneficial interests in shareholdings in the Bank and that certain of those Directors have served on the Board for more than 12 years, the Board considers that all Directors bring a sufficiently balanced character and frame of mind to their duties and judgment that they are consequently deemed to be independent.

principles 4 and 5: duties and proceedings of directors

The Board of FIMBank carries out its duties through a structure that starts from the strategy and policy which it formulates at meetings, and delegated to Committees and Management for implementation and execution at various levels, both functional and operational.

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

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

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

principle 6: information and professional development

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

The intranet facility introduced in 2011 makes it easier for documents, materials and presentations, including professional resources and access to sources of online information, to be made easily accessible to Directors. Wherever possible and feasible, training and education opportunities, e.g. attendance at conferences, are also brought to the attention of Directors.

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

principle 8: board committees

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

Accordingly, the Board has established the following committees:

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

The Bank has so far opted not to constitute a Nominations Committee. Further explanation is provided under the section entitled 'Non-Compliance with the Principles' of this Statement.

executive committee

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

The members of the Executive Committee are:

Gerard Lohier (Chairman)
Najeeb H. M. Al-Saleh
Tareq M. Al-Saleh
Pierre Olivier Fragnière
Jacques Leblanc
Francis J. Vassallo
Margrith Lütschg-Emmenegger
Armin Eckermann
Marcel Cassar
Simon Lay
Christian Bless (appointed with effect from 3 March 2011)

The Executive Committee met on 5 occasions during 2011, however communication with and between Management and the Committee's members is regular and ongoing.

The Executive Committee has delegated the review, approval and monitoring of the Group remuneration policy to a sub-committee constituted from amongst its members. The Compensation Committee meets periodically to consider and monitor remuneration policy, bonuses and share options allocation to staff, within the parameters set by the Board. More information about the work of this Sub-Committee is contained in the separate Remuneration Report, which also includes the remuneration Statement in terms of Principles 8.A.3 and 8.A.4.

audit committee

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

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

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

The members of the Audit Committee are:

John D. Freeman (Chairman)
Hamad M.B.M. Al-Sayer
Tareq M. Al-Saleh.

The member of the Audit Committee who, as required by the Listing Rules, is designated as independent and competent in auditing and/or accounting is John D. Freeman. Mr. Freeman served for many years as President and Managing Director of Quabbin Capital, a private equity investment firm as well as a board member of a number of its portfolio companies. The Head of Internal Audit attends all meetings and acts as Secretary of the Audit Committee. The Audit Committee normally requests members of Management to attend its meetings, and these invariably include the President.

The Audit Committee held 4 meetings during 2011, at one of which the independent external auditors were present. However, communication with and between the Secretary/Head of Internal Audit and the Committee's members is ongoing, and considerations that required the Committee's attention were acted upon between meetings and decided by the Members (where necessary) through electronic circulation and correspondence.

risk committees

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

Certain powers of the Board Risk Committee have been delegated to the Management Risk Committee. Consequently, the Management Risk Committee decides on credit applications up to and including USD10 million. Credit applications exceeding USD10 million up to the Bank's legal lending limit are decided by the Board Risk Committee. Additional limits of authority based on specific criteria and up to a maximum of USD3 million have been delegated to Management.

The Board Risk Committee members are:

Francis J. Vassallo (Chairman)
Margrith Lütschg-Emmenegger (Vice Chairman)
Gerard Lohier
Armin Eckermann
Marcel Cassar

The Management Risk Committee members are:

Margrith Lütschg-Emmenegger (Chairman)
Armin Eckermann (Vice Chairman)
Giovanni Bartolotta
Marcel Cassar
Simon Lay
Carmelo Occhipinti
Renald Theuma
Christian Bless (appointed with effect from 3 March 2011)

Additionally, the Head of Legal has right of attendance at Committee meetings. The Head of Risk Management acts as secretary to the Board Risk Committee and is responsible for the secretarial support to both committees.

During 2011, the Board Risk Committee met on 24 occasions and the Management Risk Committee met on 21 occasions.

asset-liability committee

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

The Asset-Liability Committee members are:

Francis J. Vassallo (Chairman)
Margrith Lütschg-Emmenegger
Armin Eckermann
Marcel Cassar
Carmelo Occhipinti

In addition, Aly Siby, Head of Corporate & Institutional Banking, Toufic Yafaoui, Head of Treasury and Ronald Mizzi, Head of Finance, are non-voting members of the ALCO and attend all meetings.

During 2011, the ALCO met on 3 occasions.

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

All eligible shareholders are served with a notice to attend the Annual General Meeting, which is held during the first half of the year. The notice contains all the resolutions proposed for approval by the Annual General Meeting and, as necessary, notes accompanying such resolutions. Pursuant to the Companies Act, notices are delivered to shareholders at least 14 clear days before the date of the Annual General Meeting. Advance notification of the resolutions proposed for approval is also given by way of a Company Announcement as soon as these are decided and approved, normally at the same Board meeting that approves the Annual Financial Statements. The Board also considers the Annual Report to be an effective document which, in addition to the statutory disclosures, contains detailed information about the Group's performance. Moreover, the Board ensures that the Annual General Meeting serves as a medium at which information is communicated to shareholders in a transparent and accountable manner. Additionally, the Bank holds meetings from time to time with financial intermediaries and financial market practitioners to disseminate information about the Group's progress, activities and financial performance. These meetings are usually organised to follow the publication of the half yearly and annual financial results as well as in connection with other Group developments and events, e.g. the Exchange Offer by FIM Holdings p.l.c. in the first half of 2011.

The Board complies with the provisions of the Bank's Memorandum and Articles of Association, as well as all legislation, rules and regulations that oblige it to maintain a fair and informed market in the Bank's equity securities. It discharges its obligations by having in place formal procedures for dealing with potentially price-sensitive information and ensuring the proper conduct of its officers and staff in that regard. Regular contact with shareholders and the general market is maintained through company announcements, which are issued in conformity with the obligations arising from the Listing Rules. During 2011 the Bank issued thirteen announcements. More specifically, in accordance with Listing Rules 5.86 et seq., two announcements were made regarding the Interim Directors' Statements, on 17 May 2011 and 15 November 2011 respectively.

The Bank also maintains a presence on the web through www.fimbank.com, which includes an informative and comprehensive 'Investor Relations' section that contains, amongst other things, all company announcements, Annual General Meeting information, regulated information and press releases. The section was upgraded and enhanced in 2011 and will be upgraded again in early 2012.

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

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

principle 11: conflicts of Interest

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

The number of shares held in the Bank by Directors directly in their name as at 31 December 2011 is as follows:

Najeeb H.M. Al- Saleh * (Chairman)	2,043,817
John C. Grech * (Vice-Chairman)	541,217
Tareq M. Al-Saleh *	Nil
Hamad Musaed Bader Mohammed Al-Sayer *	Nil
Fouad M. T. Alghanim	8,399,344
Pierre Olivier Fragnière	Nil
John D. Freeman	Nil
Rogers David LeBaron	Nil
Jacques Leblanc	Nil
Gerard Lohier	Nil
Mohamed I.H. Marafie *	495,765
Francis J. Vassallo	Nil

Aside from these direct interests in the shareholding of the Bank, the directors marked above with an * are considered to be associated with companies that hold a beneficial interest in the Bank's shareholding . Other than in the case of the IFC – who has the right to appoint a Director pursuant to the Bank's Memorandum of Association - no shareholder is entitled to any automatic right to nominate or appoint a director on the Board. Details of outstanding loans, guarantees or similar facilities made available to related parties or beneficial interests thereof, including directors, are disclosed in the Notes to the Financial Statements.

principle 12: corporate social responsibility

The Board of Directors encourages that sound principles of corporate social responsibility are adhered to in the ongoing management practices of the Group. As a result, from time to time the Bank and its subsidiaries are involved in supporting initiatives at both national and community level aimed at contributing to economic and societal development. They also assist and promote small-scale projects of a charitable and humanitarian nature. Details of corporate social responsibility initiatives undertaken by the Group in 2011 are explained in other parts of the Annual Report.

part 2: non-compliance with the principles

executive and non-executive directors on the board

The Board is composed entirely of non-executive Directors, however the President and two other senior executive members of management attend all meetings of the Directors. In addition, the Board has also constituted an Executive Committee which is composed of a majority of Directors with the balance being represented by members of management.

board meetings

The Board held 6 meetings during 2011, of which 4 were held with Directors being asked to attend in person while 2 were held via long-distance conferencing facilities. The overall attendance rate for the 4 physical meetings was 83% while for the 2 held by conferencing the attendance rate was 71%. So far, there has not been the practice of communicating the individual attendance of shareholders at meetings to the Annual General Meeting. In cases where a Board Member has been absent from attending successive meetings, the Board considers the overall commitment, support and contribution of that Director aside from the mere physical attendance at meetings, especially where the Director is representing an important equity interest in the Bank.

succession policy for directors

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

nomination committee

The manner in which the Directors are nominated for appointment follows the procedure set out in the Articles of Association, i.e. any nomination must be seconded by a member or members who in the aggregate hold at least 20,000 shares. This process is also rendered public with an announcement in the Malta press, usually in the first quarter of the financial year and in good time before the Annual General Meeting, which allows at least 10 business days for any nomination to be made to the Company Secretary. Because the Board of Directors comprises a mix of independent and non-independent Board members which has thus far reflected fairly the balance between larger and smaller shareholders, past nominations have tended to be initiated by the Chairman with the incumbent Board members who identify and approach potential candidates for office. Consequently, the need to create a specific Nominations Committee has not been considered necessary; however the matter will be kept under review for the future.

evaluation of the board's performance

Given their background and experience, and that they are subject to comprehensive fit and proper tests by the supervisory authorities, members of the Board of Directors and the Board Committees do not, at the present time, undergo a formal evaluation procedure. The Board has so far not complied with the Code's provision to have a committee, chaired by a non-executive Director, entrusted with carrying out a performance evaluation of its role and of that of its committees. In the opinion of the Board, the accountability to the market through the various, regular announcements, to the Annual General Meeting and shareholders through the periodic circulars and to the supervisory authorities with their systems of onsite and offsite examination, provide sufficient opportunity for the Board's performance to be evaluated, at least on a collective basis. As described under Principle 7 above, it would be the intention to revisit this in 2012 and to consider the benefits of a formal evaluation of individual Directors' performance.

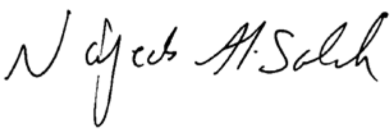
internal control

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

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

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

Approved by the Board of Directors on 12 March 2012 and signed on its behalf by:



Najeeb H.M. Al-Saleh
Chairman

John C. Grech
Vice Chairman

remuneration report

For the Year Ended 31 December 2011

1. terms of reference and membership

The Compensation Committee (the "Committee") is responsible for reviewing and making decisions on the Board of Directors' remuneration and that of the senior executives.

The Committee is composed of Najeeb Al-Saleh (Chairman), Jacques Leblanc (Secretary), Gerard Lohier, Tareq Al-Saleh, Pierre-Olivier Fragnière and Francis J. Vassallo, all of whom are independent non-executive Directors. Margrith Lütschg-Emmenegger, Group President, also attends these meetings.

2. meetings

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

Members	Attended
Najeeb H. M. Al-Saleh	2
Jacques Leblanc	2
Gerard Lohier	2
Tareq M. Al-Saleh	2
Pierre-Olivier Fragnière	2
Francis J. Vassallo	1
Margrith Lütschg-Emmenegger	2

The following matters were determined and/or discussed:

a. salary reviews and bonuses for Group employees;
b. salaries benchmarking;
c. recruitment policy for 2012;
d. senior management promotions; and
e. share Option Schemes for Subsidiaries of the Bank.

3. remuneration statement

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

The Annual General Meeting of shareholders approves the maximum annual aggregate remuneration which the Directors may receive for the holding of their office. At the Annual General Meeting of 5th May 2011 the shareholders approved the maximum aggregate emoluments of the Directors for the financial year ending 31st December 2011 at USD350,000. No Director, in his capacity as a Director of the Bank, is entitled to profit sharing, share options or pension benefits. The Board Committee fees for the financial year ending 31st December 2011 amounted to USD76,000.

4. code provision 8.A.5

For 2011, the total emoluments received by Directors were:

Fixed remuneration	USD208,356
Variable remuneration	USD50,000
Executive share options	NIL
Others	USD80,732

For Senior Executives, namely the President and the Executive Vice Presidents, the remuneration package ensures the right qualities and skills for the proper management of the Group as well as the proper execution of the strategy devised by the Board of Directors. There have been no significant changes in the Group's remuneration policy during the financial year under review, and no significant changes are envisaged for year ending 2012.

The various remuneration components are:

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

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

For 2011, the total emoluments received by Senior Executives were:

Fixed remuneration	USD1,685,665
Variable remuneration	USD442,784
Executive share options	530,000 options
Others	USD138,071

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

directors' responsibility for the financial statements

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

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

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

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

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

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

Signed on behalf of the Board of Directors by:

Najeeb Al-Saleh

Najeeb H.M. Al-Saleh
Chairman

John C. Grech
Vice Chairman

statements of financial position

As at 31 December 2011

	Note	Group 2011 USD	Group 2010 USD	Bank 2011 USD	Bank 2010 USD
ASSETS					
Balances with the Central Bank of Malta and cash	18	11,220,465	9,827,969	11,202,132	9,813,667
Trading assets	19	230,286,337	203,566,233	-	-
Derivative assets held for risk management	20	1,844,035	2,317,571	1,852,222	2,317,571
Financial assets designated at fair value through profit or loss	21	41,320,260	45,579,280	41,320,260	42,410,000
Loans and advances to banks	22	417,884,197	326,474,603	410,335,778	322,642,839
Loans and advances to customers	23	245,186,411	223,166,336	417,827,014	367,218,263
Investments available-for-sale	24	92,742	162,493	92,040	161,791
Investments in equity accounted investees	25	22,501,596	15,292,913	3,213,425	3,213,425
Investments in subsidiaries	26	-	-	73,481,359	64,234,312
Property and equipment	27	26,033,673	15,896,306	1,882,113	1,814,489
Intangible assets	28	1,573,025	1,522,687	653,646	740,651
Current tax assets		448,583	1,558,921	448,583	1,558,921
Deferred taxation	29	11,205,891	9,039,765	4,466,875	2,325,553
Other assets	30	3,507,147	3,227,678	2,773,613	2,411,528
Prepayments and accrued income	31	4,668,122	3,012,824	4,412,473	2,540,034
Total assets		1,017,772,484	860,645,579	973,961,533	823,403,044
LIABILITIES AND EQUITY					
Liabilities					
Derivative liabilities held for risk management	20	4,722,154	2,377,124	4,722,154	2,425,331
Amounts owed to banks	32	365,202,188	331,214,605	358,274,318	329,976,491
Amounts owed to customers	33	411,565,369	291,452,181	408,123,600	285,048,980
Debt securities in issue	34	50,554,467	55,522,895	42,346,073	42,853,818
Subordinated debt	35	41,162,938	43,789,227	41,162,938	43,789,227
Provisions	36	3,010,366	3,052,184	1,733,104	1,733,104
Other liabilities		94,392	182,135	94,392	182,135
Accruals and deferred income	37	16,731,411	12,148,640	6,265,596	5,156,968
Total liabilities		893,043,285	739,738,991	862,722,175	711,166,054
Equity					
Share capital	38	68,318,160	67,976,317	68,318,160	67,976,317
Share premium	38	10,474,390	10,235,339	10,474,390	10,235,339
Currency translation reserve	38	(2,974,934)	(507,632)	-	-
Fair value reserve	38	(97,470)	(51,665)	(97,470)	(51,665)
Other reserve	38	12,442,022	8,098,579	2,681,041	2,681,041
Retained earnings	38	36,567,031	35,155,650	29,863,237	31,395,958
Total equity		124,729,199	120,906,588	111,239,358	112,236,990
Total liabilities and equity		1,017,772,484	860,645,579	973,961,533	823,403,044

statements of financial position

As at 31 December 2011

	Note	Group 2011 USD	Group 2010 USD	Bank 2011 USD	Bank 2010 USD
MEMORANDUM ITEMS					
Contingent liabilities	39	66,848,581	38,150,984	72,685,336	43,362,797
Commitments	40	163,711,561	197,427,079	116,747,046	170,860,031

The official middle rate of exchange issued by the European Central Bank between US Dollar and Euro as at 31 December 2011 was 1.2939.

The notes on pages 44 to 111 are an integral part of these financial statements.

The financial statements on pages 36 to 111 were approved and authorised for issue by the Board of Directors on 12 March 2012 and were signed on its behalf by:

Najeeb H.M. Al-Saleh
Chairman

John C. Grech
Vice Chairman

statements of changes in equity

For the year ended 31 December 2011

Group

	Share capital USD	Share premium USD	Currency translation reserve USD	Fair value reserve USD	Other reserve USD	Retained earnings USD	Total USD
At 1 January 2010	67,713,477	9,986,355	(146,618)	-	6,495,973	31,579,394	115,628,581
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	6,743,910	6,743,910
	-	-	-	-	-	6,743,910	6,743,910
Other comprehensive income							
Change in fair value of available-for-sale financial assets	-	-	-	(51,665)	-	-	(51,665)
Currency translation reserve	-	-	(361,014)	-	-	-	(361,014)
Total other comprehensive income	-	-	(361,014)	(51,665)	-	-	(412,679)
Total comprehensive income for the year	-	-	(361,014)	(51,665)	-	6,743,910	6,331,231
Transactions with owners, recorded directly in equity							
Shares issued on exercise of options	18,720	5,133	-	-	-	-	23,853
Dividends to equity holders	-	-	-	-	-	(1,565,048)	(1,565,048)
Scrip issue of ordinary shares	244,120	243,851	-	-	-	-	487,971
Total contributions by and distributions to owners	262,840	248,984	-	-	-	(1,565,048)	(1,053,224)
Transfer from retained earnings	-	-	-	-	1,602,606	(1,602,606)	-
As at 31 December 2010	67,976,317	10,235,339	(507,632)	(51,665)	8,098,579	35,155,650	120,906,588
At 1 January 2011	67,976,317	10,235,339	(507,632)	(51,665)	8,098,579	35,155,650	120,906,588
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	9,126,779	9,126,779
	-	-	-	-	-	9,126,779	9,126,779
Other comprehensive income							
Change in fair value of available for-sale financial assets	-	-	-	(45,805)	-	-	(45,805)
Currency translation reserve	-	-	(2,467,302)	-	-	-	(2,467,302)
Total other comprehensive income	-	-	(2,467,302)	(45,805)	-	-	(2,513,107)
Total comprehensive income for the year	-	-	(2,467,302)	(45,805)	-	9,126,779	6,613,672
Transactions with owners, recorded directly in equity							
Dividends to equity holders	-	-	-	-	-	(3,371,955)	(3,371,955)
Scrip issue of ordinary shares	341,843	239,051	-	-	-	-	580,894
Total contributions by and distributions to owners	341,843	239,051	-	-	-	(3,371,955)	(2,791,061)
Transfer from retained earnings	-	-	-	-	4,343,443	(4,343,443)	-
As at 31 December 2011	68,318,160	10,474,390	(2,974,934)	(97,470)	12,442,022	36,567,031	124,729,199

statements of changes in equity

For the year ended 31 December 2011

Bank

	Share capital USD	Share premium USD	Fair value reserve USD	Other reserve USD	Retained earnings USD	Total USD
At 1 January 2010	67,713,477	9,986,355	-	2,681,041	30,331,663	110,712,536
Total comprehensive income for the year						
Profit for the year	-	-	-	-	2,629,343	2,629,343
	-	-	-	-	2,629,343	2,629,343
Other comprehensive income						
Change in fair value of available-for-sale financial assets	-	-	(51,665)	-	-	(51,665)
Total other comprehensive income for the year	-	-	(51,665)	-	-	(51,665)
Total comprehensive income for the year	-	-	(51,665)	-	2,629,343	2,577,678
Transactions with owners, recorded directly in equity						
Shares issued on exercise of options	18,720	5,133	-	-	-	23,853
Dividends to equity holders	-	-	-	-	(1,565,048)	(1,565,048)
Scrip issue of ordinary shares	244,120	243,851	-	-	-	487,971
Total contributions by and distributions to owners	262,840	248,984	-	-	(1,565,048)	(1,053,224)
As at 31 December 2010	67,976,317	10,235,339	(51,665)	2,681,041	31,395,958	112,236,990
At 1 January 2011	67,976,317	10,235,339	(51,665)	2,681,041	31,395,958	112,236,990
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,839,234	1,839,234
	-	-	-	-	1,839,234	1,839,234
Other comprehensive income						
Change in fair value of available-for-sale financial assets	-	-	(45,805)	-	-	(45,805)
Total other comprehensive income for the year	-	-	(45,805)	-	-	(45,805)
Total comprehensive income for the year	-	-	(45,805)	-	1,839,234	1,793,429
Transactions with owners, recorded directly in equity						
Dividends to equity holders	-	-	-	-	(3,371,955)	(3,371,955)
Scrip issue of ordinary shares	341,843	239,051	-	-	-	580,894
Total contributions by and distributions to owners	341,843	239,051	-	-	(3,371,955)	(2,791,061)
As at 31 December 2011	68,318,160	10,474,390	(97,470)	2,681,041	29,863,237	111,239,358

The notes on pages 44 to 111 are an integral part of these financial statements.

income statements

For the year ended 31 December 2011

		Group		Bank	
	Note	2011 USD	2010 USD	2011 USD	2010 USD
Interest income	8	29,178,828	22,410,004	20,990,805	14,300,606
Interest expense	8	(15,667,074)	(9,429,484)	(15,080,538)	(9,183,774)
Net interest income	8	13,511,754	12,980,520	5,910,267	5,116,832
Fee and commission income	9	20,750,013	21,386,459	14,629,402	15,237,631
Fee and commission expense	9	(2,151,053)	(1,983,914)	(1,429,800)	(1,387,338)
Net fee and commission income	9	18,598,960	19,402,545	13,199,602	13,850,293
Net trading income/(expense)	10	2,716,444	(1,743,819)	316,461	(3,028,565)
Net gain from other financial instruments carried at fair value	11	2,644,387	5,330,330	2,584,985	5,319,358
Dividend income	12	-	320	-	320
Other operating income	13	57,809	44,162	32,322	31,572
Operating income before net impairment		37,529,354	36,014,058	22,043,637	21,289,810
Net impairment (loss)/reversal on financial assets	14	(132,026)	(3,777,541)	328,517	(1,493,233)
Operating income		37,397,328	32,236,517	22,372,154	19,796,577
Administrative expenses	15	(27,765,367)	(23,301,533)	(20,681,648)	(16,900,731)
Depreciation and amortisation	27/28	(1,158,502)	(1,208,687)	(671,744)	(731,585)
Provision for liabilities and charges	36	-	(506,281)	-	-
Total operating expenses		(28,923,869)	(25,016,501)	(21,353,392)	(17,632,316)
Operating profit		8,473,459	7,220,016	1,018,762	2,164,261
Share of loss of equity accounted investees (net of tax)	25	(191,956)	(996,549)	-	-
Profit before tax		8,281,503	6,223,467	1,018,762	2,164,261
Taxation	16	845,276	520,443	820,472	465,082
Profit for the year		9,126,779	6,743,910	1,839,234	2,629,343
Basic earnings per share	17	6.69c	4.97c	1.35c	1.94c
Diluted earnings per share	17	6.69c	4.97c	1.35c	1.94c

The notes on pages 44 to 111 are an integral part of these financial statements.

statements of comprehensive income

For the year ended 31 December 2011

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Profit for the year	9,126,779	6,743,910	1,839,234	2,629,343
Other comprehensive income:				
Exchange differences on translation of foreign operations	(2,467,302)	(361,014)	-	-
Fair value reserve (available for sale financial assets):				
- Net change in fair value	(70,470)	(79,485)	(70,470)	(79,485)
- Taxation	24,665	27,820	24,665	27,820
Total other comprehensive income	(2,513,107)	(412,679)	(45,805)	(51,665)
Total comprehensive income for the year	6,613,672	6,331,231	1,793,429	2,577,678

The notes on pages 44 to 111 are an integral part of these financial statements.

statements of cash flows

For the year ended 31 December 2011

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Cash flows from operating activities				
Interest and commission receipts	49,150,459	34,144,862	34,249,514	29,268,371
Exchange received	7,008,872	2,598,845	6,825,753	1,949,468
Interest and commission payments	(16,325,013)	(10,806,982)	(14,941,844)	(10,077,821)
Payments to employees and suppliers	(24,761,228)	(21,619,479)	(21,265,880)	(16,244,235)
Operating profit before changes in operating assets / liabilities	15,073,090	4,317,246	4,867,543	4,895,783
(Increase)/decrease in operating assets:				
- Financial assets at fair value through profit or loss	(21,702,168)	(81,665,692)	(24,188)	(19,240,703)
- Loans and advances to customers and banks	(33,413,242)	(99,394,020)	(44,424,996)	(78,556,378)
- Other assets	(820,554)	6,616,519	(903,174)	(540,657)
Increase/(decrease) in operating liabilities:				
- Amounts owed to customers and banks	107,097,265	63,151,841	102,416,777	61,184,839
- Other liabilities	(87,743)	68,329	(87,743)	156,732
- Net advances to subsidiary companies	-	-	(17,225,766)	(69,660,142)
Net cash inflows/(outflows) from operating activities before income tax	66,146,648	(106,905,777)	44,618,453	(101,760,526)
Income tax paid	(185,847)	(1,200,386)	(185,847)	(1,200,114)
Net cash inflows/(outflows) from operating activities	65,960,801	(108,106,163)	44,432,606	(102,960,640)
Cash flows from investing activities				
- Payments to acquire property and equipment	(10,843,260)	(6,076,446)	(548,275)	(153,597)
- Payments to acquire intangible assets	(513,935)	(695,848)	(104,554)	(342,619)
- Proceeds on disposal of property and equipment	48,331	14,016	12,326	-
- Purchase of shares in subsidiary companies	-	-	(8,705,959)	(10,822,021)
- Purchase of shares in equity accounted investees	(9,332,627)	(12,026,480)	-	(1,200,000)
- Purchase of shares in available-for-sale financial assets	(719)	(702)	(719)	-
- Receipt of dividend	-	320	-	320
Net cash flows used in investing activities	(20,642,210)	(18,785,140)	(9,347,181)	(12,517,917)
Increase/(decrease) in cash and cash equivalents c/f	45,318,591	(126,891,303)	35,085,425	(115,478,557)

statements of cash flows

For the year ended 31 December 2011

	Note	Group 2011 USD	Group 2010 USD	Bank 2011 USD	Bank 2010 USD
Increase/(decrease) in cash and cash equivalents b/f		45,318,591	(126,891,303)	35,085,425	(115,478,557)
Cash flows from financing activities					
- Proceeds from issue of shares on exercise of options		-	23,853	-	23,853
- Proceeds from issue of 4.25% bonds		-	43,396,399	-	43,396,399
- Debt securities in issue		(4,460,683)	4,923,510	-	(4,931,905)
- Repayment of Subordinated Convertible Loan		(1,714,285)	(857,143)	(1,714,285)	(857,143)
- Dividends paid		(2,791,061)	(1,077,077)	(2,791,061)	(1,077,077)
Net cash flows (used in)/from financing activities		(8,966,029)	46,409,542	(4,505,346)	36,554,127
Increase/(decrease) in cash and cash equivalents		36,352,562	(80,481,761)	30,580,079	(78,924,430)
Analysed as follows:					
- Effect of exchange rate changes on cash and cash equivalents		(520,723)	(7,942,433)	(519,211)	(7,895,910)
- Net (decrease)/increase in cash and cash equivalents		36,873,285	(72,539,328)	31,099,290	(71,028,520)
Increase/(decrease) in cash and cash equivalents		36,352,562	(80,481,761)	30,580,079	(78,924,430)
Cash and cash equivalents at beginning of year		26,129,428	105,474,073	24,770,937	103,695,367
Reclassification of cash and cash equivalents previously held as discontinued operation		-	1,137,116	-	-
		26,129,428	106,611,189	24,770,937	103,695,367
Cash and cash equivalents at end of year	41	62,481,990	26,129,428	55,351,016	24,770,937

The notes on pages 44 to 111 are an integral part of these financial statements.

notes to the financial statements

For the year ended 31 December 2011

notes to the financial statements

For the year ended 31 December 2011

1 reporting entity

FIMBank p.l.c. (the "Bank") is a company domiciled in Malta. The address of the Bank's registered office is 7th Floor, The Plaza Commercial Centre, Bisazza Street, Sliema SLM 1640, Malta. The financial statements of the Bank as at and for the year ended 31 December 2011 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

2 basis of preparation

2.1 statement of compliance

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

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

The financial statements were authorised for issue by the Board of Directors on 12 March 2012.

2.2 basis of measurement

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

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

2.3 functional and presentation currency

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

2.4 use of estimates and judgements

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

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

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

3 significant accounting policies

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

3 significant accounting policies - continued

3.1 basis of consolidation

3.1.1 *subsidiaries*

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

3.1.2 *associates and jointly-controlled entities*

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

3.1.3 *transactions eliminated on consolidation*

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

3.2 foreign currency

3.2.1 *foreign currency transactions*

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

3.2.2 *foreign operations*

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

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of, the relevant amount in the currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is re-attributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

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

3.3 interest

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

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

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

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

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

3.4 fees and commissions

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

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

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

3.5 net trading income or expense

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

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

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

3 significant accounting policies - continued

3.7 dividends

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

3.8 lease payments

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

3.9 income tax

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

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

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

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

3.10 financial assets and liabilities

3.10.1 *recognition*

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

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

3.10.2 *classification*

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

3.10.3 *derecognition*

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

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

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

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

3.10.4 *offsetting*

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

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

3.10.5 *amortised cost measurement*

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

3.10.6 *fair value measurement*

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, that is the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an

3 *significant accounting policies - continued*

appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

3.10.7 *identification and measurement of impairment*

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

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

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

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

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

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

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

3 *significant accounting policies - continued*

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

3.10.8 *designated at fair value through profit or loss*

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

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

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

3.11 cash and cash equivalents

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

3.12 trading assets and liabilities

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

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

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

3.13 derivatives held for risk management purposes

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

3 *significant accounting policies - continued*

3.14 loans and advances

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

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

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

3.15 investment securities

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

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

3.15.1 *designated at fair value through profit or loss*

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

3.15.2 *available-for-sale*

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

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

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

3.16 investments in subsidiaries, associates and jointly-controlled entities

Investments in subsidiaries, associates and joint ventures are shown in the separate statement of financial position at cost less any impairment losses.

3.17 property and equipment

3.17.1 *recognition and measurement*

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

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

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

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

3.17.2 *subsequent costs*

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

3.17.3 *depreciation*

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

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

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

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

3.18 intangible assets

3.18.1 *goodwill*

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

3.18.2 *software*

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

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

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

3 *significant accounting policies - continued*

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

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

3.19 leased assets – lessee

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

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

3.20 impairment of non-financial assets

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

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

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

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

3.21 deposits, debt securities issued and subordinated liabilities

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

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

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

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

3.22 provisions

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

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

3.23 financial guarantees

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

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

3.24 employee benefits

3.24.1 *defined contribution plans*

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

3.24.2 *share-based payment transactions*

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

3.25 share capital

3.25.1 *ordinary shares*

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

3.25.2 *repurchase of share capital*

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

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

3.26 earnings per share

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

3 *significant accounting policies - continued*

3.27 discontinued operations

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

3.28 segment reporting

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

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

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

3.29 new standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are effective for the annual periods starting on or after 1 January 2011 have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements.

4 financial risk management

4.1 introduction and overview

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

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

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

risk management framework

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

4 *financial risk management - continued*

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

4.2 credit risk

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

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

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

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

maximum exposure

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

Group

	Loans and advances to banks		Loans and advances to customers	
	2011 USD	2010 USD	2011 USD	2010 USD
Individually impaired	46,952	46,952	7,913,802	2,019,508
Neither past due nor impaired	417,837,245	326,427,651	237,272,609	221,146,828
Total carrying amount	417,884,197	326,474,603	245,186,411	223,166,336

Bank

	Loans and advances to banks		Loans and advances to customers	
	2011 USD	2010 USD	2011 USD	2010 USD
Individually impaired	46,952	46,952	2,004,526	916,380
Neither past due nor impaired	410,288,826	322,595,887	415,822,488	366,301,883
Total carrying amount	410,335,778	322,642,839	417,827,014	367,218,263

credit quality of neither past due nor impaired

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

Group

	Loans and advances to banks		Loans and advances to customers		Trading assets and financial assets designated at fair value through profit or loss	
	2011 USD	2010 USD	2011 USD	2010 USD	2011 USD	2010 USD
AAA/AA	2,892,862	31,527,480	19,052,950	19,052,950	19,097,825	1,049,445
A/BBB	151,317,897	93,386,185	-	10,000,000	65,977,888	45,132,102
BB/Lower	25,900,247	17,700,992	-	-	96,176,190	134,406,638
Unrated	237,726,239	183,812,994	218,219,659	192,093,878	90,354,694	68,557,328
	417,837,245	326,427,651	237,272,609	221,146,828	271,606,597	249,145,513

Bank

	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss	
	2011 USD	2010 USD	2011 USD	2010 USD	2011 USD	2010 USD
AAA/AA	2,829,696	31,034,851	19,052,950	19,052,950	-	-
A/BBB	145,390,931	91,960,658	-	10,000,000	16,899,660	16,550,000
BB/Lower	25,900,247	17,700,992	-	-	24,420,600	25,860,000
Unrated	236,167,952	181,899,386	396,769,538	337,248,933	-	-
	410,288,826	322,595,887	415,822,488	366,301,883	41,320,260	42,410,000

impaired loans and securities

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

past due but not impaired loans

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

The Group did not have any exposures that at financial reporting date were past due but not impaired.

loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

No renegotiated term loans were held by the Group and the Bank as at 31 December 2011.

allowances for impairment

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

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

write-off policy

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

collaterals

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

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

Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2011 and 2010.

4 *financial risk management - continued*

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

Group

	Loans and advances to banks 2011 USD	Loans and advances to banks 2010 USD	Loans and advances to customers 2011 USD	Loans and advances to customers 2010 USD
Against neither past due nor impaired				
Cash or quasi cash	7,479,753	10,051,902	17,538,234	20,769,386
Property	-	-	55,434,682	26,223,599
Other	11,752,022	15,687,598	37,678,778	65,461,566
Against impaired				
Cash or quasi cash	46,952	46,952	175,346	-
Property	-	-	716,016	414,442
Other	-	-	125,681	1,224,807
	19,278,727	25,786,452	111,668,737	114,093,800

Bank

	Loans and advances to banks 2011 USD	Loans and advances to banks 2010 USD	Loans and advances to customers 2011 USD	Loans and advances to customers 2010 USD
Against neither past due nor impaired				
Cash or quasi cash	7,479,753	10,051,902	17,538,234	20,769,386
Property	-	-	55,434,682	26,223,599
Other	11,752,022	15,687,598	15,115,610	43,561,915
Against impaired				
Cash or quasi cash	46,952	46,952	175,346	-
Property	-	-	716,016	414,442
Other	-	-	-	407,969
	19,278,727	25,786,452	88,979,888	91,377,311

concentration of credit risk by sector

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

	Group 2011 USD	Group 2010 USD	Bank 2011 USD	Bank 2010 USD
Industrial raw materials	62,023,196	75,843,274	51,209,692	55,040,297
Ship pre-demolition	59,900,761	25,646,920	59,900,761	25,646,920
Wholesale and retail trade	92,673,747	98,277,853	81,740,988	84,797,472
Financial intermediation	436,989,803	339,852,396	638,337,836	527,801,082
Other services	27,709,104	30,718,998	11,958,901	13,474,483
	679,296,611	570,339,441	843,148,178	706,760,254

4 *financial risk management - continued*

concentration of credit risk by region

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

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

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

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

Group

	Loans and advances to banks		Loans and advances to customers		Trading assets and Financial assets designated at fair value through profit or loss		Investments available-for-sale	
	2011 USD	2010 USD	2011 USD	2010 USD	2011 USD	2010 USD	2011 USD	2010 USD
Europe	277,968,407	153,727,742	78,430,830	95,711,184	80,826,252	64,365,528	17,866	17,148
Sub-Sahara Africa (SSA)	47,749,575	74,826,860	16,813,079	7,653,348	18,742,449	10,555,730	-	-
Middle East and North Africa, (MENA)	9,565,963	20,400,782	100,255,318	81,906,218	26,550,811	22,219,705	-	-
Commonwealth of Independent States (CIS)	19,556,049	18,537,907	10,048,220	25	85,876,656	85,043,060	74,876	145,345
Others	65,568,586	62,072,218	41,314,109	39,485,843	59,610,429	66,961,490	-	-
	420,408,580	329,565,509	246,861,556	224,756,618	271,606,597	249,145,513	92,742	162,493
Collective impairment	(2,524,383)	(3,090,906)	(1,675,145)	(1,590,282)	-	-	-	-
	417,884,197	326,474,603	245,186,411	223,166,336	271,606,597	249,145,513	92,742	162,493

4 *financial risk management - continued*

Bank

	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss		Investments available-for-sale	
	2011 USD	2010 USD	2011 USD	2010 USD	2011 USD	2010 USD	2011 USD	2010 USD
Europe	276,171,219	151,981,703	264,777,417	251,367,016	8,400,000	8,750,000	17,866	17,147
Sub-Sahara Africa (SSA)	47,749,575	74,826,860	16,813,079	7,653,348	-	-	-	-
Middle East and North Africa (MENA)	7,989,368	18,315,059	86,513,207	70,302,312	8,499,660	7,800,000	-	-
Commonwealth of Independent States (CIS)	19,536,908	18,537,907	10,048,220	25	19,420,600	21,260,000	74,174	144,644
Others	61,413,091	62,072,216	41,314,111	39,485,844	5,000,000	4,600,000	-	-
	412,860,161	325,733,745	419,466,034	368,808,545	41,320,260	42,410,000	92,040	161,791
Collective impairment	(2,524,383)	(3,090,906)	(1,639,020)	(1,590,282)	-	-	-	-
	410,335,778	322,642,839	417,827,014	367,218,263	41,320,260	42,410,000	92,040	161,791

settlement risk

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

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

4.3 liquidity risk

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

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

management of liquidity risk

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

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

4 *financial risk management - continued*

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

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

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

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

exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from Banks and Customers. For this purpose net liquid assets are computed by reference to Banking Rule 5, "Liquidity Requirements of Credit Institutions Authorised under the Banking Act 1994" issued by the Malta Financial Services Authority. Details of the reported Group liquidity ratio at the reporting date and during the reporting period were as follows:

	2011	2010
At 31 December	51.3%	38.7%
Average for the year	52.5%	55.5%
Maximum for the year	72.9%	75.0%
Minimum for the year	37.2%	34.0%

4 *financial risk management - continued*

residual contractual maturities of financial assets and liabilities

Group – 31 December 2011

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	11,220,465	11,220,465	11,220,465	-	-	-	-	-
Trading assets	230,286,337	230,286,337	230,286,337	-	-	-	-	-
Derivative assets held for risk management	1,844,035	1,844,035	141,208	1,078,355	554,405	70,067	-	-
Financial assets designated at fair value through profit or loss	41,320,260	41,320,260	41,320,260	-	-	-	-	-
Loans and advances to banks	417,884,197	424,194,075	309,086,877	32,868,541	28,030,378	33,191,991	1,000,382	20,015,905
Loans and advances to customers	245,186,411	250,421,636	66,236,258	110,590,802	21,149,818	24,041,468	654,216	27,749,074
Derivative liabilities held for risk management	(4,722,154)	(4,722,154)	(2,655,233)	(1,430,789)	(567,653)	(68,479)	-	-
Amounts owed to banks	(365,202,188)	(366,230,439)	(236,291,369)	(80,627,454)	(4,007,537)	(34,582,979)	(4,030,492)	(6,690,608)
Amounts owed to customers	(411,565,369)	(414,032,511)	(210,051,186)	(70,196,040)	(84,055,185)	(29,880,884)	(8,694,947)	(11,154,269)
Debt securities in issue	(50,554,467)	(54,179,242)	(3,155,161)	-	(6,039,837)	(913,212)	(44,071,032)	-
Subordinated debt	(41,162,938)	(64,175,780)	(41,382)	-	(1,393,067)	(1,434,449)	(6,173,324)	(55,133,558)

Group – 31 December 2010

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	9,827,969	9,827,969	9,827,969	-	-	-	-	-
Trading assets	203,566,233	203,566,233	203,566,233	-	-	-	-	-
Derivative assets held for risk management	2,317,571	2,317,571	1,399,645	904,083	8,519	5,324	-	-
Financial assets designated at fair value through profit or loss	45,579,280	45,579,280	45,579,280	-	-	-	-	-
Loans and advances to banks	326,474,603	341,524,890	218,668,094	26,695,411	50,998,028	22,950,328	978,110	21,234,919
Loans and advances to customers	223,166,336	259,267,068	56,870,687	109,778,769	36,486,919	14,001,208	1,463,954	40,665,531
Derivative liabilities held for risk management	(2,377,124)	(2,377,124)	(1,110,739)	(734,433)	(526,909)	(5,043)	-	-
Amounts owed to banks	(331,214,605)	(332,687,584)	(134,366,485)	(135,360,554)	(35,328,902)	(22,425,249)	(78,252)	(5,128,142)
Amounts owed to customers	(291,452,181)	(293,620,820)	(208,671,749)	(33,733,493)	(15,059,766)	(29,651,057)	(2,627,221)	(3,877,534)
Debt securities in issue	(55,522,895)	(61,690,308)	-	(5,000,000)	(946,064)	(8,966,583)	(1,892,130)	(44,885,531)
Subordinated debt	(43,789,227)	(68,135,328)	(73,037)	-	(1,402,057)	(1,475,094)	(2,950,187)	(62,234,953)

4 *financial risk management - continued*

Bank – 31 December 2011

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	11,202,132	11,202,132	11,202,132	-	-	-	-	-
Derivative assets held for risk management	1,852,222	1,852,222	149,395	1,078,355	554,405	70,067	-	-
Financial assets designated at fair value through profit or loss	41,320,260	41,320,260	41,320,260	-	-	-	-	-
Loans and advances to banks	410,335,778	416,645,675	302,527,540	32,860,511	28,583,529	31,653,745	1,000,382	20,019,968
Loans and advances to customers	417,827,014	423,062,238	50,389,476	265,241,612	55,318,272	23,642,178	656,112	27,814,588
Derivative liabilities held for risk management	(4,722,154)	(4,722,154)	(2,655,233)	(1,430,789)	(567,653)	(68,479)	-	-
Amounts owed to banks	(358,274,318)	(359,302,567)	(237,008,501)	(80,627,454)	(4,565,096)	(33,071,024)	(4,030,492)	-
Amounts owed to customers	(408,123,600)	(411,718,186)	(209,223,540)	(67,871,275)	(83,953,750)	(29,867,973)	(8,519,937)	(12,281,711)
Debt securities in issue	(42,346,073)	(45,897,456)	-	-	(913,212)	(913,212)	(44,071,032)	-
Subordinated debt	(41,162,938)	(64,175,780)	(41,382)	-	(1,393,067)	(1,434,449)	(6,173,324)	(55,133,558)

Bank – 31 December 2010

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta and cash	9,813,667	9,813,667	9,813,667	-	-	-	-	-
Derivative assets held for risk management	2,317,571	2,317,571	1,399,645	904,083	8,519	5,324	-	-
Financial assets designated at fair value through profit or loss	42,410,000	42,410,000	42,410,000	-	-	-	-	-
Loans and advances to banks	322,642,839	337,652,567	216,890,244	26,031,441	51,608,081	20,909,772	978,110	21,234,919
Loans and advances to customers	367,218,263	377,872,143	24,087,570	129,471,003	13,382,141	27,447,643	142,956,103	40,527,683
Derivative liabilities held for risk management	(2,425,331)	(2,425,330)	(1,158,946)	(734,433)	(526,909)	(5,042)	-	-
Amounts owed to banks	(329,976,491)	(331,409,149)	(134,506,795)	(135,360,554)	(35,938,956)	(20,396,450)	(78,252)	(5,128,142)
Amounts owed to customers	(285,048,980)	(287,217,619)	(203,506,486)	(33,159,524)	(14,395,797)	(29,651,057)	(2,627,221)	(3,877,534)
Debt securities in issue	(42,853,818)	(48,669,791)	-	-	(946,065)	(946,065)	(1,892,130)	(44,885,531)
Subordinated debt	(43,789,227)	(68,135,328)	(73,037)	-	(1,402,057)	(1,475,094)	(2,950,187)	(62,234,953)

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

As at 31 December 2011, the Group and Bank had outstanding guarantees incurred on behalf of third parties amounting to USD66,848,531 and USD72,685,336 (2010: USD38,150,784 and USD43,362,797) respectively which are calleable upon the request of the third party.

4 *financial risk management - continued*

4.4 market risk

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

foreign exchange risk

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

Group - 31 December 2011

All amounts are expressed in USD	USD	EUR	GBP	Other Currencies	Total
Balances with the Central Bank of Malta and cash	2,835	11,217,033	597	-	11,220,465
Trading assets	199,297,848	27,944,910	3,043,579	-	230,286,337
Derivative assets held for risk management	18,485	1,714,266	24,552	86,732	1,844,035
Financial assets designated at fair value through profit or loss	41,320,260	-	-	-	41,320,260
Loans and advances to banks	149,366,424	227,954,194	17,140,856	23,422,723	417,884,197
Loans and advances to customers	200,890,835	35,730,569	4,093,299	4,471,708	245,186,411
Other assets	15,165,586	3,152,152	-	39,366	18,357,104
Derivative liabilities held for risk management	(18,657)	(4,614,327)	(26,036)	(63,134)	(4,722,154)
Amounts owed to banks	(148,766,234)	(214,173,142)	(816,620)	(1,446,192)	(365,202,188)
Amounts owed to customers	(239,819,065)	(142,118,052)	(23,870,600)	(5,757,652)	(411,565,369)
Debt securities in issue	(21,370,568)	(29,183,899)	-	-	(50,554,467)
Subordinated debt	(10,651,163)	(30,511,775)	-	-	(41,162,938)
Other liabilities	(13,249,092)	(5,512,536)	(648,000)	(332,148)	(19,741,776)
Net on balance sheet financial position	172,187,494	(118,400,607)	(1,058,373)	20,421,403	73,149,917
Notional amount of derivative instruments held for risk management	-	108,368,910	(78,343)	(20,431,676)	

4 *financial risk management - continued*

Group - 31 December 2010

All amounts are expressed in USD	USD	EUR	GBP	Other Currencies	Total
Balances with the Central Bank of Malta and cash	82,277	9,711,584	30,039	4,069	9,827,969
Trading assets	163,423,866	36,237,948	3,904,419	-	203,566,233
Derivative assets held for risk management	18,485	2,286,200	6,794	6,092	2,317,571
Financial assets designated at fair value through profit or loss	45,579,280	-	-	-	45,579,280
Loans and advances to banks	104,731,669	185,375,185	19,145,726	17,222,023	326,474,603
Loans and advances to customers	164,650,198	49,619,878	2,945,716	5,950,544	223,166,336
Other assets	13,267,447	2,177,092	(15,234)	418,135	15,847,440
Derivative liabilities held for risk management	(18,657)	(2,285,527)	(4,972)	(67,968)	(2,377,124)
Amounts owed to banks	(120,539,871)	(203,662,277)	(1,030,019)	(5,982,438)	(331,214,605)
Amounts owed to customers	(116,607,722)	(146,369,124)	(26,579,701)	(1,895,634)	(291,452,181)
Debt securities in issue	(21,982,573)	(33,540,322)	-	-	(55,522,895)
Subordinated debt	(12,278,470)	(31,510,757)	-	-	(43,789,227)
Other liabilities	(9,619,687)	(4,553,241)	(1,026,005)	(184,026)	(15,382,959)
Net on balance sheet financial position	210,706,242	(136,513,361)	(2,623,237)	15,470,797	87,040,441
Notional amount of derivative instruments held for risk management	-	136,143,522	1,207,286	(14,326,051)	

Bank - 31 December 2011

All amounts are expressed in USD	USD	EUR	GBP	Other Currencies	Total
Balances with the Central Bank of Malta and cash	2,290	11,199,245	597	-	11,202,132
Derivative assets held for risk management	21,578	1,719,360	24,552	86,732	1,852,222
Financial assets designated at fair value through profit or loss	41,320,260	-	-	-	41,320,260
Loans and advances to banks	141,791,409	228,233,804	16,887,842	23,422,723	410,335,778
Loans and advances to customers	345,844,657	60,295,132	7,215,517	4,471,708	417,827,014
Other assets	8,536,268	2,415,436	-	23,629	10,975,333
Derivative liabilities held for risk management	(18,657)	(4,614,327)	(26,036)	(63,134)	(4,722,154)
Amounts owed to banks	(146,980,781)	(209,030,724)	(816,621)	(1,446,192)	(358,274,318)
Amounts owed to customers	(235,839,847)	(142,359,171)	(23,870,600)	(6,053,982)	(408,123,600)
Debt securities in issue	(17,419,055)	(24,927,018)	-	-	(42,346,073)
Subordinated debt	(10,651,163)	(30,511,775)	-	-	(41,162,938)
Other liabilities	(4,755,036)	(2,833,668)	(368,300)	(41,696)	(7,998,700)
Net on balance sheet financial position	121,851,923	(110,413,707)	(953,049)	20,399,788	30,884,955
Notional amount of derivative instruments held for risk management	-	108,368,910	(78,343)	(20,431,676)	

4 *financial risk management - continued*

Bank - 31 December 2010

All amounts are expressed in USD	USD	EUR	GBP	Other Currencies	Total
Balances with the Central Bank of Malta and cash	76,153	9,707,021	27,318	3,175	9,813,667
Derivative assets held for risk management	18,485	2,286,200	6,794	6,092	2,317,571
Financial assets designated at fair value through profit or loss	42,410,000	-	-	-	42,410,000
Loans and advances to banks	101,041,594	185,370,809	19,254,376	16,976,060	322,642,839
Loans and advances to Customers	278,225,040	76,244,489	6,798,190	5,950,544	367,218,263
Other assets	6,377,226	1,647,257	(25,551)	192,176	8,191,108
Derivative liabilities held for risk management	(88,939)	(2,263,451)	(4,972)	(67,969)	(2,425,331)
Amounts owed to banks	(119,051,393)	(203,662,277)	(1,280,382)	(5,982,439)	(329,976,491)
Amounts owed to customers	(109,912,412)	(146,369,124)	(26,579,701)	(2,187,743)	(285,048,980)
Debt securities in issue	(17,110,666)	(25,743,152)	-	-	(42,853,818)
Subordinated debt	(12,278,470)	(31,510,757)	-	-	(43,789,227)
Other liabilities	(5,542,046)	(1,411,489)	(127,741)	9,070	(7,072,206)
Net on balance sheet financial position	164,164,572	(135,704,474)	(1,931,669)	14,898,966	41,427,395
Notional amount of derivative instruments held for risk management	-	136,143,522	1,207,286	(14,326,051)	

The following exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
USD	2011	2010	2011	2010
1 EUR	1.3910	1.3250	1.2939	1.3362
1 GBP	1.6025	1.5444	1.5411	1.5477

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

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
31 December 2011				
EUR	(702,219)	(702,219)	(143,136)	(143,136)
GBP	(84,880)	(84,880)	(78,609)	(78,609)
Other	4,591	4,591	4,179	4,179
31 December 2010				
EUR	(25,889)	(25,889)	30,733	30,733
GBP	(99,117)	(99,117)	(50,707)	(50,707)
Other	80,133	80,133	40,104	40,104

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

4 *financial risk management - continued*

interest rate risk

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

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

Group - 31 December 2011

	Less than 1 month	Between 1& 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	11,194,289	-	-	-	-	26,176	11,220,465
Trading assets	114,043,258	46,535,341	46,254,710	15,906,866	7,035,582	510,580	230,286,337
Derivative assets held for risk management	-	-	-	-	-	1,844,035	1,844,035
Financial assets designated at fair value through profit or loss	13,849,660	22,470,600	5,000,000	-	-	-	41,320,260
Loans and advances to banks	299,241,666	31,501,505	43,452,789	24,401,374	157,476	19,129,387	417,884,197
Loans and advances to customers	217,045,992	4,528,986	-	593,605	19,871,195	3,146,633	245,186,411
Other assets	-	-	-	-	-	70,030,779	70,030,779
Total assets	655,374,865	105,036,432	94,707,499	40,901,845	27,064,253	94,687,590	1,017,772,484
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	4,722,154	4,722,154
Amounts owed to banks	181,020,602	83,384,134	2,390,961	21,310,339	-	77,096,152	365,202,188
Amounts owed to customers	322,439,900	24,331,488	20,867,020	24,262,151	16,075,442	3,589,368	411,565,369
Debt securities in issue	3,152,229	-	5,056,164	-	42,346,074	-	50,554,467
Subordinated debt	3,428,572	-	-	-	37,734,366	-	41,162,938
Other liabilities	-	-	-	-	-	19,836,169	19,836,169
Equity	-	-	-	-	-	124,729,199	124,729,199
Total liabilities and equity	510,041,303	107,715,622	28,314,145	45,572,490	96,155,882	229,973,042	1,017,772,484

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	760,411,297	94,707,499	40,901,845	27,064,253	94,687,590	1,017,772,484
Liabilities	(617,756,925)	(28,314,145)	(45,572,490)	(96,155,882)	(229,973,042)	(1,017,772,484)
Interest sensitivity gap	142,654,372	66,393,354	(4,670,645)	(69,091,629)	(135,285,452)	-
Cumulative gap	142,654,372	209,047,726	204,377,081	135,285,452	-	-

change in interest rate for the period			
100bps increase	1,069,908	331,967	(3,892)
100bps decrease	(1,069,908)	(331,967)	3,892

4 *financial risk management - continued*

Group - 31 December 2010

	Less than 1 month	Between 1& 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	9,456,813	-	-	-	-	371,156	9,827,969
Trading assets	22,634,586	47,170,599	118,729,343	2,437,207	11,485,953	1,108,545	203,566,233
Derivative assets held for risk management	-	-	-	-	-	2,317,571	2,317,571
Financial assets designated at fair value through profit or loss	-	37,810,000	4,600,000	-	3,169,280	-	45,579,280
Loans and advances to banks	161,289,017	15,250,542	60,316,578	44,576,383	-	45,042,083	326,474,603
Loans and advances to customers	113,492,748	8,209,854	51,056,976	6,306,183	19,052,950	25,047,625	223,166,336
Other assets	-	-	-	-	-	49,713,587	49,713,587
Total assets	306,873,164	108,440,995	234,702,897	53,319,773	33,708,183	123,600,567	860,645,579
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	2,377,124	2,377,124
Amounts owed to banks	84,297,739	106,786,680	39,682,611	38,304,781	-	62,142,794	331,214,605
Amounts owed to customers	199,051,754	18,295,086	17,560,431	32,432,935	12,552,215	11,559,760	291,452,181
Debt securities in issue	-	-	-	12,669,078	43,790,851	(937,034)	55,522,895
Subordinated debt	-	-	-	5,142,857	39,618,557	(972,187)	43,789,227
Other liabilities	-	-	-	-	-	15,382,959	15,382,959
Equity	-	-	-	-	-	120,906,588	120,906,588
Total liabilities and equity	283,349,493	125,081,766	57,243,042	88,549,651	95,961,623	210,460,004	860,645,579

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	415,314,159	234,702,897	53,319,773	33,708,183	123,600,567	860,645,579
Liabilities	(408,431,259)	(57,243,042)	(88,549,651)	(95,961,623)	(210,460,004)	(860,645,579)
Interest sensitivity gap	6,882,900	177,459,855	(35,229,878)	(62,253,440)	(86,859,437)	-
Cumulative gap	6,882,900	184,342,755	149,112,877	86,859,437	-	-
change in interest rate for the period						
100bps increase	51,622	887,299	(18,801)			
100bps decrease	(51,622)	(887,299)	18,801			

4 *financial risk management - continued*

Bank - 31 December 2011

	Less than 1 month USD	Between 1& 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets							
Balances with the Central Bank of Malta and cash	11,194,289	-	-	-	-	7,843	11,202,132
Derivative assets held for risk management	-	-	-	-	-	1,852,222	1,852,222
Financial assets designated at fair value through profit or loss	13,849,660	22,470,600	5,000,000	-	-	-	41,320,260
Loans and advances to banks	295,992,157	31,485,339	43,452,789	22,401,374	157,476	16,846,643	410,335,778
Loans and advances to customers	389,824,060	4,528,986	-	593,605	19,871,195	3,009,168	417,827,014
Other assets	-	-	-	-	-	91,424,127	91,424,127
Total assets	710,860,166	58,484,925	48,452,789	22,994,979	20,028,671	113,140,003	973,961,533
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	4,722,154	4,722,154
Amounts owed to banks	181,020,601	76,693,527	2,390,961	19,334,886	-	78,834,343	358,274,318
Amounts owed to customers	318,931,043	24,331,488	20,867,020	24,502,831	16,075,442	3,415,776	408,123,600
Debt securities in issue	-	-	-	-	42,346,073	-	42,346,073
Subordinated debt	3,428,571	-	-	-	37,734,367	-	41,162,938
Other liabilities	-	-	-	-	-	8,093,092	8,093,092
Equity	-	-	-	-	-	111,239,358	111,239,358
Total liabilities and equity	503,380,215	101,025,015	23,257,981	43,837,717	96,155,882	206,304,723	973,961,533

	Less than 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets	769,345,091	48,452,789	22,994,979	20,028,671	113,140,003	973,961,533
Liabilities	(604,405,230)	(23,257,981)	(43,837,717)	(96,155,882)	(206,304,723)	(973,961,533)
Interest sensitivity gap	164,939,861	25,194,808	(20,842,738)	(76,127,211)	(93,164,720)	-
Cumulative gap	164,939,861	190,134,669	169,291,931	93,164,720	-	-
change in interest rate for the period						
100bps increase	1,237,049	125,974	(17,369)			
100bps decrease	(1,237,049)	(125,974)	17,369			

4 *financial risk management - continued*

Bank - 31 December 2010

	Less than 1 month	Between 1& 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta and cash	9,456,812	-	-	-	-	356,855	9,813,667
Derivative assets held for risk management	-	-	-	-	-	2,317,571	2,317,571
Financial assets designated at fair value through profit or loss	-	37,810,000	4,600,000	-	-	-	42,410,000
Loans and advances to banks	159,944,828	15,250,542	60,316,578	41,338,444	-	45,792,447	322,642,839
Loans and advances to customers	310,393,691	1,697,307	7,772,952	4,491,680	19,052,950	23,809,683	367,218,263
Other assets	-	-	-	-	-	79,000,704	79,000,704
Total assets	479,795,331	54,757,849	72,689,530	45,830,124	19,052,950	151,277,260	823,403,044
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	2,425,331	2,425,331
Amounts owed to banks	84,297,739	106,786,680	39,682,611	36,316,304	-	62,893,157	329,976,491
Amounts owed to customers	199,791,945	18,295,086	17,560,431	32,432,935	12,552,216	4,416,367	285,048,980
Debt securities in issue	-	-	-	-	42,853,818	-	42,853,818
Subordinated debt	-	-	-	5,142,857	38,646,370	-	43,789,227
Other liabilities	-	-	-	-	-	7,072,207	7,072,207
Equity	-	-	-	-	-	112,236,990	112,236,990
Total liabilities and equity	284,089,684	125,081,766	57,243,042	73,892,096	95,961,625	187,134,831	823,403,044

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	534,553,180	72,689,530	45,830,124	19,052,950	151,277,260	823,403,044
Liabilities	(409,171,450)	(57,243,042)	(73,892,096)	(95,961,625)	(187,134,831)	(823,403,044)
Interest sensitivity gap	125,381,730	15,446,488	(28,061,972)	(76,908,675)	(35,857,571)	-
Cumulative gap	125,381,730	140,828,218	112,766,246	35,857,571	-	-
change in interest rate for the period						
100bps increase	940,363	77,232	(23,385)			
100bps decrease	(940,363)	(77,232)	23,385			

4 *financial risk management - continued*

cash flow sensitivity analysis for repricing instruments

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

	Group		Bank	
	Equity	Profit or loss	Equity	Profit or loss
	USD	USD	USD	USD
31 December 2011				
Repricing instruments	1,397,983	1,397,983	1,345,654	1,345,654
31 December 2010				
Repricing instruments	920,120	920,120	994,210	994,210

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

other price risk

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Non-derivative financial assets at fair value				
Bonds	-	3,169,280	-	-
Credit linked notes	41,320,260	42,410,000	41,320,260	42,410,000
	41,320,260	45,579,280	41,320,260	42,410,000

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

cash flow sensitivity analysis for market risk

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

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
10% increase in price for Bonds	-	316,928	-	-
10% increase in price for Credit Linked Notes	4,132,060	4,241,000	4,132,060	4,241,000

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

4.5 operational risk

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

4 *financial risk management - continued*

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

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

4.6 capital management

regulatory capital

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

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

The Group adopted the standardised approach to allocate capital against credit risk under Banking Rule (BR/04) "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994", which rule also introduces capital requirements for market risk and operational risk calculated under the basic indicator approach.

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

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

The Group's capital base is divided in two categories, as defined in Banking Rule (BR/03) "Own Funds of Credit Institutions Authorised under the Banking Act, 1994":

a. "Original own funds" comprise share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill and other intangible assets, 50% of the regulated associated companies, the depositor protection scheme reserve and recommended dividends are deducted in arriving at original own funds calculations.

b. "Additional own funds" comprise qualifying subordinated loan capital and collective impairment allowance. Additional own funds also include reserves arising from the revaluation of properties. The remaining 50% of the regulated associated companies are deducted in arriving at additional own funds calculations.

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

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

4 *financial risk management - continued*

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

capital adequacy

Group

	Exposure Amount 2011 USD	Notional Risk Weight 2011 USD
Type of Exposure:		
Sovereign	66,516,735	47,742,094
Institutions (Banks)	639,344,953	274,758,996
Corporates	438,251,428	302,159,185
Retail	4,367,614	645,334
Retail secured by real estate	5,833,085	4,811,720
Other items	99,946,060	55,223,702
	1,254,259,875	685,341,031
Operational risk		68,432,027
Foreign exchange risk		9,898,557
Total risk weight		763,671,615
Own funds:		
Original own funds:		
Capital and reserves		115,602,420
Profit for the year		9,126,779
		124,729,199
Intangible assets		(1,573,025)
50% of investment in regulated entities		(7,539,043)
Market value of assets pledged in favour of the Depositor Compensation Scheme (refer to Note 22)		(819,491)
Recommended dividend		(2,738,034)
Total original own funds		112,059,606
Additional own funds:		
Subordinated debt		38,745,091
General provisions		4,199,530
50% of investment in regulated entities		(7,539,043)
Total additional own funds		35,405,578
Total own funds		147,465,184
Capital adequacy ratio		19.31%
Regulatory minimum		8.00%

4 financial risk management - continued

Bank

	Exposure Amount 2011 USD	Notional Risk Weight 2011 USD
Type of Exposure:		
Government	58,996,499	40,221,858
Institutions (Banks)	476,202,007	160,418,244
Corporates	502,203,592	400,892,985
Retail	4,367,614	645,334
Retail secured by real estate	5,833,085	4,811,720
Other items	121,329,264	89,409,280
	1,168,932,061	696,399,421
Operational risk		47,634,978
Foreign exchange risk		2,526,263
Total risk weight		746,560,662
Own funds:		
Original own funds:		
Capital and reserves		109,400,124
Profit for the year		1,839,234
		111,239,358
Intangible assets		(653,646)
50% of investment in regulated entities		(1,606,712)
Market value of assets pledged in favour of the Depositor Compensation Scheme (refer to Note 22)		(819,491)
Recommended dividend		(2,738,034)
Total original own funds		105,421,475
Additional own funds:		
Subordinated debt		38,745,091
General provisions		4,163,404
50% of investment in regulated entities		(1,606,712)
Total additional own funds		41,301,783
Total own funds		146,723,258
Capital adequacy ratio		19.65%
Regulatory minimum		8.00%

The capital adequacy ratio of the Group and the Bank for the year ended 31 December 2010 stood at 20.6% and 21.2% respectively.

5 use of estimates and judgements

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

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

5.1 key sources of estimation uncertainty

5.1.1 *allowances for credit losses*

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

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

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

5.1.2 *determining fair values*

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

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

5.2.1 *impairment losses on loans and advances*

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

5.2.2 *impairment of investments available-for-sale*

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

5 use of estimates and judgements - continued

This assessment is performed for all equity securities whose fair value is below cost, but for which the decline in fair value is not considered significant or prolonged.

5.2.3 *valuation of financial instruments*

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

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;

- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

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

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

5 *use of estimates and judgements - continued*

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

Group - 31 December 2011

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	19	-	-	230,286,337	230,286,337
Derivative assets held for risk management	20	-	1,844,035	-	1,844,035
Financial assets designated at fair value through profit or loss	21	-	-	41,320,260	41,320,260
		-	1,844,035	271,606,597	273,450,632
Derivative liabilities held for risk management	20	-	4,722,154	-	4,722,154
		-	4,722,154	-	4,722,154

Group - 31 December 2010

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	19	-	-	203,566,233	203,566,233
Derivative assets held for risk management	20	-	2,317,571	-	2,317,571
Financial assets designated at fair value through profit or loss	21	3,169,280	-	42,410,000	45,579,280
		3,169,280	2,317,571	245,976,233	251,463,084
Derivative liabilities held for risk management	20	-	2,377,124	-	2,377,124
		-	2,377,124	-	2,377,124

Bank - 31 December 2011

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	20	-	1,852,222	-	1,852,222
Financial assets designated at fair value through profit or loss	21	-	-	41,320,260	41,320,260
		-	1,852,222	41,320,260	43,172,482
Derivative liabilities held for risk management	20	-	4,722,154	-	4,722,154
		-	4,722,154	-	4,722,154

Bank - 31 December 2010

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	20	-	2,317,571	-	2,317,571
Financial assets designated at fair value through profit or loss	21	-	-	42,410,000	42,410,000
		-	2,317,571	42,410,000	44,727,571
Derivative liabilities held for risk management	20	-	2,425,331	-	2,425,331
		-	2,425,331	-	2,425,331

5 use of estimates and judgements - continued

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

Group

	Trading Assets	Financial assets designated at fair value through profit or loss	Total
	USD	USD	USD
Balance at 1 January 2010	126,931,253	21,750,000	148,681,253
Total gains and losses in trading income	3,243,423	(140,000)	3,103,423
Purchases	284,735,386	25,800,000	310,535,386
Settlements	(211,343,829)	(5,000,000)	(216,343,829)
Balance at 31 December 2010	203,566,233	42,410,000	245,976,233
Balance at 1 January 2011	203,566,233	42,410,000	245,976,233
Total gains and losses in trading income	1,962,029	(1,089,740)	872,289
Purchases	341,635,612	27,033,118	368,668,730
Settlements	(316,877,537)	(27,033,118)	(343,910,655)
Balance at 31 December 2011	230,286,337	41,320,260	271,606,597

Bank

	Financial assets designated at fair value through profit or loss	Total
	USD	USD
Balance at 1 January 2010	21,750,000	21,750,000
Total gains and losses in trading income	(140,000)	(140,000)
Purchases	25,800,000	25,800,000
Settlements	(5,000,000)	(5,000,000)
Balance at 31 December 2010	42,410,000	42,410,000
Balance at 1 January 2011	42,410,000	42,410,000
Total gains and losses in trading income	(1,089,740)	(1,089,740)
Purchases	(27,033,118)	(27,033,118)
Settlements	27,033,118	27,033,118
Balance at 31 December 2011	41,320,260	41,320,260

For Level 3 "Trading Assets", the Group establishes fair value using a valuation technique based on the discounted expected future principal and interest cash flows. The discount rate is an estimate based on current expected credit margin spreads and interest rates at the reporting date. Inputs to valuation technique reasonably represent market expectation and measures of risk-return factors inherent in the financial instrument. The effect of an estimated general increase of one percentage point in interest rates as at 31 December 2011 would reduce the Group profit before tax by approximately USD88,204 (2010: USD169,181).

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

6 operating segments

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

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

information about operating segments

Group - 2011
USD

	Trade Finance	Forfaiting	Factoring	IT Solutions	Other	Total
External revenue:						
Interest income	16,261,738	7,796,245	5,120,845	-	-	29,178,828
Fee and commission income	13,866,973	4,827,164	1,449,136	599,777	6,963	20,750,013
Trading income	335,011	2,149,400	99,916	(237)	132,355	2,716,445
	30,463,722	14,772,809	6,669,897	599,540	139,318	52,645,286
Intersegment revenue:						
Interest receivable	3,843,420	-	-	-	-	3,843,420
Fee and commission income	149,657	241,083	-	264,997	-	655,737
	3,993,077	241,083	-	264,997	-	4,499,157
Reportable segment profit/ (loss) before income tax	294,896	6,572,433	1,868,956	218,256	(53,571)	8,900,970
Reportable segment assets	952,991,508	239,153,417	61,827,379	1,414,636	58,251,886	1,313,638,826
Reportable segment liabilities	859,451,319	182,537,086	32,592,262	557,162	26,893,708	1,102,031,537

Group - 2010
USD

	Trade Finance	Forfaiting	Factoring	IT Solutions	Other	Total
External revenue:						
Interest income	11,390,375	7,299,991	3,719,638	-	-	22,410,004
Fee and commission income	14,897,570	4,437,848	1,746,687	292,408	11,946	21,386,459
Trading income	(3,023,865)	678,708	72,953	6,303	522,082	(1,743,819)
	23,264,080	12,416,547	5,539,278	298,711	534,028	42,052,644
Intersegment revenue:						
Interest receivable	2,656,481	-	-	114	-	2,656,595
Fee and commission income	-	355,810	-	263,759	-	619,569
	2,656,481	355,810	-	263,873	-	3,276,164
Reportable segment profit/ (loss) before income tax	2,137,143	5,275,629	(366,685)	33,084	421,743	7,500,914
Reportable segment assets	807,399,110	212,495,764	71,990,635	1,111,788	39,280,154	1,132,277,451
Reportable segment liabilities	707,162,280	162,427,844	49,532,527	497,374	14,864,728	934,484,753

6 *operating segments - continued*

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

	2011 USD	2010 USD
REVENUES		
Total revenue for reportable segments	57,005,125	44,794,780
Other revenue	139,318	534,028
	57,144,443	45,328,808
Elimination of inter-segment revenue	(4,499,157)	(3,276,164)
Consolidated revenue	52,645,286	42,052,644
PROFIT OR LOSS		
Total profit or loss for reportable segments	8,954,541	7,079,171
Other profit or loss	(53,571)	421,743
	8,900,970	7,500,914
Share of loss of equity accounted investee	(191,956)	(996,549)
Effect of other consolidation adjustments on segment results	(427,511)	(280,898)
Consolidated profit before tax	8,281,503	6,223,467
ASSETS		
Total assets for reportable segments	1,255,386,940	1,092,997,297
Other assets	58,251,886	39,280,154
	1,313,638,826	1,132,277,451
Elimination of inter-segment assets	(292,165,691)	(269,050,642)
Effect of other consolidation adjustments on segment results	(3,363,457)	(2,236,130)
Unallocated amounts	(337,194)	(345,100)
Consolidated assets	1,017,772,484	860,645,579
LIABILITIES		
Total liabilities for reportable segments	1,075,137,829	919,620,025
Other liabilities	26,893,708	14,864,728
	1,102,031,537	934,484,753
Elimination of inter-segment assets	(208,802,780)	(194,392,703)
Unallocated amounts	(185,472)	(353,059)
Consolidated liabilities	893,043,285	739,738,991

6 *operating segments - continued*

geographical areas

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

Group

	Malta		Other Countries		Total	
	2011 USD	2010 USD	2011 USD	2010 USD	2011 USD	2010 USD
External revenues	2,871,756	3,143,459	49,773,530	38,909,185	52,645,286	42,052,644
Non-current assets	27,358,805	17,088,496	247,896	330,497	27,606,701	17,418,993

7 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

	Trading	Designated at fair value	Loans and receivables	Available - for-sale	Liabilities at amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
31 December 2011							
Balances with the Central Bank of Malta and cash	-	-	11,220,465	-	-	11,220,465	11,220,465
Trading assets	230,286,337	-	-	-	-	230,286,337	230,286,337
Derivative assets held for risk management	-	1,844,035	-	-	-	1,844,035	1,844,035
Financial assets designated at fair value through profit or loss	-	41,320,260	-	-	-	41,320,260	41,320,260
Loans and advances to banks	-	-	417,884,197	-	-	417,884,197	417,884,197
Loans and advances to customers	-	-	245,186,411	-	-	245,186,411	245,186,411
Investments available for-sale	-	-	-	92,742	-	92,742	92,742
Derivative liabilities held for risk management	-	4,722,154	-	-	-	4,722,154	4,722,154
Amounts owed to banks	-	-	-	-	365,202,188	365,202,188	365,202,188
Amounts owed to customers	-	-	-	-	411,565,369	411,565,369	411,565,369
Debt securities in issue	-	-	-	-	50,554,467	50,554,467	50,554,467
Subordinated debt	-	-	-	-	41,162,938	41,162,938	41,162,938

7 *financial assets and liabilities - continued*

	Trading	Designated at fair value	Loans and receivables	Available - for-sale	Liabilities at amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
31 December 2010							
Balances with the Central Bank of Malta and cash	-	-	9,827,969	-	-	9,827,969	9,827,969
Trading assets	203,566,233	-	-	-	-	203,566,233	203,566,233
Derivative assets held for risk management	-	2,317,571	-	-	-	2,317,571	2,317,571
Financial assets designated at fair value through profit or loss	-	45,579,280	-	-	-	45,579,280	45,579,280
Loans and advances to banks	-	-	326,474,603	-	-	326,474,603	326,474,603
Loans and advances to customers	-	-	223,166,336	-	-	223,166,336	223,166,336
Investments available-for-sale	-	-	-	162,493	-	162,493	162,493
Derivative liabilities held for risk management	-	2,377,124	-	-	-	2,377,124	2,377,124
Amounts owed to banks	-	-	-	-	331,214,605	331,214,605	331,214,605
Amounts owed to customers	-	-	-	-	291,452,181	291,452,181	291,452,181
Debt securities in issue	-	-	-	-	55,522,895	55,522,895	55,522,895
Subordinated debt	-	-	-	-	43,789,227	43,789,227	43,789,227

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

Bank

	Trading	Designated at fair value	Loans and receivables	Available - for-sale	Liabilities at amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
31 December 2011							
Balances with the Central Bank of Malta and cash	-	-	11,202,132	-	-	11,202,132	11,202,132
Derivative assets held for risk management	-	1,852,222	-	-	-	1,852,222	1,852,222
Financial assets designated at fair value through profit or loss	-	41,320,260	-	-	-	41,320,260	41,320,260
Loans and advances to banks	-	-	410,335,778	-	-	410,335,778	410,335,778
Loans and advances to customers	-	-	417,827,014	-	-	417,827,014	417,827,014
Investments available-for-sale	-	-	-	92,040	-	92,040	92,040
Derivative liabilities held for risk management	-	4,722,154	-	-	-	4,722,154	4,722,154
Amounts owed to banks	-	-	-	-	358,274,318	358,274,318	358,274,318
Amounts owed to customers	-	-	-	-	408,123,600	408,123,600	408,123,600
Debt securities in issue	-	-	-	-	42,346,073	42,346,073	42,346,073
Subordinated debt	-	-	-	-	41,162,938	41,162,938	41,162,938

7 *financial assets and liabilities - continued*

	Trading	Designated at fair value	Loans and receivables	Available - for-sale	Liabilities at amortised cost	Total carrying amount	Fair value
	USD	USD	USD	USD	USD	USD	USD
31 December 2010							
Balances with the Central Bank of Malta and cash	-	-	9,813,667	-	-	9,813,667	9,813,667
Derivative assets held for risk management	-	2,317,571	-	-	-	2,317,571	2,317,571
Financial assets designated at fair value through profit or loss	-	42,410,000	-	-	-	42,410,000	42,410,000
Loans and advances to banks	-	-	322,642,839	-	-	322,642,839	322,642,839
Loans and advances to customers	-	-	367,218,263	-	-	367,218,263	367,218,263
Investments available-for-sale	-	-	-	161,791	-	161,791	161,791
Derivative liabilities held for risk management	-	2,425,331	-	-	-	2,425,331	2,425,331
Amounts owed to banks	-	-	-	-	329,976,491	329,976,491	329,976,491
Amounts owed to customers	-	-	-	-	285,048,980	285,048,980	285,048,980
Debt securities in issue	-	-	-	-	42,853,818	42,853,818	42,853,818
Subordinated debt	-	-	-	-	43,789,227	43,789,227	43,789,227

Financial assets not measured at fair value comprise loans and advances and balances with Central Bank. Loans and advances are reported net of impairment allowances to reflect the estimated recoverable amounts as at the financial reporting date. In the case of loans and advances which are repriceable in the short term, the carrying value approximates to fair value. 90% (2010: 77%) of the Group's and 94% (2010: 87%) of the Bank's loans and advances to customers are repriceable within six months. 90% (2010: 73%) of the Group's and 90% (2010: 73%) of the Bank's loans and advances to banks are repriceable within six months.

Financial liabilities measured at amortised cost comprise debt securities in issue, subordinated debt and amounts owed to banks and customers. 82% (2010: 75%) of the Group's and 81% (2010: 75%) of the Bank's amounts owed to banks and customers are repriceable within 6 months. The Group's debt securities in issue are subject to fixed and variable interest rates. Interest rates on debt securities are further disclosed in note 34. 92% (2010: 88%) of the Bank's and Group's subordinated debt is subject to fixed interest rates.

8 net interest income

	Group		Bank	
	2011	2010	2011	2010
	USD	USD	USD	USD
Interest income				
On loans and advances to banks	3,142,740	1,893,404	3,107,951	1,806,044
On loans and advances to customers	12,369,250	8,689,945	8,229,587	5,734,529
On loans and advances to subsidiary companies	-	-	3,843,420	2,656,481
On balances with Central Bank of Malta	147,248	98,892	147,248	98,892
	15,659,238	10,682,241	15,328,206	10,295,946
On forfaiting assets	7,781,621	7,287,431	-	-
On financial instruments carried at fair value	1,667,421	1,282,429	1,592,051	846,757
On other trade finance activities	4,070,548	3,157,903	4,070,548	3,157,903
	29,178,828	22,410,004	20,990,805	14,300,606
Interest expense				
On amounts owed to banks	4,173,517	2,851,949	4,015,998	2,819,827
On amounts owed to customers	5,719,360	2,942,318	5,728,273	2,942,432
On debt securities in issue	2,682,780	609,075	2,244,850	395,373
On subordinated debt	3,091,417	3,026,142	3,091,417	3,026,142
	15,667,074	9,429,484	15,080,538	9,183,774
Net interest income	13,511,754	12,980,520	5,910,267	5,116,832

9 net fee and commission income

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Fee and commission income				
Credit related fees and commission	2,455,380	2,030,179	2,455,380	2,030,179
On letters of credit	8,141,365	9,422,493	8,141,365	9,191,289
On factoring	1,389,136	1,420,552	612,770	305,130
On forfaiting activities	4,827,164	4,437,848	-	-
On IT Solutions	599,777	292,408	-	-
On other financial instruments	-	117,083	-	117,083
Other fees	3,337,191	3,665,896	3,419,887	3,593,950
	20,750,013	21,386,459	14,629,402	15,237,631
Fee and commission expense				
Credit related fees	-	16,691	-	16,691
Correspondent banking fees	508,595	596,355	409,678	434,603
On forfaiting activities	159,954	113,343		-
Other fees	1,482,504	1,257,525	1,020,122	936,044
	2,151,053	1,983,914	1,429,800	1,387,338
Net fee and commission income	18,598,960	19,402,545	13,199,602	13,850,293

10 net trading income/(expense)

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Net trading income from assets held for trading	2,180,620	551,058	-	-
Foreign exchange rate fluctuations	535,824	(2,294,877)	316,461	(3,028,565)
	2,716,444	(1,743,819)	316,461	(3,028,565)

11 net gain from other financial instruments carried at fair value

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Net income on derivatives held for risk management purposes	3,690,526	5,268,746	3,698,913	5,349,534
Investment securities designated at fair value through profit or loss	(1,046,139)	61,584	(1,113,928)	(30,176)
	2,644,387	5,330,330	2,584,985	5,319,358

12 dividend income

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Dividend from an available-for-sale investment	-	320	-	320
	-	320	-	320

13 other operating income

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Profit on disposal of equipment	37,347	12,590	11,860	-
Support fees receivable	20,462	19,578	20,462	19,578
Other non-trading income	-	11,994	-	11,994
	57,809	44,162	32,322	31,572

14 net impairment (loss)/reversal on financial assets

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Loans and advances to banks				
- specific impairment allowances	-	(2,222)	-	(2,222)
- collective impairment allowances	566,523	(750,061)	566,523	(750,061)
	566,523	(752,283)	566,523	(752,283)
Loans and advances to customers				
- specific impairment allowances	3,990,839	(914,985)	1,395,981	1,369,323
- collective impairment allowances	(84,863)	(745,306)	(48,738)	(745,306)
- write-offs	(4,606,352)	(1,382,199)	(1,587,076)	(1,382,199)
- recoveries	1,827	17,232	1,827	17,232
	(698,549)	(3,025,258)	(238,006)	(740,950)
Net impaiment (loss)/reversal	(132,026)	(3,777,541)	328,517	(1,493,233)

15 administrative expenses

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

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Personnel expenses	16,345,036	13,970,035	11,030,565	9,064,481
Operating lease rentals	1,314,395	1,284,817	751,110	730,250
Other administrative expenses	10,105,936	8,046,681	7,765,409	5,929,062
Recharge of services rendered by subsidiaries	-	-	1,134,564	1,176,938
	27,765,367	23,301,533	20,681,648	16,900,731

Included in other administrative expenses of the Group for the financial year ended 31 December 2011 are fees charged by auditors as follows:

	Audit services	Other assurance services	Tax advisory services	Other non-audit services
	USD	USD	USD	USD
By the auditors of the parent	152,631	37,022	5,170	239,426
Other auditors	169,107	79,314	42,253	-

All fees are inclusive of indirect taxes.

15 *administrative expenses - continued*

15.2 personnel expenses incurred during the year

	Group 2011 USD	Group 2010 USD	Bank 2011 USD	Bank 2010 USD
Directors' emoluments	258,356	282,659	258,356	282,659
Staff costs				
- wages, salaries and allowances	15,351,451	13,089,505	10,387,756	8,475,409
- defined contribution costs	735,229	597,871	384,453	306,413
	16,345,036	13,970,035	11,030,565	9,064,481

15.3 average number of employees

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

	Group 2011 No. of employees	Group 2010 No. of employees	Bank 2011 No. of employees	Bank 2010 No. of employees
Executive and senior managerial	30	30	14	16
Other managerial, supervisory and clerical	169	155	128	110
Other staff	7	7	5	5
	206	192	147	131

15.4 The Bank has in place Executive Share Option Schemes that are approved by the shareholders by extraordinary resolutions at different General Meetings. The rules for these Schemes regulate the award of Share Options based on the Bank's performance for the year in respect of which the grant is made. Under the Executive Share Option Scheme rules, the Bank awards share options to executives for targeted performance based on the results of the preceding year at the exercise price established at grant date. When the options are exercised, equity is increased by the amount of the proceeds received based on the market price determined on grant date. As at 31 December 2011, there were four schemes under which awarded options are still unexercised.

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

	Group and Bank 2011 No. of share options	Group and Bank 2010 No. of share options
As at 1 January	1,752,080	1,854,320
Exercised	-	(37,440)
Forfeited due to termination of employment	(18,800)	-
Forfeited due to expiry of exercise period (2003 scheme)	-	(64,800)
As at 31 December	1,733,280	1,752,080

15 administrative expenses - continued

details of share options granted

	Total	2008 scheme 01/01/11 to 31/12/15	2007 scheme 01/01/10 to 31/12/14	exercise period 2006 scheme 01/01/09 to 31/12/13	2005 scheme 01/01/08 to 31/12/12
Exercise price per USD0.50 share	USD	USD1.6926	USD1.3778	USD1.4841	USD0.6462
Number of share options unexercised at 1 January 2011	1,752,080	476,000	571,200	564,000	140,880
Forfeited due to termination of employment	(18,800)	(2,000)	(14,400)	(2,400)	-
Number of share options unexercised at 31 December 2011	1,733,280	474,000	556,800	561,600	140,880

	Total	2008 scheme 01/01/11 to 31/12/15	2007 scheme 01/01/10 to 31/12/14	exercise period 2006 scheme 01/01/09 to 31/12/13	2005 scheme 01/01/08 to 31/12/12	2003 scheme 01/01/06 to 31/12/10
Exercise price per USD0.50 share	USD	USD1.6926	USD1.3778	USD1.4841	USD0.6462	USD0.6371
Number of share options unexercised at 1 January 2010	1,854,320	476,000	571,200	564,000	140,880	102,240
Exercised	(37,440)	-	-	-	-	(37,440)
Forfeited due to expiry of exercise period	(64,800)	-	-	-	-	(64,800)
Number of share options unexercised at 31 December 2010	1,752,080	476,000	571,200	564,000	140,880	-

15.5 During the year, the Board authorised the award of 2,000,000 options at an exercise price of USD0.8100. This award, which represents the "Maximum Award per Year" out of a "Cumulative Award Limit" of 10,000,000 options as laid down in the Executive Share Option Scheme Rules (2011 – 2015), is subject to the attainment of a Performance Target and in the case of granting of award, the options can be exercised between 1 January 2014 and 31 December 2018.

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

Fair value of share options and assumptions:

Share price at grant date	USD0.90
Exercise price	USD0.81
Expected volatility	35.80%
Vesting period	33 months
Risk free interest rate (based on Malta Government bonds)	4.95%

The fair value of the services received in 2011 estimated at USD79,000 was not recognised in these financial statements.

15.6 The share option scheme approved in 2003 expired during the financial year ended 31 December 2010 and all unexercised options as at the expiry date were forfeited in accordance with the applicable scheme rules.

16 taxation

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

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Current tax				
- current year	(1,296,185)	(149,738)	(1,296,185)	(149,468)
Deferred tax				
- origination and reversal of temporary differences	2,141,461	670,181	2,116,657	614,550
Taxation in income statement	845,276	520,443	820,472	465,082

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

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Profit before tax	8,281,503	6,223,467	1,018,762	2,164,261
Tax expense using the domestic income tax rate of 35%	(2,898,526)	(2,178,213)	(356,567)	(757,491)
Tax effect of:				
Non deductible expenses	(557,399)	(286,194)	(320,876)	(110,341)
Temporary differences previously not recognised	3,245,050	2,807,737	1,497,915	1,332,914
Investment tax credit	105,712	71,701	-	-
Non taxable income	58,186	84,416	-	-
Share of loss from equity accounted investees	(67,185)	(346,410)	-	-
Different tax rates	959,438	367,406	-	-
Taxation	845,276	520,443	820,472	465,082

17 earnings per share

17.1 basic earnings per share

The calculation of the Group's and Bank's earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of USD9,126,779 and USD1,839,234 (2010: USD6,743,910 and USD2,629,343) for the Group and Bank respectively divided by the weighted average number of ordinary shares in issue during the year ended 31 December 2011 of 136,383,450 (2010: 135,752,709).

17.2 diluted earnings per share

The calculation of the Group's and Bank's diluted earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of USD9,126,779 and USD1,839,234 (2010: USD6,743,910 and USD2,629,343) for the Group and Bank respectively divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2011 of 136,414,541 (2010: 135,805,238).

17 earnings per share - continued

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

Profit attributable to ordinary shareholders (diluted):

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Profit attributable to ordinary shareholders (diluted)	9,126,779	6,743,910	1,839,234	2,629,343

Weighted average number of ordinary shares (diluted):

	2011 No. of shares	2010 No. of shares
Weighted average number of ordinary shares at 31 December	136,383,450	135,752,709
Effect of share options on issue	31,091	52,529
Weighted average number of ordinary shares (diluted) at 31 December	136,414,541	135,805,238

18 balances with the central bank of malta and cash

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Balances with the Central Bank of Malta	11,194,289	9,456,812	11,194,289	9,456,812
Cash	26,176	371,157	7,843	356,855
	11,220,465	9,827,969	11,202,132	9,813,667

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

19 trading assets

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

20 derivatives held for risk management

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Derivative assets held for risk management				
- interest rate	-	-	8,187	-
- foreign exchange	1,844,035	2,317,571	1,844,035	2,317,571
	1,844,035	2,317,571	1,852,222	2,317,571
Derivative liabilities held for risk management				
- interest rate	-	-	-	48,207
- foreign exchange	4,722,154	2,377,124	4,722,154	2,377,124
	4,722,154	2,377,124	4,722,154	2,425,331

21 financial assets designated at fair value through profit or loss

	Group 2011 USD	Group 2010 USD	Bank 2011 USD	Bank 2010 USD
Designated at fair value through profit or loss				
- foreign listed debt securities	-	3,169,280	-	-
- unlisted debt securities	41,320,260	42,410,000	41,320,260	42,410,000
	41,320,260	45,579,280	41,320,260	42,410,000

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

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

As at 31 December 2011, management applied an increased level of judgement in assessing the fair valuation of unlisted securities. This in view of the significant market volatility experienced in the last quarter of the financial year ended 31 December 2011 and its impact on the various observable inputs used to evaluate the fair value of instruments. The fair values at 31 December 2011 reflect management's best estimate after applying the methodologies used in previous years as well as taking into account the general market conditions and specific credit worthiness, before and after the end of financial year.

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

21.2 Financial assets designated at fair value through profit or loss include assets amounting to USD38,800,000 (2010: USD25,800,000) pledged in favour of third parties.

22 loans and advances to banks

	Group 2011 USD	Group 2010 USD	Bank 2011 USD	Bank 2010 USD
Repayable on call and at short notice	53,559,587	62,387,135	46,446,943	61,042,946
Term loans and advances	369,994,521	270,323,902	369,558,746	267,836,327
Total loans and advances	423,554,108	332,711,037	416,005,689	328,879,273
Specific impairment	(3,145,528)	(3,145,528)	(3,145,528)	(3,145,528)
Collective impairment	(2,524,383)	(3,090,906)	(2,524,383)	(3,090,906)
Net loans and advances	417,884,197	326,474,603	410,335,778	322,642,839

22 *loans and advances to banks - continued*

Loans and advances to banks include blocked funds amounting to USD113,096 (2010: USD113,096) pursuant to US Sanctions. The balances also include pledged funds amounting to USD46,264,634 (2010: USD949,591), of which an amount of USD276,252 (2010: USD922,931) represents pledged funds in favour of the Depositor Compensation Scheme Reserve.

The aggregate amount of impaired loans to banks amounted to USD4,875,904 (2010: USD4,699,362). Specific impairment is exclusive of USD1,654,626 (2010: USD1,478,084) in respect of suspended interest not recognised in interest receivable.

23 loans and advances to customers

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Repayable on call and at short notice	95,297,430	77,053,903	95,446,563	77,704,574
Term loans and advances	160,445,073	160,574,501	122,799,474	108,395,956
	255,742,503	237,628,404	218,246,037	186,100,530
Amounts owed by subsidiary companies	-	-	208,896,452	191,780,451
Total loans and advances	255,742,503	237,628,404	427,142,489	377,880,981
Specific impairment	(8,880,947)	(12,871,786)	(7,676,455)	(9,072,436)
Collective impairment	(1,675,145)	(1,590,282)	(1,639,020)	(1,590,282)
Net loans and advances	245,186,411	223,166,336	417,827,014	367,218,263

Loans and advances to customers include assets amounting to USD19,052,950 (2010: USD19,052,950) pledged in favour of third parties.

For the Group, the aggegate amount of impaired loans and advances to customers amounted to USD19,691,703 (2010 USD 19,570,321). Specific impairment of USD9,325,461 (2010: USD10,076,166) in respect of suspended interest not recognised in interest receivable.

For the Bank the aggregate amount of impaired loans and advances to customers amounted to USD18,857,533 (2010: USD19,570,321). Specific impairment is exclusive of USD9,176,328 (2010: USD9,425,495) in respect of suspended interest not recognised in interest receivable.

24 investments available-for-sale

Investments available-for-sale consist of equity instruments in unlisted foreign entities.

Whilst there is no active market for these investments, fair value has been determined by reference to broker prices, with fair value movement recognised, net of deferred tax, in fair value reserve.

25 investments in equity accounted investees

25.1 the group's investment in associates is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Equity interest 2011	Equity interest 2010	Group 2011	Group 2010
				%	%	USD	USD
BRASILFACTORS S.A. ("BRASILFACTORS")	Brazil	Factoring	Ordinary Shares	40	-	3,716,715	-
CIS Factors Holdings B.V. ("CIS Factors")	The Netherlands	Holding Company	Ordinary Shares	40	40	3,078,708	3,256,491
India Factoring and Finance Solutions Private Limited ("India Factoring")	India	Factoring	Ordinary Shares	49	49	14,323,156	10,541,078
Levant Factors S.A.L. ("Levant Factors")	Lebanon	Factoring	Ordinary Shares	50	25	628,088	74,489
The Egyptian Company for Factoring S.A.E. ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	40	40	754,929	1,420,855
						22,501,596	15,292,913
At 1 January						15,292,913	4,554,353
Investment in BRASILFACTORS						4,000,755	-
Investment in Egypt Factors						-	1,200,000
Investment in India Factoring						4,705,205	10,822,021
Investment in Levant Factors						626,667	-
Transaction costs						541,089	-
Reclassification of investment in Levant Factors held through Menafactors Limited						-	81,295
Net share of losses						(191,956)	(996,549)
Currency translation difference						(2,473,077)	(368,207)
At 31 December						22,501,596	15,292,913

25.2 the bank's investment in associate entities is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Equity interest 2011	Equity interest 2010	Bank 2011	Bank 2010
				%	%	USD	USD
The Egyptian Company for Factoring S.A.E. ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	40	40	3,213,425	3,213,425
						3,213,425	3,213,425
At 1 January						3,213,425	2,013,425
Investment in Egypt Factors						-	1,200,000
At 31 December						3,213,425	3,213,425

25 *investments in equity accounted investees - continued*

25.3 Brasilfactors S.A. ("Brasilfactors")

In September 2011, the Group, through its wholly owned subsidiary FIMFactors B.V., incorporated BRASILFACTORS S.A. ("BRASILFACTORS"), a newly established factoring company incorporated in São Paolo, Brazil. BRASILFactors' core business will focus on factoring services and forfaiting, with small and medium-sized companies being its target market. The Group has a 40% holding in the company, with the other shareholders being Banco Industrial e Comercial S.A. ("BICBANCO") and the International Finance Corporation ("IFC"), each holding 40% and 20% respectively.

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

The "Put Period" is defined as the period beginning on the third anniversary of the date on which IFC first subscribes for shares of BRASILFACTORS, and ending on the date in which a firmly underwritten public offering of common shares of BRASILFACTORS has been consummated upon condition that:

a. such offering is on a Relevant Market and undertaken by a reputable underwriter;
b. at least twenty-five per cent (25%) of the issued and outstanding shares of BRASILFACTORS are held by Persons other than IFC, the Sponsors and their respective Affiliates;
c. all common shares of BRASILFACTORS may be traded without restriction (other than customary restrictions contained in lock-up agreements with the managing underwriter or required by any applicable regulation) in the Relavant Market; and
d. the price per share of the common shares of BRASILFACTORS shall be at least two times the Book Value per Share (calculated as of the date of settlement of such offering).

The "Put Price" is defined, in relation to any given exercise of the Put Option, the amount obtained by multiplying:

a. the higher of (i) the Dollar Amount of the Per Share Subscription Price paid by IFC under the Subscription Agreement; and (ii) the Book Value Put Price Per Share, by;
b. the number of Put Shares set out in the relevant Put Notice.

In the opinion of the Directors, the fair value of the Put Option at the financial reporting date (and on initial recognition) is close to zero.

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

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

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

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

25 *investments in equity accounted investees - continued*

a. a Listing has occurred on a Relevant Market;
b. at least twenty five percent (25%) of the issued and outstanding ordinary shares of CIS Factors are held by Persons other than Affiliates (including IFC) and are tradable without restriction on such Relevant Market;
c. the average trading volume of the ordinary shares of CIS Factors (excluding direct or indirect trading by the Sponsors, CIS Factors or their respective Affiliates) on such Relevant Market, during any period of six consecutive months is not less than two times the total number of the ordinary shares of CIS Factors owned by IFC at that date;
d. the average price per share of the ordinary shares of CIS Factors traded on such Relevant Market during any period of six consecutive months is not lower than the price per share as of the date of the Listing;
e. IFC has received a certificate executed by the Sponsors and CIS Factors certifying that the conditions stated in sub-sections (c) and (d) have been met; and
f. all shares of CIS Factors and all Share Equivalents held by IFC are immediately convertible, exercisable or exchangeable into ordinary shares of the CIS Factors and can be traded without restriction on such Relevant Market;

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

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

In the opinion of the Directors, the fair value of the Put Option at the financial reporting date (and on initial recognition) is close to zero.

25.5 India Factoring and Finance Solutions Private Limited ("India Factoring")

In 2010, the Group, through its wholly owned subsidiary FIMFactors B.V., incorporated India Factoring and Finance Solutions Private Limited ("India Factoring"), a company incorporated under Indian law and with its registered office in Mumbai, India. The Group holds a 49% shareholding with Punjab National Bank (30% ownership), Banca IFIS (10% ownership) and Blend Financial Services Limited (1% ownership). Key management personnel have been incentivised by giving them a stake of 10%. India Factoring was granted an operating license in December 2010 and is regulated by the Reserve Bank of India. India Factoring provides factoring, forfaiting and trade finance related activities in India.

25.6 Levant Factors S.A.L. ("Levant Factors")

In March 2009, the Group, through its wholly owned subsidiary Menafactors, acquired 25% of Levant Factors S.A.L., a factoring company incorporated in Beirut, Lebanon. A further investment in the company was made in April 2011, bringing the total investment in the company to 50%. The Group is not deemed to have a controlling interest in the company and kept measuring its investment using the Equity Method. The other major shareholder (49.25%) in Levant Factors is The Lebanese Credit Insurer S.A.L, a joint venture between ATRADIUS Re and a group of local and regional insurance companies and investors.

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

In November 2006, the Bank incorporated Egypt Factors, a company which provides factoring services in Egypt. The Bank has a 40% investment in Egypt Factors with the other shareholders being Commercial International Bank ("CIB") and International Finance Corporation ("IFC") (holding 40% and 20% equity respectively).

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

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

25 *investments in equity accounted investees - continued*

The "Exercise Price" has been fixed at the higher of:
(a) The coefficient multiplied by the number of shares subject to the put option; and
(b) The investment costs per share (i.e. the total investment by IFC from time to time in Egypt Factors until the date of notice of exercise divided by the total number of shares subject to the put option).

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

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

	Total assets	Total liabilities	Total revenue	Total expenses	(Loss)/profit for the year
	USD	USD	USD	USD	USD
31 December 2011					
CIS Factors	31,525,519	24,861,307	2,087,048	(2,908,779)	(821,731)
India Factoring [1]	119,853,479	96,440,432	9,658,352	(8,053,206)	1,605,146
Levant Factors	6,983,256	5,766,050	278,101	(314,729)	(36,628)
Egypt Factors	29,242,350	27,388,585	4,041,915	(5,716,675)	(1,674,760)
31 December 2010					
CIS Factors	6,877,612	528,620	-	(342,744)	(342,744)
India Factoring[1]	19,525,398	235,984	517,520	(1,088,226)	(570,706)
Levant Factors	3,888,655	3,754,899	176,933	(204,166)	(27,233)
Egypt Factors	33,339,041	29,820,462	3,614,787	(4,793,590)	(1,178,803)

As at 31 December 2011, BRASILFACTORS was still in the process of commencing its economic activities.

[1]Revenue, expenses and results for the year are for the period 1st April to 31st December of the respective period

26 investments in subsidiaries

26.1 capital subscribed

	Bank 2011 USD	Bank 2010 USD
At 1 January	64,234,312	53,412,291
Additional investment in FIMFactors B.V.	9,247,047	10,822,021
At 31 December	73,481,359	64,234,312

26.2 investments in subsidiaries

Name of Company	Country of incorporation	Nature of business	Equity interest 2011 %	Equity interest 2010 %	Bank 2011 USD	Bank 2010 USD
London Forfaiting Company Limited	UK	Forfaiting	100	100	37,366,435	37,366,435
FIMFactors B.V.	Netherlands	Holding Company	100	100	36,107,924	26,860,877
FIM Business Solutions Limited	Malta	IT service Provider	100	100	5,000	5,000
FIM Property Investment Limited	Malta	Property Management	100	100	2,000	2,000
					73,481,359	64,234,312

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

Name of Company	Country of incorporation	Nature of business	Current equity interest 2011 %	Current equity interest 2010 %
London Forfaiting International Limited	UK	Holding company	100	100
London Forfaiting Americas Inc. *	United States of America	Marketing	100	100
London Forfaiting do Brasil Ltda. *	Brazil	Marketing	100	100

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

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

Name of Company	Country of incorporation	Nature of business	Current equity interest 2011 %	Current equity interest 2010 %
Menafactors Limited	United Arab Emirates	Factoring Company	100	100

27 property and equipment

Group

	Freehold land	Freehold premises	Computer system	Improvement to leasehold premises	Computer equipment	Others	Total
	USD	USD	USD	USD	USD	USD	USD
Cost							
At 1 January 2010	6,892,057	221,708	1,912,587	942,148	2,497,163	3,342,688	15,808,351
Reclassification of assets held-for-sale	-	-	-	-	48,714	227,926	276,640
Acquisitions during the year	-	-	42,424	168,336	132,883	5,847,510	6,191,153
Disposals during the year	-	-	-	(163,928)	(215,919)	(149,885)	(529,732)
At 31 December 2010	6,892,057	221,708	1,955,011	946,556	2,462,841	9,268,239	21,746,412
At 1 January 2011	6,892,057	221,708	1,955,011	946,556	2,462,841	9,268,239	21,746,412
Acquisitions during the year	-	2,595	-	14,068	305,695	10,520,902	10,843,260
Disposals during the year	-	-	-	-	-	(139,430)	(139,430)
At 31 December 2011	6,892,057	224,303	1,955,011	960,624	2,768,536	19,649,711	32,450,242
Depreciation							
At 1 January 2010	-	32,887	878,375	644,284	2,024,941	1,827,529	5,408,016
Reclassification of assets held-for-sale	-	-	-	-	26,321	100,087	126,408
Charge for the year	-	4,434	177,042	148,204	249,711	234,066	813,457
Disposals during the year	-	-	-	(133,518)	(214,492)	(149,765)	(497,775)
At 31 December 2010	-	37,321	1,055,417	658,970	2,086,481	2,011,917	5,850,106
At 1 January 2011	-	37,321	1,055,417	658,970	2,086,481	2,011,917	5,850,106
Charge for the year	-	4,434	176,982	86,480	210,581	216,428	694,905
Disposals during the year	-	-	-	-	(495)	(127,947)	(128,442)
At 31 December 2011	-	41,755	1,232,399	745,450	2,296,567	2,100,398	6,416,569
Carrying amounts							
At 1 January 2010	6,892,057	188,821	1,034,212	297,864	472,222	1,515,159	10,400,335
At 31 December 2010	6,892,057	184,387	899,594	287,586	376,360	7,256,322	15,896,306
At 1 January 2011	6,892,057	184,387	899,594	287,586	376,360	7,256,322	15,896,306
At 31 December 2011	6,892,057	182,548	722,612	215,174	471,969	17,549,313	26,033,673

Property and equipment include assets amounting to USD23,794,525 hypothecated in favour of third party banks up to EUR7,000,000 (USD9,057,971 at the financial reporting date).

Included in "Others" are amounts of USD16,889,850 held by a wholly owned subsidiary "FIM Property Investment Limited", representing the cost of developing the Group's Head Office at Pendergardens, St. Julian's Malta. This asset is not yet available for use and in line with IAS16 "Property, Plant and Equipment" it is not being depreciated.

27 property and equipment - continued

Bank

	Freehold premises	Computer system	Improvement to leasehold premises	Computer equipment	Others	Total
	USD	USD	USD	USD	USD	USD
Cost						
At 1 January 2010	221,708	1,912,587	721,517	1,794,202	1,628,569	6,278,583
Acquisitions during the year	-	42,424	10,111	102,627	28,845	184,007
Disposals during the year	-	-	(30,410)	-	-	(30,410)
At 31 December 2010	221,708	1,955,011	701,218	1,896,829	1,657,414	6,432,180
At 1 January 2011	221,708	1,955,011	701,218	1,896,829	1,657,414	6,432,180
Acquisitions during the year	-	-	14,068	282,428	251,779	548,275
Disposals during the year	-	-	-	-	(49,529)	(49,529)
At 31 December 2011	221,708	1,955,011	715,286	2,179,257	1,859,664	6,930,926
Depreciation						
At 1 January 2010	32,887	878,375	424,516	1,494,757	1,206,809	4,037,344
Charge for the year	4,436	177,042	107,100	168,577	123,192	580,347
At 31 December 2010	37,323	1,055,417	531,616	1,663,334	1,330,001	4,617,691
At 1 January 2011	37,323	1,055,417	531,616	1,663,334	1,330,001	4,617,691
Charge for the year	4,434	176,982	52,858	137,415	108,496	480,185
Disposals during the year	-	-	-	-	(49,063)	(49,063)
At 31 December 2011	41,757	1,232,399	584,474	1,800,749	1,389,434	5,048,813
Carrying amounts						
At 1 January 2010	188,821	1,034,212	297,001	299,445	421,760	2,241,239
At 31 December 2010	184,385	899,594	169,602	233,495	327,413	1,814,489
At 1 January 2011	184,385	899,594	169,602	233,495	327,413	1,814,489
At 31 December 2011	179,951	722,612	130,812	378,508	470,230	1,882,113

28 intangible assets

Group

	Software licences USD
Cost	
At 1 January 2010	2,138,980
Reclassification of assets held-for-sale	178,593
Additions during the year	517,255
At 31 December 2010	2,834,828
At 1 January 2011	2,834,828
Additions during the year	513,935
At 31 December 2011	3,348,763
Amortisation	
At 1 January 2010	819,974
Reclassification of assets held-for-sale	96,937
Charge for the year	395,230
At 31 December 2010	1,312,141
At 1 January 2011	1,312,141
Charge for the year	463,597
At 31 December 2011	1,775,738
Carrying Amount	
At 1 January 2010	1,319,006
At 31 December 2010	1,522,687
At 1 January 2011	1,522,687
At 31 December 2011	1,573,025

Bank

	Software licences USD
Cost	
At 1 January 2010	923,276
Additions during the year	342,619
At 31 December 2010	1,265,895
At 1 January 2011	1,265,895
Additions during the year	104,554
At 31 December 2011	1,370,449
Amortisation	
At 1 January 2010	374,006
Charge for the year	151,238
At 31 December 2010	525,244
At 1 January 2011	525,244
Charge for the year	191,559
At 31 December 2011	716,803
Carrying Amount	
At 1 January 2010	549,270
At 31 December 2010	740,651
At 1 January 2011	740,651
At 31 December 2011	653,646

29 deferred taxation

29.1 deferred taxation is analysed as follows:

	Group		Bank	
	2011	2010	2011	2010
	USD	USD	USD	USD
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	(457,878)	(395,538)	(291,507)	(241,151)
- allowances for uncollectibility	2,830,647	2,551,553	2,830,647	2,551,553
- changes in fair value of financial instruments	1,927,880	15,151	1,927,735	15,151
- investment tax credits	333,562	296,919	-	-
- unabsorbed tax losses	6,571,680	6,571,680	-	-
	11,205,891	9,039,765	4,466,875	2,325,553

29.2 unrecognised deferred taxation

At the financial reporting date the Bank had unrecognised temporary differences amounting to USD19.5 million (2010: USD23.5 million). In addition Group subsidiaries had unrecognised and unutilised tax losses and tax credits amounting to USD48.9 million (2010: USD55.8 million) and USD0.7 million (2010: USD0.5 million) respectively available against future taxable profits. A deferred tax asset amounting to USD1,781,404 (2010: USD1,511,812) was utilised during the year to absorb taxable income. An equivalent amount was recognised in the financial statements as a deferred tax asset on the basis of three-year profit forecasts and the results for the current year.

29.3 movements in temporary differences during the year:

Group

	Opening balance	Recognised in other comprehensive income	Recognised in profit or loss	Closing balance
	USD	USD	USD	USD
2010				
Excess of capital allowances over depreciation	(178,706)	-	(216,832)	(395,538)
Allowances for uncollectibility	1,655,013	-	896,540	2,551,553
Changes in fair values of financial instruments	-	27,820	(12,669)	15,151
Investment tax credits	242,385	-	54,534	296,919
Unabsorbed capital allowances	51,392	-	(51,392)	-
Unabsorbed tax losses	6,571,680	-	-	6,571,680
	8,341,764	27,820	670,181	9,039,765
2011				
Excess of capital allowances over depreciation	(395,538)	-	(62,340)	(457,878)
Allowances for uncollectibility	2,551,553	-	279,094	2,830,647
Changes in fair values of financial instruments	15,151	24,665	1,888,064	1,927,880
Investment tax credits	296,919	-	36,643	333,562
Unabsorbed tax losses	6,571,680	-	-	6,571,680
	9,039,765	24,665	2,141,461	11,205,891

29 deferred taxation - continued

Bank

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Closing balance USD
2010				
Excess of capital allowances over depreciation	(18,512)	-	(222,639)	(241,151)
Allowances for uncollectibility	1,655,013	-	896,540	2,551,553
Changes in fair values of financial instruments	-	27,820	(12,669)	15,151
Unabsorbed capital allowances	46,682	-	(46,682)	-
	1,683,183	27,820	614,550	2,325,553
2011				
Excess of capital allowances over depreciation	(241,151)	-	(50,356)	(291,507)
Allowances for uncollectibility	2,551,553	-	279,094	2,830,647
Changes in fair values of financial instruments	15,151	24,665	1,887,919	1,927,735
	2,325,553	24,665	2,116,657	4,466,875

30 other assets

	Group 2011 USD	Group 2010 USD	Bank 2011 USD	Bank 2010 USD
Operational debtors and other recoverable amounts	2,128,626	1,826,416	2,307,509	2,078,901
Indirect taxation	1,378,521	1,393,136	466,104	332,627
Work-in-progress balances	-	8,126	-	-
	3,507,147	3,227,678	2,773,613	2,411,528

Other assets include an amount of USD462,023 (2010: NIL) pledged in favour of the Depositor Compensation Scheme.

31 prepayments and accrued income

	Group 2011 USD	Group 2010 USD	Bank 2011 USD	Bank 2010 USD
Accrued income	3,195,485	2,021,076	3,286,265	1,895,107
Prepayments	1,472,637	991,748	1,126,208	644,927
	4,668,122	3,012,824	4,412,473	2,540,034

32 amounts owed to banks

	Group 2011 USD	Group 2010 USD	Bank 2011 USD	Bank 2010 USD
Term deposits	254,443,692	275,072,416	247,515,822	273,834,302
Repayable on demand	110,758,496	56,142,189	110,758,496	56,142,189
	365,202,188	331,214,605	358,274,318	329,976,491

33 amounts owed to customers

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Term deposits	187,544,092	122,888,452	187,544,092	122,888,452
Repayable on demand	224,021,277	168,563,729	219,987,534	161,420,336
	411,565,369	291,452,181	407,531,626	284,308,788
Amounts owed to subsidiaries	-	-	591,974	740,192
	411,565,369	291,452,181	408,123,600	285,048,980

Included in the Group customer accounts are deposits amounting to USD91,208,440 (2010: USD34,238,719) held as collateral for irrevocable commitments. Included in the Bank customer accounts are deposits amounting to USD87,348,288 (2010: USD28,333,265) held as collateral for irrevocable commitments.

34 debt securities in issue

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Unsecured promissory notes (Note 34.1)	8,208,394	12,669,077	-	-
Bonds (Note 34.2)	42,346,073	42,853,818	42,346,073	42,853,818
	50,554,467	55,522,895	42,346,073	42,853,818

34.1 unsecured promissory notes

Unsecured promissory notes are issued by a subsidiary company. At 31 December 2011, notes issued by the subsidiary company have a tenor of up to one year. The Group's effective interest rate for 2011 is 2.95% (2010: 3.01%).

34.2 bonds

The Bank has in issue an aggregate of EUR35 million Bonds 2013 in a combination of 4.25% EUR Bonds of a nominal value of EUR100 per bond and 4.25% USD Bonds of a nominal value of USD100 per bond. The Bonds were issued as follows:

	Group and Bank	
	2011 USD	2010 USD
4.25% EUR Bonds 2013	24,927,018	25,743,151
4.25% USD Bonds 2013	18,047,700	18,047,700
Principal outstanding balance	42,974,718	43,790,851
Unamortised issue costs	(628,645)	(937,033)
Carrying amount as at 31 December	42,346,073	42,853,818

The Bonds are redeemable at par on 30 November 2013, are listed on the Malta Stock Exchange and trade on its Official List. The Bonds, which are unsecured, rank before the subordinated debt of the Bank and have a general claim on the assets of the Bank except where assets are pledged in favour of specific creditors.

The movement between 2010 and 2011 in principal outstanding balance represents unrealised foreign exchange fluctuations recognised in profit or loss.

35 subordinated debt

	Group and Bank 2011 USD	Group and Bank 2010 USD
Subordinated convertible loan (Note 35.1)	3,428,572	5,142,857
Subordinated bonds (Note 35.2)	37,734,366	38,646,370
	41,162,938	43,789,227

35.1 subordinated convertible loan

	Group and Bank 2011 USD	Group and Bank 2010 USD
Initial recognition:		
Face value of subordinated convertible loan on 23 June 2005	10,000,000	10,000,000
Amounts classified as equity on exercise of option on 27 October 2005 (refer to note below)	(4,000,000)	(4,000,000)
Repayment	(2,571,428)	(857,143)
Carrying amount as at 31 December	3,428,572	5,142,857

At 31 December 2011, the loan carried interest at 2.414% per annum (2010: 2.734%) and is repayable in full by 15 July 2013.

35.2 subordinated bonds

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

	Group and Bank 2011 USD	Group and Bank 2010 USD
7% EUR Subordinated Bonds 2012-2019	30,511,774	31,510,758
7% USD Subordinated Bonds 2012-2019	8,107,800	8,107,800
Principal outstanding balance	38,619,574	39,618,558
Unamortised issue costs	(885,208)	(972,188)
Carrying amount as at 31 December	37,734,366	38,646,370

The movement between 2010 and 2011 in principal outstanding balance represents unrealised foreign exchange fluctuations recognized in profit or loss.

35.3 The above liabilities are unsecured and subordinated to other outstanding unsubordinated and unsecured obligations of the Bank and the Group. The Group did not have any defaults of interest or other breaches with respect to the subordinated liabilities during the current and comparative periods.

36 provisions

	Group USD	Bank USD
Balance at 1 January 2010	2,618,708	1,733,104
Additional charges during the year	506,281	-
Exchange difference	(72,805)	-
Balance at 31 December 2010	**3,052,184**	**1,733,104**
Balance at 1 January 2011	3,052,184	1,733,104
Exchange difference	(41,818)	-
Balance at 31 December 2011	**3,010,366**	**1,733,104**
Non-current balance at 31 December 2010	**3,052,184**	**1,733,104**
Non-current balance at 31 December 2011	**3,010,366**	**1,733,104**

Provisions represent the best estimate of future economic cash flows which may be required as a result of pending court cases. Management believes that adequate provisions have been made against these pending court cases on the basis of legal advice as to the timing and amount of the expected future economic outflows.

37 accruals and deferred income

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Accrued interest	3,450,113	2,352,367	3,404,200	2,236,233
Other accruals	13,281,298	9,796,273	2,861,396	2,920,735
	16,731,411	12,148,640	6,265,596	5,156,968

Other accruals include an amount payable to a subsidiary company amounting to USD285,420 (2010: USD246,966).

38 equity

38.1 share capital

	2011 Shares of 50 cents		2010 Shares of 50 cents	
	Shares	USD	Shares	USD
Authorised Ordinary shares at 31 December	400,000,000	200,000,000	400,000,000	200,000,000
Issued and fully paid up Ordinary shares at 31 December	136,636,319	68,318,160	135,952,634	67,976,317

	Ordinary Shares	
	2011 No of shares	2011 No of shares
On issue at 1 January	135,952,634	135,426,954
Share options issued for cash (see note 15.4)	-	37,440
Scrip dividend	683,685	488,240
On issue at 31 December	136,636,319	135,952,634

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

scrip dividend

In May 2011, the Annual General Meeting approved the payment of a scrip dividend amounting to USD3,371,955, representing a net dividend per Ordinary Share of US cents 2.480242. Shareholders were given the option to receive the dividend either in the form of Cash or new Ordinary Shares at the attribution price of USD0.85. Consequent to the Scrip Issue, the Bank's capital was increased by a further USD341,843.

38.2 share premium

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

38.3 currency translation reserve

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

38.4 fair value reserve

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

38.5 other reserve

The reserve includes an amount of USD2,681,041 (2010: USD2,681,041) representing the difference between the net proceeds received on the sale of own shares net of the relative acquisition costs. In addition USD9,760,981 (2010: USD5,417,538) represents the appropriation from Retained Earnings for any unforeseen future risks which may affect the Group's financial assets held-for-trading.

38 *equity - continued*

38.6 dividends

The following dividends were declared and paid by the Group:

	2011 USD	2010 USD
Dividends declared and paid during the year	3,371,955	1,565,048

After the financial reporting date the following dividends were proposed by the Directors. The dividends have not been provided for in these financial statements.

	2011 USD	2010 USD
US cents 2.003884 per qualifying ordinary share (2010: 2.480242)	2,738,034	3,371,955

38.7 availability of reserves for distribution

The Bank's retained earnings as at the financial reporting date include an amount of USD29,863,237 (2010: USD31,395,958) that is available for distribution.

39 contingent liabilities

39.1

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Guarantee obligations incurred on behalf of third parties	66,848,581	38,150,984	72,685,336	43,362,797

39.2 Global Trade Finance Limited

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

The probability that this claim may arise was assessed on 31 December 2011 in the light of a likelihood that such a claim may arise under a future assessment. The Bank deems that, albeit it is still possible that a claim may arise in the future, the probability of this occurring is remote. However, this event still represents a contingent liability since the indemnity constitutes a present obligation that does not however meet the criteria to be recognised as a provision. The maximum amount of the contingent liability remains INR216,810,000 (USD4,070,000) at 31 December 2011 (31 December 2010: USD4,839,000).

39.3 other contingencies

39.3.1 On 9 January 2006 a judicial letter was filed against the Bank and a customer for the principal amount of USD841,582, plus legal interest. The party is claiming this amount by way of refund of a performance bond issued by a third party bank in his name and which performance bond was called upon by the Bank on behalf of its customer. The Bank is contesting this claim and the Directors do not expect the outcome of the action to have a material effect on the Group's and the Bank's financial statements. Up to the date of issue of these financial statements, no judicial proceedings have commenced against the Bank.

39 contingent liabilities - continued

39.3.2 On 9 March 2011 FIMBank was informed that a client had filed a law case against it claiming damages of EUR20.5 million (USD26.5 million) arising from a non-payment of a documentary credit confirmed by the Bank in favour of the client. The case was appointed to the First Hall of the Malta Civil Courts and the first hearings were held.

On 4 July 2011, FIMBank was served with a garnishee order for the same amount on application of the client. FIMBank opposed the garnishee and obtained a suspension of its effects later in the day after filing an application countermanding the garnishee. By decree dated 7 July 2011 the Courts accepted FIMBank's application and revoked the garnishee order.

The Board of Directors assessed the probability that the Courts may deliver a negative judgement and the likelihood that such a judgement could result in the payment of the claimed amount. The Bank considers that the Court case is still at its early stages and believes that it has a strong case backed by robust arguments which makes feasible its chances of a favourable judgement. In light of this, the Bank is deeming this event as a contingent liability since the case constitutes a possible obligation that arises from past events and whose existence will be confirmed only by a future Court judgement. No provision is being recognised in these financial statements.

40 commitments

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Undrawn credit facilities	28,045,071	37,013,147	28,045,071	37,013,147
Commitment to purchase assets	43,793,823	32,306,169	-	-
Factoring commitments	10,090	2,896	10,090	2,896
Documentary credits	22,833,035	31,402,091	22,833,035	31,402,091
Confirmed letters of credit	64,453,848	96,702,776	61,283,156	102,441,897
Risk participations	4,575,694	-	4,575,694	-
	163,711,561	197,427,079	116,747,076	170,860,031

The Bank has total sanctioned limits to customers amounting to USD 406,343,059 (2010: USD354,384,503).

In addition, as at the financial reporting date the Bank had open back-to-back documentary credits amounting to USD 8,469,626 (2010: USD21,750,577).

41 cash and cash equivalents

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

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Balances with the Central Bank of Malta and cash	11,220,465	9,827,969	11,202,132	9,813,667
Loans and advances to banks	317,791,766	195,674,807	310,679,125	194,330,618
Amounts owed to banks	(266,530,241)	(179,373,348)	(266,530,241)	(179,373,348)
Cash and cash equivalents	62,481,990	26,129,428	55,351,016	24,770,937
Adjustment to reflect balances with contractual maturity of more than three months	1,420,484	(21,041,461)	7,912,576	(22,290,922)
Per statement of financial position	63,902,474	5,087,967	63,263,592	2,480,015
Analysed as follows:				
Balances with the Central Bank of Malta and cash	11,220,465	9,827,969	11,202,132	9,813,667
Loans and advances to banks	417,884,197	326,474,603	410,335,778	322,642,839
Amounts owed to banks	(365,202,188)	(331,214,605)	(358,274,318)	(329,976,491)
	63,902,474	5,087,967	63,263,592	2,480,015

42 operating leases

leases as lessee

The Group leases motor vehicles and office premises under operating lease arrangements. During the year ended 31 December 2011, operating lease charges amounting to USD1,314,395 (2010: USD1,284,817) were recognised as an expense in the income statement of the Group, while operating lease charges amounting to USD751,110 (2010: USD730,250) were recognised as an expense in the income statement of the Bank.

Non-cancellable operating lease rentals are payable as follows:

	Group		Bank	
	2011 USD	2010 USD	2011 USD	2010 USD
Less than one year	1,303,124	1,309,420	1,316,018	696,151
Between one and five years	598,021	1,331,365	86,990	490,371
	1,901,145	2,640,785	1,403,008	1,186,522

43 related parties

43.1 identity of related parties

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

43.2 transactions with key management personnel

Directors of the Group control 8 per cent of the voting shares of the Bank and the Group respectively. There were no loans and advances to Directors as at 31 December 2011 and as at 31 December 2010.

On 31 December 2011, an amount of USD301,675 (2010: USD289,015) was receivable from executive officers. Interest earned from facilities granted to executive officers during the financial year ended 31 December 2011 amounted to USD197 (2010: USD459).

Deposits by Directors as at 31 December 2011 amounted to USD128,570 (2010: USD172,637) and are included in “amounts owed to customers”. No Interest was paid to Directors for the year ended 31 December 2011 (2010: NIL).

Deposits by Executive Officers as at 31 December 2011 amounted to USD304,831 (2010: USD205,673) and are included in “amounts owed to customers”. Interest paid to Executive Officers during the financial year ended 31 December 2011 amounted to USD8,964 (2010: USD6,569). Furthermore, guarantees issued by the Bank in favour of Executive Officers as at 31 December 2011 amounted to USD3,014 (2010: USD3,113).

Directors of the Group hold a nominal value of 18,000 (2010: 10,000) 7% EUR Subordinated Bonds 2012-2019, 18,300 (2010: 18,300) 7% USD Subordinated Bonds 2012-2019, 7,000 (2010: 7,000) 4.25% EUR Bonds 2013 and 26,000 (2010: 26,000) 4.25% USD Bonds 2013. Gross interest paid to Directors on these bonds during the financial year ended 31 December 2011 amounted to EUR1,484 (2010: EUR710) and USD2,425 (2010: USD1,299). Executive Officers hold a nominal value of 10,000 (2010: 10,000) 7% USD Subordinated Bonds, 30,000 (2010: 30,000) 4.25% EUR Bonds 2013 and 6,000 (2010: 6,000) 4.25% EUR Bonds 2013. Gross interest paid to Executive Officers on these bonds during the financial year ended 31 December 2011 amounted to EUR1,298 (2010: Nil) and USD916 (2010: USD710).

In addition to their salaries, the Group also provides non-cash benefits to Directors and Executive Officers. Directors’ compensations are disclosed in note 15.2 to these financial statements. Total remuneration payable to executive officers amounting to USD1,685,665 (2010: USD1,470,520) is included in “personnel expenses” (see note 15.2).

As at 31 December 2011, executive officers had a total of 533,000 (2010: 533,000) unexercised share options.

43 *related parties - continued*

43.3 other related party transactions

Amounts equivalent to USD90,936 (2010: USD73,686) and USD80,732 (2010: USD113,411) were charged by a shareholding company and Directors respectively for travelling and accommodation expenses in connection with the Board and Board Committee meetings of the Bank. Consultancy and professional fees amounting to USD764,997 (2010: USD590,257) were charged by companies owned, directly and indirectly by the Bank's Directors and key management personnel.

Moreover, the Group has in place a consultancy agreement with a company in which a Bank's Director has a beneficial interest, with an outstanding committed value of EUR86,824 (USD112,350) as at financial reporting date.

43.4 related party balances

On 31 December 2011 shareholders having significant influence did not have any deposits with the Bank (2010: USD130,735 bearing no interest).

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

44 financial commitments

For 2012, the Board approved capital injections of up to USD9.4 million aimed at existing factoring joint ventures to support their growth in accordance with the respective business plans and capital requirements.

45 capital commitments

At financial reporting date the Group had the following capital commitments:

	Group	
	2011 USD	2010 USD
Authorised and contracted for	3,591,484	5,875,539
Authorised but not contracted for	1,211,562	8,424,543
	4,803,046	14,300,082

Group capital commitments relate to the development of the Group's head office in Pendergardens, St. Julian's, Malta. The project is expected to be completed in June 2012.

46 subsequent events

There were no material events or transactions which took place after the financial reporting date and which would require disclosure in this annual report and financial statements.

47 comparative information

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

statement of the directors pursuant to listing rule 5.68

For the year ended 31 December 2011

We, the undersigned, declare that to the best of our knowledge, the financial statements set out on pages 36 to 111 prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries included in the consolidation taken as a whole and that this report includes a fair review of the development and performance of the business and the position of the Bank and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board of Directors on 12 March 2012 by:

Najeeb H.M. Al-Saleh
Chairman

John C. Grech
Vice Chairman

report of the independent auditors

to the members of FIMBank p.l.c.

report on the financial statements

We have audited the financial statements of FIMBank p.l.c. (the "Bank") and of the Group of which the Bank is the parent, as set out on pages 36 to 111, which comprise the statements of financial position as at 31 December 2011 and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

directors' responsibility for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 35, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), and the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 179 of the Act, and Article 31 of the Banking Act, 1994 (Chapter 371, Laws of Malta), and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report 2011 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

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

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

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

opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the Group's and the Bank's financial position as at 31 December 2011, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation.

report on other legal and regulatory requirements

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

In our opinion:

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

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

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

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

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

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

Our responsibility as independent auditors of the Bank, is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages 24 to 32.

We review the Directors' Statement of Compliance, and report as to whether this Statement provides the disclosures required by Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures, nor on the ability of the Group to continue in operational existence.

In our opinion, the Directors' Statement of Compliance set out on pages 24 to 32 provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

Noel Mizzi (Partner) for and on behalf of

KPMG
Registered Auditors

12 March 2012

schedule I

income statement

Five Year Summary

Bank

	2011	2010	2009	2008	2007
	USD	USD	USD	USD	USD
Interest income	20,990,805	14,300,606	13,321,974	26,111,791	22,870,430
Interest expense	(15,080,538)	(9,183,774)	(9,047,203)	(17,606,671)	(16,858,192)
Net interest income	5,910,267	5,116,832	4,274,771	8,505,120	6,012,238
Fee and commission income	14,629,402	15,237,631	14,925,150	16,128,175	12,420,609
Fee and commission expense	(1,429,800)	(1,387,338)	(1,556,711)	(1,288,088)	(946,703)
Net fee and commission income	13,199,602	13,850,293	13,368,439	14,840,087	11,473,906
Net trading income/(expense)	2,901,446	2,290,793	5,513,626	(4,858,802)	1,143,384
Dividend income	-	320	604	1,530,101	600,123
Profit on disposal of available-for-sale investment	-	-	46,956	-	-
Profit on disposal of associate	-	-	-	43,085,785	-
Other operating income	32,322	31,572	18,013	69,788	51,537
Operating income before net impairment losses	22,043,637	21,289,810	23,222,409	63,172,079	19,281,188
Net impairment reversal/(loss) on financial assets	328,517	(1,493,233)	(4,712,221)	(1,079,697)	(732,089)
Operating income	22,372,154	19,796,577	18,510,188	62,092,382	18,549,099
Administrative expenses	(20,681,648)	(16,900,731)	(16,761,113)	(19,324,672)	(14,528,885)
Depreciation and amortisation	(671,744)	(731,585)	(707,771)	(534,636)	(517,125)
Provision for liabilities and charges	-	-	-	(1,733,104)	-
Total operating expenses	(21,353,392)	(17,632,316)	(17,468,884)	(21,592,412)	(15,046,010)
Profit before tax	1,018,762	2,164,261	1,041,304	40,499,970	3,503,089
Taxation	820,472	465,082	31,181	(9,963,462)	(394,689)
Profit for the year	1,839,234	2,629,343	1,072,485	30,536,508	3,108,400

schedule 11

statement of financial position

Five Year Summary

Bank

	2011 USD	2010 USD	2009 USD	2008 USD	2007 USD
ASSETS					
Balances with the Central Bank of Malta and cash	11,202,132	9,813,667	8,833,204	8,811,029	15,137,885
Financial assets at fair value through profit or loss	43,172,482	44,727,571	24,280,356	26,349,315	37,336,214
Loans and advances to banks	410,335,778	322,642,839	315,235,568	264,614,667	234,875,967
Loans and advances to customers	417,827,014	367,218,263	255,714,115	229,640,248	205,566,411
Investments available-for-sale	92,040	161,791	39,595	61,789	149,029
Investments in equity accounted investees	3,213,425	3,213,425	2,013,425	2,013,425	13,567,359
Investments in subsidiaries	73,481,359	64,234,312	53,412,291	49,394,666	37,392,666
Property and equipment	1,882,113	1,814,489	2,241,239	1,631,305	1,441,827
Intangible assets	653,646	740,651	549,270	589,825	463,678
Current tax assets	448,583	1,558,921	508,275	210,811	-
Deferred tax	4,466,875	2,325,553	1,683,183	1,285,255	1,206,759
Other assets	2,773,613	2,411,528	1,870,871	2,359,199	1,134,150
Prepayments and accrued income	4,412,473	2,540,034	2,110,959	2,044,412	1,503,348
Total assets	973,961,533	823,403,044	668,492,351	589,005,946	549,775,293
LIABILITIES AND EQUITY					
Liabilities					
Financial liabilities at fair value through	4,722,154	2,425,331	1,152,782	1,159,079	255,540
Amounts owed to banks	358,274,318	329,976,491	227,151,376	211,163,939	272,381,082
Amounts owed to customers	408,123,600	285,048,980	271,532,067	252,147,811	180,034,363
Debt securities in issue	42,346,073	42,853,818	4,931,904	-	1,000,000
Subordinated debt	41,162,938	43,789,227	47,062,828	6,000,000	6,000,000
Provisions	1,733,104	1,733,104	1,733,104	1,733,104	-
Other liabilities	94,392	182,135	113,806	2,280	638,913
Accruals and deferred income	6,265,596	5,156,968	4,101,948	4,737,313	3,359,395
	862,722,175	711,166,054	557,779,815	476,943,526	463,669,293
Equity					
Share capital	68,318,160	67,976,317	67,713,477	67,428,196	54,946,953
Share premium	10,474,390	10,235,339	9,986,355	9,658,098	18,136,923
Fair value reserve	(97,470)	(51,665)	-	-	-
Other reserve	2,681,041	2,681,041	2,681,041	2,681,041	2,681,041
Retained earnings	29,863,237	31,395,958	30,331,663	32,295,085	10,341,083
	111,239,358	112,236,990	110,712,536	112,062,420	86,106,000
Total liabilities and equity	973,961,533	823,403,044	668,492,351	589,005,946	549,775,293
MEMORANDUM ITEMS					
Contingent liabilities	72,685,336	43,362,797	27,021,667	74,548,490	19,804,574
Commitments	116,747,046	170,860,031	167,848,294	197,444,877	239,187,505

schedule III

cash flow statement

Five Year Summary

Bank

	2011 USD	2010 USD	2009 USD	2008 USD	2007 USD
Net cash flows from operating activities	44,432,606	(102,960,640)	(18,242,129)	56,618,404	(43,226,381)
Cash flows from investing activities					
Net payments to acquire property and equipment	(548,275)	(153,597)	(1,189,397)	(616,906)	(591,182)
Payments to acquire intangible assets	(104,554)	(342,619)	(87,759)	(226,765)	(166,076)
Proceeds from disposal of property and equipment	12,326	-	-	-	-
Purchase of shares in equity accounted investments	-	(1,200,000)	-	(8,300,000)	(5,013,425)
Purchase of shares in subsidiary companies	(8,705,959)	(10,822,021)	(4,017,625)	(2,000)	-
Proceeds from disposal of shares in equity accounted investees	-	-	-	41,173,634	-
Purchase of other investment	(719)	-	-	-	-
Proceeds from other investments	-	-	69,151	87,239	-
Receipt of dividend	-	320	604	1,530,101	600,123
Cash flows (used in)/generated from investing activities	(9,347,181)	(12,517,917)	(5,225,026)	33,645,303	(5,170,560)
Cash flows from financing activities					
Proceeds from issue of share capital	-	23,853	19,462	551,112	25,205,753
Debt securities in issue	-	(4,931,905)	4,931,904	(1,000,000)	1,000,000
Proceeds from issue of 4.25% bonds	-	43,396,399	-	-	-
Proceeds from issue of Subordinated debt	-	-	39,061,687	-	-
Repayment of Subordinated Convertible Loan	(1,714,285)	(857,143)	-	-	-
Dividends paid	(2,791,061)	(1,077,077)	(2,441,831)	(5,131,200)	(1,897,625)
Net cash flows (used in)/from financing activities	(4,505,346)	36,554,127	41,571,222	(5,580,088)	24,308,128
Increase/(decrease) in cash and cash equivalents	30,580,079	(78,924,430)	18,104,067	84,683,619	(24,088,813)
Cash and cash equivalents at beginning of year	24,770,937	103,695,367	85,591,300	907,681	24,996,494
Cash and cash equivalents at end of year	55,351,016	24,770,937	103,695,367	85,591,300	907,681

accounting ratios

Five Year Summary

Bank	2011 %	2010 %	2009 %	2008 %	2007 %
Net interest income and other operating income to total assets	2.41	2.75	3.71	10.94	3.68
Operating expenses to total assets	2.19	2.14	2.61	3.67	2.91
Profit before tax to total assets	0.10	0.26	0.16	6.88	0.64
Pre-tax return on capital employed	0.92	1.93	0.94	36.14	4.07
Profit after tax to equity	1.65	2.34	0.97	27.25	3.61

	2011	2010	2009	2008	2007
Weighted average number of shares in issue (000's)	136,383	135,753	135,231	133,235	88,487
Net assets per share (cents)*	81.56	82.56	81.75	84.11	81.09
Basic earnings per share (cents) *					
Basic	1.35	1.94	0.79	22.92	2.93
Diluted	1.35	1.94	0.90	21.94	3.12

* Ratios for 2007 to 2008 have been restated to reflect the number of shares in issue.

schedule V

additional regulatory disclosures (pillar 3)

in terms of Banking Rule BR/07 "Publication of annual report and audited financial statements of credit institutions authorised under the Banking Act, 1994"

for the year ended 31 December 2011

1. introduction

1.1. background

This document comprises the Basel ii, Pillar 3 required by BR/07 as at 31 December 2011 for FIMBank plc (the "Bank") and its subsidiary undertakings (the "Group").

The Basel II framework was implemented in the European Union through the Capital Requirement Directive ("CRD"). The framework is based around three Pillars;

1. Pillar 1 which caters for the minimum capital requirements which define the rules for calculation of credit, market and operational risk;

2. Pillar 2 requires banks to undertake an Internal Capital Adequacy Assessment Process (ICAAP) for risks not covered under Pillar 1; and

3. Pillar 3 complements the minimum capital requirements under Pillar 1 and the ICAAP under Pillar 2 by providing key information on the Group's risk exposures, the risk management process to mitigate these risks and the Group's capital adequacy calculation. The disclosure requirements under Pillar 3 are of both quantitative and qualitative nature and are provided at a consolidated level.

1.2. basis and frequency of Disclosures

These disclosures are based on 31 December 2011 year-end data.

Given the size and complexity of the Group's operations, the Pillar 3 disclosures are uploaded on an annual basis. However, any material change in the approaches or permissions used to calculate capital requirements will be disclosed as it arises.

1.3. location and verification

The Pillar 3 disclosures have been reviewed by the Bank's senior management and have been subject to the review of KPMG so as to ensure compliance with the requirements laid out in BR/07.

The Pillar 3 disclosure document is also published on the Bank's corporate website. This can be found at www.fimbank.com.

2. risk governance

2.1. FIMBank risk management function

The Board is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group, and for ensuring that proper systems of internal control are in place. The Board has delegated to Management the task of creating an effective control environment to the highest possible standards and in line with the Bank's Articles also established the following committees in order to assist Directors in the oversight of its functions:

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

2.2 board and senior management committees responsibilities

Risk, capital and liquidity management strategies are the responsibilities of the Board Risk Committee, the Management Risk Committee and the ALCO. Details of the composition and responsibilities of these Committees are laid out in the Statement of Compliance with the Principles of Good Governance Section in page 24 of the Annual Report.

3. scope of application of applicable consolidated requirements

3.1 overall scoping

As disclosed in the Directors Report in page 17 of the Annual Report, the FIMBank Group (the "Group") is composed of FIMBank p.l.c. (the "Bank"), a credit institution licensed under the Banking Act, 1994, and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI") and FIMFactors B.V. ("FIMFactors"). LFC is itself a parent of a number of subsidiaries as set out in Note 26.3 to the Financial Statements whilst FIMFactors is the parent of a wholly owned subsidiary Menafactors Limited ("Menafactors"). The Group also holds a significant interest in the associated entities, namely, The Egyptian Company for Factoring S.A.E. ("Egypt Factors" - 40% holding), CIS Factors Holdings B.V. ("CIS Factors" – 40% holding), India Factoring and Finance Solutions Private Limited ("India Factoring" - 49% holding) and Levant Factors S.A.L. ("Levant Factors" - 50% holding) and BRASILFACTORS S.A. ("BRASILFACTORS" – 40% holding).

Both FIMBank p.l.c. and the Group are supervised on a "solo" and "consolidated" basis in terms of Banking Rule 10 "Supervision on a Consolidated Basis of Credit Institutions authorised under the Banking Act 1994".

3.2 basis of consolidation

At 31 December 2011, all Group entities were consolidated as outlined below.

London Forfaiting Company Limited ("LFC")

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

LFC is consolidated within the Group on a line-by-line basis.

FIMFactors B.V. ("FIMFactors")

FIMFactors B.V., a wholly owned subsidiary registered in the Netherlands, is the corporate vehicle for FIMBank's holdings in factoring joint ventures and associated companies. At 31 December 2011, FIMFactors holds the Group's investments in Menafactors, CIS Factors, India Factoring and BRASILFACTORS.

FIMFactors is consolidated within the Group on a line-by-line basis.

Menafactors Limited ("Menafactors")

Menafactors, a wholly owned subsidiary, is incorporated in the United Arab Emirates and is licensed by the Dubai Financial Services Authority to provide international factoring and forfaiting services in the Gulf and MENA region. Menafactors also holds the Group's investment in Levant Factors as set out in the Directors Report of the Annual Report and Note 25.6 to the Financial Statements.

Menafactors is consolidated within the Group on a line-by-line basis while the results of its associate, Levant Factors – a factoring company incorporated in Beirut, Lebanon, are included in Menafactors and in the Group, using the "equity method" of accounting. This investment is not deducted from the Group's own funds.

FIM Business Solutions Limited ("FBS") and FIM Property Investment Limited ("FPI")

FBS and FPI are two entities specifically set-up to provide ancillary services to other Group entities and/or third parties.

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

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

Both FBS and FPI are consolidated to the Group on a line-by-line basis.

BRASILFACTORS S.A. ("BRASILFACTORS")

In September 2011, the Group, through its wholly owned subsidiary FIMFactors B.V., incorporated BRASILFACTORS, a newly established factoring company incorporated in São Paolo, Brazil. BRASILFACTORS' core business will focus on factoring services and forfaiting, with small and medium-sized companies being its target market. The Group has a 40% holding in the company, with the other shareholders being Banco Industrial e Comercial S.A. ("BICBANCO") and the International Finance Corporation ("IFC"), each holding 40% and 20% respectively.

BRASILFACTORS is included to the Group using the "equity method" of accounting and the investment is not deducted from the Group's Own Funds.

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

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

CIS Factors is included to the Group using the "equity method" of accounting and the investment is not deducted from the Group's Own Funds.

India Factoring and Finance Solutions Private Limited ("India Factoring")

India Factoring is a company incorporated under Indian law with the aim to provide factoring, forfaiting and trade finance related activities in India. The Group holds 49% of the Company's shareholding. The other shareholders are Punjab National Bank (30%), Banca IFIS (10%), Blend Financial Services Limited (1%) and India Factoring Employee Welfare Trust (10%). India Factoring was granted an operating license in December 2011 and is regulated by the Reserve Bank of India.

India Factoring is included to the Group using the "equity method" of accounting and the investment is deducted from the Group's Own Funds.

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

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

Egypt Factors is included to the Group using the "equity method" of accounting and the investment is deducted from the Group's Own Funds.

4. identification of risks

The Group identified the following Pillar 1 and Pillar 2 risks as being significant and manages such risks as detailed below;

a. Credit risk and Concentration risk;
b. Operational risk – incorporating legal and compliance and insurance risk;
c. Market risk – incorporating foreign currency risk, interest rate risk and other price risk;
d. Liquidity risk;
e. Reputational risk;
f. Information Technology risk;
g. Settlement risk; and
h. Strategic and business risk

In the following sections we lay out the manner in which the Group manages and mitigates the above mentioned risks and we also indicate indicated whether such risks are allocated a capital charge under Pillar 1 and Pillar 2.

4.1 pillar 1 risks for which a capital allocation is made

4.1.1 *credit risk*

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

4.1.1.1 *minimum capital requirements under pillar 1: credit risk*

The Group calculates the overall minimum capital requirement for credit risk using the Standardised Approach to credit risk as defined in Banking Rule BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994 "expressed as 8% of the risk weighted exposure amounts for each of the Standardised Credit Risk Exposure Classes. The table below illustrates the capital requirement for credit risk for 2011.

	Notional Risk Weight	Minimum Capital Requirement (8%)
	2011	2011
	USD	USD
Type of exposure:		
Sovereign	47,742,094	3,819,368
Institutions (Banks)	274,758,996	21,980,720
Corporates	302,159,185	24,172,735
Retail	645,334	51,627
Retail secured by real estate	4,811,720	384,938
Other items	55,223,702	4,417,896
	685,341,031	54,827,284

4.1.1.2. *credit risk management principles and strategy*

Strict credit assessment and control procedures are in place in order to monitor credit exposures. The Board Risk Committee is responsible for overseeing the Group's credit policy and risk, for approving individual limits for banks and corporates within its delegated parameters of authority and also for recommending country limits for approval by the Executive Committee. The Board Risk Committee is also responsible for the oversight of operational, legal and reputational risk related to credit activity. Certain powers of the Board Risk committee have been delegated to the Management Risk Committee as set out in the Statement of Compliance with the Principles of Good Corporate Governance in page 24 of the Annual Report. Additional limits of authority based on specific criteria and up to a maximum of USD3 million have been delegated to Management.

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

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

The Group maintains a prudent provisioning policy in accordance with the applicable laws and regulations to ensure that losses are immediately recognised in the income statements. Efforts at recovering losses incurred in past financial periods are continuous.

4.1.1.3 *credit risk limit setting and monitoring*

Over the years, the Group has established policies requiring limits on counterparties, countries as well as specific sectors, and industries, thus ensuring a more diversified on- and off- balance sheet lending portfolios.

Single-name counterparty limits follow the prudential rules adopted throughout European banking legislation (in Malta BR/02), which apply maximum limits for large exposures. A large exposure is defined as a consolidated exposure to a single entity or an economic group that exceeds 10% of a bank's regulatory capital (Tier 1 plus Tier 2). The maximum limit for non-institutions is 25% of regulatory capital. The maximum limit for institutions is determined by the Group and shall not exceed 100% of regulatory capital. It must also be noted that a further prudential rule-of-thumb followed by the Group on large exposures is that initial lending limits for new counterparties are usually set at a much lower level than the group's legal lending limit. These limits might either remain at the original level, based on ongoing credit research on the name, or build up towards the legal lending limit in a gradual manner, as the knowledge of the counterparty by the bank consolidates through time.

Concentration risk by geographical region/country is monitored by the Executive Committee, which set up a specific policy for country risk concentration. This policy defines a ceiling – in terms of percentage of the Group's Own Funds - for each individual country exposure, which is linked to the rating granted to each country by international rating agencies. The ceiling increases (up to a maximum of 100% of the Bank's Own Funds for investment grade countries) with the rating of the country. As for single-name limits, country limits do not automatically increase to the pre-defined ceiling, as the initial assessment is based on the country's specific economic, financial and political risk conditions.

Concentration risk by sector is mitigated by the particular nature of the Group's business, i.e. a specialised trade finance institution with a focus on Emerging Markets. Most of the bank's exposure relates to banks' risk, located in a number of geographies and hence diversified by virtue of the country limit policy specified in the above paragraph, which usually guarantee/confirm the payment risk of the importers under international trade finance operations. Exposure to particular sectors is monitored indirectly through monitoring of the trends of the underlying commodities. Exposure to corporate entities in many cases consists of bridge financing towards a sale of goods/commodities eventually covered by a bank guarantee (provided by the bank of the ultimate buyer of the goods). Other specialised sectors of exposure, in particular shipping pre-demolition finance, which are collateralised through a mortgage on each vessel financed, are assigned an overall sector limit by the Bank's Risk Committee, which is reviewed regularly.

4.1.1.4 *Collateral and credit risk mitigation*

In addition, the Group also makes use of different types of collaterals, all aimed at mitigating credit risk within- on and off- balance sheet credit facilities.

Main types of collateral and concentrations in credit risk mitigations

Exposures to both financial institutions and corporate clients are typically secured either by property (including shipping vessels), cash collateral, credit insurance cover, personal or bank guarantees or by pledged goods. With regards to Loans and Advances to Banks and Customers, ships and insurance policies held with unrated insurers are not considered to be eligible collateral for regulatory purposes.

The collateral is reviewed periodically by Management both in terms of exposure to the Bank and the Group and to ensure the validity and enforceability of the security taken. Investment securities are not usually held as collateral, and no such collateral was held at 31 December 2011 and 2010. The table below provides an estimate of the fair value of collateral eligible for regulatory purposes and other security enhancements held against the Group's Lending portfolio:

	Loans and Advances to Banks	Loans and Advances to Customers	Commitments and Contingent Liabilities
	2011 USD	2011 USD	2011 USD
Against neither past due nor impaired			
Cash or quasi cash	7,479,753	17,538,234	69,416,000
Property	-	625,000	-
Other	11,752,022	15,115,611	10,997,269
Against impaired			
Cash or quasi cash	46,952	175,346	-
Property	-	820,798	-
Other	-	-	-
	19,278,727	34,274,988	80,413,270

As FIMBank is mainly engaged in structured trade finance related to basic commodities (oil, steel, sugar, rice, etc.), the value of goods representing collateral for such facilities can be easily determined by monitoring the market prices of such commodities. Screen prices are readily available on several commodities exchanges and monitored on a daily basis by Risk Management. Collateral management is performed on FIMBank's behalf by specialised companies (SGS, Bureau Veritas, Control Union, etc.) appointed ad hoc for a particular transaction. Collateral management agreements are usually tri-partite agreements (between FIMBank, the borrower and the collateral manager) and give FIMBank title to the goods held as collateral.

additional regulatory disclosures (Pillar 3) - continued

4.1.1.5 *exposure to credit risk*

The table below illustrates the total amount of net exposures as at 31 December 2011 prior to taking into account the effects of credit risk mitigation and the average for the financial year ending 31 December 2011:

Type of exposure	Total at 31 December 2011	Average for the year ended 31 December 2011
	USD	USD
Loans and advances to banks	417,884,197	424,914,507
Loans and advances to customers	245,186,411	246,764,803
Trading assets and Financial assets designated at fair value through profit or loss	271,606,597	230,718,854
Investments available-for-sale	92,742	157,099
Investments in equity accounted investees	22,501,596	17,065,772

credit risk exposure by region

The geographic distribution of the Group exposures as at 31 December 2011, broken down in significant areas by the same exposure classes shown in the previous table is set out in Note 4.2 to the Financial Statements.

credit risk exposure by sector

Note 4.2 to the Financial Statements also sets out the distribution of the Group's exposures as at 31 December 2011 by sector.

credit risk exposures by maturity

The residual maturity breakdown of the Group's exposures as at 31 December 2011, broken down by exposure classes is set out in Note 4.3 to the financial statements.

4.1.1.6 *credit risk weights and ECAIs*

The Group classifies its on and off balance sheet exposures under the following "exposure classes" (as defined in Banking Rule BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994"):

a. Central governments or central banks;
b. Institutions;
c. Corporates;
d. Retail;
e. Retail secured by real estate;
f. Other items.

When calculating the risk-weighted exposure amounts for each of the above exposure classes in accordance with the Standardised Approach to credit risk as detailed in Banking Rule BR/04, the Group applies the ratings of the following External Credit Assessment Institutions in determining the appropriate credit quality step:

a. Fitch Ratings;
b. Moody's; or
c. Standard & Poor's.

Fitch Ratings is used as the primary reference agency and if a particular exposure is not rated by Fitch Ratings reference would be made to the lower rating between Moody's or Standard & Poor's.

The Group complies with the standard association of exposure ratings to credit quality steps as detailed in banking rule BR/04.

At 31 December 2011, the Group carried the following exposures:

Exposure class	Credit quality step	Exposure values	Credit risk mitigation	Net exposure
		USD	USD	USD
Central governments or central banks	0%	1,265,334	1,265,334	-
	20%	12,091,383	-	12,091,383
	50%	15,570,225	7,170,225	8,400,000
	100%	37,589,793	-	37,589,793
		66,516,735	8,435,559	58,081,176
Institutions	0%	19,373,216	19,373,216	-
	20%	326,801,962	-	326,801,962
	50%	129,109,821	12,286,354	116,823,467
	100%	163,978,495	-	163,978,495
	150%	81,460	-	81,460
		639,344,955	31,659,570	607,685,385
Corporates	0%	73,263,794	70,335,236	2,928,559
	20%	22,909,575	-	22,909,575
	50%	37,461,274	18,408,324	19,052,950
	100%	295,672,797	-	295,672,797
	150%	8,943,988	-	8,943,988
		438,251,428	88,743,560	349,507,869
Retail	0%	3,507,168	3,507,168	-
	75%	860,445	-	860,445
		4,367,613	3,507,168	860,445
Retail secured by real estate	0%	175,346	175,346	-
	35%	820,798	820,798	-
	50%	625,000	625,000	-
	100%	4,211,941	-	4,211,941
		5,833,085	1,621,143	4,211,942
Other items	0%	11,322,183	-	11,322,183
	100%	55,223,704	-	55,223,704
		66,545,887	-	66,545,887

4.1.1.7 *asset quality*

past due and impaired facilities

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

On the other hand, "past due but not impaired" facilities are exposures where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

The following table provides details of the Group's gross impaired exposures (excluding related "interest in suspense", "fee income in suspense" and any collateral held or other credit enhancement):

additional regulatory disclosures (Pillar 3) - continued

	Loans and advances to Banks 2011 USD	Loans and advances to Customers 2011 USD
Impaired exposures	4,875,904	19,691,703
Past due exposures	-	-
Total	4,875,904	19,691,703

The geographic and industry sector distribution of gross impaired exposures as at 31 December 2011 are as follows:

	Loans and advances to Banks 2011 USD	Loans and advances to Customers 2011 USD
Europe	-	5,581,887
Sub-Sahara Africa	-	10,381
North Africa & Middle East	1,437,181	2,210,810
Commonwealth of Independent States	3,438,723	11,624,449
Others	-	264,177
Total	4,875,904	19,691,703

	Loans and advances to Banks 2011 USD	Loans and advances to Customers 2011 USD
Industrial raw materials	-	4,397,060
Ship pre-demolition	-	-
Wholesale and retail trade	-	3,278,903
Financial Intermediation	4,875,904	-
Others	-	12,015,741
Total	4,875,904	19,691,703

Credit reserves

The Group has in place credit reserves that represent its estimate of incurred losses in its loan portfolio. The main components of these reserves are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. Both specific and collective reserves are based on the models laid down in Banking Rules and International Financial Reporting Standards.

Specific impairments

Review of all Group exposures is made on an on-going basis and an identification of a facility which encroaches its terms and conditions would trigger a specific impairment process and a possible charge to the credit reserve.

The basis of allocating amounts to the specific credit reserve is generally dependant on the grading of the exposure assigned to it in accordance with Banking Rule 09 “Credit and Country Risk Provisioning of Credit Institutions Licensed under the Banking Act 1994”. Specific provisions are calculated as a percentage (%) of the unsecured exposure as follows:

Grading	% provision
Regular	0
Watch	5
Sub-standard	20
Doubtful	50 to 100
Loss	100

Collective impairments

For those exposures where no individual impairment is identified, the Group takes a charge to a collective credit reserve based on an incurred loss model approach for potential losses. The reserve is calculated as a percentage (%) of unsecured on and off balance sheet assets which percentage would be based on the average credit rating of the same assets. Excluded from the model are assets with very low risk potential, including cash assets, deposits with investment grade counterparties and assets carried at fair value (as opposed to amortised cost). Moreover, a reduced charge of 50% is taken on assets covered by a "strong" security, that is to say assets having Immovable Property or Shipping Vessels as collateral.

Value adjustments and provisions

The Group's business portfolio comprises assets which are measured at either "fair value" or "amortised cost".

a. Instruments measured at fair value and amortised cost

The accounting measurement of these instruments are set out and explained in detail in Note 5 to the Financial Statements for 2011.

b. Changes in the fair value and provisions for impaired exposures

The following table reconciles the total fair value mark downs and provisions for impaired exposures (specific provisions) together with a reconciliation for the financial year ending 31 December 2011:

	Measured at fair value		Measured at amortised cost
	Trading assets	Financial assets designated at fair value through profit or loss	Loans and advances to banks and customers
	USD	USD	USD
Accumulated fair value/provisions at 1 January 2011	6,686,816	1,220,720	16,017,314
Increase in provisions	(3,221,192)	2,708,680	1,444,355
Reversal of provisions	4,724,787	(1,449,660)	(5,389,047)
Foreign exchange differences			(46,148)
Accumulated fair value/provisions at 31 December 2011	4,724,787	2,479,740	12,026,474

4.1.1.8 credit derivatives

The Group does not enter into credit derivative contracts and no such hedges were carried as at 31 December 2011.

4.1.2 operational risk

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

The factors that may contribute to Operational Risk are described are set out in detail in Note 4.5 to the financial statements.

4.1.2.1 *minimum capital requirement: operational risk*

The following table shows the Group's overall minimum capital charges for operational risk in accordance with the Basic Indicator Approach as defined in Banking Rule BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994":

	2011 USD
Gross income:	
Financial year ending 31/12/2010	38,370,275
Financial year ending 31/12/2009	34,568,136
Financial year ending 31/12/2008	36,552,832
Average gross income	36,497,081
Capital requirement (15%)	5,474,562
Notional Risk Weight	68,432,027

4.1.2.2 *management and mitigation of operational risk*

In calculating the capital requirement for Operational Risk, the Group has adopted the Basic Indicator approach as detailed in paragraph 5 of Section 1.1 of Appendix 4 of Banking Rule BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994". Under this approach, the capital requirement for operational risk is equal to 15% of the relevant indicator, being the average over three years of the sum of net interest income and net non-interest income.

In addition to this, and in line with the Basel II framework, the Group assesses whether this resulting capital charge is enough in meeting potential losses arising from operational risks. This is done through the use of a number of risk indicators. Key risk indicators are statistics/metrics, often financial, intended to provide insight on the exposure to the effectiveness of operational risk management or controls. These indicators tend to be reviewed on a periodic basis to alert the Group to changes that may be indicative of risk concerns and may include the number and severity of failed (due to fraud, errors, omissions, etc) transactions, staff turnover rates, systems' down-time, type and materiality of losses, etc. The Group has invested heavily in information technology and disaster recovery and contingency systems to assist its Management to control this risk.

At 31 December 2011, the Group took an Operational Risk capital charge as disclosed in Section 4.1.2.1 to this Schedule and Note 4.6 to the Financial Statements.

4.1.3 *market risk*

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

4.1.3.1 *management and mitigation of market risk*

The Group has implemented policies, established limits as well as maintains currency and interest derivative contracts, aimed at mitigating market risks.

4.1.3.2 *foreign exchange risk*

Currency risk is mitigated by a closely monitored currency position policy and is managed through matching within the foreign currency portfolio. However mismatches could arise where the Group enters into foreign exchange transactions (say 'foreign currency swaps') which could result in an on-balance sheet mismatch mitigated by an off-balance sheet hedging contract. Other mismatches are allowed up to an established threshold, and any excesses are regularised immediately. The Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies spot or forward rates when considered appropriate.

4.1.3.3 *minimum capital requirement: market risk*

When calculating its capital requirements, the Group also considers its Net Open Foreign Currency Position (Basic Method) in terms of Banking Rule BR/08. Through this approach, each net currency position is analysed and a capital charge is taken on the net short or long currency exposure.

At 31 December 2011, the Group took a Foreign Exchange capital charge as follows:

Foreign Currency	Long position USD equivalent	Short position USD equivalent
Australian Dollar (AUD)	3,859	-
Canadian Dollar (CAD)	203	-
Swiss Franc (CHF)	135,716	-
Danish Krone (DKK)	333	-
Euro (EUR)	-	9,016,140
British Pound (GBP)	-	882,416
Japanese Yen (JPY)	87,609	-
Norwegian Kroner (NOK)	3,127	-
Swedish Krona (SEK)	1,656	-
Other Foreign Currencies	896,143	-
Total position	**1,128,645**	**9,898,557**
Notional Risk Weight		9,898,557
8% Capital requirement		791,885

4.2 pillar 1 risks for which no capital allocation is made

4.2.1 *liquidity risk*

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

management and mitigation of liquidity risk

Liquidity risk is managed by maintaining significant levels of liquid funds, and identifying and monitoring changes in funding required to meet business goals driven by management. The Group's ALCO is responsible for establishing appropriate asset and liability management policies, monitoring their application and reviewing financial information on the basis of which investment and funding decisions are taken. The daily application of the asset and liability management policies rests with the Treasury Unit of the Group. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity Risk Management is described in detail in Note 4.3 of the FIMBank plc Annual Report of 2011.

Notwithstanding no capital charge is taken under the Pillar 1 Framework, an additional capital charge is taken under Pillar 2 as disclosed in Note 4.3.5 to this Schedule.

4.2.2 *exposures to interest rate risk in the non-trading book*

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

Accordingly, interest rate risk in the non-trading book is managed through the use of maturity/repricing schedules that distribute interest-bearing assets and liabilities into different time bands. The determination of each instrument into the appropriate time period is dependant on the contractual maturity (if fixed rate) or time remaining to their next repricing date (if floating rate). This method also referred to as "gap analysis", will eventually portray the Group's sensitivity of earnings and capital to changing interest rates.

A positive, or asset-sensitive, gap arises when assets (both on and off balance sheet) exceed liabilities in the corresponding time band, and this implies that the Group's net interest income (and therefore capital) could decline as a result of a decrease in the level of interest. To the contrary, a negative, or liability-sensitive, gap implies that net interest income could decrease as a result of an increase in interest rates. Note 4.4 to the Financial Statements details the effect to the Group's assets and liabilities as at 31 December 2011 due to a +/- 100 basis point change in interest rates.

Notwithstanding that no capital charge is taken under the Pillar 1 Framework, an additional capital charge is taken under Pillar 2 disclosed in Note 4.3.2 to this Schedule.

4.2.3 *non-trading book exposures in equities*

The only Group's exposure to equities is in its non-trading book and such equities are in unlisted entities.

The accounting and valuation methodologies differ depending on the percentage holding and marketability of the instruments.

equity Investments less than 10%

Equity investments comprising less than 10% of the investee company's capital are classified as "available-for-sale". All equity securities carried by the group are not listed on an exchange and there is no readily available active market. As such these unquoted securities are carried at cost less impairment losses.

At 31 December 2011, the Group had USD92,742 in equity investments. Whilst there is no active market for these investments, fair value has been determined by reference to broker prices, with fair value movement recognised net of deferred tax in fair value reserve.

equity Investments between 10% and 50%

Equity investments comprising between 10% and 50% of the investee company's capital are classified as "associates" and are accounted for using the equity method (equity accounted investees) and are recognised at cost less impairment allowances.

The Consolidated Financial Statements include the Group's share of the income and expenses and equity movement of equity accounted investees, after adjustments to align the accounting policies with those of the Group. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

This accounting treatment is also applied on those investments where the Group has joint control (50%) over the strategic, financial and operational decisions of the investee.

All investments in associates and jointly-controlled entities are made in line with the Group's strategic objectives of investing in trade-finance related companies.

Equity Investments exceeding 50%

Equity investments exceeding 50% of the investee company's capital are classified as "subsidiaries" and are fully consolidated in the Group results and financial position. The equity investment in the Group's Financial Statements is therefore replaced by the financial result and position of the subsidiary, net of any minority interests.

4.3 pillar 2 risks for which capital allocation is made

4.3.1 *market risk: foreign exchange derivative contracts*

As part of its day-to-day foreign exchange management, the Group enters into foreign exchange derivative contracts to hedge its foreign currency position. These derivative contracts, generally in the form of forward and swap contracts do not form part of a "trading book" and are therefore excluded from Pillar 1 calculations. However, an additional capital charge is taken under the Pillar 2 framework.

The calculation is based on the "marked-to-market" approach as laid down in Annex IV of Banking Rule IV "Capital Requirements of Credit Institutions Authorised under Banking Act, 1994". The percentage capital charge would be dependant on the residual maturity of the contract as at the point of calculating the capital charge as follows:

Residual maturity	Notional risk weight (%)
Less than 1 year	1%
1 year to 5 years	5%
More than 5 years	7.5%

The Group allocated an additional capital charge for foreign exchange derivative contracts under the Pillar II framework as at 31 December 2011.

4.3.2 *market risk: interest rate risk*

The Group assesses the need of allocating capital against interest rate risk, under the Basel II Pillar 2 framework. To evaluate capital exposure, the "repricing gap" resulting from the subtraction of interest rate-bearing liabilities in each time band from the corresponding interest rate-bearing assets is weighted by a factor that is designed to reflect the sensitivity of the positions in the different time bands to an assumed change in interest rates. These weights are based on estimates of the duration of the assets and liabilities that fall into each time band. In its simplest form, duration measures changes in economic value resulting from a percentage change in interest rates under the assumptions that changes in value are proportional to changes in the level of interest rates and that the timing of payments is fixed. For the purpose of this exercise, the Group uses the modified duration model which takes into account the elasticity in interest rates and reflects the percentage change in the economic value of the instrument for a given percentage change in interest rates. A +/- 200 basis point shock is used in the model. As at 31 December 2011, the Group allocated capital for interest rate risk.

4.3.3 *market risk: other price risk*

Other price risk arises out of changes in market values not related to changes in interest rates or foreign currency. Generally, these would be factors directly related to the issuer's or exposure's financial stability and performance.

As set out in Note 4.4 to the Financial Statements, the Group's exposure to price risk is considered relevant in the case of bonds and credit linked notes portfolios which are both measured by reference to their quoted market values in active markets. Price risk is deemed to be less relevant for the forfaiting portfolio. These assets do not have observable market prices and their fair value is determined through the use of valuation techniques, including net present value and discounted cash flow models, which require varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instruments. Notwithstanding this, the Group endeavours to mitigate any price risk by building a diversified forfaiting portfolio with different geographical exposures.

For marketable securities, price risk is mainly mitigated by investing in a diversified portfolio of instruments in industries and regions where the Group has specialised knowledge and expertise. The marketable securities portfolio is monitored on a daily basis and decisions to sell assets prior to or to hold until maturity depends on the Group's outlook of the underlying assets as well as liquidity requirements and profit opportunity arising out of the disposal of an instrument.

As disclosed in Note 4.4 to the Financial Statements, changes in the market value of marketable securities are recorded in the Group's income statement, directly impacting equity. An increase in the price of instruments would increase the value of the underlying asset and would therefore result in an increase in equity. A decrease in prices would have an opposite effect on both value of instruments and equity.

Due to the different nature of the two portfolios of marketable securities carried by the Group, significant differences in their price volatilities can be noted across similar periods of time. When compared to credit linked notes, cash bonds tend to have higher price volatility. To this extent, shocks of 10% and 1% are assumed on bonds and credit linked notes respectively, The Group assess the requirement for a capital allocation against other price risk under the Pillar 2 framework and a capital charge has been allocated against such risks as at 31 December 2011.

4.3.4 *credit risk: concentration risk*

In addition to policies aimed at managing credit risk and concentrations within credit portfolios as set out in Note 4.2 to the Financial Statements and Section 4.1.1 to this schedule the Group assesses the requirement for an additional capital charge against undesired concentrations across various portfolios. The Group uses the Herfindhal-Hirschmann index (HHI) in assessing concentrations within single/connected counterparties, countries and industries/sectors. A capital charge was allocated against concentrations in industries as at 31 December 2011.

4.3.5 *liquidity risk: concentration risk*

Note 4.3 to the Financial Statements and Section 4.2.1 to this schedule set out the Group's policies, tools and other mitigants used in managing liquidity risk. The Group also uses the Herfindhal-Hirschmann index (HHI) at assessing the need of capital allocation against concentrations in terms of single/connected counterparties, countries and industries within its funding liabilities. Capital charges against detected concentrations in liabilities help in having the Group's business units more vigilant against concentrations in funding sources. A capital charge was allocated against funding concentrations within industries as at 31 December 2011.

4.3.6 *reputational risk*

Reputational risk is the risk that negative publicity on the Group's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. Reputational risk could be particularly damaging for the Group since the nature of its business requires maintaining the confidence of depositors, creditors, regulatory authorities and of the general marketplace.

Reputational risk arises from operational failures, failure to comply with relevant laws and regulations especially Anti–Money Laundering "AML" and Anti-Terrorism Financing "ATF" regulations or from other sources, including acts or omissions of misconduct on the part of its Directors and/or officers and/or representatives overseas, even in matters which are unrelated to their mandate or position within the Group. The impact to the Group for non-compliance with the applicable regulations can be substantial and can include formal enforcement actions, monetary penalties, informal enforcement actions, and enhanced supervisory monitoring.

To this purpose, detailed AML, ATF and fraud documentation policies and procedures, a robust Customer Acceptance Policy as well as a strong and capillary oversight by the Group's Board and Management have been devised. The Group uses qualitative research tools to assess the adequacy of prospective clients and transactions and implemented Anti-Money Laundering software for the screening of incoming and outgoing messages and payments as well as rating of corporate and business relationships. Through such rigid procedures, the Group would be able to identify transactions and clients which pose a higher risk compared to others. These include Politically Exposed Persons ("PEPs"), clients and transactions deriving from a non-compliant jurisdiction and correspondent banking. In addition, reputational risk is also indirectly mitigated through the setting of Country Limits. Some of the criteria used in setting up a transaction limit for particular countries are closely related to reputational risk, including issues relating to the political environment such as the fairness and frequency of election process and access to power and effectiveness in reforming political systems and implementing economic agendas.

The Group has also installed adequate internal monitoring systems to discover any such irregularities on the part of persons who may cause such risk, thus ensuring that persons not maintaining the highest standards of integrity in their activities, even if such activities are unrelated to their position, are not allowed to retain their positions of responsibility within the Group. Moreover, Regulatory authorities require a formalised review process for senior management personnel which results are submitted to the same authorities and also published to the market.

In addition to these mitigants, the Group assesses the need for capital allocation against reputation risk under Pillar II framework. Capital was allocated against reputational risk at 31 December 2011.

4.3.7 *operational risk: legal, insurance and information technology risk*

The Group believes that the rigor applied to the more business oriented risks, should also be applied to the management of operational risks. It seeks to continuously develop an appropriate risk management environment which identifies, assesses, monitors and mitigates operational risk inherent in its products, activities, processes, systems and working environment. This is being achieved by establishing policies, processes and procedures which control or far better mitigate operational risks, identified as material, and at the same time setting up proper internal and external control systems which regularly review and monitors compliance with the established policies and procedures, as set out in Note 4.5 to the Financial Statements and section 4.1.2 of this schedule.

Legal, Insurance and Information Technology Risks form part of Operational risk but their importance within the Group's functions and operations merit a separate discussion and capital allocation assessment under the Pillar II analysis. The Group allocated capital against Legal, Insurance and Information Technology Risks as at 31 December 2011.

4.4 *Pillar 2 risks for which no capital allocation is made*

4.4.1 *settlement risk*

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

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

4.4.2 *strategic and business risk*

Strategic risk is the risk associated with the future business plans and strategies. Improper strategic choices or the actual implementation of strategic decisions, as well as lack of responsiveness to changes in the economic environment, can have a serious and significant impact on prospective profit and capital results. As the Group is mainly engaged in trade finance business, this risk category is intimately connected with the overall performance of international trade in the global economy, and in particular to the level of cross-border trade between countries and in markets that are typically in the developing stages of their economic development and political stability.

Closely linked with the above, Business Risk is the risk associated with the particular business and operating circumstances of the Group, and is more within the control of decisions taken by Management but which nevertheless can have a significant impact on operating and business results.

The Group adopts various ways to mitigate strategic and business risks. Primarily, the Group has in place a "corporate governance" structure composed of both executive and non-executive officials as detailed in the Statement of Compliance with the Principles of Good Corporate Governance, included in the Annual Report for 2011. Based on their remit and charters, the various corporate committees provide advice to the Board in taking ultimate strategic and business decisions. The size of the Group enables its corporate structures to have a more "on the ground" approach and positions and decisions can be formulated and taken in a sufficient timely manner. The Board and Committees are assisted by a team of Executive and Senior Management, who have focused on-the ground expertise in their various areas of responsibilities. Executive and Senior Management hold periodical meetings in order to discuss major business decisions, business and economical trends, as well as implement decisions taken by the Board or any of its Committees. Through these meetings, the collective expertise of the management team is brought together and is a determinant factor in the success of identifying and exploiting business opportunities.

The Group also has a strategic investment policy aimed at providing direction with respect to long-term investments in other entities. This policy is flexible enough to support situations arising in different markets and environments but at the same time provides clear objectives in what constitutes ideal target companies and markets based on the overall risk appetite. This policy also reflects the Group's diversification policy both in terms of products as well as geographical markets.

5. capital and capital adequacy

5.1 *regulatory capital*

Details on Regulatory Capital are disclosed in Note 4.6 to the Financial Statements.

5.2 *pillar 1 minimum capital requirements and regulatory ratios*

Under the Basel II framework, overall capital requirements have to be calculated and compared with the Own Funds described above. The overall capital requirements are expressed in Risk Weighted Assets "RWA" terms whereby capital requirements need to be 8% of RWA.

The Group's minimum capital requirement under Pillar 1 is calculated by adding the credit risk charge to that required for operational risk and the Net Foreign Exchange Position Requirement element of Market Risk. The FX requirement charge is the amount of regulatory capital required to cover the risk of losses on open foreign currency positions arising from movements in the foreign exchange rate and is calculated in accordance with the Appendix I (BR/08).

The following table shows both the Group's overall minimum capital requirement and capital adequacy position under Pillar 1:

	RWAs 2011 USD	Capital Required 2011 USD
Capital Requirements		
Credit Risk (Section 4.1.1.1)	685,341,031	54,827,283
Operational Risk (Section 4.1.2.1)	68,432,027	5,474,562
Market Risk (Section 4.1.3.3)	9,898,557	791,885
Total Capital Requirements Pillar 1	763,671,615	61,093,730
Total Own Funds	147,465,184	
Capital Ratios	%	
Tier 1 capital	14.7	
Total capital	19.3	

Tier 2 capital is 1.8 times the minimum capital requirement in terms of BR/04. The Group's total capital exceeds this minimum threshold by 2.4 times.

5.3 Internal Capital Adequacy Assessment Process ('ICAAP')

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

The Group implemented Banking Rule (BR/04) "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994", thereby becoming compliant with respect to Pillar 1 capital requirements under the Basel II framework, adopting the standardised approach to allocate capital against credit risk. Basel II also introduces capital requirements for market risk and operational risk calculated under the basic indicator approach.

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

The ICAAP process is managed by the Group's Finance Department which is responsible for the preparation, formulation and overall coordination of this document. Inputs are received as appropriate by other relevant departments, including but not limited to the Risk Management, Legal, Treasury, IT, Administration, Human Resources and Operations departments. Each of these departments has a direct connection with one or more risks, policies and procedures analysed and assessed in this ICAAP.

Throughout this process, senior officers from each department provide their input and guidance on how risks are being mitigated and how these risks can be analysed and assessed both in a qualitative as well as quantitative manner. The final document is subjected to a review by the Group's Internal Audit department, and the findings arising from this review are documented in an "Auditors' report".

The final version of the ICAAP is eventually discussed by both Risk Committee and Audit Committee (Board Committees) before being presented to the Board of Directors, and following its recommendation, it is ultimately approved.

directors and senior management

board of directors

Najeeb Hamad Musaad Al-Saleh (Chairman)

John C. Grech (Vice Chairman)
Tareq M. Al-Saleh
Hamad Musaed Bader Mohammed Al-Sayer
Fouad M.T. Alghanim
Pierre-Olivier Fragnière
John D. Freeman
Rogers David LeBaron
Jacques Leblanc
Gerard Lohier
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senior management - fimbank p.l.c.

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senior executive vice president	Armin Eckermann	Head of Banking, Deputy to the President
first executive vice president	Marcel Cassar	Chief Financial Officer
executive vice presidents	Silvio Mifsud	Head of Information & Administration
	Renald Theuma	Head of Product Sales
	Christian Bless	Consultant, Switzerland
senior vice presidents	Bruno Cassar	Head of Human Resources
	Michael Davis	Head of Compliance
	Ivan Fsadni	Head of Internal Audit
	Nigel Harris	Head of FIMBank DIFC Branch
	Carmelo Occhipinti	Head of Risk Management
	Aly Siby	Head of Corporate and Institutional Banking
	Charles Wallbank	Head of Banking Operations
	Toufic Yafaoui	Head of Treasury & Capital Markets
	Raoul Notheisen	Consultant, Switzerland
	Richard Scerri	Internal Audit
first vice presidents	Andrea Batelli	Head of Legal
	Martin Chetcuti	Head of Global Deposits
	Ronald Mizzi	Head of Finance
	Antonio Salgueiro	Head of Mediterranean Factoring
	Jason Zammit	Administration & Head of Public and Media Relations
	Giovanni Bartolotta	Risk Management
	Gilbert Coleiro	I.T. Infrastructure
	Vincent Farrugia	Product Sales
	Olivia Mercieca	Product Sales
	Joe Rodgers	Corporate and Institutional Banking
	Loranne Pace	Business Systems

senior management - london forfaiting company limited

first executive vice president and managing director	Simon Lay	
directors	Ian Lucas	Head of UK Marketing
	Tony Knight	Head of Trading
company secretary	William Ramzan	Head of Finance
senior managers	Martin Ashurst	Treasury and Marketing
	Sandro Valladares	Trading and Marketing
subsidiaries and offices	Sean Aston	Representative, LFC Singapore
	Irina Babenko	Representative, LFC Moscow
	Greg Bernardi	President, London Forfaiting Americas Inc.
	Alex Ozzetti	Managing Director, London Forfaiting do Brasil Ltda.
	Lorna Pillow	Head of Administration and Documentation, LFC Malta
	Yonca Sarp	Representative, LFC Istanbul

senior management - menafactors limited

executive vice president and chief executive officer	Anand Padmanaban	
first vice presidents	Naushirwan Commissariat	Head of Finance
	Venkatesh Krishnamurthy	Head of Risk Management and Credit
administration		
	Bassam Azab	Head of Business Development (GCC)
	Savio Pereira	Head of Business Development (UAE)
	Shweta Obhrol	Head of Compliance

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