FIMBANK

Annual Report & Financial Statements 2018

Contents

Schedules to the annual report

Chairman's statement to the shareholders

John C. Grech, Chairman

I am pleased to report another positive year for the FIMBank Group, with the financial results for 2018 once again underlining a healthy profit, for the third consecutive year. The Bank's performance, despite the myriad of challenges we faced throughout the year, reflects the consistent success of our constantly evolving business model. It also bolsters our commitment and resolve to respond to future challenges effectively and ensure an even stronger and more sustainable growth trajectory for FIMBank in the years to come.

The FIMBank Group's Consolidated Audited Financial Statements for 2018 show that as at 31 December of that year, the Group registered a profit of USD10.2 million, compared to a profit of USD7.7 million in 2017. Amongst others, these results continue to underpin a series of calculated and sound decisions taken over the past years, as part of the strategy launched in 2015.

To trace the roots of our performance, one has to recall the decisive measures taken to put the Group on the solid footing it enjoys today. Over the past years, our CEO Murali Subramanian and his management team have worked to re-invent the Group's operating structure, allowing it to better adapt to the needs of an expanding and highly diversified customer base. A significant amount of work is undertaken to enhance and refine our business origination, operations and management of enterprise risk.

Meanwhile, it is necessary to mention that in 2018, the Bank recorded a higher level of impairment charges when compared to prior years on a number of non-performing exposures. For this, a number of expeditious recovery efforts are being implemented by management. Although we are on the crest of a positive trend, we operate in a fast-changing global trade environment, shaped by economic, political and social factors, including technological innovation, shifts in production and consumption patterns, and demographic change. We are pursuing a prudent approach when evaluating our short to medium-term strategic options.

We believe that identifying and recruiting the right people is paramount to building any world class organisation, and over the years our reputation has established us as an employer of choice, attracting some of the best talent around. We are also aware of the value of retaining and nurturing our people, hence our strong investment in personnel, particularly by valuing leadership development, and ensuring a positive work environment. This is especially important in the Maltese market, where the thirst and competition for talent is exceptionally high. Today, we boast a professional team of specialists focused on providing innovative customer-centric solutions that exceed client expectations. In an industry which puts so much value on long and positive business relationships, it is a testament to the dedication and professional competence of our people that FIMBank continues to command the trust and respect of various customers and partners worldwide. There is no doubt that our employees and management at Head Office and across the globe, deserve our congratulations for the positive results which have been registered consistently over the past three years. Their dedication and expertise, not to mention their sense of loyalty and perseverance, remain our most formidable assets and major determinants of success.

The Rights Issue announced in March 2018 was a significant milestone in the Bank's development. This specifically brought to the fore the underwritten agreement by Bank majority shareholder United Gulf Holding, and saw an injection of USD105 million, allowing FIMBank to strengthen its capital base and undertake more business. The backing which we continue to receive from our majority shareholders, both United Gulf Holding and Burgan Bank of the KIPCO Group (USD32.5 billion in assets), remains an important pillar for the sustainability of our success. These relationships remain key for the future of FIMBank.

Those who know FIMBank are aware of the importance we give to proactive engagement with all our shareholders. Over the past years, we have crafted, and indeed we continue to refine, a shareholder engagement approach that provides a framework for discussion with shareholders, identifies who within the Bank should engage shareholders on a given topic, and sets out a process for addressing specific concerns. This kind of relationship ensures that our shareholders continue to have the information they need to build trust and credibility. Good engagement practices, such as our regular update meetings with stockbrokers and financial intermediaries, our AGM, and our Shareholders' Newsletter, continue to provide management and the Board with valuable feedback about shareholders' priorities and concerns, as well as our performance. I believe that thanks to a strong measure of mutual goodwill and cooperation, this approach has been delivering its fruits, and I will be reflecting the wishes of my Board when I extend our sincere gratitude for the demonstration of trust and loyalty forthcoming from all our shareholders.

John C. Grech
Chairman

Stqarrija taċ-Ċermen lill-azzjonisti

John C. Grech, Ċermen

Għandi l-pjaċir nirrapporta li l-Grupp FIMBank kellu sena oħra pożittiva b'riżultati finanzjarji għas-sena 2018 li għal darb'oħra jenfasizzaw profitt b'saħħtu għat-tielet sena konsekuttiva. Minkejja l-għadd ta' sfidi li ffaċċjajna tul is-sena, il-prestazzjoni tal-Bank tirrifletti s-suċċess konsistenti tal-mudell kummerċjali tagħna li dejjem jevolvi. Dawn ir-riżultati jżidu wkoll l-impenn u d-determinazzjoni tagħna li nwieġbu għal sfidi futuri b'mod effettiv filwaqt li niżguraw tkabbir aktar b'saħħtu u sostenibbli għal FIMBank fis-snin li ġejjin.

Ir-Rapporti Finanzjarji Konsolidati Awditjati tal-Grupp FIMBank għall-2018 juru li matul is-sena li għalqet fil-31 ta' Diċembru, il-Grupp irreġistra profitt ta' USD10.2 miljun meta mqabbel ma' profitt ta' USD7.7 miljun fl-2017. Fost oħrajn, dawn ir-riżultati jkomplu jagħtu raġun lil serje ta' deċiżjonijiet ikkalkulati u sodi li ħadna tul l-aħħar snin bħala parti mill-istrateġija mnedija fl-2015.

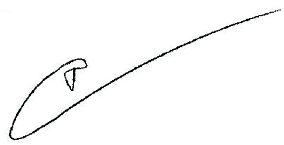
Sabiex nittraċċaw l-għeruq tal-prestazzjoni tagħna, tajjeb li niftakru fil-miżuri deċiżivi li ttieħdu sabiex poġġejna l-Grupp fuq il-bażi soda li jgawdi llum. Tul l-aħħar snin, is-CEO tagħna, Murali Subramanian, u t-tim tiegħu tal-management stinkaw biex jittrasformaw l-istruttura operattiva tal-Grupp sabiex din tkun tista' tadatta aħjar għall-ħtiġijiet dejjem jikbru tal-klijenti. Sar, u għadu qiegħed isir, ammont kbir ta' xogħol sabiex jitjieb u jiġi rfinat l-oriġini tal-kummerċ, kif ukoll l-operat, u l-ġestjoni tar-riskju għall-intrapriża.

Sadattant, ta'min isemmi illi matul l-2018, il-Bank irreġistra livell ogħla ta' telf minn indebboliment meta mqabbel ma' snin preċedenti fuq numru ta' self. Minħabba f'hekk, il-management qed jimplimenta numru ta' miżuri ta' rkupru ta' dan is-self. Wieħed għandu dejjem iżomm f'moħħu illi minkejja li għaddejjin minn xejra pożittiva, qed noperaw f'ambjent ta' kummerċ globali li jinbidel b'rata mgħaġġla, kawża ta' fatturi ekonomiċi, politiċi u soċjali, fosthom l-innovazzjoni fit-teknoloġija, bidliet f'xejriet ta' produzzjoni u l-konsum, u bidliet demografiċi. Għalhekk, qed insegwu rotta prudenti fl-evalwazzjoni tal-għażliet strateġiċi tagħna fiż-żmien qasir u medju.

Aħna nemmnu li l-identifikazzjoni u r-reklutaġġ ta' impjegati adattati huma ta' importanza kbira fit-tiswir ta' kull organizzazzjoni bi skop globali. Matul is-snin, ir-reputazzjoni tagħna stabbilietna bħala Bank li jattira uħud mill-aħjar nies. Aħna konxji wkoll tal-importanza li nżommu u nrawmu lill-impjegati tagħna. Għalhekk ninvestu ħafna fihom, speċjalment billi nagħtu valur lill-iżvilupp professjonali tagħhom u niżguraw ambjent pożittiv ta' xogħol. Dan huwa ta' importanza partikolari fis-suq Malti fejn id-domanda u l-kompetizzjoni għat-talent huma għoljin. Illum nistgħu niftaħru b'tim professjonali ta' speċjalisti li jipprovdu soluzzjonijiet lill-klijenti u li jeċċedi l-aspetattivi tagħhom. F'industrija li tagħti tant valur lir-relazzjonijiet ta' kummerċ fit-tul u pożittivi, dan huwa prova tad-dedikazzjoni u kompetenza professjonali tal-impjegati. Dawn huma essenzjali sabiex FIMBank ikompli jikseb il-fiduċja u r-rispett ta' klijenti u sħab diversi madwar id-dinja. M'hemm l-ebda dubju li l-impjegati u l-management tagħna fil-'Head Office' u madwar id-dinja jistħoqqilhom it-tifħir tagħna għar-riżultati pożittivi li ġew irreġistrati b'mod konsistenti tul l-aħħar tliet snin. Id-dedikazzjoni u l-ħila tagħhom, kif ukoll is-sens ta' lealtà u perseveranza, jibqgħu fost l-aktar assi formidabbli tagħna u pilastru importanti tas-suċċess ta' dan il-Grupp.

Il-ħruġ tal-Ishma bi Dritt li tħabbar f'Marzu 2018 kien pass sinifikanti fl-iżvilupp tal-Bank. Dan b'mod speċifiku, ġab fuq quddiem is-sottoskrizzjoni minn United Gulf Holding, azzjonist maġġur tal-Bank, u ra injezzjoni ta' USD105 miljun li ppermetta lil FIMBank biex isaħħaħ il-bażi kapitali tiegħu u jidħol għal aktar kummerċ. L-appoġġ li qed inkomplu nirċievu mill-azzjonisti prinċipali tagħna, kemm minn United Gulf Holding kif ukoll minn Burgan Bank tal-Grupp KIPCO (USD32.5 biljun f'assi), jibqa' pilastru importanti għas-sostenibbiltà tas-suċċess tagħna. Dawn ir-relazzjonjiet jibqgħu fundamentali għall-futur ta' FIMBank.

Dawk midħla ta' FIMBank huma konxji tal-importanza li nagħtu lir-relazzjoni proattiva mal-azzjonisti kollha tagħna. Tul l-aħħar snin sawwarna, u fil-fatt qed inkomplu nirfinaw, struttura ta' involviment mal-azzjonisti li jipprovdi qafas għal diskussjoni, jidentifika min fil-Bank għandu jkellem lill-azzjonisti fuq suġġetti partikolari, u jistipula proċess għall-indirizzar ta' kwistjonijiet speċifiċi. Din it-tip ta' relazzjoni tiżgura li l-azzjonisti tagħna jibqgħu jkollhom l-informazzjoni li jeħtieġu sabiex jibnu l-fiduċja u l-kredibbiltà fil-Bank. Prattiċi tajbin ta' involviment, bħal-laqgħat regolari ta' aġġornament ma' 'stockbrokers' u ma' intermedjarji finanzjarji, il-Laqgħa Annwali Ġenerali tagħna, u x-'Shareholders' Newsletter', jibqgħu jipprovdu sors ta' feedback siewi lill-management u lill-Bord dwar il-prijoritajiet u l-opinjonijiet tal-azzjonisti, kif ukoll dwar il-prestazzjoni tagħna. Grazzi għal sens qawwi ta' kollaborazzjoni nemmen li dan qed irendi l-frott tiegħu, u nkun qiegħed nirrifletti x-xewqat tal-Bord tiegħi meta nestendi l-gratitudni sinċiera tagħna għat-turija ta' fiduċja u lealtà mill-azzjonisti kollha.



John C. Grech
Ċermen

FIMBank group performance 2018

Murali Subramanian, Chief Executive Officer

CEO review

The financial year 2018 followed the trend of positive financial and operational results established in 2016. From a strategic perspective, we carried on from where we left off in the previous year, continuing to strengthen our core fundamentals, registering success in key areas, and transitioning our business model to the longer-term strategy set out in earlier years.

In 2018, we vigorously pursued the further upgrading of our asset origination and product differentiation efforts. Apart from implementing measures to secure further efficiency enhancements, we were also successful in improving the quality of our diversified portfolio across the different products and geographies in which the FIMBank Group operates. In the meantime, we sustained the implementation of client-centric coverage models, cross-selling across the various Group segments, and exploiting our presence in key markets.

Meanwhile, improvements in operational efficiencies, which have characterised our efforts since 2015, allowed us to continue making inroads into greater revenue generation, whilst optimising on our capital and funding resources. Cost-management initiatives introduced in 2017 have been further enhanced and reinforced. Amongst these, the Business Performance and Analysis team continued producing unit and customer-level profitability reports, leading to better business focus and reduced revenue leakage. Such initiatives are expected to continue contributing substantially towards a stable performance and positive financial situation going forward.

Over the past three years, robust governance measures have given rise to a strong compliance culture which has enabled us, to maintain a healthy relationship with our correspondent banks. Today we are enjoying the benefits of a process which incorporated various management and operational reforms, backed by heavy investment, all aimed at improving the financial crime compliance posture across the entire Group.

During the year under review, the funding side of the equation witnessed further positive developments, largely on the back of the 2017 launch of FIMBank Direct as a fully-fledged digital banking platform. This platform, which covers a wide array of banking services, including deposit products offered at attractive interest rates, and supported by an excellent customer service, was a landmark development in our progression in adapting to the needs of today's online consumers. It has also proved effective in improving internal operational efficiencies, reducing transaction costs while allowing us to introduce new products to our customers. During 2018, cash management prospects were also boosted by our presence on third-party deposit platforms.

In the first half of the year under review, we saw a capital injection of USD105 million via a Rights Issue by majority shareholder United Gulf Holding of the KIPCO Group and our minority shareholders. Apart from allowing us to address regulatory obligations, this injection enabled us to strengthen our capital base, and unlocked the potential for further growth which we went on to exploit during the year, and which are reflected in these financial results.

The performance across the Group was strong throughout, as all available asset headroom was dedicated towards securing remunerative credit transactions. FIMBank experienced growth mainly in the commodity trade finance, factoring, local real estate financing, and shipping businesses. Additionally, London Forfaiting Company Ltd, reported its highest profit ever since being acquired by FIMBank in 2003. Positive news was also forthcoming from India Factoring, thanks to the diversification of its product offering, and the servicing of export trade routes out of India. Significantly, by the end of 2018, Egypt Factors had returned to its first full year of profit since the acquisition of the company by the Group in 2016. Consistent with our strategy of divesting businesses which do not yield the desired results, the 51 percent held by FIMBank in Latam Factors (Chile) was sold in the second half of the year.

Overview of financial results

As disclosed under the Review of Performance within the Directors' Report, the Group registered a profit of USD10.2 million in 2018, compared to a profit of USD7.7 million in 2017. In the year under review, net operating results more than tripled, from USD6.5 million to USD21.1 million, as the Group improved its revenues by USD9.9 million and reduced its costs by USD4.7 million. A 20 percent increase in net revenues, from USD48.8 million to USD58.7 million, was generated through higher asset levels and improved margins. These higher asset levels were possible following the Rights Issue which, as explained above, provided the opportunity for further growth, whilst still maintaining capital ratios comfortably above regulatory limits. During 2018, the Group recorded a number of non-performing exposures reflected in a higher level of impairments when compared to 2017. These have been immediately addressed with recovery efforts already underway.

The Rights Issue also contributed to an increase of USD225 million in total consolidated assets, which by 31 December 2018 had reached USD1.87 billion, when compared to the USD1.64 billion reported at end-2017. Total consolidated liabilities as at 31 December 2018 stood at USD1.59 billion, up by USD119 million from USD1.47 billion at end-2017. The growth in liabilities was largely due to increases of USD177 million in deposits from corporate and retail clients, offset by a marginal drop of USD8 million from wholesale funding sources.

The past years have been marked by rapid changes in the nature of our business and the technology which supports it. During 2018, we were successful in keeping up with these developments, primarily by attracting and retaining the best talent, and by maintaining a leading edge in our information technology capabilities. Amongst others, in the year under review we embarked on the Flexcube upgrade project, leading to the enhancement of FIMBank's core banking system. This has significantly bolstered process efficiency, security, availability, and a stronger capacity to support new business. As a result of various operational improvements, our staff can focus on servicing our clients, more effectively and efficiently. We intend to intensify such efforts in order to further boost our ability to remain innovative, and more agile, in our delivery across the various business units.

People

The successful results we have experienced over the past years would not have been possible without the strong dedication, commitment and professional competence of our employees at our Malta Head Office and throughout our subsidiaries across the globe. Our people are the lifeblood of our business and it is thanks to them, that we maintain and enhance our reputation as a customer-centric institution.

We consider employee development as a key component in our growth, which is why we are constantly investing to attract and retain the best talent. Such investment caters for employee training, across all levels, to ensure alignment with the Bank's strategic objectives.

CSR and societal contributions

FIMBank's CSR policy is built around our core values, and reflects the corporate commitments we make to our clients, shareholders, employees, and the Maltese community. Following recent efforts to promote the heritage of the Maltese language, these past months we have decided to contribute in a more direct manner, to the wellbeing of society and its members.

We have supported the Foundation for Breast Cancer awareness and the promotion of creativity and art, by sponsoring local exhibitions. Complementing such efforts, the employees at FIMBank contributed to this year's L-Istrina, providing a generous donation to those in need.

Outlook and way forward

By sticking to the rigorous parameters and frameworks we set for ourselves, we have successfully transformed our business origination processes, and realised our medium-term ambition to achieve growth at a sustainable pace. Consequently, the Group today finds itself in a position to exploit its expertise and geographical presence to continue offering a bespoke service to its clients, across the different stages of the supply chain. We now look at the next phase of maximising scale, whilst ensuring cost optimisation. Going forward, the Group remains resolute in focussing on its core competencies and principal key markets, in order to deliver reliable and superior returns for its stakeholders.

Murali Subramanian
Chief Executive Officer

Il-prestazzjoni tal-grupp FIMBank għall-2018

Murali Subramanian, Kap Eżekuttiv

L-analiżi tas-CEO

Is-sena finanzjarja tal-2018 segwiet ix-xejra ta' riżultati pożittivi finanzjarji u operattivi li stabbilixxejna fl-2016. Minn perspettiva strateġika, komplejna minn fejn ħallejna s-sena ta' qabel. Komplejna nsaħħu l-pedamenti li fuqhom huwa bbażat in-negozju tagħna, filwaqt li komplejna bit-transformazzjoni tal-mudell ta' kummerċ tagħna skont l-istrateġija li nedejna fis-snin preċedenti.

Fl-2018, komplejna nwettqu titjib fl-'asset origination' u fl-iżvilupp tal-prodotti. Minbarra li ħdimna biex intejbu l-effiċjenza, sar ukoll progress fid-diversifikazzjoni tal-portafoll. Sadattant, sostnejna l-implimentazzjoni ta' mudelli ta' kopertura tal-klijenti, inizjattivi ta' 'cross-selling' fost it-taqsimiet varji tal-Grupp, u l-użu strateġiku tal-preżenza tagħna fi swieq ewlenin.

It-titjib fl-effiċjenzi operattivi li kkaratterizzaw l-isforzi tagħna sa mill-2015 ippermettulna nagħmlu progress fil-ġenerazzjoni ta' iktar dħul filwaqt li stajna nottimizzaw il-kapital u r-riżorsi tagħna permezz ta' inizjattivi ta' ġestjoni tal-ispejjeż li daħħalna fl-2017. Fosthom, it-tim tal-'Business Performance and Analysis' ħadem fuq rapporti dwar il-profittabbiltà li wassal għal inqas telf ta' introjtu. Inizjattivi bħal dawn huma mistennija li jkomplu jikkontribwixxu b'mod sostanzjali għal prestazzjoni stabbli.

Tul l-aħħar tliet snin, miżuri sodi ta' governanza wasslu għal kultura b'saħħitha ta' 'compliance' li ppermettitilna nżommu relazzjoni soda mal-banek korrispondenti tagħna. Illum qed ingawdu l-benefiċċji ta' proċess li ġab miegħu riformi varji fil-management u fl-operat, appoġġjati minn investiment b'saħħtu, sabiex ikomplu jsaħħu miżuri kontra r-reati finanzjarji.

Tul is-sena 2018, rajna żviluppi pożittivi bit-tisħiħ ta' FIMBank Direct bħala pjattaforma diġitali. FIMBank Direct tkopri firxa wiesgħa ta' servizzi bankarji, inkluż prodotti ta' depożitu offruti b'rati ta' imgħax kompetittivi u ikkumplimentati minn servizz eċċellenti għall-klijenti. Dan kien żvilupp fundamentali sabiex nadattaw għall-ħtiġijiet tal-konsumaturi tal-lum li jużaw sistemi onlajn. Il-pjattaforma wasslet ukoll għal titjib fl-effiċjenzi operattivi, fejn l-ispejjeż tat-tranżazzjonijiet naqsu, filwaqt li ppermettewlna nintroduċu prodotti ġodda lill-klijenti tagħna. Tul l-2018, il-ġestjoni tal-likwidita' tjiebet permezz tal-preżenza tagħna fuq il-pjattaformi ta' depożitu internazzjonali.

Fl-ewwel nofs tas-sena rajna injezzjoni ta' kapital ta' USD105 miljun fil-Bank permezz tal-Ħruġ ta' Ishma bi Dritt mill-azzjonist maġġuri tagħna, il-United Gulf Holding tal-Grupp KIPCO kif ukoll minn azzjonisti minoritarji. Minbarra li ndirizzajna obbligi regolatorji, din l-injezzjoni ta' kapital għenitna nsaħħu l-bażi kapitali tagħna, kif ukoll fetħet it-triq għal iżjed tkabbir li huwa rifless f'dawn ir-riżultati finanzjarji.

Il-prestazzjoni kienet b'saħħitha fil-Grupp kollu għaliex kien hemm sforzi dedikati għal self u għat-tranżazzjonijiet ta' kreditu remunerattivi. FIMBank esperjenza tkabbir l-aktar fil-finanzjament tal-kummerċ tal-komoditajiet, fil-'factoring', fil-finanzjament tal-kostruzzjoni tal-proprjetà lokali, kif ukoll fil-kummerċ marittimu. Barra minn hekk, London Forfaiting Company Ltd, irrapportat l-ogħla profitt tagħha minn mindu ġiet mixtrija minn FIMBank fl-2003. India Factoring kompliet tiddiversifika l-prodott, u tiffinanzja rotot kummerċjali ta' esportazzjoni mill-Indja. Ta' min isemmi wkoll illi sal-aħħar tal-2018, Egypt Factors irraportat għall-ewwel darba sena ta' profitt minn mindu sar l-akkwist tal-kumpanija mill-Grupp fl-2016. B'mod konsistenti mal-istrateġija tagħna li niżvestu negozji li ma jrendux ir-riżultati mixtieqa, il-51 fil-mija miżmum minn FIMBank f'Latam Factors (fiċ-Ċili) inbiegħ fit-tieni nofs tas-sena.

Ħarsa ġenerali lejn ir-riżultati finanzjarji

Ir-Rapporti Finanzjarji Konsolidati Awditjati tal-Grupp FIMBank juru li fis-sena li ntemmet fil-31 ta' Diċembru 2018, il-Grupp irreġistra profitt ta' USD10.2 miljun meta mqabbel ma' profitt ta' USD7.7 miljun fl-2017. Matul l-2018, ir-riżultati operattivi netti żdiedu b'aktar mit-triplu, minn USD6.5 miljun għal USD21.1 miljun, hekk kif il-Grupp tejjeb id-dħul tiegħu b'USD9.9 miljun u naqqas l-ispejjeż tiegħu b'USD4.7 miljun. Ġiet ġġenerata żieda ta' 20 fil-mija fl-introjtu nett, minn USD48.8 miljun għal USD58.7 miljun, minħabba livelli ta' assi ogħla u marġini mtejba. Dawn il-livelli ogħla ta' assi kienu possibbli wara l-ħruġ tal-Ishma bi Dritt li ppermetta iżjed tkabbir filwaqt li żamm il-'capital ratios' 'il fuq mil-limiti regolatorji. Tul l-2018, il-Grupp irreġistra numru ta' 'non-performing exposures' li huma riflessi f'livell ogħla ta' indebbolimenti meta mqabbel mal-2017. Dawn ġew indirizzati immedjatament bi sforzi konsistenti ta' rkupru li huma mħejjija.

Il-Ħruġ tal-Ishma bi Dritt ippermetta tkabbir ta' USD225 miljun f'assi konsolidati totali, li sal-31 ta' Diċembru 2018 laħqu USD1.87 biljun meta mqabbel mal-USD1.64 biljun irrappurtati fl-aħħar tal-2017. L-Obbligazzjonijiet konsolidati totali fil-31 ta' Diċembru 2018 kienu ta' USD1.59 biljun, żieda ta' USD119 miljun mill-USD1.47 biljun fl-aħħar tal-2017. It-tkabbir fl-obbligazzjonijiet kien dovut l-aktar għal żieda ta' USD177 miljun f'depożiti minn klijenti korporattivi u klijenti fis-settur tar-'retail' u bħala riżultat ta' tnaqqis marġinali ta' USD8 miljun minn sorsi ta' 'wholesale funding'.

Is-snin li għaddew kienu kkaratterizzati minn bidliet mgħaġġla fin-natura tan-negozju tagħna u fit-teknoloġija li tappoġġjaha. Tul l-2018, irnexxielna nantiċipaw dawn l-iżviluppi u komplejna nattiraw u nżommu l-aħjar nies, u bqajna nsaħħu l-kapaċitajiet tagħna fit-teknoloġija tal-informatika.

Fost oħrajn, fl-2018 lestejna proġett li wassal għat-titjib fil-pjattaforma teknoloġika ewlenija tal-Bank, Flexcube. Dan il-proġett saħħaħ l-effiċjenza tal-proċessi, is-sigurtà u d-disponibbiltà, filwaqt li tejjeb il-kapaċità tagħna biex nappoġġjaw kummerċ ġdid. Bis-saħħa tat-titjib operattiv, l-impjegati tagħna jistgħu jiffukaw fuq is-servizz mogħti lill-klijenti b'mod aktar effettiv u effiċjenti. Għandna l-intenzjoni li nibqgħu innovattivi u li nsiru aktar aġli fit-twassil tal-prodott tagħna fis-setturi varji ta' kummerċ fejn noperaw.

L-Impjegati

Ir-riżultati pożittivi li esperjenzajna ma kinux ikunu possibbli mingħajr id-dedikazzjoni, l-impenn u l-kompetenza professjonali tal-impjegati tagħna fl-uffiċċju prinċipali tagħna f'Malta, kif ukoll fis-sussidjarji u uffiċini tagħna madwar id-dinja. L-impjegati tagħna huma l-mutur prinċipali wara n-negozju u huwa bis-saħħa tagħhom li nistgħu nżommu u nkabbru r-reputazzjoni tagħna bħala istituzzjoni ffukata fuq il-klijent.

Inqisu l-iżvilupp tal-impjegati bħala l-pilastru ewlieni fit-tkabbir tagħna, u għalhekk qed inkomplu ninvestu sabiex nattiraw u nżommu l-aħjar talent. Dan l-investiment jinkludi t-taħriġ lill-impjegati fil-livelli kollha sabiex niżguraw konsistenza mal-objettivi strateġiċi tal-Bank.

Responsabbiltà soċjali korporattiva u kontribuzzjonijiet lis-soċjetà

Ir-Responsabbiltà Soċjali Korporattiva ta' FIMBank hija mibnija madwar il-valuri fundamentali tagħna, u tirrifletti l-impenji korporattivi tagħna lejn il-klijenti, l-azzjonisti, l-impjegati, u lejn il-komunità Maltija. Wara l-isforzi riċenti tagħna sabiex nqajjmu għarfien dwar l-wirt tal-lingwa Maltija, tul dawn l-aħħar xhur, ikkontribwixxejna b'mod aktar dirett għall-ġid tas-soċjetà u l-membri tagħha.

Fost oħrajn, tajna l-appoġġ tagħna lill-Foundation for Breast Cancer Awareness, kif ukoll lill-promozzjoni tal-kreattività u l-arti billi tajna appoġġ lil esibizzjonijiet artistiċi lokali. Minbarra dan, l-impjegati ta' FIMBank ikkontribwew fl-Istrina ta' din is-sena u taw donazzjoni ġeneruża lil dawk fil-bżonn.

Ħarsa 'l quddiem u t-triq għall-futur

Riżultat tal-fatt li żammejna ma' parametri u strutturi rigorużi, tejjibna l-proċessi ta' oriġinazzjoni tal-kummerċ, u akkwistajna tkabbir sostenibbli. Illum il-Grupp jinstab f'pożizzjoni li jisfrutta l-ħila u l-preżenza ġeografika tiegħu sabiex ikompli joffri servizzi personalizzati lill-klijenti tiegħu. Fil-fażi li jmiss ser nimmiraw sabiex nimmassimizzaw l-potenzjal tan-negozju tagħna filwaqt li niżguraw l-effiċjenza fl-istrutturi tal-ispejjeż. Il-Grupp se jibqa' jisħaq fuq il-kompetenzi u s-swieq ewlenin tiegħu sabiex ikun jista' jwassal dħul superjuri u sod għall-azzjonisti tiegħu.

Murali Subramanian
Kap Eżekuttiv

Directors' report

For the year ended 31 December 2018

The Directors present their report together with the Audited Financial Statements of FIMBank p.l.c. (the "Bank"), and FIMBank Group of Companies (the "Group") for the year ended 31 December 2018. This report is prepared in accordance with Article 177 of the Companies Act, 1995 (Chapter 386, Laws of Malta, ("The Companies Act")) including the further provisions as set out in the Sixth Schedule of the Companies Act.

Results for the year

The Group and the Bank reported a profit after tax of USD10,203,633 and USD3,737,347 respectively for the year under review.

Further information about the results is provided in the Statements of Profit or Loss and the Statements of Other Comprehensive Income on pages 30 to 32 and in the Review of Performance section within this report.

Group structure and principal activities

The Group comprises the Bank and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), FIM Holdings (Chile) S.p.A. ("FHC"), The Egyptian Company for Factoring S.A.E. ("Egypt Factors") and FIMFactors B.V. ("FIMFactors"). LFC and FIMFactors are themselves parents of a number of subsidiaries as set out in Note 30 to the Financial Statements. The Group is supervised on a consolidated basis by the Malta Financial Services Authority ("MFSA"), whilst some of its subsidiaries and branches are subject to authorisation and regulation according to the respective jurisdictions in which they operate.

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

- The Bank is a public limited company registered under the laws of Malta, and listed on the Malta Stock Exchange. It is licensed as a credit institution under the Banking Act, 1994. The Bank is principally active in providing international trade finance and to act as an intermediary to other financial institutions for international settlements, factoring and loan syndications.

  The Bank has two branches registered in Dubai International Finance Centre, Dubai, United Arab Emirates and Athens, Greece. Both branches are regulated by their respective Regulators;

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

- FBS (100%), registered in Malta, has as its primary purpose the provision of information technology and support services to the Group and its associated companies;

- FPI (100%), registered in Malta, owns and manages FIMBank's Head Office in Malta. FPI is responsible for the day-to-day management of the building and leasing of space for commercial purposes;

- Egypt Factors (100%), registered in Egypt, is active in providing factoring and forfaiting services to Egyptian companies;

- FHC (100%), registered in Chile, served as the corporate vehicle for Latam Factors S.A., which entity was sold to third parties during 2018; and

- FIMFactors (100%), registered in the Netherlands, is the corporate vehicle for the Bank's holdings in factoring subsidiaries and associated companies. These are:

  a. India Factoring and Finance Solutions (Private) Limited (86.05%), incorporated in Mumbai, India, to carry out the business of factoring, forfaiting and trade finance activities in India. The other shareholders being Banca IFIS (5.10%), India Factoring Employee Welfare Trust (8.34%) and Blend Financial Services Limited (0.51%). India Factoring is regulated by the Reserve Bank of India;

  b. Menafactors Limited (100%), incorporated in the United Arab Emirates. Menafactors is currently in liquidation; and

  c. BrasilFactors S.A. (50%), an equity-accounted investee incorporated in São Paulo, Brazil, with its core business focused on factoring services and forfaiting targeting small and medium-sized companies. The other shareholder is China Construction Bank (50%).

During the year CIS Factors Holdings B.V. was liquidated and the investment in Levant Factors S.A.L. was sold to third parties. At reporting date FactorRus L.L.P. was in liquidation, which process was finalised in January 2019.

Directors' report - continued

Review of performance

The financial year 2018 was a period in which FIMBank continued strengthening its core fundamentals, realising success in key business areas and realigning its business model to the longer-term strategy set out in earlier years. The first half of the year was characterised by the USD105 million new equity injected via a Rights Issue, allowing the strengthening of the capital base and unlocking potential for growth. The operating performance of the Group reflects this strategic development as well as the outcome of actions and initiatives taken over the past years in business origination, asset and liability management, risk management and costs. With continued volatility in the developed and emerging markets arising from both economic and political turbulences, the Group's commercial efforts have delivered a strong rebound in asset origination – growing the diversified portfolio across the different products and geographies in which the Group operates. A more efficient management of the balance sheet has also generated higher yields and lower cost of funds, with the increase in asset levels contributing to an improvement in core operating revenues when compared to last year. In the latter part of the year, the Group managed a number of non-performing exposures that necessitated an increase in impairment allowances, whilst registering continuing successes in recovering legacy delinquent loans across various portfolios within the Group. Complimenting this were measures in reducing the Group complexity and divestitures of strategic investments, which taken together with ongoing cost management programmes, have improved cost/income ratios, both in absolute and relative terms.

The Bank, from the Malta Head Office, maintains overall responsibility for the Group's business and development. During the period under review, the Bank experienced growth mainly in commodity trade finance, factoring, local real estate financing and shipping businesses. Together with a more proactive treasury and cash management functions the Bank was able to optimise its funding structures and liquidity needs, growing its vital correspondent banking relationships and sustaining an adequate level of net margins through continued evaluation of the asset/liability management processes. The Bank also recorded a higher level of impairment charges compared to prior years on a number of non-performing exposures in the commodity trade finance portfolio, for which resolution and recovery efforts are underway.

Across the Group, LFC reported a record profit year since being acquired by FIMBank in 2003, growing its portfolio in a sustained way and exploiting its ability to churn its assets on the secondary market. LFC was also successful in sourcing wholesale third party funding from outside the Group. Despite political uncertainty in key markets in which LFC operates, in 2018 LFC had a strong operating performance, reporting superior level of revenues and margins and a higher ratio of revenue growth compared to costs. During the year, LFC also fully recovered a significant legacy non-performing asset on which credit losses were taken in prior years with a direct positive impact on the yearly profitability.

India Factoring also grew during the year, albeit at a slower pace compared to other Group businesses. During 2018 the company continued executing a strategy to diversify its product offering within the factoring suite of products and by expanding its international business servicing export trade routes out of India. The operating results of the company were satisfactory with a consistent high return on risk assets and persistent cost management in the various offices operating in the country. The yearly performance was negatively impacted by additional impairments required to be taken on two non-performing clients for which recovery efforts are underway.

Egypt Factors returned the first full year profit since the acquisition of the company by the Group in 2016. Upon acquisition, the company was recapitalised and key senior management changes were made entrusted to implement a growth strategy within the domestic and export markets for Egypt-based customers. In 2018, Egypt Factors grew its portfolio beyond break-even point, and backed by recoveries on legacy loans, the company returned a profit for the year.

Consistent with Group strategy for subsidiaries, the 51% investment held by FIMBank in Latam Factors (Chile) was sold in the second half of the year, and BrasilFactors (Brazil) remains classified as a non-current asset held-for-sale. These strategic outcomes reflect the Group's intent to exit businesses whose operating models and structures are not complementary to those of FIMBank.

In the beginning of the year the Group implemented the IFRS 9 accounting standard, with the new requirements impacting the classification and measurement of particular financial assets, as well as the introduction of new impairment methodologies for a significant portion of the Group's portfolio. The introduction of IFRS 9 also had an impact on the Group reserves at the beginning of the year in recognising the impact of additional impairments.

Directors' report - continued

Statements of profit or loss

For the year ended 31 December 2018, the Group registered a profit of USD10.2 million compared to a profit of USD7.7 million in 2017. Group earnings per share stood at US cents 2.30 (2017: US cents 2.40). The results for the year under review are summarised in the table below which should be read in conjunction with the explanatory commentary that follows:

	Group		
	2018	2017	Movement
	USD	USD	USD
Net interest income	31,198,703	24,929,013	6,269,690
Net fee and commission income	17,645,824	18,515,479	(869,655)
Dividend income	7,660,271	5,997,942	1,662,329
Net results from foreign currency operations	1,293,996	(1,745,004)	3,039,000
Other operating income	911,206	1,135,085	(223,879)
Net operating income	**58,710,000**	**48,832,515**	**9,877,485**
Operating expenses	(37,576,677)	(42,287,932)	4,711,255
Net operating results	**21,133,323**	**6,544,583**	**14,588,740**
Net impairment (losses)/gains	(13,283,010)	2,297,034	(15,580,044)
Net results from trading assets and other financial instruments	5,982,890	45,787	5,937,103
Share of results of equity-accounted investees	238,634	8,893	229,741
Loss upon disposal of equity-accounted investee	(2,062,937)	-	(2,062,937)
Net result upon loss of control of subsidiary undertaking	-	(656,661)	656,661
Fair value gain from investment property	984,951	3,444,802	(2,459,851)
Profit before tax	**12,993,851**	**11,684,438**	**1,309,413**
Loss on discontinued operations	-	(3,395,976)	3,395,976
Taxation	(2,790,218)	(561,767)	(2,228,451)
Profit for the period	**10,203,633**	**7,726,695**	**2,476,938**

For the year under review, net operating results, that is operating income less operating costs, more than tripled from USD6.5 million to USD21.1 million, as the Group improved its revenues by USD9.9 million and reduced its costs by USD4.7 million.

The Group's net operating income (net revenues) increased by 20% from USD48.8 million to USD58.7 million. Net interest income, net fees and dividend income combined together increased by 14%, from USD49.4 million to USD56.5 million. These revenues were generated on the back of both higher asset levels as well as improved margins. The achievement of higher asset levels was possible following the Rights Issue which unlocked room for further growth, whilst still maintaining capital ratios comfortably above regulatory minima. Concurrently the Group ensured that asset growth was achieved in those portfolios with superior risk-reward metrics in terms of yields, tenor and ability to churn. Likewise, the Group reduced its cost of funds by being more selective in choosing the most efficient funding sources, by managing its asset/liability composition and also as a result of the repayment of the subordinated loan as part of the Rights Issue. In 2018 net operating income was also positively impacted by USD2.9 million interest and fees from a material recovery of a non-performing asset. Net results from foreign currency operations moved back to positive territory with a USD3.0 million improvement to prior period, primarily due to a marked decrease in the use of foreign currency swaps for risk management complemented by client-driven foreign currency profits.

Operating expenses dropped by 11% to prior year from USD42.3 million to USD37.6 million, reflecting cost saves from the sale of Latam Factors and the non-repeat of regulatory costs booked in 2017. These decreases were marginally offset by increases in fixed and variable pay costs as the drive to engage and retain experienced staff continues across the Group.

The new impairment requirements emanating from IFRS 9 came into force in the beginning of the financial year. In addition to having an impact on the opening reserves at 1 January 2018, the new expected credit loss methodology for impairments, redefined the manner in which impairment losses are measured. During the year, the Group recognised additional IFRS 9 Stage 3 impairments of USD17.4 million, largely on a number of non-performing exposures in FIMBank and India Factoring. As in other similar cases, uncertainty on the potential resolution and recovery still exists at the reporting date and judgement was applied in determining the appropriate level of impairment – guided by a cautious approach based on the facts and circumstances available. In the comparative year 2017, the results were positively impacted by one specific account which had contributed USD3.6 million net recoveries to the Statement of Profit or Loss. Separately, during 2018 the IFRS 9 Stage 1 and Stage 2 impairment allowances decreased by USD4.1 million following an improvement in the risk profile of a number of exposures as well as stage transfers between Stage 1 or 2 and Stage 3.

Results from trading assets and other financial instruments improved by USD5.9 million compared to prior year. This is mainly arising from the full recovery of a significant legacy non-performing asset in the Group's trading portfolio, on which credit losses were taken in prior years.

Prior to being disposed of, Latam Factors contributed to a net share of profit (equity method) of USD0.2 million, compared to the share of loss from BrasilFactors in the comparative period. The investment in Latam Factors was sold in the second half of the year and a net loss on disposal of USD2.1 million was recognised in the Statement of Profit or Loss. In the prior year a net loss of USD0.7 million was recognised following the change in classification of Latam Factors from 'subsidiary' to 'associate'. The investment in BrasilFactors was brought down to nil on 31 December 2017 and no further results were recognised in the 2018 Group's Statement of Profit or Loss.

Financial position

At 31 December 2018, total consolidated assets stood at USD1.87 billion, an increase of USD225 million over the USD1.64 billion reported at end-2017. The growth in assets follows the Rights Issue concluded in the first half of the year and which allowed the Group to sustainably grow its portfolios within its established frameworks. Core commercial assets have increased by USD184 million compared to prior year – 'trading assets' growing by USD95 million and 'loans and advances to customers' growing by USD89 million. The treasury portfolio, made up of high quality liquid assets used to manage the Group's liquidity grew by USD54 million. Other changes in consolidated assets reflect the disposal of Latam Factors, the fair value changes on 'investment property' and the utilisation of 'deferred tax'.

Total consolidated liabilities as at 31 December 2018 stood at USD1.59 billion, up by USD119 million from USD1.47 billion at end-2017. The growth in liabilities is largely due to increases of USD177 million in deposits from corporate and retail clients offset by a marginal drop of USD8 million from wholesale funding sources ('amounts owed to banks' and 'debt securities in issue'). During the year the Group repaid the USD50 million 'subordinated loan' from Burgan Bank (part of KIPCO Group), which used to qualify as Tier 2 capital. This loan was replaced by better quality CET1 capital via the issuance of new shares to KIPCO entities as part of the Rights Issue.

Total equity attributable to the equity holders of the Bank as at financial reporting date stood at USD280 million, up from USD175 million in 2017 reflecting the USD105 million Rights Issue, profits for the year and other equity adjustments.

At 31 December 2018 the Group's CET1 ratio stood at 17.6% (2017: 11.3%) and total capital ratio at 18.0% (2017: 15.5%).

Total Group 'commitments', consisting mainly of confirmed letters of credit, documentary credits, commitments to purchase forfaiting assets and factoring commitments stood at USD189 million while 'contingent liabilities', principally consisting of outstanding guarantee obligations, stood at USD3 million.

Principal risks and uncertainties

FIMBank is a banking group offering a suite of trade finance products across the different geographies it operates in, mainly emerging markets. The risks associated with this business model are multiple and varied. Exposure to credit risk, liquidity risk, interest rate risk and foreign exchange risk arises in the normal course of the Group's business. As the Group is mainly engaged in cross-border trade finance transactions, the business performance is also impacted by the overall performance of the world economy, in particular to the level of cross-border trade between countries at varying stages of their economic development and which may not yet have achieved the level of stability of developed countries. This exposes the Group to risks of political and economic changes including volatilities to commodity prices, exchange control regulation and difficulties in preserving own legal rights.

Both FIMBank and its main operating subsidiaries are exposed to such risks in different degrees based on their size and complexity. FIMBank, as the parent company, ensures that all business units adhere to the Group's risk, governance and compliance frameworks as updated from time to time.

A potential orderly withdrawal of the United Kingdom from the European Union, referred to as 'Brexit', is not expected to have a significant impact on the Group's business and operations. The Group operates in a diversified array of markets, sectors and geographies mainly in emerging markets and its exposure to the United Kingdom, with the exception of its investment in LFC, is limited both in terms of business and human resources. Specifically for LFC, with its Head Office in the United Kingdom, the impact is also expected to be minimal since LFC's portfolio and funding are likewise well diversified. Notwithstanding a portion of its forfaiting assets are Euro-denominated, LFC's counterparties are not based in the European Union and the recoverability of these exposures are likely to be unaffected by Brexit. LFC's funding is sourced from EU and non-EU entities, beside own equity, and other than loans from FIMBank, LFC does not place a reliance on EU-sourced funding. The business model of LFC will therefore not require any modifications as a result of a potential orderly Brexit.

Further disclosures on the Group's principal risks and uncertainties are provided in Note 5 to the Financial Statements and Schedule V to this Annual Report.

Directors' report - continued

Outlook for 2019

For 2019 the Group is expected to continue evolving within rigorous parameters and frameworks aimed to solidify its origination and risk processes and achieving growth at a sustainable pace. The Group has the ability to exploit its expertise and geographical presences to continue offering a bespoke service to its clients across the different stages of the supply chain. Supported by the new capital and business fundamentals developed over the past twenty five years of its existence, FIMBank will move to the next phase of its strategy focusing on returning a solid and stable performance based on maximising scale, product capability enhancement, solid funding engines and strong risk architecture. The Group will invest more in its core resources – in human capital to attract and retain the best talent and in its information technology capabilities to remain innovative and more efficient in its delivery across the various business areas. The Group is resolute in focusing on its core competencies and principal key markets to deliver reliable and superior returns for its stakeholders.

Dividends and reserves

The Directors will not be recommending the payment of a dividend to the Annual General Meeting of shareholders (2017: Nil).

Standard licence conditions and regulatory sanctions

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

Approvals at the annual general meeting of shareholders

The Bank convened its Annual General Meeting on 9 May 2018 and all statutory Ordinary Resolutions were approved.

Shareholder register information pursuant to Listing Rule 5.64

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

a. details of the structure of the share capital, the class of shares and the rights and obligations attached to it and the percentage of total share capital that it represents are, unless otherwise stated in this report, disclosed in the Notes to the Financial Statements;

b. on the 21 November 2018 United Gulf Holding Company B.S.C. ("UGH") acquired from Burgan Bank K.P.S.C. formerly known as Burgan Bank S.A.K. ("BBK") a total of 19,034,886 shares in FIMBank. The acquisition of these new shares together with the shares that UGH had in FIMBank prior to the aforementioned share transfer represents a percentage holding of 78.66%. As a result of this transfer BBK holds 8.50% of the shares in FIMBank;

c. except as provided for by Article 41 of the Articles of Association of the Bank, or where the consents of the supervisory authorities may be required, there are no restrictions on the transfer of securities, or limitations on the holding of securities, or the need to obtain the approval of the Bank or other holders of securities of the Bank for any such transfer or holding. Shareholders holding 5% or more of the Share Capital as at 31 December 2018 are as follows:

	No of shares	% holding
United Gulf Holding Company B.S.C.	397,560,106	78.66%
Burgan Bank K.P.S.C.	42,962,418	8.50%

In addition to shareholders listed in the above table, as at 31 December 2018, Tunis International Bank S.A. (a subsidiary of BBK) holds 8,910,000 shares (1.76%);

d. there is no share scheme in place which gives employees rights to any form of control;

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

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

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

h. 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; and

i. 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.

At 31 December 2018 the Bank had no securities with special control rights in accordance with Listing Rule 5.64.4.

Events after the financial reporting date

On 10 January 2019 the Group made an additional investment of INR350 million (USD5 million on investment date) in India Factoring. This investment is intended to support the further growth of the company and its ability to do this within the regulatory capital requirements. Following this investment the Group increased its ownership in the subsidiary to 87.19%.

On 28 January 2019, FactorRus LLP was officially liquidated. FactorRus LLP was a wholly owned subsidiary registered in Russia. FactorRus LLP ceased its operations and was put into liquidation during 2016. The Group deconsolidated FactorRus LLP during 2016 and its liquidation had no financial impact on the financial statements as at reporting date.

There were no other 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 performance, financial position, capital adequacy and solvency, the Directors confirm that, at the time of approving these Financial Statements, the Bank is capable of continuing to operate as a going concern for the foreseeable future.

Directors

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

John C. Grech (Chairman)	GC, BCC, EC
Masaud M.J. Hayat (Vice Chairman)	NRC
Adrian Alejandro Gostuski	BRC
Edmond Brincat	AC
Eduardo Eguren Linsen	
Hussain Abdul Aziz Lalani	AC, BRC, EC
Majed Essa Ahmed Al-Ajeel	GC, NRC
Mohamed Fekih Ahmed	BCC, EC
Osama Talat Al-Ghoussein	BRC
Rabih Soukarieh	BCC, EC
Rogers David LeBaron	AC, GC, NRC

Denotes membership of:

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

Directors' report continued

Statement of responsibility

This Statement of Responsibility is required in terms of Listing Rule 5.55.2 and set out in the form required by Listing Rules 5.67 to 5.69.

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

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

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

The Directors, through oversight of management, are responsible to ensure that the Bank and the Group establish and maintain internal controls 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.

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 23 March 2019 and signed on its behalf by:

John C. Grech
Chairman

Masaud M.J. Hayat
Vice Chairman

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

Statement of compliance with the principles of good corporate governance

For the year ended 31 December 2018

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. 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 has considered this to be in the best interest of the Shareholders because they commit the Directors, management and employees of the Bank to internationally recognised standards of corporate governance.

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

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

Principle 1: Roles and responsibilities of the board

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

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

a. exercising prudent and effective controls and ensuring that such controls are appropriately reviewed for effectiveness and monitored for compliance on a regular basis;

b. determining the strategic aims and the organisational structure;

c. regularly reviewing management performance and ensuring that the Group has the appropriate mix of financial and human resources to run its business;

d. being conversant with relevant statutory and regulatory requirements;

e. ensuring that all Directors regularly attend meetings of the Board, agree on business objectives, financial plans and general parameters within which the Board, the Board Committees and management are to function;

f. ensuring that systems and controls are in place to mitigate significant business risks and that exposures are identified and properly managed;

g. setting appropriate business standards, codes of corporate governance and ethical behaviour for all Directors and employees, as well as monitoring their performance;

h. appointing the Chief Executive Officer ("CEO") who is entrusted with day-to-day management of the Group and its operations, together with members of management; and

i. appointing senior management through the Nomination and Remuneration Committee.

Over the years, the Board has 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.

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

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

Principle 2: Roles and responsibilities of the chairman and of the chief executive officer

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

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

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

Principle 3: Board composition and appointment of directors

The Bank's Articles of Association (the "Articles") contain detailed provisions (in Clauses 93 to 114) as to the manner of appointment and retirement of the 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 shares.

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

	Year when first appointed
John C. Grech (Chairman)	2004
Rogers David LeBaron	2006
Masaud M. J. Hayat (Vice Chairman)	2013
Mohamed Fekih Ahmed	2013
Adrian Alejandro Gostuski	2013
Eduardo Eguren Linsen	2013
Majed Essa Ahmed Al-Ajeel	2013
Rabih Soukarieh	2013
Osama Talat Al-Ghoussein	2014
Hussain Abdul Aziz Lalani	2017
Edmond Brincat	2017

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

In March 2012, after noting the contents of an Internal Memorandum on the subject prepared by the Company Secretary, the Board considered and resolved that all non-executive directors meet the requisites for them to be deemed independent. This decision was based on the representations given by the individual directors, including those with a shareholding in the Bank or associated with entities having a shareholding in the Bank or have served on the Board for more than twelve consecutive years, which does not in any way impair these directors' ability to consider appropriately the issues which are brought before the Board. This notwithstanding, Rogers David LeBaron and Edmond Brincat are the only independent directors in terms of the Listing Rules. In terms of Principle 3.4, each non-executive Director has confirmed in writing to the Board that he undertook:

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

A written declaration of independence is signed annually by the non-executive directors, with another written declaration of independence to be signed by the non-executive directors in March 2019. Some of the Directors have served on the board for more than twelve years. This notwithstanding, the Board considers such Directors to bring a sufficiently balanced character and frame of mind to their duties and judgment that they are consequently deemed to be independent. The Bank monitors that each Director limits the number of any directorships held in other companies (see Schedule V, Section 3.4).

Principles 4 and 5: Duties and proceedings of directors

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

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

The Board held five meetings in 2018. All Members of the Board were present for all five meetings except for Edmond Brincat who was excused in March, Eduardo Eguren Linsen who was excused in August and Rogers David LeBaron who was excused for the November 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 attend Board Meetings by invitation depending on the agenda content and relevance. The Board also might request that the meetings be attended by other employees or by professional advisors, as and when necessary. In all other circumstances, the Directors are expected to play a full and constructive role in the Group's affairs. As soon as possible after a meeting, draft minutes are circulated amongst the members for their information. Minutes are then read and approved at the following meeting. Directors can access Board documents, including all past minutes of Board and Committee Meetings via an intranet facility.

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

Principle 6: Information and professional development

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

The intranet facility makes it easier for documents, materials and presentations, including professional resources and access to sources of online information, to be made accessible to Directors. Training sessions have been held in 2018 in order to procure Directors with necessary knowledge on their duties and responsibilities.

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

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

Principle 7: Evaluation of the board's performance

Members of the Board of Directors are subject to comprehensive fit and proper tests by the supervisory authorities before they are formally cleared for appointment to the Board. Each Director is required to complete a self-assessment form which is submitted on an annual basis. The self-assessment forms are then evaluated by a committee, which function has been entrusted to the Nomination and Remuneration Committee, which then reports directly to the Board Chairman who is required to act on the results of the performance evaluation process. The outcome would be to ascertain the strengths and to address the weaknesses of the Board and to report this to the Board itself and, where appropriate, to report at the Annual General Meeting. This exercise began in 2013 and has been repeated annually ever since. The last self-assessment from Directors was requested in the last quarter of 2018, with the formal evaluation taking place, and expected to be concluded in March 2019.

Principle 8: Board committees

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

Accordingly, the Board has established the following Committees:

- Executive Committee
- Audit Committee
- Board Risk Committee
- Assets-Liabilities Committee
- Nomination and Remuneration Committee (refer to Remuneration Report on page 26)
- Board Credit Committee
- Corporate Governance Committee

Executive committee

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

The Members of the Executive Committee as at 31 December 2018 are the following:

Murali Subramanian (Chairman)
John C. Grech (Vice Chairman)
Andrea Batelli (Member & Secretary)
Howard Gaunt (Member)
Hussain Abdul Aziz Lalani (Member)
Michael Davis (Member)
Mohamed Fekih Ahmed (Member)
Nilanjan Ray (Member)
Rabih Soukarieh (Member)
Ronald Haverkorn (Member)
Simon Lay (Member)

Ronald Mizzi - CFO is a non-voting, permanent invitee of the EC.

The Executive Committee met on twelve occasions during 2018.

The increase in the number of members in the Executive Committee is justified with the aim of achieving the balance between non-executive Directors and members of the executive management within the Executive Committee.

Audit committee

The Audit Committee ("AC") 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:

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

It is the responsibility of the Audit Committee to recommend the appointment of the statutory auditor in line with the Listing Rules 5.127.6 and in accordance with Article 16 of the Statutory Audit Regulation. 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 and attends all meetings. The Head of Compliance also has direct access to the Audit Committee Chairman and attends all meetings. In addition, the composition of the members of the Audit Committee includes an individual who is also a member of the Board Risk Committee.

The Members of the Audit Committee as at 31 December 2018 are the following:

Rogers David LeBaron (Chairman)
Hussain Abdul Aziz Lalani (Vice Chairman)
Edmond Brincat (Member)

With reference to Listing Rule 5.117.3, all members of the Audit Committee are designated as competent in auditing and/or accounting. Rogers David LeBaron was appointed as Audit Committee Chairman from 2 May 2013 by the Board of Directors of the Bank and to date is the designated independent and competent member in auditing. Rogers David LeBaron was a Director of financial institutions in the European Bank for Reconstruction and Development in London from 1996 until 2004 and subsequently held the position of Principal Financial Advisor, Global Financial Markets Department within the IFC. Hussain Abdul Aziz Lalani is acting Chief Executive Officer of United Gulf Bank – Bahrain and has worked extensively with the Board of Directors on advisory transactions in his previous capacity as UGB's Chief Financial Officer. Edmond Brincat joined the GO Group in 1999, part of the team entrusted to set up and launch Go Mobile, Malta's second mobile operator and in 2006 he was appointed as the Group's Chief Finance Officer, a position he held until 31 January 2018. In February 2018 Mr Brincat joined SmartCity (Malta), a subsidiary of Dubai Holding LLC, as its Chief Operations Officer.

The majority of the Members of the Audit Committee satisfy the independence criteria set out in the Listing Rules. All members of the Audit Committee have signed a written declaration of independence. In effect, the Board of Directors of the Bank consider these Members to be independent. Furthermore, the Committee Members as a whole have the competence relevant to the sector in which the Bank is operating.

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

The Audit Committee held six meetings during 2018. All Members were present for all six meetings except for Edmond Brincat who was excused for the March meeting. The Group Head of Internal Audit was invited and attended all meetings. The External Auditors were invited to three of the Audit Committee Meetings (March 2018, August 2018 and November 2018). The External Auditors were only present for the agenda item which considered and discussed the 2017 Annual Report (March 2018), 2018 Interim Report (August 2018) and the Financial Year End Review Plan as presented to the Audit Committee in November 2018.

Board risk committee

The Board Risk Committee ("BRC") is responsible for overseeing the Group's risk management strategy, systems and policies, and for recommending appropriate risk appetite parameters for approval by the Board of Directors. The Board Risk Committee is also responsible for the oversight of operational and legal risk matters.

The Board Risk Committee Members as at 31 December 2018 are the following:

Adrian Alejandro Gostuski (Chairman)
Osama Talat Al-Ghoussein (Vice Chairman)
Hussain Abdul Aziz Lalani (Member)

During 2018, the Board Risk Committee met on eight occasions.

Assets-liabilities committee

The Assets-Liabilities Committee ("ALCO") is a decision-making body responsible for allocating the Group's assets and liabilities to meet the Group's risk and profitability objectives.

The ALCO is composed of representatives of senior management, vested with the power to make decisions. As at 31 December 2018, the voting members of the ALCO were the following:

Zbigniew Makula (Chairman)
Howard Gaunt (Member)
Murali Subramanian (Member)
Ronald Haverkorn (Member)
Ronald Mizzi (Member)
Simon Lay (Member)

Chris Trapani - Head of Cash Management & Central Customer Services, Tiziri Hamidouche – Interim Head of Treasury and Corinne Lanfranco - Head of Financial Institutions & Deposits are non-voting, permanent invitees of the ALCO.

During 2018, the Assets-Liabilities Committee met on twelve occasions.

Board credit committee

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

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

The Board Credit Committee Members as at 31 December 2018 are the following:

John C. Grech (Chairman)
Rabih Soukarieh (Vice Chairman)
Mohamed Fekih Ahmed (Member)

Murali Subramanian - CEO and Ronald Haverkorn - CRO are non-voting, permanent invitees of the BCC.

During 2018, the Board Credit Committee met on twenty occasions.

Corporate governance committee

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

The Corporate Governance Committee Members as at 31 December 2018 are the following:

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

During 2018, the Corporate Governance Committee met on four occasions.

Nomination and remuneration committee

The Nomination and Remuneration Committee ("NRC") carries out the following tasks:

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

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

The Nomination and Remuneration Committee Members as at 31 December 2018 are the following:

Masaud M.J. Hayat (Chairman)
Majed Essa Ahmed Al-Ajeel (Vice Chairman)
Rogers David LeBaron (Member)

John C. Grech – FIMBank Chairman was a member until May 2017, following which he became a non-voting, permanent invitee of the NRC.

During 2018, the Nomination and Remuneration Committee met on four occasions.

All members were present for all four meetings except for Majed Essa Ahmed Al-Ajeel who was excused for March and May meetings.

Changes to committee membership during 2018

During 2018, Zbigniew Makula was appointed as a Member and Chairman of the Assets-Liabilities Committee. Michael Davakis and Robert Frost are no longer Members of the Assets-Liabilities Committee.

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

The Chairman arranges for all Directors including the Chairmen of all the Committees to be available to answer questions at the Annual General Meeting. All eligible Shareholders are served with a notice to attend the Annual General Meeting, which is held during the first half of the year. The notice contains all the resolutions proposed for approval by the Annual General Meeting and, as necessary, notes accompanying such resolutions. Pursuant to the Companies Act, notices are delivered to Shareholders at least fourteen 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. Procedures are in place to resolve conflicts between minority shareholders and controlling shareholders.

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

The Board complies with the provisions of the Bank's Memorandum and Articles of Association, as well as all legislation, rules and regulations that require it to maintain a fair and informed market in the Bank's equity securities. It discharges its obligations by 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 2018 the Bank issued sixteen announcements.

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

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

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

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

Principle 11: Conflicts of interest

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

The number of shares held in the Bank by Directors directly in their name as at 31 December 2018 is as follows:

John C. Grech * (Chairman)	1,700,000
Adrian Alejandro Gostuski *	Nil
Edmond Brincat	Nil
Eduardo Eguren Linsen *	Nil
Hussain Abdul Aziz Lalani *	Nil
Majed Essa Ahmed Al-Ajeel *	Nil
Masaud M. J. Hayat * (Vice Chairman)	Nil
Mohamed Fekih Ahmed *	Nil
Osama Talat Al-Ghoussein *	Nil
Rabih Soukarieh *	Nil
Rogers David LeBaron	Nil

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

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 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 2018 are explained in other parts of the Annual Report.

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

Part 2: Non-compliance with the principles

Principle 2.3: Chairman and chief executive

The existing Chairman of the Board of Directors is not an independent member in terms of the Listing Rules. This notwithstanding, the Bank considers the non-compliance with this Principle not to be of concern in view of the fact that John C. Grech has signed a written declaration whereby he has declared that he undertakes to maintain in all circumstances his independence of analysis, decision and action, not to seek or accept any unreasonable advantages that could be considered as compromising his independence and to clearly express his opposition in the event that he finds that a decision of the Board may harm the Bank.

Principle 3: Composition of the board

The Board of Directors of FIMBank is made of non-executive Directors only and the majority of non-executive Directors are not independent. This notwithstanding the Bank considers the non-compliance with this principle not to be of concern since the Executive Committee already consists of a mix of non-executive Directors and members forming part of the Bank's executive management. This already provides the balance suggested in Principle 3.

Principle 4: Succession policy for directors

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

Principle 8: Nomination and remuneration 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 Maltese press, usually in the first quarter of the financial year and in good time before the Annual General Meeting, which allows at least ten business days for any nomination to be made to the Company Secretary.

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

Internal control

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

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.

Listing Rule 5.97.5

The information required by this Listing Rule is found in the Directors' Report.

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 23 March 2019 and signed on its behalf by:

John C. Grech
Chairman

Masaud M.J. Hayat
Vice Chairman

Remuneration report

For the year ended 31 December 2018

Terms of reference and membership

The Nomination and Remuneration Committee (the "NRC") is responsible for ensuring that the Directors and executive management of the Bank and the Bank's subsidiaries include an appropriate mix of skills, qualifications and experience necessary to fulfil its responsibilities, as well as to review the reward policy annually in line with principles of good governance of the Directors' remuneration and that of the executive management.

In 2018, the NRC was composed of Masaud M.J. Hayat, Majed Essa Al-Ajeel and Rogers David LeBaron. John C. Grech was a permanent invitee in his capacity as Chairman of the Group. Murali Subramanian was invited to attend the Meetings in his capacity as Chief Executive Officer ("CEO"). The Group Chief Human Resources Officer acts as secretary to the NRC. The NRC is directly accountable to the Board of Directors, who has the right to change the NRC's Charter in compliance with the relevant laws and regulations. The Charter establishes the authority and responsibilities conferred by the Board to the NRC in line with Appendix 5.1(8)(A) of the Code of Principles of Good Corporate Governance.

Meetings

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

Members	Attended
Masaud M.J. Hayat (Chairman)	4
Majed Essa Ahmed Al-Ajeel (Vice Chairman)	2
Rogers David LeBaron (Member)	4

The following matters were determined and/or discussed:

a. membership of the Board Committees;
b. independent Directors;
c. group salary reviews and bonuses;
d. senior management promotions;
e. senior recruitment, appointments, succession and related compensation;
f. group policies;
g. NRC Charter;
h. employee schemes;
i. executive management review; and
j. Board of Directors evaluation and Directors self-assessment.

Remuneration statement

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

The Annual General Meeting of Shareholders approves the maximum annual aggregate remuneration which the Directors may receive for the holding of their office. At the Annual General Meeting held on 9 May 2018 the Shareholders approved the maximum aggregate emoluments of the Directors for the financial year ending 31 December 2018 at USD450,000. No Director, in his capacity as a Director of the Bank, is entitled to profit sharing, share options or pension benefits. The total fees paid for Board of Directors meetings for the financial year ending 31 December 2018 amounted to USD186,000.

Renumeration report - continued

Code provision 8.A.5

For 2018, the total payments received by the Directors from the Bank and the Group were:

• fixed remuneration	USD387,754
• variable remuneration	Nil
• executive share options	Nil
• expenses relating to meetings	USD43,819
• fringe benefits	USD408

The fixed annual remuneration is inclusive of remuneration with respect to Committee/s the Directors sit on.

For senior executives, namely the CEO and other members of the executive management, 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 laid down by the Board of Directors. The Remuneration Policy mirrors the Capital Requirements Directive IV and the Capital Requirements Regulation so as to ensure that any remuneration practices are in compliance with existing directives and regulations. Unless the current scenario changes no new significant changes are envisaged for the financial year ending 2019.

The various remuneration components for senior executives are:

- fixed remuneration;
- variable remuneration; and
- fringe benefits.

These components 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 2018, the total emoluments received by senior executives were:

• fixed remuneration	USD2,421,664
• variable remuneration	USD548,654
• executive share options granted	Nil
• fringe benefits	USD1,018,449

NRC decisions are made within the guidelines set by the Board of Directors when reviewing the Group budget.

Statements of financial position

For the year ended 31 December 2018

		Group		Bank	
		2018	2017	2018	2017
	Note	USD	USD	USD	USD
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	21	151,910,865	208,171,299	151,891,005	208,147,513
Derivative assets held for risk management	22	92,852	722,256	109,727	722,256
Trading assets	23	347,284,967	252,509,144	-	-
Loans and advances to banks	24	325,105,273	226,092,934	321,085,750	203,552,663
Loans and advances to customers	25	655,588,151	566,361,530	725,405,105	581,529,952
Financial assets designated at fair value through profit or loss	26	173,362,850	156,612,036	173,362,850	156,612,036
Financial assets designated at fair value through other comprehensive income	27	86,683,899	104,632,762	86,683,899	104,632,762
Investments at amortised cost	28	9,846,749	-	9,846,749	-
Interests in equity-accounted investees	29	-	5,561,181	-	-
Investments in subsidiaries	30	-	-	102,595,614	94,050,884
Property and equipment	31	31,111,769	29,660,743	968,472	1,035,490
Investment property	32	17,223,820	16,238,869	-	-
Intangible assets and goodwill	33	13,290,401	11,984,948	4,669,342	2,736,599
Current tax assets		1,720,921	3,306,366	-	1,052,348
Deferred tax assets	34	38,694,104	41,023,245	22,599,041	23,303,267
Other assets	35	7,659,580	12,747,974	5,366,304	9,005,794
Prepayments and accrued income	36	8,985,607	7,776,171	8,280,725	7,054,755
Total assets		**1,868,561,808**	**1,643,401,458**	**1,612,864,583**	**1,393,436,319**
Liabilities and equity					
Liabilities					
Derivative liabilities held for risk management	22	2,928,925	722,922	2,928,925	723,454
Amounts owed to banks	37	453,055,327	493,192,846	397,913,033	393,247,791
Amounts owed to customers	38	1,023,972,887	847,198,005	957,720,771	815,812,570
Debt securities in issue	39	87,081,373	54,653,654	14,834,943	-
Subordinated liabilities	40	-	50,000,000	-	50,000,000
Current tax liabilities		356,579	357,509	-	-
Deferred tax liabilities	34	4,215,075	3,518,684	-	-
Other liabilities		1,179,728	829,197	1,007,819	793,060
Accruals and deferred income	41	17,082,094	20,034,283	9,050,479	7,818,090
Total liabilities		**1,589,871,988**	**1,470,507,100**	**1,383,455,970**	**1,268,394,965**
Equity					
Share capital	42	252,720,107	157,265,562	252,720,107	157,265,562
Share premium	42	9,275,773	173,113	9,275,773	173,113
Reserve for general banking risks	42	1,242,511	608,284	1,242,511	608,284
Currency translation reserve	42	(5,166,834)	(2,747,913)	-	-
Fair value reserve	42	11,712,299	9,533,453	758,254	81,501
Other reserve	42	2,837,122	2,870,270	2,681,041	2,681,041
Retained earnings/(Accumulated losses)	42	7,684,096	6,901,064	(37,269,073)	(35,768,147)
Total equity attributable to equity holders of the Bank		**280,305,074**	**174,603,833**	**229,408,613**	**125,041,354**
Non-controlling interests	43	(1,615,254)	(1,709,475)	-	-
Total equity		**278,689,820**	**172,894,358**	**229,408,613**	**125,041,354**
Total liabilities and equity		**1,868,561,808**	**1,643,401,458**	**1,612,864,583**	**1,393,436,319**

Statements of financial position

For the year ended 31 December 2018

		Group		Bank	
		2018	2017	2018	2017
	Note	USD	USD	USD	USD
Memorandum items					
Contingent liabilities	44	**2,864,826**	**1,186,426**	**67,466,612**	**57,601,096**
Commitments	45	**188,606,767**	**353,893,273**	**158,386,020**	**254,253,843**

The official middle rate of exchange issued by the European Central Bank between US Dollar and Euro as at 31 December 2018 was 1.145.

The Notes on pages 39 to 141 are an integral part of these financial statements.

The Financial Statements on pages 28 to 141 were approved and authorised for issue by the Board of Directors on 23 March 2019 and were signed on its behalf by:

John C. Grech
Chairman

Masaud M. J. Hayat
Vice Chairman

Murali Subramanian
Chief Executive Officer

Ronald Mizzi
Chief Financial Officer

Statements of profit or loss

For the year ended 31 December 2018

		Group		Bank	
		2018	2017	2018	2017
	Note	USD	USD	USD	USD
Interest income	9	56,136,377	51,154,831	35,303,561	28,323,748
Interest expense	9	(24,937,674)	(26,225,818)	(19,139,771)	(17,738,857)
Net interest income	9	**31,198,703**	**24,929,013**	**16,163,790**	**10,584,891**
Fee and commission income	10	23,002,373	23,992,907	12,849,903	11,048,533
Fee and commission expense	10	(5,356,549)	(5,477,428)	(2,799,252)	(2,482,765)
Net fee and commission income	10	**17,645,824**	**18,515,479**	**10,050,651**	**8,565,768**
Net trading results	11	7,287,784	(1,807,839)	2,643,350	(3,140,286)
Net (loss)/gain from other financial instruments carried at fair value	12	(10,898)	108,622	(10,898)	108,622
Dividend income	13	7,660,271	5,997,942	17,660,271	10,446,343
Net result upon loss of control of subsidiary undertaking	14	-	(656,661)	-	-
Loss upon disposal of equity-accounted investee	15	(2,062,937)	-	-	-
Fair value gain on investment property	32	984,951	3,444,802	-	-
Other operating income	16	911,206	1,135,085	125,068	87,088
Operating income before net impairment		**63,614,904**	**51,666,443**	**46,632,232**	**26,652,426**
Net impairment (charge)/reversal on financial assets	5	(13,283,010)	2,297,034	(16,970,119)	(767,889)
Operating income		**50,331,894**	**53,963,477**	**29,662,113**	**25,884,537**
Administrative expenses	17	(35,586,856)	(40,027,409)	(23,787,047)	(24,785,664)
Depreciation and amortisation	31/33	(1,989,821)	(2,260,523)	(1,022,470)	(922,457)
Total operating expenses		**(37,576,677)**	**(42,287,932)**	**(24,809,517)**	**(25,708,121)**
Operating profit		**12,755,217**	**11,675,545**	**4,852,596**	**176,416**
Share of results of equity-accounted investees (net of tax)	29	238,634	8,893	-	-
Profit before tax		**12,993,851**	**11,684,438**	**4,852,596**	**176,416**
Taxation	18	(2,790,218)	(561,767)	(1,115,249)	(60,598)
Profit from continuing operations		**10,203,633**	**11,122,671**	**3,737,347**	**115,818**
Loss on discontinued operations	19	-	(3,395,976)	-	-
Profit for the year		**10,203,633**	**7,726,695**	**3,737,347**	**115,818**
Profit attributable to:					
Owners of the Bank		10,196,095	7,519,632	3,737,347	115,818
Non-controlling interests	43	7,538	207,063	-	-
		10,203,633	**7,726,695**	**3,737,347**	**115,818**

Statements of profit or loss

For the year ended 31 December 2018

		Group		Bank	
		2018	2017	2018	2017
	Note	USD	USD	USD	USD
Earnings per share					
Basic earnings per share (US cents)	20	**2.30**	**2.40**	**0.84**	**0.04**
Diluted earnings per share (US cents)	20	**2.30**	**2.40**	**0.84**	**0.04**
Earnings per share – continuing operations					
Basic earnings per share (US cents)	20	**2.30**	**3.49**	**0.84**	**0.04**
Diluted earnings per share (US cents)	20	**2.30**	**3.48**	**0.84**	**0.04**

The Notes on pages 39 to 141 are an integral part of these Financial Statements.

Statements of other comprehensive income

For the year ended 31 December 2018

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Profit for the year	**10,203,633**	**7,726,695**	**3,737,347**	**115,818**
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Fair value reserve (property and equipment), gross of deferred tax	2,119,688	9,297,574	-	-
Movement in fair value reserve (FVOCI equity instruments):				
- Equity investments at FVOCI - net change in fair value	(7,608)	-	(7,608)	-
Related tax	(614,933)	(2,688,502)	2,662	-
	1,497,147	**6,609,072**	**(4,946)**	**-**
Items that are or may be reclassified subsequently to profit or loss:				
Movement in translation reserve:				
- Foreign operations - foreign currency translation differences	(2,263,430)	3,848,686	-	-
Movement in fair value reserve (FVOCI debt instruments):				
- Debt investments in FVOCI - net change in fair value	402,903	-	402,903	-
- Debt investments in FVOCI - reclassified to profit or loss	86,049	-	86,049	-
Movement in fair value reserve (available-for-sale financial assets):				
- Available-for-sale financial assets - net change in fair value	-	1,990,547	-	1,990,547
- Available-for-sale financial assets - reclassified to profit or loss	-	38,857	-	38,857
Related tax	234,695	(56,763)	234,695	(56,763)
Other comprehensive (expense)/income, net of tax	**(42,636)**	**12,430,399**	**718,701**	**1,972,641**
Total comprehensive income	**10,160,997**	**20,157,094**	**4,456,048**	**2,088,459**
Total comprehensive income attributable to:				
Owners of the Bank	9,997,968	20,068,955	4,456,048	2,088,459
Non-controlling interests	163,029	88,140	-	-
	10,160,997	**20,157,094**	**4,456,048**	**2,088,459**

Statements of changes in equity

For the year ended 31 December 2018

Group

	Attributable to equity shareholders of the Bank									
	Share capital USD	Share premium USD	Reserve for general banking risks USD	Currency translation reserve USD	Fair value reserve USD	Other reserve USD	Retained earnings/ (Accumulated loss) USD	Total USD	Non-controlling interests USD	Total equity USD
Balance at 31 December 2017	**157,265,562**	**173,113**	**608,284**	**(2,747,913)**	**9,533,453**	**2,870,270**	**6,901,064**	**174,603,833**	**(1,709,475)**	**172,894,358**
Adjustment on initial application of IFRS 9, net of tax	-	-	-	-	(41,948)	-	(8,811,984)	(8,853,932)	(68,808)	**(8,922,740)**
Restated balance at 1 January 2018	**157,265,562**	**173,113**	**608,284**	**(2,747,913)**	**9,491,505**	**2,870,270**	**(1,910,920)**	**165,749,901**	**(1,778,283)**	**163,971,618**
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	10,196,095	10,196,095	7,538	**10,203,633**
Other comprehensive income:										
Fair value reserve (FVOCI debt instruments):										
- Debt investments at FVOCI - net change in fair value	-	-	-	-	651,668	-	-	651,668	-	**651,668**
- Debt investments at FVOCI - reclassified to profit or loss	-	-	-	-	71,979	-	-	71,979	-	**71,979**
Fair value reserve (FVOCI equity instruments):										
- Equity investments at FVOCI - net change in fair value	-	-	-	-	(4,946)	-	-	(4,946)	-	**(4,946)**
Fair value reserve (property and equipment):										
- Property and equipment - net change in fair value	-	-	-	-	1,502,093	-	-	1,502,093	-	**1,502,093**
Translation reserve:										
- Foreign operations - foreign translation differences	-	-	-	(2,418,921)	-	-	-	(2,418,921)	155,491	**(2,263,430)**
Total other comprehensive income	**-**	**-**	**-**	**(2,418,921)**	**2,220,794**	**-**	**-**	**(198,127)**	**155,491**	**(42,636)**
Total comprehensive income	**-**	**-**	**-**	**(2,418,921)**	**2,220,794**	**-**	**10,196,095**	**9,997,968**	**163,029**	**10,160,997**
Transactions with owners of the Bank										
Contributions and distributions:										
Issue of new shares, net of transaction costs	95,454,545	9,102,660	-	-	-	-	-	104,557,205	-	**104,557,205**
Total transactions with owners of the Bank	**95,454,545**	**9,102,660**	**-**	**-**	**-**	**-**	**-**	**104,557,205**	**-**	**104,557,205**
Transfer between reserves	-	-	634,227	-	-	(33,148)	(601,079)	-	-	**-**
At 31 December 2018	**252,720,107**	**9,275,773**	**1,242,511**	**(5,166,834)**	**11,712,299**	**2,837,122**	**7,684,096**	**280,305,074**	**(1,615,254)**	**278,689,820**

Statements of changes in equity

For the year ended 31 December 2017

Group

	Attributable to equity shareholders of the Bank									
	Share capital USD	Share premium USD	Reserve for general banking risks USD	Currency translation reserve USD	Fair value reserve USD	Other reserve USD	(Accumulated losses)/ Retained earnings USD	Total USD	Non-controlling interests USD	Total equity USD
At 1 January 2017	**155,239,263**	**2,101,335**	**764,792**	**(6,715,522)**	**951,740**	**2,481,760**	**(386,566)**	**154,436,802**	**23,274,085**	**177,710,887**
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	7,519,632	7,519,632	207,063	**7,726,695**
Other comprehensive income:										
Fair value reserve (available-for-sale financial assets):										
- Available-for-sale financial assets - net change in fair value	-	-	-	-	1,963,110	-	-	1,963,110	-	**1,963,110**
- Available-for-sale financial assets - reclassified to profit or loss	-	-	-	-	9,531	-	-	9,531	-	**9,531**
Fair value reserve (property and equipment):										
- Property and equipment - net change in fair value	-	-	-	-	6,609,072	-	-	6,609,072	-	**6,609,072**
Translation reserve:										
- Foreign operations - foreign translation differences	-	-	-	3,967,609	-	-	-	3,967,609	(118,923)	**3,848,686**
Total other comprehensive income	**-**	**-**	**-**	**3,967,609**	**8,581,713**	**-**	**-**	**12,549,322**	**(118,923)**	**12,430,399**
Total comprehensive income	**-**	**-**	**-**	**3,967,609**	**8,581,713**	**-**	**7,519,632**	**20,068,954**	**88,140**	**20,157,094**
Transactions with owners of the Bank										
Contributions and distributions:										
Issue of new shares, net of transaction costs	85,067	13,010	-	-	-	-	-	98,077	-	**98,077**
Bonus issue of shares	1,941,232	(1,941,232)	-	-	-	-	-	-	-	**-**
Changes in ownership interests										
Loss of control in subsidiaries	-	-	-	-	-	-	-	-	(25,071,700)	**(25,071,700)**
Total transactions with owners of the Bank	**2,026,299**	**(1,928,222)**	**-**	**-**	**-**	**-**	**-**	**98,077**	**(25,071,700)**	**(24,973,623)**
Transfer between reserves	-	-	(156,508)	-	-	388,510	(232,002)	-	-	**-**
At 31 December 2017	**157,265,562**	**173,113**	**608,284**	**(2,747,913)**	**9,533,453**	**2,870,270**	**6,901,064**	**174,603,833**	**(1,709,475)**	**172,894,358**

Statements of changes in equity

For the year ended 31 December 2018

Bank

	Share capital USD	Share premium USD	Reserve for general banking risks USD	Fair value reserve USD	Other reserve USD	Accumulated losses USD	Total equity USD
Balance at 31 December 2017	**157,265,562**	**173,113**	**608,284**	**81,501**	**2,681,041**	**(35,768,147)**	**125,041,354**
Adjustment on initial application of IFRS 9, net of tax	-	-	-	(41,948)	-	(4,604,046)	**(4,645,994)**
Restated balance at 1 January 2018	**157,265,562**	**173,113**	**608,284**	**39,553**	**2,681,041**	**(40,372,193)**	**120,395,360**
Total comprehensive income							
Profit for the year	-	-	-	-	-	3,737,347	**3,737,347**
Other comprehensive income:							
Fair value reserve (FVOCI debt instruments):							
- Debt investments at FVOCI - net change in fair value	-	-	-	651,668	-	-	**651,668**
- Debt investments at FVOCI - reclassified to profit or loss	-	-	-	71,979	-	-	**71,979**
Fair value reserve (FVOCI equity instruments):							
- Equity investments at FVOCI - net change in fair value	-	-	-	(4,946)	-	-	**(4,946)**
Total other comprehensive income	**-**	**-**	**-**	**718,701**	**-**	**-**	**718,701**
Total comprehensive income	**-**	**-**	**-**	**718,701**	**-**	**3,737,347**	**4,456,048**
Transactions with owners of the Bank							
Contributions and distributions:							
Issue of new shares, net of transaction costs	95,454,545	9,102,660	-	-	-	-	**104,557,205**
Total transactions with owners of the Bank	**95,454,545**	**9,102,660**	**-**	**-**	**-**	**-**	**104,557,205**
Transfer between reserves	-	-	634,227	-	-	(634,227)	**-**
Balance at 31 December 2018	**252,720,107**	**9,275,773**	**1,242,511**	**758,254**	**2,681,041**	**(37,269,073)**	**229,408,613**

Statements of changes in equity

For the year ended 31 December 2017

Bank

	Share capital USD	Share premium USD	Reserve for general banking risks USD	Fair value reserve USD	Other reserve USD	Accumulated losses USD	Total equity USD
Balance at 1 January 2017	**155,239,263**	**2,101,335**	**764,792**	**(1,891,140)**	**2,681,041**	**(36,040,473)**	**122,854,818**
Total comprehensive income							
Profit for the year	-	-	-	-	-	115,818	**115,818**
Other comprehensive income:							
Fair value reserve (available-for-sale financial assets)							
- Available-for-sale financial assets - net change in fair value	-	-	-	1,963,110	-	-	**1,963,110**
- Available-for-sale financial assets - reclassified to profit or loss	-	-	-	9,531	-	-	**9,531**
Total other comprehensive income	**-**	**-**	**-**	**1,972,641**	**-**	**-**	**1,972,641**
Total comprehensive income	**-**	**-**	**-**	**1,972,641**	**-**	**115,818**	**2,088,459**
Transactions with owners of the Bank							
Contributions and distributions:							
Issue of new shares, net of transaction costs	85,067	13,010	-	-	-	-	**98,077**
Bonus issue of shares	1,941,232	(1,941,232)	-	-	-	-	**-**
Total transactions with owners of the Bank	**2,026,299**	**(1,928,222)**	**-**	**-**	**-**	**-**	**98,077**
Transfer between reserves	-	-	(156,508)	-	-	156,508	**-**
Balance at 31 December 2017	**157,265,562**	**173,113**	**608,284**	**81,501**	**2,681,041**	**(35,768,147)**	**125,041,354**

Statements of cash flows

For the year ended 31 December 2018

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Cash flows from operating activities				
Interest and commission receipts	78,399,722	69,434,270	47,228,220	41,196,846
Exchange received/(paid)	5,463,043	(14,908,684)	7,931,548	(14,976,712)
Interest and commission payments	(30,822,738)	(32,050,892)	(22,327,367)	(20,744,553)
Payments to employees and suppliers	(32,986,848)	(38,531,400)	(20,946,857)	(24,537,766)
Operating profit/(loss) before changes in operating assets/liabilities	**20,053,179**	**(16,056,706)**	**11,885,544**	**(19,062,185)**
(Increase)/decrease in operating assets:				
- Trading assets and financial assets at FVTPL	(92,578,189)	133,999,936	-	-
- Loans and advances to customers and banks	(84,114,645)	(7,413,328)	(61,739,013)	35,758,424
- Other assets	5,264,549	(8,900,431)	3,639,490	(6,391,881)
Increase/(decrease) in operating liabilities:				
- Amounts owed to customers and banks	(28,221,527)	(117,953,924)	39,022,653	(148,395,307)
- Other liabilities	350,536	262,508	220,685	371,024
- Net advances from subsidiary companies	-	-	(109,290,278)	158,474,611
Net cash (absorbed by)/generated from operating activities before income tax	**(179,246,097)**	**(16,061,945)**	**(116,260,919)**	**20,754,686**
Income tax refunded/(paid)	829,633	69,852	907,016	(60,598)
Net cash flows (used in)/from operating activities	**(178,416,464)**	**(15,992,093)**	**(115,353,903)**	**20,694,088**
Cash flows from investing activities				
Payments to acquire financial assets at FVTPL	(18,092,429)	-	(18,092,429)	-
Payments to acquire investments at amortised cost	(9,881,423)	-	(9,881,423)	-
Payments to acquire shares in subsidiary companies	-	-	-	(10,304,042)
Payments to acquire shares in other investments	(35,210)	-	(35,210)	-
Payments to acquire property and equipment	(657,420)	(363,629)	(344,451)	(195,368)
Payments to acquire intangible assets	(2,586,155)	(763,786)	(2,543,743)	(727,136)
Proceeds on disposal of financial assets at FVTPL	-	17,870,000	-	17,870,000
Proceeds on maturity of debt investments at FVOCI	15,000,000	-	15,000,000	-
Proceeds on disposal of available-for-sale financial assets	-	62,397,260	-	62,397,260
Proceeds on disposal of other investments	-	9,674,022	-	9,673,320
Proceeds on disposal of interests in equity-accounted investees	2,470,007	-	-	-
Proceeds on disposal of property and equipment	846,831	723,200	-	2,674
Proceeds on disposal of intangible assets	-	24,037	-	-
Receipt of dividend	7,472,717	5,759,405	7,472,717	10,207,806
Net cash flows (used in)/from investing activities	**(5,463,082)**	**95,320,509**	**(8,424,539)**	**88,924,514**
Increase in cash and cash equivalents c/f	**(183,879,553)**	**79,328,416**	**(123,778,442)**	**109,618,602**

Statements of cash flows

For the year ended 31 December 2018

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Increase in cash and cash equivalents b/f	**(183,879,553)**	**79,328,416**	**(123,778,442)**	**109,618,602**
Cash flows from financing activities				
- Issue of share capital	54,557,207	98,077	54,557,207	98,077
- Net movement in debt securities	32,427,718	46,427,785	14,834,942	-
Net cash flows from financing activities	**86,984,925**	**46,525,862**	**69,392,149**	**98,077**
Increase in cash and cash equivalents	**(96,894,621)**	**125,854,278**	**(54,386,293)**	**109,716,679**
Analysed as follows:				
- Effect of exchange rate changes on cash and cash equivalents	(13,097,651)	20,583,682	(11,719,319)	12,457,343
- Net increase in cash and cash equivalents	(83,796,970)	105,270,596	(42,666,974)	97,259,336
(Decrease)/Increase in cash and cash equivalents	**(96,894,621)**	**125,854,278**	**(54,386,293)**	**109,716,679**
Cash and cash equivalents at beginning of year	**178,676,622**	**52,822,344**	**153,393,145**	**43,676,466**
Cash and cash equivalents at end of year	**81,782,001**	**178,676,622**	**99,006,852**	**153,393,145**

Notes to the financial statements

For the year ended 31 December 2018

1 Reporting entity
2 Basis of preparation
3 Significant accounting policies
4 Changes in accounting policies
5 Financial risk review
6 Fair values of financial instruments
7 Classification of financial assets and liabilities
8 Operating segments
9 Net interest income
10 Net fee and commission income
11 Net trading results
12 Net (loss)/gain from other financial instruments carried at fair value
13 Dividend income
14 Net result upon loss of control of subsidiary undertaking
15 Loss upon disposal of equity-accounted investee
16 Other operating income
17 Administrative expenses
18 Taxation
19 Loss on discontinued operations
20 Earnings per share
21 Balances with the Central Bank of Malta, treasury bills and cash
22 Derivatives held for risk management
23 Trading assets
24 Loans and advances to banks
25 Loans and advances to customers
26 Financial assets designated at fair value through profit or loss
27 Financial assets designated at fair value through other comprehensive income
28 Investments at amortised cost
29 Interests in equity-accounted investees
30 Investments in subsidiaries
31 Property and equipment
32 Investment property
33 Intangible assets and goodwill
34 Deferred taxation
35 Other assets
36 Prepayments and accrued income
37 Amounts owed to banks
38 Amounts owed to customers
39 Debt securities in issue
40 Subordinated liabilities
41 Accruals and deferred income
42 Equity
43 Non-controlling interests
44 Contingent liabilities
45 Commitments
46 Cash and cash equivalents
47 Operating leases
48 Finance leases
49 Related parties
50 Financial commitments
51 Capital commitments
52 Subsequent events
53 Comparative information
54 Ultimate parent company

Notes to the financial statements

For the year ended 31 December 2018

1 Reporting entity

FIMBank p.l.c. (the "Bank") is a company domiciled in Malta. The address of the Bank's registered office is Mercury Tower, The Exchange Financial and Business Centre, Elia Zammit Street, St. Julian's STJ 3155, Malta. The Financial Statements of the Bank as at and for the year ended 31 December 2018 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. All references in these Financial Statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU.

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

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

The Financial Statements were authorised for issue by the Board of Directors on 23 March 2019.

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:

- derivatives held for risk management;
- trading assets;
- financial instruments designated at fair value through profit or loss;
- financial instruments designated at fair value through other comprehensive income;
- freehold land and premises and improvement to premises; and
- investment property.

2.3 Functional and presentation currency

These Financial Statements are presented in United States Dollars ("USD"), which is the Bank's functional currency.

2.4 Use of judgements and estimates

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

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

basis of preparation - continued

2.4.1 Judgements

Information about judgements made in applying Accounting Policies that have the most significant effects on the amounts recognised in the Financial Statements is included in the following Notes (applicable to 2018 only):

- Note 3.10.2 and Note 7.2 – classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principle and Interest ("SPPI") on the principal amount outstanding; and
- Note 5.2.3 – establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of the Expected Credit Losses ("ECL") and selection an approval of models used to measure ECL.

2.4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2018 is set out below in relation to the impairment of financial instruments and in the following Notes in relation to other areas:

- Note 2.4.2.1 – determination of the fair value of financial instruments with significant unobservable inputs;
- Note 3.10.8 – impairment of financial instruments: key assumptions used in estimating recoverable cash flows;
- Note 5 – impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information;
- Note 33 – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts; and
- Note 34 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

2.4.2.1 Determining fair values

A number of the Group's Accounting Policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

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

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

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes assets or liabilities valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in the following Notes:

- Note 6 – fair values of financial instruments;
- Note 31 – property and equipment; and
- Note 32 – investment property.

3 Significant accounting policies

Except as set in Note 4, the Group has consistently applied the following Accounting Policies to all periods presented in these Financial Statements.

3.1 Basis of consolidation

3.1.1 Business combinations

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

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

Any contingent consideration payable is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Other contingent consideration is measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

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

3.1.2 Subsidiaries

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

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

3.1.3 Interests in equity-accounted investees

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

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

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

3.1.4 Non-controlling interests

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

Significant accounting policies - continued

3.1.5 Discontinued operations

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

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

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

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

3.1.6 Transactions eliminated on consolidation

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

3.1.7 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at the fair value when the control is lost unless the Group retains significant influence or joint control, in which case such interest is accounted for in accordance with Accounting Policy 3.1.3.

3.2 Foreign currency

3.2.1 Foreign currency transactions

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

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

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- available-for-sale equity instruments (before 1 January 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from 1 January 2018) (see Note 27);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective (see Note 3.2.2); and
- qualifying cash flow hedges to the extent that the hedge is effective.

3.2.2 Foreign operations

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

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

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

3.3 Interest

3.3.1 Policy applicable from 1 January 2018

Effective interest rate

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 estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. For information on when financial assets are credit-impaired see Note 3.10.8.

Significant accounting policies - continued

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost; and
- interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net gain or loss from other financial instruments at FVTPL (see Note 3.6).

3.3.2 Policy applicable before 1 January 2018

Effective interest rate

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.

Presentation

Interest income and expense presented in the statement of profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest method;
- interest on financial assets designated at fair value through other comprehensive income calculated on an effective interest basis;
- interest on financial assets designated at fair value through profit or loss; and
- interest on trading assets and liabilities.

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

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 trading results in the statement of profit or loss.

3.4 Fees and commissions

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

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

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

3.5 Net trading results

Net trading results comprises gains less losses related to trading assets and liabilities and net trading gains or losses on derivatives held for risk management purposes, and includes all realised and unrealised fair value changes and foreign exchange differences.

Significant accounting policies - continued

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 financial assets and liabilities designated at fair value through profit or loss, and, from 1 January 2018, also non-trading assets mandatorily measured at FVTPL. The line item includes interest, dividends, realised and unrealised fair value changes and foreign exchange differences, other than gains or losses related to derivatives held for risk management purposes which are included under net trading results (see Note 3.5).

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 Leases

3.8.1 Lease payments

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

3.8.2 Leased assets - lessee

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

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

3.8.3 Leased assets - lessor

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

3.9 Income tax

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

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

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

Significant accounting policies - continued

3.10 Financial assets and liabilities

3.10.1 Recognition and initial measurement

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

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

3.10.2 Classification

3.10.2.1 Financial assets - policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held-for-trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI (see Note 3.15). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (see Note 3.10.8).

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held-for-trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held-to-collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Significant accounting policies - continued

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

3.10.2.2 Financial assets – policy applicable before 1 January 2018

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

- derivative assets held for risk management;
- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
  - held-for-trading; or
  - designated at FVTPL.

See Accounting Policies 3.13, 3.14 and 3.15.

3.10.2.3 Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

See Accounting Policies 3.12, 3.13, 3.21 and 3.23.

Significant accounting policies - continued

3.10.3 Derecognition

3.10.3.1 Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also Note 3.10.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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 derecognised) 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 OCI is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in Note 3.15.1. 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.

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. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of 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.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

3.10.3.2 Financial liabilities

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

3.10.4 Modifications of financial assets and financial liabilities

3.10.4.1 Financial assets - policy applicable from 1 January 2018

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see Note 3.10.3) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written-off before the modification takes place (see Note 3.10.8.1 for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3.10.8), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method (see Note 3.3).

Significant accounting policies - continued

3.10.4.2 Financial liabilities - policy applicable from 1 January 2018

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.10.4.3 Financial assets - policy applicable before 1 January 2018

If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see Note 3.10.3) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see Note 3.10.8).

3.10.4.4 Financial liabilities - policy applicable before 1 January 2018

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss.

Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.10.5 Offsetting

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

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

3.10.6 Amortised cost measurement

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

Significant accounting policies - continued

3.10.7 Fair value measurement

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

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

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

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

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

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

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

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

Further details on the determination of fair values are disclosed in Note 2.4.2.1.

3.10.8 Identification and measurement of impairment

3.10.8.1 Policy applicable from 1 January 2018

The Group recognises loss allowances for the ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 5.2.8).

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12-months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a life-time ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

See also Note 5.2.8.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3.10.3) and ECL are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 5.2.8); and
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A financial asset that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a financial asset that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

Significant accounting policies - continued

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value.

Write-off

Loans and debt securities are written-off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written-off are included in 'net impairment charge on financial assets' in the statement of profit or loss and OCI.

Financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3.10.8.2 Policy applicable before 1 January 2018

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

Objective evidence that financial assets are impaired includes:

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

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

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

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

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

Significant accounting policies - continued

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

1. if the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset; and

2. if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

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

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

The Group writes-off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Group determines that there is no realistic prospect of recovery (see Note 5.2).

3.10.9 Designated at fair value through profit or loss

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

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

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

3.11 Cash and cash equivalents

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

Significant accounting policies - continued

3.12 Trading assets and liabilities

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

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statements of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading results 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; and
- if the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

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

3.13 Derivatives held for risk management purposes

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The Group designates certain derivatives as hedges of foreign exchange risk on a net investment in a foreign operation.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of, for a derivative, changes in the fair value of the hedging instrument or, for a non-derivative, foreign exchange gains and losses is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the non-derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

3.14 Loans and advances

3.14.1 Policy applicable from 1 January 2018

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost (see Note 3.10.2); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at FVTPL or designated at FVTPL (see Note 3.10.2); these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables (see Note 3.8).

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.

Significant accounting policies - continued

3.14.2 Policy applicable before 1 January 2018

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

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

Loans and advances also included finance lease receivables in which the Group is the lessor.

When the Group purchased a financial asset and simultaneously entered 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 was accounted for as a loan or advance, and the underlying asset was not recognised in the Group's financial statements.

3.15 Investment securities

3.15.1 Policy applicable from 1 January 2018

The investment securities in the statement of financial position include:

- debt investment securities measured at amortised cost (see Note 3.10.2); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated at FVTPL (see Note 3.10.2); these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see Note 3.10.2) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

3.15.2 Policy applicable before 1 January 2018

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

Fair value through profit or loss

The Group designated some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in Accounting Policy 3.10.7.

Available-for-sale

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

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

Other fair value changes, other than impairment losses were recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment was sold, the gain or loss accumulated in equity was reclassified to profit or loss.

A non-derivative financial asset could 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 had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Held-to-maturity

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

Held-to-maturity investments were carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would have resulted in the reclassification of all held-to-maturity investments as available-for-sale, and would have prevented the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would have not triggered a reclassification:

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

3.16 Investments in subsidiaries, associates and jointly-controlled entities

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

Significant accounting policies - continued

3.17 Property and equipment

3.17.1 Recognition and measurement

Items of property and equipment are initially measured at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Subsequent to initial recognition, freehold land and buildings are carried at fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed by a professionally qualified architect on a regular basis such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Fair value does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property. Any surpluses arising on such revaluation are recognised in other comprehensive income and accumulated in equity as a revaluation reserve unless they reverse a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. Any deficiencies resulting from decreases in value are deducted from this revaluation reserve to the extent that the balance held in this reserve relating to a previous revaluation of that asset is sufficient to absorb these, and charged to profit or loss thereafter.

Items of equipment continue to be carried at cost less accumulated depreciation and any accumulated impairment losses.

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

3.17.2 Subsequent costs

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

3.17.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Improvements to leasehold premises are depreciated over the shorter of the lease term and their useful lives.

Land is not depreciated.

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

- freehold premises 50 years
- computer system 7 years
- computer equipment 5 years
- others 4 – 14 years

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

3.17.4 Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified accordingly. Any gain arising on this re-measurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss.

Significant accounting policies - continued

3.18 Investment property

Property that is held for long term rental yields or for capital appreciation or both, and that is not occupied by the Group is classified as investment property. Investment property also includes property that is being developed for future use as investment property, when such identification is made.

Investment property is initially measured at cost, including related transaction costs. Subsequent to initial recognition, investment property is carried at its fair value with any change therein recognised in profit or loss.

Revaluations are performed by a professionally qualified architect on a regular basis such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Fair value does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve (see Accounting Policy 3.17.4) is transferred to retained earnings.

If an investment property becomes owner-occupied, it is reclassified to property and equipment. Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes.

3.19 Intangible assets and goodwill

3.19.1 Recognition and measurement

1. Goodwill: goodwill that arises upon the acquisition of subsidiaries is presented with intangible assets (see Accounting Policy 3.1). Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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 accumulated impairment losses.

3. Other intangible assets: other intangible assets, including customer relationships and entity funding arrangements, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

3.19.2 Subsequent expenditure

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

3.19.3 Amortisation

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

- software 7 years
- other intangible assets 5 years

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

Significant accounting policies - continued

3.20 Impairment of non-financial assets

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

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

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

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

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

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.21 Deposits, debt securities issued and subordinated liabilities

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

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

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

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

3.22 Provisions

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

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

3.23 Financial guarantees and loan commitments

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

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

Significant accounting policies - continued

3.24 Employee benefits

3.24.1 Defined contribution plans

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

3.24.2 Share-based payment transactions

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

3.25 Share capital

3.25.1 Ordinary shares

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

3.25.2 Repurchase of share capital

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

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

3.26 Earnings per share

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

3.27 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by executive management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to executive management include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Significant accounting policies - continued

3.28 New standards and interpretations not yet effective

IFRS as adopted by the EU

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted, however, the Group has not early adopted them in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a significant impact on the Group's Consolidated Financial Statements in the period of initial application.

3.28.1 IFRS 16 - leases

The Group is required to adopt IFRS 16 - Leases from 1 January 2019. The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below.

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

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

Where the Group is a 'lessee', the Group will recognise new assets and liabilities for its operating leases of office premises and motor vehicles. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for 'right-of-use assets' and interest expense on 'lease liabilities'. Previously, the Group recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. Based on the information currently available, the Group estimates that the recognition of the right-of-use asset and corresponding lease liabilities will be in the range of USD2 million and USD5 million, predominantly for 'office premises' leases in the various locations from which the Group operates.

No significant impact is expected for leases in which the Group is a 'lessor'.

The Group plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. There will be no adjustment to the opening balance of retained earnings at 1 January 2019. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition - it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

3.28.2 IFRIC 23 - uncertainty over income tax treatments

The Group is required to adopt IFRIC 23 from 1 January 2019.

IFRIC 23 - Uncertainty Over Income Tax Treatments seeks to bring clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. The interpretation is to be applied to the determination of taxable profit/loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

The Group does not expect any significant impact.

3.29 Amended standards not yet endorsed

The Group is assessing the potential impact on its Consolidated Financial Statements resulting from the following amendments:

- annual improvements to IFRS standards 2015–2017 cycle – various standards;
- plan amendment, curtailment or settlement (amendments to IAS 19);
- amendments to references to conceptual framework in IFRS standards;
- amendment to IFRS 3 - Business Combinations; and
- amendments to IAS 1 and IAS 8: definition of material.

4 Changes in accounting policies

The Group has initially adopted IFRS 9 and IFRS 15 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's Financial Statements.

4.1 IFRS 9 - financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 - Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

Additionally, the Group has adopted consequential amendments to IFRS 7 - Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Group's Accounting Policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 7.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

For an explanation of how the Group classifies financial assets under IFRS 9, see Note 7.1.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 7.1.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3.10.8.

Transition

Changes in Accounting Policies resulting from the adoption of IFRS 9 have been applied as described below:

- comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- the following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - the determination of the business model within which a financial asset is held; and
  - the designation of certain investments in equity instruments not held-for-trading at FVOCI.
- if a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 7.2.

Changes in accounting policies - continued

4.2 IFRS 15 - revenue from contracts with customers

The Group has initially applied IFRS 15 from 1 January 2018.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS18 - Revenue, IAS11 - Construction Contracts and related interpretations. Under IFRS 15 revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. In implementing IFRS 15 there has been no changes to revenue recognition, measurement and disclosure and therefore no impact on opening 'statement of financial position' or 'profit or loss' categories.

5 Financial risk review

5.1 Introduction and overview

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

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

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

Risk management framework

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

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

Presentation of items impacted by IFRS 9

In this note, amounts for 2018 are presented in accordance with IFRS 9, which replaced IAS 39 effective from 1 January 2018. The effect of initially applying IFRS 9 is also described in Note 4. Amounts for 2017 are presented in accordance with IAS 39.

Financial risk review - continued

5.2 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. The Group finances international trade in many countries worldwide, especially emerging markets, which in turn entails an exposure to sovereign, bank and corporate credit risk. Credit risk is not only akin to loans but also to other on- and off- balance sheet exposures such as letters of credit, guarantees, acceptances and money market products.

Strict credit assessment and control procedures are in place in order to monitor such exposures. The Group also complies with regulatory requirements as defined by the European Union and the MFSA and a limit of 25% of eligible capital applies to any particular customer or group of connected customers (unless the client is an institution or forms part of a group of connected clients which includes an institution: the value shall not exceed 25% of the eligible capital or EUR150 million, whichever is the higher, subject to certain conditions as listed in the Capital Requirements Regulation ("CRR")). Overall responsibility for credit risk is entrusted to the Board Credit Comittee ("BCC") who is responsible for overseeing the Group's credit policy and risk and for approving individual limits for banks and corporates within their delegated parameters of authority. Country limits are approved by the BCC. The BCC is also responsible for the oversight of operational, legal and reputational risk related to credit activity. Further information on the composition and function of the BCC is found in the Statement of Compliance with the Principles of Good Corporate Governance.

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

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

5.2.1 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For contingent liabilities and commitments, the amounts in the table represent the amounts committed.

Financial risk review - continued

Group

	2018				2017
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD	Total USD
Balances with the Central Bank of Malta and treasury bills					
Grades 1 to 4- low risk	151,882,061	-	-	**151,882,061**	**208,128,778**
Carrying amount	**151,882,061**	**-**	**-**	**151,882,061**	**208,128,778**
Loans and advances to banks					
Grades 1 to 4- low risk	236,771,166	-	-	**236,771,166**	**146,539,285**
Grades 5+ to 5- fair risk	34,705,469	-	-	**34,705,469**	**7,092,080**
Grades 6+ to 7 substandard	42,988,452	5,322,279	-	**48,310,731**	**61,353,184**
Grade 7- to 8- doubtful	-	-	-	**-**	**5,000,000**
Grade 9 to 10 loss	-	-	10,451,003	**10,451,003**	**10,443,359**
	314,465,087	**5,322,279**	**10,451,003**	**330,238,369**	**230,427,908**
Loss allowance	(995,731)	(265,814)	(3,871,551)	**(5,133,096)**	**(4,334,974)**
Carrying amount	**313,469,356**	**5,056,465**	**6,579,452**	**325,105,273**	**226,092,934**
Loans and advances to customers					
Grades 1 to 4- low risk	102,367,941	1,255,402	-	**103,623,343**	**40,630,605**
Grades 5+ to 5- fair risk	148,587,192	42,071,029	-	**190,658,221**	**182,758,825**
Grades 6+ to 7 substandard	223,085,579	50,333,609	8,368,670	**281,787,858**	**274,545,208**
Grade 7- to 8- doubtful	-	53,912,722	8,281,438	**62,194,160**	**54,923,561**
Grade 9 to 10 loss	-	-	80,930,816	**80,930,816**	**53,080,224**
	474,040,712	**147,572,762**	**97,580,924**	**719,194,398**	**605,938,423**
Loss allowance	(1,306,478)	(4,242,138)	(58,057,631)	**(63,606,247)**	**(39,576,893)**
Carrying amount	**472,734,234**	**143,330,624**	**39,523,293**	**655,588,151**	**566,361,530**
Debt securities designated at FVOCI (2017: available-for-sale)					
Grades 1 to 4- low risk	-	-	-	**-**	**104,592,448**
Grades 5+ to 5- fair risk	86,654,139	-	-	**86,654,139**	**-**
	86,654,139	**-**	**-**	**86,654,139**	**104,592,448**
Loss allowance	(45,764)	-	-	**(45,764)**	**-**
Carrying amount	**86,608,375**	**-**	**-**	**86,608,375**	**104,592,448**
Debt securities at amortised cost					
Grades 1 to 4- low risk	9,881,423	-	-	**9,881,423**	**-**
	9,881,423	**-**	**-**	**9,881,423**	**-**
Loss allowance	(34,674)	-	-	**(34,674)**	**-**
Carrying amount	**9,846,749**	**-**	**-**	**9,846,749**	**-**
Contingent liabilities					
Grades 1 to 4- low risk	200,842	-	-	**200,842**	**223,833**
Grades 5+ to 5- fair risk	185,703	7,841	-	**193,544**	**161,205**
Grades 6+ to 7 substandard	2,368,680	56,477	-	**2,425,157**	**756,105**
Grade 9 to 10 loss	-	-	45,283	**45,283**	**45,283**
Carrying amount	**2,755,225**	**64,318**	**45,283**	**2,864,826**	**1,186,426**
Commitments					
Grades 1 to 4- low risk	6,477,570	-	-	**6,477,570**	**71,544,541**
Grades 5+ to 5- fair risk	94,042,452	-	-	**94,042,452**	**134,446,690**
Grades 6+ to 7 substandard	87,377,095	709,650	-	**88,086,745**	**146,116,328**
Grade 7- to 8- doubtful	-	-	-	**-**	**1,785,714**
Carrying amount	**187,897,117**	**709,650**	**-**	**188,606,767**	**353,893,273**

Financial risk review - continued

Bank

	2018 Stage 1 USD	2018 Stage 2 USD	2018 Stage 3 USD	2018 Total USD	2017 Total USD
Balances with the Central Bank of Malta and treasury bills					
Grades 1 to 4- low risk	151,882,061	-	-	**151,882,061**	**208,128,778**
Carrying amount	**151,882,061**	**-**	**-**	**151,882,061**	**208,128,778**
Loans and advances to banks					
Grades 1 to 4- low risk	235,665,043	-	-	**235,665,043**	**125,234,127**
Grades 5+ to 5- fair risk	35,059,007	-	-	**35,059,007**	**11,783,170**
Grades 6+ to 7 substandard	39,879,653	5,164,140	-	**45,043,793**	**55,426,981**
Grade 7- to 8- doubtful	-	-	-	**-**	**5,000,000**
Grade 9 to 10 loss	-	-	10,451,003	**10,451,003**	**10,443,359**
	310,603,703	**5,164,140**	**10,451,003**	**326,218,846**	**207,887,637**
Loss allowance	(995,731)	(265,814)	(3,871,551)	**(5,133,096)**	**(4,334,974)**
Carrying amount	**309,607,972**	**4,898,326**	**6,579,452**	**321,085,750**	**203,552,663**
Loans and advances to customers					
Grades 1 to 4- low risk	75,971,060	1,255,402	-	**77,226,462**	**40,999,618**
Grades 5+ to 5- fair risk	324,348,692	42,071,029	-	**366,419,721**	**327,928,885**
Grades 6+ to 7 substandard	205,260,316	36,724,226	-	**241,984,542**	**176,257,926**
Grade 7- to 8- doubtful	-	13,464,792	4,063,750	**17,528,542**	**28,772,224**
Grade 9 to 10 loss	-	-	60,374,829	**60,374,829**	**28,336,181**
	605,580,068	**93,515,449**	**64,438,579**	**763,534,096**	**602,294,834**
Loss allowance	(785,191)	(1,948,688)	(35,395,112)	**(38,128,991)**	**(20,764,882)**
Carrying amount	**604,794,877**	**91,566,761**	**29,043,467**	**725,405,105**	**581,529,952**
Debt securities designated at FVOCI (2017: available-for-sale)					
Grades 1 to 4- low risk	-	-	-	**-**	**104,592,448**
Grades 5+ to 5- fair risk	86,654,139	-	-	**86,654,139**	**-**
	86,654,139	**-**	**-**	**86,654,139**	**104,592,448**
Loss allowance	(45,764)	-	-	**(45,764)**	**-**
Carrying amount	**86,608,375**	**-**	**-**	**86,608,375**	**104,592,448**
Debt securities at amortised cost					
Grades 1 to 4- low risk	9,881,423	-	-	**9,881,423**	**-**
	9,881,423	**-**	**-**	**9,881,423**	**-**
Loss allowance	(34,674)	-	-	**(34,674)**	**-**
Carrying amount	**9,846,749**	**-**	**-**	**9,846,749**	**-**
Contingent liabilities					
Grades 1 to 4- low risk	200,842	-	-	**200,842**	**223,832**
Grades 5+ to 5- fair risk	59,840,313	7,841	-	**59,848,154**	**56,669,953**
Grades 6+ to 7 substandard	7,315,856	56,477	-	**7,372,333**	**662,028**
Grade 9 to 10 loss	-	-	45,283	**45,283**	**45,283**
Carrying amount	**67,357,011**	**64,318**	**45,283**	**67,466,612**	**57,601,096**
Commitments					
Grades 1 to 4- low risk	3,496,707	-	-	**3,496,707**	**43,197,159**
Grades 5+ to 5- fair risk	87,281,689	-	-	**87,281,689**	**98,813,071**
Grades 6+ to 7 substandard	66,897,974	709,650	-	**67,607,624**	**110,457,899**
Grade 7- to 8- doubtful	-	-	-	**-**	**1,785,714**
Carrying amount	**157,676,370**	**709,650**	**-**	**158,386,020**	**254,253,843**

Financial risk review - continued

The following table sets out information about the overdue status of financial assets classified under Stages 1, 2 and 3:

Group

	2018				2017
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD	Total USD
Loans and advances to banks					
Current	314,465,087	5,322,279	-	**319,787,366**	**214,912,263**
Overdue < 30 days	-	-	-	**-**	**4,832,421**
Overdue > 30 days	-	-	10,451,003	**10,451,003**	**10,683,224**
Total	**314,465,087**	**5,322,279**	**10,451,003**	**330,238,369**	**230,427,908**
Loans and advances to customers					
Current	460,895,542	115,202,380	19,376,568	**595,474,490**	**534,804,507**
Overdue < 30 days	3,161,450	769,629	-	**3,931,079**	**14,466,175**
Overdue > 30 days	9,983,720	31,600,753	78,204,356	**119,788,829**	**56,667,741**
Total	**474,040,712**	**147,572,762**	**97,580,924**	**719,194,398**	**605,938,423**

Bank

	2018				2017
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD	Total USD
Loans and advances to banks					
Current	310,603,703	5,164,140	-	**315,767,843**	**196,371,991**
Overdue < 30 days	-	-	-	**-**	**832,422**
Overdue > 30 days	-	-	10,451,003	**10,451,003**	**10,683,224**
Total	**310,603,703**	**5,164,140**	**10,451,003**	**326,218,846**	**207,887,637**
Loans and advances to customers					
Current	592,434,894	69,454,460	13,508,661	**675,398,015**	**553,582,591**
Overdue < 30 days	3,161,450	14,759	-	**3,176,209**	**14,466,175**
Overdue > 30 days	9,983,724	24,046,230	50,929,918	**84,959,872**	**34,246,068**
Total	**605,580,068**	**93,515,449**	**64,438,579**	**763,534,096**	**602,294,834**

In 2018, there were no overdue balances for 'balances with the Central Bank of Malta and treasury bills', 'debt securities designated at FVOCI', 'debt investments at amortised cost', 'contingent liabilities' and 'commitments' (2017: Nil).

The following table sets out information about the credit quality of 'trading assets';

	Group	
	2018 USD	2017 USD
Trading assets		
Rated AAA	-	12,805,475
Rated AA- to AA+	55,092,119	73,721,162
Rated A- to A+	2,126,991	35,213,285
Rated BBB+ below	177,793,347	2,900,000
Unrated	112,272,510	127,869,222
Carrying amount	**347,284,967**	**252,509,144**

Financial risk review - continued

5.2.2 Loans with renegotiated terms and the Group's forbearance policy

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.

Forbearance refers only to those loan modification or renegotiations in response to actual or perceived financial difficulties of a customer.

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the Accounting Policy set out in Note 3.10.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime 'Probability of Default' ("PD") at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both bank and corporate loans are subject to the forbearance policy.

For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable to the borrower than the Group had provided initially and that it would not otherwise consider.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3.10.8). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

During the financial years ended 31 December 2018 and 2017 there have been no changes in the forbearance criteria applied to renegotiated facilities.

For the Group, the aggregate amount of renegotiated and forborne loans at reporting date amounted to USD40,769,208 (2017: USD36,463,348), of which USD24,039,134 (2017: USD24,121,214) are performing, whilst USD16,730,074 (2017: USD12,342,134) are non-performing with an extendible collateral value of USD5,929,734 (2017: USD641,687). Interest income recognised during 2018 in respect to renegotiated and forborne assets amounts to USD2,035,214 (2017: USD1,507,438).

For the Bank, the aggregate amount of renegotiated and forborne loans at reporting date amounted to USD32,843,262 (2017: USD35,350,885), of which USD20,228,041 (2017: USD26,106,077) are performing, whilst USD12,615,221 (2017: USD9,244,808) are non-performing with an extendible collateral value of USD5,847,914 (2017: USD641,687). Interest income recognised during 2018 in respect to renegotiated and forborne assets amounts to USD1,979,599 (2017: USD1,402,934).

Financial risk review - continued

Movement in forbearance activity during the year is as follows:

Group

	2018			2017
	Stage 2 USD	Stage 3 USD	Total USD	Total USD
At 1 January	26,106,077	10,357,271	**36,463,348**	**26,201,755**
Additions	12,792,305	3,506,211	**16,298,516**	**28,051,188**
Recovered	(10,795,462)	(1,190,096)	**(11,985,558)**	**(15,770,431)**
Written-off	-	(7,098)	**(7,098)**	**(2,019,164)**
Reclassified	(4,063,786)	4,063,786	-	-
At 31 December	**24,039,134**	**16,730,074**	**40,769,208**	**36,463,348**

Bank

	2018			2017
	Stage 2 USD	Stage 3 USD	Total USD	Total USD
At 1 January	26,106,077	9,244,808	**35,350,885**	**15,732,408**
Additions	8,981,212	163,074	**9,144,286**	**27,498,399**
Recovered	(10,795,462)	(856,447)	**(11,651,909)**	**(7,879,922)**
Reclassified	(4,063,786)	4,063,786	-	-
At 31 December	**20,228,041**	**12,615,221**	**32,843,262**	**35,350,885**

5.2.3 Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed below under the heading 'generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are based on estimated credit conversion factors. For financial guarantees, the EAD represents the expected amount of the guaranteed exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

In measuring expected credit losses, the Group relies on risk and economic data and modelling techniques provided by Moody's Analytics – a global firm specialising in areas of credit risk analysis, economic and regulatory capital calculation, economic research and other areas intrinsically linked to the ECL model.

Financial risk review - continued

5.2.4 Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.

Group

	2018				2017
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD	Total USD
Loans and advances to banks					
Balance at 1 January	1,161,423	1,393,963	3,549,142	**6,104,528**	**8,308,887**
Transfer to Stage 2	(933)	933	-	**-**	**-**
Net remeasurement of loss allowance	15,775	(1,031,210)	(180,333)	**(1,195,768)**	**(3,940,180)**
New financial assets originated or purchased	401,767	-	182,704	**584,471**	**-**
Financial assets that have been derecognised	(582,301)	(97,872)	-	**(680,173)**	**-**
Write-offs	-	-	-	**-**	**(993,546)**
Interest and fee in suspense	-	-	357,315	**357,315**	**748,283**
Foreign exchange and other	-	-	(37,277)	**(37,277)**	**211,530**
Balance at 31 December	**995,731**	**265,814**	**3,871,551**	**5,133,096**	**4,334,974**
Loans and advances to customers					
Balance at 1 January	1,907,870	5,765,785	37,559,695	**45,233,350**	**37,453,927**
Transfer to Stage 1	46,341	(46,341)	-	**-**	**-**
Transfer to Stage 2	(323,267)	323,267	-	**-**	**-**
Transfer to Stage 3	(92,583)	(538,347)	630,930	**-**	**-**
Net remeasurement of loss allowance	(584,487)	(683,089)	3,565,474	**2,297,898**	**3,261,598**
New financial assets originated or purchased	1,004,716	1,013,077	12,822,069	**14,839,862**	**-**
Financial assets that have been derecognised	(619,904)	(1,586,296)	271,998	**(1,934,202)**	**-**
Write-offs	(265)	-	(991,192)	**(991,457)**	**(2,901,898)**
Interest and fee in suspense	-	-	4,761,200	**4,761,200**	**3,048,369**
Foreign exchange and other	(31,943)	(5,918)	(562,543)	**(600,404)**	**(1,285,103)**
Balance at 31 December	**1,306,478**	**4,242,138**	**58,057,631**	**63,606,247**	**39,576,893**
Financial assets designated at FVOCI (2017: available-for-sale)					
Balance at 1 January	41,948	-	-	**41,948**	**-**
Foreign exchange and other	3,816	-	-	**3,816**	**-**
Balance at 31 December	**45,764**	**-**	**-**	**45,764**	**-**
Investments at amortised cost					
Balance at 1 January	-	-	-	**-**	**-**
New financial assets originated or purchased	34,674	-	-	**34,674**	**-**
Balance at 31 December	**34,674**	**-**	**-**	**34,674**	**-**

Financial risk review - continued

Bank

	2018				2017
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD	Total USD
Loans and advances to banks					
Balance at 1 January	1,161,423	1,393,963	3,549,142	**6,104,528**	**8,308,887**
Transfer to Stage 2	(933)	933	-	**-**	**-**
Net remeasurement of loss allowance	15,775	(1,031,210)	(180,333)	**(1,195,768)**	**(3,940,180)**
New financial assets originated or purchased	401,767	-	182,704	**584,471**	**-**
Financial assets that have been derecognised	(582,301)	(97,872)	-	**(680,173)**	**-**
Write-offs	-	-	-	**-**	**(993,546)**
Interest and fee in suspense	-	-	357,315	**357,315**	**748,283**
Foreign exchange and other	-	-	(37,277)	**(37,277)**	**211,530**
Balance at 31 December	**995,731**	**265,814**	**3,871,551**	**5,133,096**	**4,334,974**
Loans and advances to customers					
Balance at 1 January	1,085,231	2,899,046	18,937,403	**22,921,680**	**16,124,524**
Transfer to Stage 1	46,341	(46,341)	-	**-**	**-**
Transfer to Stage 2	(75,341)	75,341	-	**-**	**-**
Transfer to Stage 3	-	(334,387)	334,387	**-**	**-**
Net remeasurement of loss allowance	(642,113)	(124,239)	3,435,496	**2,669,144**	**2,293,227**
New financial assets originated or purchased	678,024	307,821	12,207,890	**13,193,735**	**-**
Financial assets that have been derecognised	(306,686)	(828,553)	2,112,171	**976,932**	**-**
Write-offs	(265)	-	(2,831,365)	**(2,831,630)**	**(181,535)**
Interest and fee in suspense	-	-	1,576,487	**1,576,487**	**1,138,079**
Foreign exchange and other	-	-	(377,357)	**(377,357)**	**1,390,587**
Balance at 31 December	**785,191**	**1,948,688**	**35,395,112**	**38,128,991**	**20,764,882**
Financial assets designated at FVOCI (2017: available-for-sale)					
Balance at 1 January	41,948	-	-	**41,948**	**-**
Foreign exchange and other	3,816	-	-	**3,816**	**-**
Balance at 31 December	**45,764**	**-**	**-**	**45,764**	**-**
Investments at amortised cost					
Balance at 1 January	-	-	-	**-**	**-**
New financial assets originated or purchased	34,674	-	-	**34,674**	**-**
Balance at 31 December	**34,674**	**-**	**-**	**34,674**	**-**

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the 'net impairment charges on financial assets' line item in the Group's Statements of Profit or Loss.

Financial risk review - continued

Group – 31 December 2018

	Loans and advances to banks USD	Loans and advances to customers USD	Investments at amortised cost USD	Total USD
Net remeasurement of loss allowance	(1,195,768)	2,297,898	-	**1,102,130**
New financial assets originated or purchased	584,471	14,839,862	34,674	**15,459,007**
Financial assets that have been derecognised	(680,173)	(1,934,202)	-	**(2,614,375)**
Total	**(1,291,470)**	**15,203,558**	**34,674**	**13,946,762**
Recoveries of amounts previously written-off	(81,291)	(582,461)	-	**(663,752)**
Total	**(1,372,761)**	**14,621,097**	**34,674**	**13,283,010**

Group – 31 December 2017

	Loans and advances to banks USD	Loans and advances to customers USD	Interests in equity-acounted investees USD	Total USD
Net remeasurement of loss allowance	(3,940,180)	3,261,598	(63,621)	**(742,203)**
Recoveries of amounts previously written-off	-	(1,554,831)	-	**(1,554,831)**
Total	**(3,940,180)**	**1,706,767**	**(63,621)**	**(2,297,034)**

Bank – 31 December 2018

	Loans and advances to banks USD	Loans and advances to customers USD	Investments at amortised cost USD	Investments in subsidiaries USD	Total USD
Net remeasurement of loss allowance	(1,195,768)	2,669,144	-	1,455,270	**2,928,646**
New financial assets originated or purchased	584,471	13,193,735	34,674	-	**13,812,880**
Financial assets that have been derecognised	(680,173)	976,932	-	-	**296,759**
Total	**(1,291,470)**	**16,839,811**	**34,674**	**1,455,270**	**17,038,285**
Recoveries of amounts previously written-off	(68,166)	-	-	-	**(68,166)**
Total	**(1,359,636)**	**16,839,811**	**34,674**	**1,455,270**	**16,970,119**

Bank – 31 December 2017

	Loans and advances to banks USD	Loans and advances to customers USD	Investments in subsidiaries USD	Total USD
Net remeasurement of loss allowance	(3,940,180)	2,293,227	2,558,752	**911,799**
Recoveries of amounts previously written-off	-	(143,910)	-	**(143,910)**
Total	**(3,940,180)**	**2,149,317**	**2,558,752**	**767,889**

5.2.5 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 loan/security is 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.

Financial risk review - continued

5.2.6 Collaterals

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

Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2018 and 2017.

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

Group - 31 December 2018

	Loans and advances to banks USD	Loans and advances to customers USD	Commitments outstanding USD	Contingent liabilities USD	Total USD
Cash or quasi cash	2,643,218	115,785,972	443,631	1,002,410	**119,875,231**
Property	-	977,093	-	-	**977,093**
Other	8,069,563	118,000,742	-	-	**126,070,305**
	10,712,781	**234,763,807**	**443,631**	**1,002,410**	**246,922,629**

Group - 31 December 2017

	Loans and advances to banks USD	Loans and advances to customers USD	Commitments outstanding USD	Contingent liabilities USD	Total USD
Cash or quasi cash	17,291,951	84,408,303	8,169,189	174,012	**110,043,455**
Other	8,990,093	99,767,687	6,742,815	-	**115,500,595**
	26,282,044	**184,175,990**	**14,912,004**	**174,012**	**225,544,050**

Bank - 31 December 2018

	Loans and advances to banks USD	Loans and advances to customers USD	Commitments outstanding USD	Contingent liabilities USD	Total USD
Cash or quasi cash	2,643,218	60,728,546	443,631	1,002,410	**64,817,805**
Other	8,069,563	116,519,679	136,730	-	**124,725,972**
	10,712,781	**177,248,225**	**580,361**	**1,002,410**	**189,543,777**

Bank - 31 December 2017

	Loans and advances to banks USD	Loans and advances to customers USD	Commitments outstanding USD	Contingent liabilities USD	Total USD
Cash or quasi cash	17,291,951	84,408,303	8,169,189	174,012	**110,043,455**
Other	8,990,093	99,767,687	6,742,815	-	**115,500,595**
	26,282,044	**184,175,990**	**14,912,004**	**174,012**	**225,544,050**

5.2.7 Offsetting financial assets and financial liabilities

With the exception of cash collaterals as disclosed in this note and in Notes 37 and 38, the Group and Bank do not carry financial instruments which are subject to offsetting in the Statements of Financial Position. Group entities have a legal enforceable right to offset such collaterals against the respective facilities for which the collateral is taken. At 31 December 2018 and 2017, all financial assets and respective collaterals are disclosed separately in the financial statements without any offsetting.

5.2.8 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See Accounting Policy in Note 3.10.8.

Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- based on changes in internal credit ratings and changes in PD of obligors;
- qualitative indicators; and
- a backstop of 30 days past due.

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modelling, there is a two grade deterioration from the rating at origination.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group applies a further backstop when the rating of the obligor reaches a level that is equivalent to a facility in arrears. A significant increase in credit risk occurs where the obligor is internally rated below 7-.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

IFRS 9 allows low credit risk expedient for the purpose of allocating stages to the exposures based on the significant increase in credit risk of the exposures. Under this expedient, an entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

The Group applies this practical expedient to investment grade (BBB- and better) exposures.

Financial risk review - continued

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition using Moody's RiskAnalyst or external credit agency ratings. Professional judgement is applied based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

- information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management and senior management changes;
- data from credit reference agencies, press articles and changes in external credit ratings;
- actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
- payment record – this includes overdue status as well as a range of variables about payment ratios;
- requests for and granting of forbearance; and
- existing and forecast changes in business, financial and economic conditions.

The table below provides an indicative mapping of how the Group's internal credit risk grades relate to conditional PD and to external credit ratings of Moody's or their equivalent.

Grading	12-month weighted-average PD	External rating
Grades 1 to 4- low risk	0.24%	Aaa-Baa3
Grades 5+ to 5- fair risk	0.82%	Ba1-Ba3
Grades 6+ to 7 substandard	2.07%	B1-Caa2
Grades 7- to 8- doubtful	23.29%	Caa3-Ca
Grades 9 to 10 loss	99.95%	C

Generating the term structure of PD

The term structure of PDs follows a two-staged approach. In the first instance, internal credit risk grades are mapped to Moody's official credit rating-scale table. Following this, the resultant credit rating is converted into a Point in Time ("PIT") PD term structure using Moody's 'Rating to PIT PD' converter. This is done through statistical models which analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time – based on the obligor's agency rating, country and industry information.

Financial risk review - continued

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes (see Note 5.6).

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring. Economic data for each of the three scenarios, both historical and forecasted, are sourced from Moody's Analytics on a quarterly basis. The historical data in Moody's Analytics' model reflects economic data published by national statistical offices and by third party aggregators such as the World Bank and the International Monetary Fund. Forecasting is done by Moody's Analytics through its Global Macro Model which is composed of a number of calculations that develop into relationships across series within each national economy. The parameters used by the model are estimated using econometric techniques through observable historical covariation over the macroeconomic time series.

Moody's Analytics regularly updates the baseline forecast and alternative scenarios. The upside and downside scenario will present hypothetical events that push the economy away from the baseline outlook. The baseline forecast and the two alternative scenarios are each assigned probability based on a distribution of average growth.

The Group uses Moody's Analytics GCorr Macro™ model to link credit-risk factors to macroeconomic variables using the following information for each counterparty: industry, country and sensitivity of the counterparty to systemic risk. The Group has identified and documented key drivers of credit risk and credit losses. The key drivers of credit risk for portfolios are: GDP growth, unemployment rates and equity prices. For exposures to specific industries and/or regions, the key drivers also include relevant commodity prices, such as oil prices. The Group uses economic data from twelve different geographies which broadly represent the exposures carried by the Group at reporting date. In cases where a specific country exposure is not available within these twelve geographies, the exposure would be linked to the geography with the closest economic structure and credit risk.

Financial risk review - continued

The economic scenarios for the top five geographies used as at 31 December 2018 included the following key indicators for the years ending 31 December 2019 to 2023.

		Year-on-year change				
Country: Germany		2019	2020	2021	2022	2023
Equity	Base	-11%	9%	5%	5%	3%
	Upside	4%	12%	-2%	-1%	5%
	Downside	-36%	20%	14%	13%	3%
GDP growth	Base	2%	2%	1%	1%	1%
	Upside	5%	2%	1%	1%	1%
	Downside	-3%	0%	2%	2%	1%

Country: Malta		2019	2020	2021	2022	2023
Equity	Base	5%	3%	5%	4%	1%
	Upside	6%	5%	8%	4%	3%
	Downside	-1%	-1%	1%	4%	2%
GDP growth	Base	4%	4%	2%	3%	2%
	Upside	5%	5%	3%	2%	3%
	Downside	-1%	0%	0%	3%	3%

Country: United Arab Emirates		2019	2020	2021	2022	2023
Equity	Base	23%	11%	6%	8%	5%
	Upside	27%	14%	9%	11%	12%
	Downside	-3%	19%	3%	5%	4%
Oil price	Base	7%	-7%	0%	1%	1%
	Upside	36%	-5%	-2%	-1%	0%
	Downside	-25%	-9%	9%	10%	4%

Country: Egypt		2019	2020	2021	2022	2023
Equity	Base	6%	14%	14%	11%	5%
	Upside	15%	16%	14%	11%	9%
	Downside	-21%	10%	12%	10%	5%
GDP growth	Base	5%	4%	4%	4%	2%
	Upside	9%	5%	4%	3%	3%
	Downside	-2%	4%	3%	2%	2%

Country: India		2019	2020	2021	2022	2023
Equity	Base	3%	0%	4%	2%	1%
	Upside	9%	1%	4%	1%	3%
	Downside	-22%	18%	10%	3%	2%
GDP growth	Base	8%	7%	7%	6%	4%
	Upside	10%	7%	7%	7%	6%
	Downside	3%	6%	8%	6%	4%

Financial risk review - continued

5.2.9 Concentration of credit risk by sector

The following are the Group's and Bank's industry concentrations:

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Balances with the Central Bank of Malta, treasury bills and cash				
- Financial intermediation	151,910,865	208,171,299	151,891,005	208,147,513
Trading assets				
- Industrial raw materials	29,698,342	41,491,953	-	-
- Wholesale and retail trade	44,567,213	37,149,566	-	-
- Financial intermediation	219,303,048	107,226,240	-	-
- Other services	53,716,364	66,641,385	-	-
Loans and advances to banks				
- Financial intermediation	325,105,273	226,092,934	321,085,750	203,552,663
Loans and advances to customers				
- Industrial raw materials	294,003,858	205,825,959	146,305,120	98,299,116
- Shipping and transportation	1,863,372	8,098,043	343,896	6,080,208
- Wholesale and retail trade	195,452,528	219,075,628	170,436,171	198,545,244
- Financial intermediation	90,322,327	90,365,366	306,799,855	208,759,939
- Other services	73,946,066	42,996,534	101,520,063	69,845,445
Financial assets designated at FVTPL				
- Financial intermediation	173,362,850	-	173,362,850	-
Financial assets designated at FVOCI				
- Financial intermediation	66,768,607	-	66,768,607	-
- Other services	19,915,292	-	19,915,292	-
Investments available-for-sale				
- Financial intermediation	-	240,500,526	-	240,500,526
- Other services	-	20,744,272	-	20,744,272
Investments at amortised cost				
- Financial intermediation	9,846,749	-	9,846,749	-
	1,749,782,754	**1,514,379,705**	**1,468,275,358**	**1,254,474,926**

5.2.10 Concentration of credit risk by region

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

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

The Board Credit 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.

Financial risk review - continued

	Group 2018 USD	Group 2017 USD	Bank 2018 USD	Bank 2017 USD
Balances with the Central Bank of Malta, treasury bills and cash				
- Europe	151,910,865	208,171,299	151,891,005	208,147,513
Trading assets				
- Europe	29,376,702	12,805,475	-	-
- Sub-Saharan Africa	108,285,145	73,721,162	-	-
- Middle East and North Africa (MENA)	83,896,316	35,213,285	-	-
- Commonwealth of Independent States (CIS) region	8,030,219	2,900,000	-	-
- Others	117,696,585	127,869,222	-	-
Loans and advances to banks				
- Europe	218,252,788	109,925,743	218,486,325	114,376,761
- Sub-Saharan Africa	17,960,742	36,537,790	17,960,740	36,537,790
- Middle East and North Africa (MENA)	58,914,507	24,752,084	55,914,920	17,781,365
- Commonwealth of Independent States (CIS) region	4,879,545	4,783,977	4,869,269	4,768,121
- Others	25,097,691	50,093,340	23,854,496	30,088,626
Loans and advances to customers				
- Europe	288,914,741	231,405,628	444,621,578	332,767,664
- Sub-Saharan Africa	699,134	6,600,641	699,134	6,600,641
- Middle East and North Africa (MENA)	191,235,669	193,279,110	169,775,190	165,922,939
- Others	174,738,607	135,076,151	110,309,203	76,238,708
Financial assets designated at FVTPL				
- Europe	173,362,850	-	173,362,850	-
Financial assets designated at FVOCI				
- Europe	34,867,428	-	34,867,428	-
- Others	51,816,471	-	51,816,471	-
Investments available-for-sale				
- Europe	-	208,581,147	-	208,581,147
- Others	-	52,663,651	-	52,663,651
Investments at amortised cost				
- Middle East and North Africa (MENA)	9,846,749	-	9,846,749	-
	1,749,782,754	**1,514,379,705**	**1,468,275,358**	**1,254,474,926**

5.2.11 Settlement risk

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

The Group controls the deals performed on a recorded line by the dealer and further ensures that the receipt of the deal and the confirmation received from the counterparty 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.

5.3 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.

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.

Financial risk review - continued

5.3.1 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 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.

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 Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

5.3.2 Exposure to liquidity risk

The key measures used by the Group for managing liquidity risk are the following:

5.3.2.1 Liquidity coverage ratio ("LCR")

The LCR is a ratio of the Group's buffer of unencumbered high quality liquid assets to its net liquidity outflows over a 30 calendar day stress period. Net liquidity outflows are calculated by deducting the Group's liquidity inflows from its liquidity outflows. During a 30 day stressed period, the Group should be able to convert quickly its liquid assets into cash without recourse to central bank liquidity or public funds, which may result in its liquidity coverage ratio falling temporarily below the required minimum level.

During December 2018, the regulatory LCR requirement was set at a minimum level of 100% (2017: 80%).

Details of the reported Group LCR at the reporting date and during the reporting period were as follows:

	2018	2017
At 31 December	151%	106%
Average for the year	135%	121%
Maximum for the year	176%	248%
Minimum for the year	100%	81%

5.3.2.2 Residual contractual maturities of financial assets and liabilities

Group - 31 December 2018

	Carrying amount USD	Gross nominal inflow/(outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Assets								
Balances with the Central Bank of Malta, treasury bills and cash	151,910,865	151,900,366	151,900,366	-	-	-	-	-
Trading assets	347,284,967	370,241,796	11,357,480	65,626,571	89,924,610	88,788,481	97,156,006	17,388,648
Derivative assets held for risk management	92,852	92,851	74,950	14,808	3,093	-	-	-
Loans and advances to banks	325,105,273	328,401,536	268,679,839	8,170,074	43,632,920	1,011,672	955,473	5,951,558
Loans and advances to customers	655,588,151	678,345,164	250,357,300	96,466,318	125,478,231	75,029,256	74,197,931	56,816,128
Financial assets designated at FVTPL	173,362,850	173,362,850	173,362,850	-	-	-	-	-
Financial assets designated at FVOCI	86,683,899	92,258,969	29,760	40,068,373	-	-	8,954,668	43,206,168
Investments at amortised cost	9,846,749	12,401,714	-	-	-	-	-	12,401,714
Total assets	**1,749,875,606**	**1,807,005,246**	**855,762,545**	**210,346,144**	**259,038,854**	**164,829,409**	**181,264,078**	**135,764,216**
Liabilities								
Derivative liabilities held for risk management	2,928,925	(2,928,925)	(2,834,369)	(13,856)	(2,600)	-	-	(78,100)
Amounts owed to banks	453,055,327	(455,526,464)	(248,910,163)	(150,728,022)	(41,380,470)	(14,507,809)	-	-
Amounts owed to customers	1,023,972,887	(1,025,550,712)	(680,353,241)	(201,523,559)	(77,809,866)	(59,955,364)	(3,089,121)	(2,819,561)
Debt securities in issue	87,081,373	(88,628,195)	(4,244,102)	(30,531,178)	(21,293,884)	(32,559,031)	-	-
Total liabilities	**1,567,038,512**	**(1,572,634,296)**	**(936,341,875)**	**(382,796,615)**	**(140,486,820)**	**(107,022,204)**	**(3,089,121)**	**(2,897,661)**
Liquidity gap			**(80,579,330)**	**(172,450,471)**	**118,552,034**	**57,807,205**	**178,174,957**	**132,866,555**

Group - 31 December 2017

	Carrying amount USD	Gross nominal inflow/(outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Assets								
Balances with the Central Bank of Malta, treasury bills and cash	208,171,299	208,155,847	208,155,847	-	-	-	-	-
Trading assets	252,509,144	269,867,614	14,489,209	43,081,667	63,822,620	48,043,449	51,608,647	48,822,022
Derivative assets held for risk management	722,256	722,256	657,250	52,675	12,331	-	-	-
Loans and advances to banks	226,092,934	229,012,824	195,512,810	5,935,146	6,068,256	14,384,483	846,702	6,265,427
Loans and advances to customers	566,361,530	587,522,711	141,883,553	81,247,368	97,817,852	140,714,231	20,647,640	105,212,067
Investments available-for-sale	261,244,798	266,614,855	156,652,350	-	-	15,105,240	40,916,143	53,941,122
Total assets	**1,515,101,961**	**1,561,896,107**	**717,351,019**	**130,316,856**	**167,721,059**	**218,247,403**	**114,019,132**	**214,240,638**
Liabilities								
Derivative liabilities held for risk management	722,922	(722,922)	(510,719)	(201,756)	(10,447)	-	-	-
Amounts owed to banks	493,192,846	(495,134,959)	(257,259,261)	(170,832,894)	(52,006,186)	(15,036,618)	-	-
Amounts owed to customers	847,198,005	(850,425,535)	(549,338,846)	(107,265,736)	(47,531,239)	(75,318,326)	(68,222,869)	(2,748,519)
Debt securities in issue	54,653,654	(54,926,467)	(24,413,981)	(6,641,471)	(16,075,381)	(7,795,634)	-	-
Subordinated liabilities	50,000,000	(60,539,548)	(191,741)	(556,666)	(1,119,518)	(2,257,591)	(4,515,182)	(51,898,850)
Total liabilities	**1,445,767,427**	**(1,461,749,431)**	**(831,714,548)**	**(285,498,523)**	**(116,742,771)**	**(100,408,169)**	**(72,738,051)**	**(54,647,369)**
Liquidity gap			**(114,363,529)**	**(155,181,667)**	**50,978,288**	**117,839,234**	**41,281,081**	**159,593,269**

Bank - 31 December 2018

	Carrying amount USD	Gross nominal inflow/(outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Assets								
Balances with the Central Bank of Malta, treasury bills and cash	151,891,005	151,880,507	151,880,507	-	-	-	-	-
Derivative assets held for risk management	109,727	109,727	91,826	14,808	3,093	-	-	-
Loans and advances to banks	321,085,750	324,377,119	265,709,241	7,657,384	43,625,725	477,737	955,474	5,951,558
Loans and advances to customers	725,405,105	781,817,507	185,299,109	188,439,690	86,820,569	86,459,446	77,154,473	157,644,220
Financial assets designated at FVTPL	173,362,850	173,362,850	173,362,850	-	-	-	-	-
Financial assets designated at FVOCI	86,683,899	92,258,969	29,760	40,068,373	-	-	8,954,668	43,206,168
Investments at amortised cost	9,846,749	12,401,714	-	-	-	-	-	12,401,714
Total assets	**1,468,385,085**	**1,536,208,393**	**776,373,293**	**236,180,255**	**130,449,387**	**86,937,183**	**87,064,615**	**219,203,660**
Liabilities								
Derivative liabilities held for risk management	2,928,925	(2,928,925)	(2,834,369)	(13,856)	(2,600)	-	-	(78,100)
Amounts owed to banks	397,913,033	(399,730,102)	(210,307,049)	(139,706,233)	(35,460,962)	(14,255,858)	-	-
Amounts owed to customers	957,720,771	(959,289,993)	(651,063,179)	(194,490,278)	(59,582,391)	(48,245,464)	(3,089,120)	(2,819,561)
Debt securities in issue	14,834,943	(14,986,870)	-	(14,986,870)	-	-	-	-
Total liabilities	**1,373,397,672**	**(1,376,935,890)**	**(864,204,597)**	**(349,197,237)**	**(95,045,953)**	**(62,501,322)**	**(3,089,120)**	**(2,897,661)**
Liquidity gap			**(87,831,304)**	**(113,016,982)**	**35,403,434**	**24,435,861**	**83,975,495**	**216,305,999**

Financial risk review - continued

Bank - 31 December 2017

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Assets								
Balances with the Central Bank of Malta, treasury bills and cash	208,147,513	208,132,061	208,132,061	-	-	-	-	-
Derivative assets held for risk management	722,256	722,256	657,250	52,675	12,331	-	-	-
Loans and advances to banks	203,552,663	206,434,780	173,333,715	5,573,946	6,030,507	14,384,483	846,702	6,265,427
Loans and advances to customers	581,529,952	630,991,814	132,155,954	169,554,445	69,953,603	93,788,048	19,108,619	146,431,145
Investments available-for-sale	261,244,798	266,614,855	156,652,350	-	-	15,105,240	40,916,143	53,941,122
Total assets	**1,255,197,182**	**1,312,895,766**	**670,931,330**	**175,181,066**	**75,996,441**	**123,277,771**	**60,871,464**	**206,637,694**
Liabilities								
Derivative liabilities held for risk management	723,454	(723,454)	(511,251)	(201,756)	(10,447)	-	-	-
Amounts owed to banks	393,247,791	(393,876,843)	(247,773,879)	(93,586,005)	(40,955,433)	(11,561,526)	-	-
Amounts owed to customers	815,812,570	(818,927,492)	(554,638,075)	(104,336,945)	(44,786,413)	(44,373,192)	(68,222,869)	(2,569,998)
Subordinated liabilities	50,000,000	(60,539,548)	(191,741)	(556,666)	(1,119,518)	(2,257,591)	(4,515,182)	(51,898,850)
Total liabilities	**1,259,783,815**	**(1,274,067,337)**	**(803,114,946)**	**(198,681,372)**	**(86,871,811)**	**(58,192,309)**	**(72,738,051)**	**(54,468,848)**
Liquidity gap			**(132,183,616)**	**(23,500,306)**	**(10,875,370)**	**65,085,462**	**(11,866,587)**	**152,168,846**

Financial risk review - continued

5.4 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.

5.4.1 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 Statement of Profit or Loss. 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 2018

All amounts are expressed in USD	In reporting currency	EUR	INR	Other currencies	Total
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	8,755	151,896,806	327	4,977	**151,910,865**
Trading assets	272,104,885	74,640,000	-	540,082	**347,284,967**
Loans and advances to banks	76,018,854	239,243,735	1,090,203	8,752,481	**325,105,273**
Loans and advances to customers	341,962,267	272,021,213	25,388,042	16,216,629	**655,588,151**
Investments at amortised cost	-	-	-	9,846,749	**9,846,749**
Financial assets designated at FVTPL	156,085,932	17,276,918	-	-	**173,362,850**
Financial assets designated at FVOCI	39,874,236	46,734,139	-	-	**86,608,375**
Other assets	8,166,764	8,440,800	16,430,653	161,677	**33,199,894**
Liabilities					
Amounts owed to banks	(379,895,997)	(58,247,364)	(9,308,987)	(5,602,979)	**(453,055,327)**
Amounts owed to customers	(283,071,196)	(725,626,740)	(37,694)	(15,237,257)	**(1,023,972,887)**
Debt securities in issue	(62,611,485)	(24,469,888)	-	-	**(87,081,373)**
Other liabilities	(14,703,573)	(6,712,172)	(654,144)	(762,695)	**(22,832,584)**
Net on balance sheet financial position	**153,939,442**	**(4,802,553)**	**32,908,400**	**13,919,664**	**195,964,953**
Notional amount of derivative instruments held for risk management	**45,908,919**	**2,908,253**	**(35,000,000)**	**(13,817,172)**	**-**

Financial risk review - continued

Group - 31 December 2017

All amounts are expressed in USD	In reporting currency	EUR	INR	Other currencies	Total
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	10,298	208,150,762	250	9,989	**208,171,299**
Trading assets	231,420,286	19,445,548	-	1,643,310	**252,509,144**
Loans and advances to banks	98,559,595	106,822,994	3,751,148	16,959,197	**226,092,934**
Loans and advances to customers	319,955,649	196,303,186	35,355,200	14,747,495	**566,361,530**
Investments available-for-sale	196,460,464	64,744,020	-	-	**261,204,484**
Interests in equity-accounted investees	-	-	-	5,561,181	**5,561,181**
Other assets	31,453,591	12,847,551	18,080,272	43,899	**62,425,313**
Liabilities					
Amounts owed to banks	(388,037,913)	(72,944,528)	(19,588,639)	(12,621,766)	**(493,192,846)**
Amounts owed to customers	(299,473,692)	(531,785,498)	(278,372)	(15,660,443)	**(847,198,005)**
Debt securities in issue	(23,869,449)	(30,784,205)	-	-	**(54,653,654)**
Subordinated liabilities	(50,000,000)	-	-	-	**(50,000,000)**
Other liabilities	(16,668,985)	(5,711,593)	(677,273)	(1,669,774)	**(24,727,625)**
Net on balance sheet financial position	**99,809,844**	**(32,911,763)**	**36,642,586**	**9,013,088**	**112,553,755**
Notional amount of derivative instruments held for risk management	**2,920,676**	**42,232,407**	**(35,515,841)**	**(9,746,788)**	**-**

Bank - 31 December 2018

All amounts are expressed in USD	In reporting currency	EUR	INR	Other currencies	Total
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	-	151,888,512	-	2,493	**151,891,005**
Derivative assets held for risk management	16,875	-	-	-	**16,875**
Loans and advances to banks	74,226,585	239,060,463	-	7,798,702	**321,085,750**
Loans and advances to customers	420,823,165	295,656,920	-	8,925,020	**725,405,105**
Investments at amortised cost	-	-	-	9,846,749	**9,846,749**
Financial assets designated at FVTPL	156,085,932	17,276,918	-	-	**173,362,850**
Financial assets designated at FVOCI	39,874,236	46,734,139	-	-	**86,608,375**
Other assets	4,415,291	8,360,006	-	86,218	**12,861,515**
Liabilities					
Amounts owed to banks	(351,463,364)	(45,652,906)	-	(796,763)	**(397,913,033)**
Amounts owed to customers	(233,607,779)	(712,198,888)	-	(11,914,104)	**(957,720,771)**
Debt securities in issue	(14,834,943)	-	-	-	**(14,834,943)**
Other liabilities	(4,411,514)	(5,497,828)	-	(148,063)	**(10,057,405)**
Net on balance sheet financial position	**91,124,484**	**(4,372,664)**	**-**	**13,800,252**	**100,552,072**
Notional amount of derivative instruments held for risk management	**45,908,919**	**2,908,253**	**(35,000,000)**	**(13,817,172)**	**-**

Financial risk review - continued

Bank - 31 December 2017

All amounts are expressed in USD	In reporting currency	EUR	INR	Other currencies	Total
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	-	208,142,341	-	5,172	**208,147,513**
Loans and advances to banks	87,422,567	100,734,552	-	15,395,544	**203,552,663**
Loans and advances to customers	383,855,287	194,101,362	-	3,573,303	**581,529,952**
Investments available-for-sale	196,460,464	64,744,020	-	-	**261,204,484**
Other assets	27,589,100	11,133,818	-	27,808	**38,750,726**
Liabilities					
Derivative liabilities held for risk management	(532)	-	-	-	**(532)**
Amounts owed to banks	(325,763,839)	(66,947,486)	-	(536,466)	**(393,247,791)**
Amounts owed to customers	(267,753,303)	(534,647,223)	-	(13,412,044)	**(815,812,570)**
Subordinated liabilities	(50,000,000)	-	-	-	**(50,000,000)**
Other liabilities	(3,551,611)	(4,527,730)	-	(519,765)	**(8,599,106)**
Net on balance sheet financial position	**48,258,133**	**(27,266,346)**	**-**	**4,533,552**	**25,525,339**
Notional amount of derivative instruments held for risk management	**2,920,676**	**42,232,407**	**(35,515,841)**	**(9,746,788)**	**-**

The following exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
	2018	2017	2018	2017
1 EUR	1.1800	1.1275	1.1450	1.1993
1 INR	1.3335	0.0154	1.2686	0.0157

A 7% 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
2018				
EUR	(132,601)	(132,601)	(102,509)	(102,509)
INR	(146,412)	-	(2,450,000)	(2,450,000)
Other currencies	7,174	7,174	(1,184)	(1,184)
2017				
EUR	652,445	652,445	1,047,624	1,047,624
INR	78,872	-	(2,486,109)	(2,486,109)
Other currencies	(51,359)	(51,359)	(364,927)	(364,927)

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

Financial risk review - continued

5.4.2 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 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. The non-interest bearing column in the table below, includes non-interest bearing assets liabilities and equity, non-performing loans and changes in expected credit losses.

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

Group - 31 December 2018

	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, treasury bills and cash	151,882,061	-	-	-	-	28,804	**151,910,865**
Trading assets	47,524,651	152,881,039	91,855,138	31,584,441	23,362,835	76,863	**347,284,967**
Derivative assets held for risk management	-	-	-	-	-	92,852	**92,852**
Loans and advances to banks	50,768,766	7,106,855	43,027,010	-	-	224,202,642	**325,105,273**
Loans and advances to customers	465,736,988	12,637,331	10,069,298	-	5,918,127	161,226,407	**655,588,151**
Financial assets designated at FVTPL	-	-	-	-	-	173,362,850	**173,362,850**
Financial assets designated at FVOCI	-	39,917,588	-	-	46,690,787	75,524	**86,683,899**
Financial assets at amortised cost	-	-	-	-	9,881,423	(34,674)	**9,846,749**
Other assets	-	-	-	-	-	118,686,202	**118,686,202**
Total assets	**715,912,466**	**212,542,813**	**144,951,446**	**31,584,441**	**85,853,172**	**677,717,470**	**1,868,561,808**
Liabilities							
Derivative liabilities held for risk management	-	-	-	-	-	2,928,925	**2,928,925**
Amounts owed to banks	130,270,382	145,497,996	37,372,647	14,007,328	-	125,906,974	**453,055,327**
Amounts owed to customers	542,520,575	172,227,161	57,922,542	52,752,827	5,656,067	192,893,715	**1,023,972,887**
Debt securities in issue	28,955,906	41,097,759	17,027,708	-	-	-	**87,081,373**
Other liabilities	-	-	-	-	-	22,833,476	**22,833,476**
Equity	-	-	-	-	-	278,689,820	**278,689,820**
Total liabilities and equity	**701,746,863**	**358,822,916**	**112,322,897**	**66,760,155**	**5,656,067**	**623,252,910**	**1,868,561,808**

	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	928,455,279	144,951,446	31,584,441	85,853,172	677,717,470	**1,868,561,808**
Liabilities	(1,060,569,779)	(112,322,897)	(66,760,155)	(5,656,067)	(623,252,910)	**(1,868,561,808)**
Interest sensitivity gap	**(132,114,500)**	**32,628,549**	**(35,175,714)**	**80,197,105**	**54,464,560**	**-**
Cumulative gap	**(132,114,500)**	**(99,485,951)**	**(134,661,665)**	**(54,464,560)**	**-**	**-**
Change in interest rate for the period:						
200bps increase	**(1,981,717)**	**326,285**	**(58,626)**			
200bps decrease	**1,981,717**	**(326,285)**	**58,626**			

Financial risk review - continued

Group - 31 December 2017

	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, treasury bills and cash	208,128,778	-	-	-	-	42,521	**208,171,299**
Trading assets	34,585,559	100,272,609	83,296,135	13,880,082	13,802,246	6,672,513	**252,509,144**
Derivative assets held for risk management	-	-	-	-	-	722,256	**722,256**
Loans and advances to banks	81,234,165	2,717,738	8,119,300	11,993,284	-	122,028,447	**226,092,934**
Loans and advances to customers	427,886,328	23,697,671	-	-	5,997,122	108,780,409	**566,361,530**
Investments available-for-sale	-	-	-	14,937,000	89,655,448	156,652,350	**261,244,798**
Other assets	-	-	-	-	-	128,299,497	**128,299,497**
Total assets	**751,834,830**	**126,688,018**	**91,415,435**	**40,810,366**	**109,454,816**	**523,197,993**	**1,643,401,458**
Liabilities							
Derivative liabilities held for risk management	-	-	-	-	-	722,922	**722,922**
Amounts owed to banks	167,160,111	171,382,311	40,597,985	9,594,627	-	104,457,812	**493,192,846**
Amounts owed to customers	482,152,188	91,935,014	38,012,523	43,905,175	68,532,301	122,660,804	**847,198,005**
Debt securities in issue	34,389,518	14,387,427	5,876,709	-	-	-	**54,653,654**
Subordinated liabilities	50,000,000	-	-	-	-	-	**50,000,000**
Other liabilities	-	-	-	-	-	24,739,673	**24,739,673**
Equity	-	-	-	-	-	172,894,358	**172,894,358**
Total liabilities and equity	**733,701,817**	**277,704,752**	**84,487,217**	**53,499,802**	**68,532,301**	**425,475,569**	**1,643,401,458**

	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	878,522,848	91,415,435	40,810,366	109,454,816	523,197,993	**1,643,401,458**
Liabilities	(1,011,406,569)	(84,487,217)	(53,499,802)	(68,532,301)	(425,475,569)	**(1,643,401,458)**
Interest sensitivity gap	**(132,883,721)**	**6,928,218**	**(12,689,436)**	**40,922,515**	**97,722,424**	**-**
Cumulative gap	**(132,883,721)**	**(125,955,503)**	**(138,644,939)**	**(97,722,424)**	**-**	**-**
Change in interest rate for the period:						
200bps increase	**(1,993,256)**	**69,282**	**(21,149)**			
200bps decrease	**1,993,256**	**(69,282)**	**21,149**			

Financial risk review - continued

Bank - 31 December 2018

	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, treasury bills and cash	151,882,061	-	-	-	-	8,944	**151,891,005**
Derivative assets held for risk management	-	-	-	-	-	109,727	**109,727**
Loans and advances to banks	50,768,736	7,106,855	43,027,010	-	-	220,183,149	**321,085,750**
Loans and advances to customers	603,793,603	12,637,331	10,069,298	-	10,943,405	87,961,468	**725,405,105**
Financial assets designated at FVTPL	-	-	-	-	-	173,362,850	**173,362,850**
Financial assets at amortised cost	-	-	-	-	9,881,423	(34,674)	**9,846,749**
Financial assets designated at FVOCI	-	39,917,591	-	-	46,690,784	75,524	**86,683,899**
Investments in subsidiaries	-	-	-	-	-	102,595,614	**102,595,614**
Other assets	-	-	-	-	-	41,883,884	**41,883,884**
Total assets	**806,444,400**	**59,661,777**	**53,096,308**	**-**	**67,515,612**	**626,146,486**	**1,612,864,583**
Liabilities							
Derivative liabilities held for risk management	-	-	-	-	-	2,928,925	**2,928,925**
Amounts owed to banks	88,733,347	134,063,144	34,700,000	14,007,328	-	126,409,214	**397,913,033**
Amounts owed to customers	543,594,621	172,227,161	57,922,542	52,783,225	5,656,067	125,537,155	**957,720,771**
Debt securities in issue	-	14,834,943	-	-	-	-	**14,834,943**
Other liabilities	-	-	-	-	-	10,058,298	**10,058,298**
Equity	-	-	-	-	-	229,408,613	**229,408,613**
Total liabilities and equity	**632,327,968**	**321,125,248**	**92,622,542**	**66,790,553**	**5,656,067**	**494,342,205**	**1,612,864,583**

	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	866,106,177	53,096,308	-	67,515,612	626,146,486	**1,612,864,583**
Liabilities	(953,453,216)	(92,622,542)	(66,790,553)	(5,656,067)	(494,342,205)	**(1,612,864,583)**
Interest sensitivity gap	**(87,347,039)**	**(39,526,234)**	**(66,790,553)**	**61,859,545**	**131,804,281**	**-**
Cumulative gap	**(87,347,039)**	**(126,873,273)**	**(193,663,826)**	**(131,804,281)**	**-**	**-**
Change in interest rate for the period:						
200bps increase	**(1,310,206)**	**(395,262)**	**(111,318)**			
200bps decrease	**1,310,206**	**395,262**	**111,318**			

Financial risk review - continued

Bank - 31 December 2017

	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, treasury bills and cash	208,128,778	-	-	-	-	18,735	**208,147,513**
Derivative assets held for risk management	-	-	-	-	-	722,256	**722,256**
Loans and advances to banks	78,102,682	2,356,538	8,119,300	11,993,284	-	102,980,859	**203,552,663**
Loans and advances to customers	488,548,310	23,697,671	-	-	10,997,122	58,286,849	**581,529,952**
Investments available-for-sale	-	-	-	14,937,000	89,655,448	156,652,350	**261,244,798**
Other assets	-	-	-	-	-	138,239,137	**138,239,137**
Total assets	**774,779,770**	**26,054,209**	**8,119,300**	**26,930,284**	**100,652,570**	**456,900,186**	**1,393,436,319**
Liabilities							
Derivative liabilities held for risk management	-	-	-	-	-	723,454	**723,454**
Amounts owed to banks	147,571,472	92,385,669	40,597,985	9,594,627	-	103,098,038	**393,247,791**
Amounts owed to customers	488,616,158	91,983,913	37,942,331	43,905,175	68,532,301	84,832,692	**815,812,570**
Subordinated liabilities	50,000,000	-	-	-	-	-	**50,000,000**
Other liabilities	-	-	-	-	-	8,611,150	**8,611,150**
Equity	-	-	-	-	-	125,041,354	**125,041,354**
Total liabilities and equity	**686,187,630**	**184,369,582**	**78,540,316**	**53,499,802**	**68,532,301**	**322,306,688**	**1,393,436,319**

	Less than 3 month USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets	800,833,979	8,119,300	26,930,284	100,652,570	456,900,186	**1,393,436,319**
Liabilities	(870,557,212)	(78,540,316)	(53,499,802)	(68,532,301)	(322,306,688)	**(1,393,436,319)**
Interest sensitivity gap	**(69,723,233)**	**(70,421,016)**	**(26,569,518)**	**32,120,269**	**134,593,498**	**-**
Cumulative gap	**(69,723,233)**	**(140,144,249)**	**(166,713,767)**	**(134,593,498)**	**-**	**-**
Change in interest rate for the period:						
200bps increase	**(1,045,849)**	**(704,210)**	**(44,283)**			
200bps decrease	**1,045,849**	**704,210**	**44,283**			

Financial risk review - continued

Cash flow sensitivity analysis for repricing instruments

An increase of 200 basis points at the reporting date would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
2018	(1,714,058)	(1,714,058)	(1,816,786)	(1,816,786)
2017	(1,945,123)	(1,945,123)	(1,794,342)	(1,794,342)

A decrease of 200 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.

5.4.3 Other price risk

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

	Group		Bank	
	2018 USD	2017 USD	2018 USD	2017 USD
Financial assets designated at FVTPL	173,362,850	-	173,362,850	-
Debt instruments at FVOCI	86,608,375	-	86,608,375	-
Equity instruments at FVOCI	75,524	-	75,524	-
Available-for-sale securities	-	261,244,798	-	261,244,798

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

A 10% increase in the price at the reporting date would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
2018	26,004,675	17,336,285	26,004,675	17,336,285
2017	26,124,480	-	26,124,480	-

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

5.5 Operational risk

The Group defines operational risks as the risk of loss resulting from inadequate or failed internal processes, people or IT systems, or from external events. Operational risk exposures are managed through the implementation of a common framework with the basic components for the identification, assessment, reporting, control and monitoring of operational risk. The Group invested significantly in information technology to mitigate against operational risk. Strong operational risk awareness is embedded in the culture of the Group by FIMBank's Operational Risk Management function, who assists management on a regular basis to control such risks.

The Group has created an Operational Risk Committee, which is responsible for the development and implementation of controls to address operational risk.

Financial risk review - continued

5.6 Capital management

Regulatory capital

The Group's regulatory capital consists of the sum of the following elements:

- Common Equity Tier 1 ("CET1") capital, which includes ordinary share capital, related share premiums, retained earnings, reserves and NCI after adjustment for dividends proposed after the year-end and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities and general credit risk adjustments.

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Own funds				
Tier 1				
Paid up capital instruments	252,720,107	157,265,562	252,720,108	157,265,562
Share premium	9,275,773	173,113	9,275,773	173,113
Retained earnings/(Accumulated losses)	7,684,096	6,901,064	(37,269,075)	(35,768,147)
Other reserves	10,625,098	10,264,094	4,681,807	3,370,826
Deductions:				
Goodwill accounted for as intangible asset	(8,639,383)	(9,246,479)	-	-
Other intangible assets	(4,651,018)	(2,738,469)	(4,669,342)	(2,736,599)
Deferred tax liabilities associated to other intangible assets	133,625	(284,408)	133,624	(133,624)
Deferred tax asset that rely on future profitability and arise from temporary differences	(12,798,564)	(26,089,975)	(931,041)	(12,235,549)
Market value of assets pledged in favour of Depositor Compensation Scheme	(3,725,497)	(7,026,546)	(3,725,497)	(7,026,546)
Other transitional adjustments	10,652,754	9,116,164	3,930,549	4,154,453
Common Equity Tier 1	**261,276,991**	**138,334,120**	**224,146,906**	**107,063,489**
Total Tier 1	**261,276,991**	**138,334,120**	**224,146,906**	**107,063,489**
Tier 2				
General credit risk adjustments	6,890,599	3,569,958	4,075,861	3,380,239
Subordinated liabilities	-	50,000,000	-	50,000,000
Deductions:				
Amortisation: subordinated liabilities	-	(3,369,863)	-	(3,369,863)
Total Tier 2	**6,890,599**	**50,200,095**	**4,075,861**	**50,010,376**
Total own funds	**268,167,590**	**188,534,215**	**228,222,767**	**157,073,865**

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' returns 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 stronger capital position.

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

The Group adheres to the requirements set out in the Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD IV"), constituting the European implementation of the Basel accord of 2010.

Pillar I covers credit, market, and operational risks which provides the minimum capital requirements as a percentage of risk-weighted assets.

Pillar 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 I. Part of the Pillar II process is the Internal Capital Adequacy Assessment Process ("ICAAP") which is the Bank's self-assessment of risks not captured by Pillar I.

Schedule V to this Annual Report and Financial Statements includes additional regulatory disclosures (Pillar III) in terms of Banking Rule BR/07/2014 'Publication of annual report and audited financial statements of credit institutions authorised under the Banking Act, 1994'.

6 Fair values of financial instruments

The Group's Accounting Policy on fair value measurements is discussed in Accounting Policy 3.10.7.

6.1 Valuation of financial instruments

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 3.10.7. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The fair value framework and hierarchy that reflects the significance of the inputs used in measuring financial instruments is set out in Note 2.4.2.1.

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

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

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

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

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

Fair values of financial instruments - continued

6.2 Financial instruments measured at fair value – fair value hierarchy

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

Group - 31 December 2018

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
- foreign exchange	22	-	92,852	-	**92,852**
Trading assets	23	-	-	347,284,967	**347,284,967**
Financial assets designated at FVTPL	26	-	-	173,362,850	**173,362,850**
Financial assets designated at FVOCI	27	86,608,375	75,524	-	**86,683,899**
Liabilities					
Derivative liabilities held for risk management:					
- foreign exchange	22	-	2,928,925	-	**2,928,925**

Group - 31 December 2017

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
- foreign exchange	22	-	722,256	-	**722,256**
Trading assets	23	-	-	252,509,144	**252,509,144**
Investments available-for-sale	26/27	104,592,448	40,314	156,612,036	**261,244,798**
Liabilities					
Derivative liabilities held for risk management:					
- foreign exchange	22	-	722,922	-	**722,922**

Bank - 31 December 2018

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
- foreign exchange	22	-	92,852	-	**92,852**
- interest rate	22	-	16,875	-	**16,875**
Financial assets designated at FVTPL	26	-	-	173,362,850	**173,362,850**
Financial assets designated at FVOCI	27	86,608,375	75,524	-	**86,683,899**
Liabilities					
Derivative liabilities held for risk management:					
- foreign exchange	22	-	2,928,925	-	**2,928,925**

Fair values of financial instruments - continued

Bank - 31 December 2017

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
- foreign exchange	22	-	722,256	-	**722,256**
Investments available-for-sale	26/27	104,592,448	40,314	156,612,036	**261,244,798**
Liabilities					
Derivative liabilities held for risk management:					
- foreign exchange	22	-	722,922	-	**722,922**
- interest rate	22	-	532	-	**532**

6.3 Level 3 fair value measurements

6.3.1 Reconciliation

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

Group - 31 December 2018

	Trading assets USD	Financial assets designated at FVTPL USD	Total USD
Balance at 1 January 2018	252,509,144	156,612,036	**409,121,180**
Total gains and losses in profit or loss	1,649,896	(660,201)	**989,695**
Purchases	446,850,295	21,092,429	**467,942,724**
Settlements	(353,724,368)	(3,000,000)	**(356,724,368)**
Effects of movement in exchange rates	-	(681,414)	**(681,414)**
Balance at 31 December 2018	**347,284,967**	**173,362,850**	**520,647,817**

Group - 31 December 2017

	Trading assets USD	Designated at FVTPL USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2017	379,397,964	17,799,900	165,193,697	**562,391,561**
Total gains and losses in profit or loss	13,713,784	70,100	-	**13,783,884**
Total gains and losses in other comprehensive income	-	-	(128,772)	**(128,772)**
Purchases	474,850,009	-	8,326,680	**483,176,689**
Settlements	(615,452,613)	(17,870,000)	(18,000,000)	**(651,322,613)**
Effects of movement in exchange rates	-	-	1,220,431	**1,220,431**
Balance at 31 December 2017	**252,509,144**	**-**	**156,612,036**	**409,121,180**

Fair values of financial instruments - continued

Bank - 31 December 2018

	Financial assets designated at FVTPL USD
Balance at 1 January 2018	156,612,036
Total gains and losses in profit or loss	(660,201)
Purchases	21,092,429
Settlements	(3,000,000)
Effects of movement in exchange rates	(681,414)
Balance at 31 December 2018	**173,362,850**

Bank - 31 December 2017

	Designated at FVTPL USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2017	17,799,900	165,193,697	**182,993,597**
Total gains and losses in profit or loss	70,100	-	**70,100**
Total gains and losses in other comprehensive income	-	(128,772)	**(128,772)**
Purchases	-	8,326,680	**8,326,680**
Settlements	(17,870,000)	(18,000,000)	**(35,870,000)**
Effects of movement in exchange rates	-	1,220,431	**1,220,431**
Balance at 31 December 2017	**-**	**156,612,036**	**156,612,036**

Amounts for 2018 are presented in accordance with IFRS 9, which replaced IAS 39 effective from 1 January 2018. The effect of initially applying IFRS 9 is described in Notes 4 and 5. Amounts for 2017 are presented in accordance with IAS 39.

6.3.2 Unobservable inputs used in measuring fair value

The below sets out information about significant unobservable inputs used at 31 December 2018 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Trading assets

The 'trading assets' portfolio represent forfaiting assets, that is the discounting of receivables generated from an export contract on a without recourse basis. The assets would be evidenced by a number of different debt instruments including bills of exchange, promissory notes, letters of credit and trade or project related syndicated and bi-lateral loan (financing) agreements.

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

The Group uses the LIBOR yield curve as of each reporting date plus an adequate credit margin spread to discount the trading assets held. At 31 December 2018, the interest rates used range between 1.50% and 12.83% (2017: between 0.54% and 12.02%).

The effect of an estimated general increase of one percentage point in interest rate on trading assets at 31 December 2018 would reduce the Group's profit before tax by approximately USD419,987 (2017: USD282,068).

Fair values of financial instruments - continued

Financial assets designated at fair value through other comprehensive income

'Financial assets designated at fair value through other comprehensive income' mainly represent holdings in two funds as follows:

- an unlisted sub-fund of a local collective investment scheme, which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in London. The sub-fund invests in trade finance instruments mainly consisting of loans and receivables.

  The fair value is measured by the Group 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 a ten percentage point increase/(decrease) in the net asset value of the sub-fund at 31 December 2018 would increase/(decrease) the Bank and Group equity by approximately USD15,608,593 (2017: USD14,161,946).

- an unlisted sub-fund of a local collective investment scheme, which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in London. The sub-fund invests in sustainable energy plants with returns generated throughout the life of each plant.

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

  The effect of a ten percentage point increase/(decrease) in the net asset value of the sub-fund at 31 December 2018 would increase/(decrease) the Bank and Group equity by approximately USD1,727,692 (2017: USD1,499,257).

7 Classification of financial assets and liabilities

7.1 Classification of financial assets and liabilities

The following tables provide a reconciliation between line items in the Statements of Financial Position and categories of financial instruments.

Group - 31 December 2018

	Mandatorily at FVTPL USD	FVOCI debt instruments USD	FVOCI equity instruments USD	Amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	-	-	151,910,865	**151,910,865**
Derivative assets held for risk management	92,852	-	-	-	**92,852**
Trading assets	347,284,967	-	-	-	**347,284,967**
Loans and advances to banks	-	-	-	325,105,273	**325,105,273**
Loans and advances to customers	-	-	-	655,588,151	**655,588,151**
Financial assets designated at FVTPL	173,362,850	-	-	-	**173,362,850**
Financial assets designated at FVOCI	-	86,608,375	75,524	-	**86,683,899**
Investments at amortised cost	-	-	-	9,846,749	**9,846,749**
Total financial assets	**520,740,669**	**86,608,375**	**75,524**	**1,142,451,038**	**1,749,875,606**
Derivative liabilities held for risk management	2,928,925	-	-	-	**2,928,925**
Amounts owed to banks	-	-	-	453,055,327	**453,055,327**
Amounts owed to customers	-	-	-	1,023,972,887	**1,023,972,887**
Debt securities in issue	-	-	-	87,081,373	**87,081,373**
Total financial liabilities	**2,928,925**	**-**	**-**	**1,564,109,587**	**1,567,038,512**

Classification of financial assets and liabilities - continued

Group - 31 December 2017

	Trading USD	Designated at fair value USD	Loans and receivables USD	Available-for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	-	208,171,299	-	-	**208,171,299**
Trading assets	252,509,144	-	-	-	-	**252,509,144**
Derivative assets held for risk management	-	722,256	-	-	-	**722,256**
Loans and advances to banks	-	-	226,092,934	-	-	**226,092,934**
Loans and advances to customers	-	-	566,361,530	-	-	**566,361,530**
Investments available-for-sale	-	-	-	261,244,798	-	**261,244,798**
Total financial assets	**252,509,144**	**722,256**	**1,000,625,763**	**261,244,798**	**-**	**1,515,101,961**
Derivative liabilities held for risk management	-	722,922	-	-	-	**722,922**
Amounts owed to banks	-	-	-	-	493,192,846	**493,192,846**
Amounts owed to customers	-	-	-	-	847,198,005	**847,198,005**
Debt securities in issue	-	-	-	-	54,653,654	**54,653,654**
Subordinated liabilities	-	-	-	-	50,000,000	**50,000,000**
Total financial liabilities	**-**	**722,922**	**-**	**-**	**1,445,044,505**	**1,445,767,427**

Bank - 31 December 2018

	Mandatorily at FVTPL USD	FVOCI debt instruments USD	FVOCI equity instruments USD	Amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	-	-	151,891,005	**151,891,005**
Derivative assets held for risk management	109,727	-	-	-	**109,727**
Loans and advances to banks	-	-	-	321,085,750	**321,085,750**
Loans and advances to customers	-	-	-	725,405,105	**725,405,105**
Financial assets designated at FVTPL	173,362,850	-	-	-	**173,362,850**
Financial assets designated at FVOCI	-	86,608,375	75,524	-	**86,683,899**
Investments at amortised cost	-	-	-	9,846,749	**9,846,749**
Total financial assets	**173,472,577**	**86,608,375**	**75,524**	**1,208,228,609**	**1,468,385,085**
Derivative liabilities held for risk management	2,928,925	-	-	-	**2,928,925**
Amounts owed to banks	-	-	-	397,913,033	**397,913,033**
Amounts owed to customers	-	-	-	957,720,771	**957,720,771**
Debt securities in issue	-	-	-	14,834,943	**14,834,943**
Total financial liabilities	**2,928,925**	**-**	**-**	**1,370,468,747**	**1,373,397,672**

Classification of financial assets and liabilities - continued

Bank - 31 December 2017

	Designated at fair value USD	Loans and receivables USD	Available-for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	208,147,513	-	-	**208,147,513**
Derivative assets held for risk management	722,256	-	-	-	**722,256**
Loans and advances to banks	-	203,552,663	-	-	**203,552,663**
Loans and advances to customers	-	581,529,952	-	-	**581,529,952**
Investments available-for-sale	-	-	261,244,798	-	**261,244,798**
Total financial assets	**722,256**	**993,230,128**	**261,244,798**	**-**	**1,255,197,182**
Derivative liabilities held for risk management	723,454	-	-	-	**723,454**
Amounts owed to banks	-	-	-	393,247,791	**393,247,791**
Amounts owed to customers	-	-	-	815,812,570	**815,812,570**
Subordinated liabilities	-	-	-	50,000,000	**50,000,000**
Total financial liabilities	**723,454**	**-**	**-**	**1,259,060,361**	**1,259,783,815**

7.2 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

				Group		Bank	
	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 USD	New carrying amount under IFRS 9 USD	Original carrying amount under IAS 39 USD	New carrying amount under IFRS 9 USD
Financial assets							
Balances with the Central Bank of Malta, treasury bills and cash	21	Loans and receivables	Amortised cost	208,171,299	208,171,299	208,147,513	208,147,513
Derivative assets held for risk management	22	Designated at fair value	Mandatorily at FVTPL	722,256	722,256	722,256	722,256
Trading assets	23	Trading	Mandatorily at FVTPL	252,509,144	252,509,144	-	-
Loans and advances to banks	24	Loans and receivables	Amortised cost	226,092,934	224,323,379	203,552,663	201,783,108
Loans and advances to customers	25	Loans and receivables	Amortised cost	566,361,530	560,705,073	581,529,952	579,373,155
Investment securities - equity	26	Available-for-sale	Mandatorily at FVTPL	156,612,036	156,612,036	156,612,036	156,612,036
Investment securities - equity	27	Available-for-sale	FVOCI - equity instruments	40,314	40,314	40,314	40,314
Investment securities - debt	27	Available-for-sale	FVOCI - debt instruments	104,592,448	104,550,500	104,592,448	104,550,500
Total financial assets				**1,515,101,961**	**1,507,634,001**	**1,255,197,182**	**1,251,228,882**

Classification of financial assets and liabilities - continued

	Note	Original classification under IAS 39	New classification under IFRS 9	Group Original carrying amount under IAS 39 USD	Group New carrying amount under IFRS 9 USD	Bank Original carrying amount under IAS 39 USD	Bank New carrying amount under IFRS 9 USD
Financial liabilities							
Derivative liabilities held for risk management	22	Designated at fair value	Mandatorily at FVTPL	722,922	722,922	723,454	723,454
Amounts owed to banks	37	Liabilities at amortised cost	Amortised cost	493,192,846	493,192,846	393,247,791	393,247,791
Amounts owed to customers	38	Liabilities at amortised cost	Amortised cost	847,198,005	847,198,005	815,812,570	815,812,570
Debt securities in issue	39	Liabilities at amortised cost	Amortised cost	54,653,654	54,653,654	-	-
Subordinated liabilities	40	Liabilities at amortised cost	Amortised cost	50,000,000	50,000,000	50,000,000	50,000,000
Total financial liabilities				**1,445,767,427**	**1,445,767,427**	**1,259,783,815**	**1,259,783,815**
Contingent liabilities	44	Loans and receivables	Amortised cost	**1,186,426**	**1,186,426**	**57,601,096**	**57,601,096**
Commitments outstanding	45	Loans and receivables	Amortised cost	**353,893,273**	**353,893,273**	**254,253,843**	**254,253,843**

The Group's Accounting Policies on the classification of financial instruments under IFRS 9 are set out in Note 3.10.2. The application of these policies resulted in the reclassifications set out in the table above and explained below:

a. 'Balances with the Central Bank of Malta, treasury bills and cash' and 'loans and advances to banks and customers', were classified as 'loans and receivables' under IAS 39. Under IFRS 9, they are classified as 'amortised cost'.

b. Investment securities include equity securities representing units in investment funds that, under IAS 39 were designated at FVOCI. However, under IFRS 9, only instruments meeting the definition of 'equity instrument' under IAS 32 can be classified as FVOCI. In view of the fact that these instruments do not meet this definition, these assets have been classified as mandatorily measured at FVTPL under IFRS 9.

c. Investment securities include equity securities that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

d. The 'debt securities' categorised as 'available-for-sale' under IAS 39 are held by the Group's Treasury unit in a separate portfolio mainly to support regulatory liquidity requirements. The securities provide interest income but may be sold to meet liquidity requirements arising in the normal course of business. The Group considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. The debt securities have specified maturities and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI under IFRS 9.

Classification of financial assets and liabilities - continued

The following tables reconcile the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018:

Group

	IAS 39 carrying amount 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount 1 January 2018
	USD	USD	USD	USD
Financial assets				
Amortised cost				
Balances with the Central Bank of Malta, treasury bills and cash	208,171,299	-	-	208,171,299
Loans and advances to banks	226,092,934	-	(1,769,555)	224,323,379
Loans and advances to customers	566,361,530	-	(5,656,457)	560,705,073
Total amortised cost	**1,000,625,763**	**-**	**(7,426,012)**	**993,199,751**
Available-for-sale				
Investment securities:				
- Opening balance	261,244,798	-	-	-
- To FVTPL	-	(156,612,036)	-	-
- To FVOCI – equity	-	(40,314)	-	-
- To FVOCI – debt	-	(104,592,448)	-	-
- Closing balance	-	-	-	-
Total available-for-sale	**261,244,798**	**(261,244,798)**	**-**	**-**
FVTPL				
Derivative assets held for risk management	722,256	-	-	722,256
Trading assets	252,509,144	-	-	252,509,144
Investment securities:				
- Opening balance	-	-	-	-
- From available-for-sale	-	156,612,036	-	-
- Closing balance	-	-	-	156,612,036
Total FVTPL	**253,231,400**	**156,612,036**	**-**	**409,843,436**
FVOCI – equity				
Investment securities:				
- Opening balance	-	-	-	-
- From available-for-sale	-	40,314	-	-
- Closing balance	-	-	-	40,314
FVOCI – debt				
Investment securities:				
- Opening balance	-	-	-	-
- From available-for-sale	-	104,592,448	(41,948)	-
- Closing balance	-	-	-	104,550,500
Total FVOCI	**-**	**104,632,762**	**(41,948)**	**104,590,814**
Interest in equity-accounted investees				
Investment in Latam Factors	5,561,181	-	(777,095)	4,784,086
Total interest in equity-accounted investees	**5,561,181**	**-**	**(777,095)**	**4,784,086**
Financial liabilities				
Amortised cost				
Amounts owed to banks	493,192,846	-	-	493,192,846
Amounts owed to customers	847,198,005	-	-	847,198,005
Debt securities in issue	54,653,654	-	-	54,653,654
Subordinated liabilities	50,000,000	-	-	50,000,000
Total amortised cost	**1,445,044,505**	**-**	**-**	**1,445,044,505**
FVTPL				
Derivative liabilities held for risk management	722,922	-	-	722,922
Total FVTPL	**722,922**	**-**	**-**	**722,922**

Classification of financial assets and liabilities - continued

Bank

	IAS 39 carrying amount 31 December 2017 USD	Reclassification USD	Re-measurement USD	IFRS 9 carrying amount 1 January 2018 USD
Financial assets				
Amortised cost				
Balances with the Central Bank of Malta, treasury bills and cash	208,147,513	-	-	208,147,513
Loans and advances to banks	203,552,663	-	(1,769,555)	201,783,108
Loans and advances to customers	581,529,952	-	(2,156,797)	579,373,155
Total amortised cost	**993,230,128**	**-**	**(3,926,352)**	**989,303,776**
Available-for-sale				
Investment securities:				
- Opening balance	261,244,798	-	-	-
- To FVTPL	-	(156,612,036)	-	-
- To FVOCI – equity	-	(40,314)	-	-
- To FVOCI – debt	-	(104,592,448)	-	-
- Closing balance	-	-	-	-
Total available-for-sale	**261,244,798**	**(261,244,798)**	**-**	**-**
FVTPL				
Derivative assets held for risk management	722,256	-	-	722,256
Investment securities:				
- Opening balance	-	-	-	-
- From available-for-sale	-	156,612,036	-	-
- Closing balance	-	-	-	156,612,036
Total FVTPL	**722,256**	**156,612,036**	**-**	**157,334,292**
FVOCI – equity				
Investment securities:				
- Opening balance	-	-	-	-
- From available-for-sale	-	40,314	-	-
- Closing balance	-	-	-	40,314
FVOCI – debt				
Investment securities:				
- Opening balance	-	-	-	-
- From available-for-sale	-	104,592,448	(41,948)	-
- Closing balance	-	-	-	104,550,500
Total FVOCI	**-**	**104,632,762**	**(41,948)**	**104,590,814**
Financial liabilities				
Amortised cost				
Amounts owed to banks	393,247,791	-	-	393,247,791
Amounts owed to customers	815,812,570	-	-	815,812,570
Subordinated liabilities	50,000,000	-	-	50,000,000
Total amortised cost	**1,259,060,361**	**-**	**-**	**1,259,060,361**
FVTPL				
Derivative liabilities held for risk management	723,454	-	-	723,454
Total FVTPL	**723,454**	**-**	**-**	**723,454**

Classification of financial assets and liabilities - continued

The following table summarises the impact of transition to IFRS 9 on the opening balance of the 'fair value reserve', 'retained earnings' and 'non-controlling interest'. There is no impact on other components of equity.

	Impact of adopting IFRS 9 at1 January 2018	
	Group	Bank
	USD	USD
Fair value reserve		
Closing balance under IAS 39 (31 December 2017)	9,533,453	81,501
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	(41,948)	(41,948)
Opening balance under IFRS 9 (1 January 2018)	**9,491,505**	**39,553**
Retained earnings		
Closing balance under IAS 39 (31 December 2017)	6,901,064	(35,768,147)
Recognition of expected credit losses under IFRS 9	(8,811,984)	(4,604,046)
Opening balance under IFRS 9 (1 January 2018)	**(1,910,920)**	**(40,372,193)**
Non-controlling interests		
Closing balance under IAS 39 (31 December 2017)	(1,709,475)	-
Recognition of expected credit losses under IFRS 9	(68,808)	-
Opening balance under IFRS 9 (1 January 2018)	**(1,778,283)**	**-**
Total of ECL under IFRS 9	**(8,922,740)**	**(4,645,994)**

8 Operating segments

The group has five significant reportable segments, trade finance, forfaiting, factoring, real estate and treasury which are represented by different Group entities.

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

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

In the table below, interest income is disclosed gross of interest expense since it represents the revenue measure used by executive management in assessing the performance of each segment. Net interest income is disclosed in Note 9, including further analysis of its components.

Operating segments - continued

8.1 Information about operating segments

Group – 2018

	Trade finance USD	Forfaiting USD	Factoring USD	Real estate USD	Treasury USD	Other USD	Total USD
External revenue:							
Interest income	17,191,258	18,523,080	15,362,848	3,060,364	1,990,876	7,951	**56,136,377**
Fee and commission income	9,569,094	6,733,322	5,830,079	821,982	-	47,896	**23,002,373**
Net trading results	-	5,893,338	260,916	-	1,147,063	(13,533)	**7,287,784**
	26,760,352	**31,149,740**	**21,453,843**	**3,882,346**	**3,137,939**	**42,314**	**86,426,534**
Intersegment revenue:							
Interest receivable	-	-	7,185,619	-	-	-	**7,185,619**
Fee and commission income	12,361	-	-	-	-	-	**12,361**
	12,361	**-**	**7,185,619**	**-**	**-**	**-**	**7,197,980**
Reportable segment (loss)/ profit before income tax	(12,888,306)	14,426,835	5,040,551	3,836,602	(7,158,932)	434,066	**3,690,816**
Reportable segment assets	466,768,405	356,524,958	376,018,913	70,586,340	532,951,218	65,902,353	**1,868,752,187**
Reportable segment liabilities	1,042,714,722	119,269,700	137,389,275	-	285,793,082	5,774,590	**1,590,941,369**

Group – 2017

	Trade finance USD	Forfaiting USD	Factoring USD	Real estate USD	Treasury USD	Other USD	Total USD
External revenue:							
Interest income	15,461,806	14,159,442	17,949,894	1,499,381	1,939,121	145,187	**51,154,831**
Fee and commission income	8,587,921	9,051,665	5,671,005	570,563	-	111,753	**23,992,907**
Net trading results	-	(182,026)	1,543,252	-	(3,140,286)	(28,779)	**(1,807,839)**
	24,049,727	**23,029,081**	**25,164,151**	**2,069,944**	**(1,201,165)**	**228,161**	**73,339,899**
Intersegment revenue:							
Interest receivable	-	-	5,649,216	-	(1,103)	-	**5,648,113**
Fee and commission income	11,384	-	9,151	-	-	-	**20,535**
	11,384	**-**	**5,658,367**	**-**	**(1,103)**	**-**	**5,668,648**
Reportable segment (loss)/ profit before income tax	(1,600,539)	7,966,640	3,677,195	2,068,304	(9,187,440)	(318,935)	**2,605,225**
Reportable segment assets	488,893,079	270,236,931	309,580,788	46,077,650	457,847,454	60,991,095	**1,633,626,997**
Reportable segment liabilities	949,218,817	143,614,796	107,326,078	-	276,509,439	5,476,313	**1,482,145,443**

Operating segments - continued

8.2 Reconciliations of reportable segment revenues, profit or loss and assets and liabilities

Group

	2018 USD	2017 USD
Revenues		
Total revenue for reportable segments	93,582,200	78,780,386
Other revenue and trading results	42,314	228,161
	93,624,514	**79,008,547**
Elimination of intersegment revenue	(7,197,980)	(5,668,648)
Consolidated revenue	**86,426,534**	**73,339,899**
Profit or loss		
Total loss for reportable segments	3,256,750	2,924,160
Other profit/(loss)	434,066	(318,935)
	3,690,816	**2,605,225**
Share of loss of equity-accounted investee	238,634	8,893
Fair value gains on investment property	984,951	3,444,802
Fair value loss on previously-held investments in subsidiaries	-	(656,661)
Effect of other consolidation adjustments on segment results	8,079,450	6,282,179
Consolidated profit before tax	**12,993,851**	**11,684,438**

	2018 USD	2017 USD
Assets		
Total assets for reportable segments	1,802,849,834	1,572,635,902
Other assets	65,902,353	60,991,095
	1,868,752,187	**1,633,626,997**
Elimination of intersegment assets	(4,501,674)	(15,808,324)
Effect of other consolidation adjustments on segment results	4,311,295	25,582,785
Consolidated assets	**1,868,561,808**	**1,643,401,458**
Liabilities		
Total liabilities for reportable segments	1,585,166,779	1,476,669,130
Other liabilities	5,774,590	5,476,313
	1,590,941,369	**1,482,145,443**
Elimination of intersegment liabilities	(1,537,053)	(11,602,182)
Effect of other consolidation adjustments on segment results	467,672	(36,161)
Consolidated liabilities	**1,589,871,988**	**1,470,507,100**

Operating segments - continued

8.3 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 – separately disclosing countries which exceed 10% of the total.

Group

	External revenues and net trading results	
	2018	2017
	USD	USD
Malta	6,124,134	6,176,355
Russian Federation	9,978,176	2,726,031
India	9,003,206	7,852,715
United Arab Emirates	7,807,358	8,382,757
Chile	285,984	7,531,198
Other countries (individually less than 10%)	53,227,676	40,670,843
	86,426,534	**73,339,899**

Group

	Malta		Other countries		Total	
	2018	2017	2018	2017	2018	2017
	USD	USD	USD	USD	USD	USD
Non-current assets	52,239,564	48,017,098	9,386,426	9,867,462	**61,625,990**	**57,884,560**

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

9 Net interest income

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Interest income				
On loans and advances to banks	2,258,599	3,550,713	2,045,322	3,408,633
On loans and advances to customers	33,727,297	31,613,739	24,445,218	18,066,816
On loans and advances to subsidiary companies	881	138,762	7,186,501	5,755,368
	35,986,777	**35,303,214**	**33,677,041**	**27,230,817**
On forfaiting assets	18,523,080	14,159,442	-	-
On financial instruments carried at fair value	726,939	654,352	726,939	654,352
On financial instruments at amortised cost	76,629	-	76,629	-
On other trade finance activities	822,952	1,037,823	822,952	438,579
	56,136,377	**51,154,831**	**35,303,561**	**28,323,748**
Interest expense				
On amounts owed to banks	12,143,208	11,682,595	7,932,981	5,317,727
On amounts owed to customers	9,613,322	9,904,042	9,610,750	9,801,971
On debt securities in issue	1,631,402	2,342,492	15,005	307,391
On amounts owed to subsidiary companies	-	-	31,293	15,079
On Central Bank of Malta funding	750,546	48,029	750,546	48,029
On negative interest treasury balances	-	33,362	-	33,362
On subordinated debt	799,196	2,215,298	799,196	2,215,298
	24,937,674	**26,225,818**	**19,139,771**	**17,738,857**
Net interest income	**31,198,703**	**24,929,013**	**16,163,790**	**10,584,891**

Included in Group and Bank is 'interest income' and 'interest expense' payable to the parent company and other related companies (see Note 49).

10 Net fee and commission income

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Fee and commission income				
Credit related fees and commission	3,347,551	2,144,821	3,347,240	1,960,320
On letters of credit	4,053,907	4,130,329	4,051,986	4,130,396
On factoring	5,830,079	5,801,095	2,448,989	2,201,931
On forfaiting activities	6,733,322	9,051,665	-	-
On IT Solutions	20,000	20,000	-	-
Other fees	3,017,514	2,844,997	3,001,688	2,755,886
	23,002,373	**23,992,907**	**12,849,903**	**11,048,533**
Fee and commission expense				
Credit related fees	338,670	293,532	338,670	293,532
Correspondent banking fees	660,973	521,060	612,531	412,173
On forfaiting activities	1,046,146	1,296,950	-	-
Other fees	3,310,760	3,365,886	1,848,051	1,777,060
	5,356,549	**5,477,428**	**2,799,252**	**2,482,765**
Net fee and commission income	**17,645,824**	**18,515,479**	**10,050,651**	**8,565,768**

Included in Group and Bank is 'fee and commission income' and 'fee and commission expense' payable to the parent company and other related companies (see Note 49).

11 Net trading results

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Net trading gain/(loss) from assets held-for-trading	5,993,788	(62,835)	-	-
Foreign exchange rate fluctuations	(901,133)	(20,363,370)	(1,075,511)	(20,541,504)
Net income on derivatives held for risk management purposes	2,195,129	18,618,366	3,718,861	17,401,218
	7,287,784	**(1,807,839)**	**2,643,350**	**(3,140,286)**

12 Net (loss)/gain from other financial instruments carried at fair value

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Investment securities:				
Debt investments designated at FVTPL	-	70,100	-	70,100
Equity investments designated at FVTPL	25,102	-	25,102	-
Debt investments available-for-sale	-	38,522	-	38,522
Debt investments designated at FVOCI	(36,000)	-	(36,000)	-
	(10,898)	**108,622**	**(10,898)**	**108,622**

Amounts for 2018 are presented in accordance with IFRS 9, which replaced IAS 39 effective from 1 January 2018. The effect of initially applying IFRS 9 is described in Notes 4 and 5. Amounts for 2017 are presented in accordance with IAS 39.

13 Dividend income

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Dividend income from available-for-sale investments	-	5,997,942	-	5,997,942
Dividend income from equity investments designated at FVTPL	7,660,271	-	7,660,271	-
Dividend income from subsidiary undertaking	-	-	10,000,000	4,448,401
	7,660,271	**5,997,942**	**17,660,271**	**10,446,343**

Amounts for 2018 are presented in accordance with IFRS 9, which replaced IAS 39 effective from 1 January 2018. The effect of initially applying IFRS 9 is described in Notes 4 and 5. Amounts for 2017 are presented in accordance with IAS 39.

14 Net result upon loss of control of subsidiary undertaking

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Net result upon loss of control of Latam Factors	-	(656,661)	-	-

In October 2017, the Put and Call Option entered into between FIMBank and the other shareholders in Latam Factors expired. The Group had assessed its control in the company taking into consideration this event and a number of relevant activities which had become more significant following the expiry of the Put and Call Option. The Group had determined that it had lost control with the investment becoming a jointly controlled entity, accounted for under IAS 28 - Interests in Equity-Accounted Investees. As a result, the Group discontinued the consolidation of the subsidiary by derecognising its assets, liabilities and non-controlling interests with a residual loss of USD656,661 being recognised in the Group's Statement of Profit or Loss.

In November 2018, the Group disposed of its entire investment in Latam Factors to a third party (see Notes 15 and 29.3).

15 Loss upon disposal of equity-accounted investee

On 8 November 2018, the Group, through its subsidiary FIM Holdings (Chile) S.p.A. finalised the disposal of its entire investment in Latam Factors, with a residual loss of USD2,062,937 being recognised in the Group's Statement of Profit or Loss (see Note 29.1).

	Group
	2018
	USD
Carrying amount before disposal	(4,532,941)
Proceeds on disposal	2,470,004
Loss upon disposal	**(2,062,937)**

16 Other operating income

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Rental income from leased property	765,792	537,500	-	-
Profit on disposal of property and equipment	20,346	512,152	-	1,655
Support fees receivable	-	10,318	-	10,318
Other non-trading income	125,068	75,115	125,068	75,115
	911,206	**1,135,085**	**125,068**	**87,088**

17 Administrative expenses

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

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Personnel expenses	23,820,821	25,526,753	14,227,613	13,559,106
Operating lease rentals	1,481,601	1,576,689	1,745,792	1,366,245
Other administrative expenses	10,284,434	12,923,967	7,391,795	9,440,845
Recharge of services rendered by subsidiaries	-	-	421,847	419,468
	35,586,856	**40,027,409**	**23,787,047**	**24,785,664**

Included in 'operating lease rentals' for the Bank is an amount of USD1,453,487 (2017: USD1,261,483) payable to subsidiary companies.

Included in 'other administrative expenses' of the Group for the financial year ended 31 December 2018 are the following fees charged by the Group statutory auditors:

	Audit services	Other assurance services	Tax advisory services	Other non-audit services
	USD	USD	USD	USD
By the auditors of the parent	305,997	108,299	11,659	49,180
By the auditors of subsidiaries	216,969	62,085	2,709	2,762

All fees are inclusive of indirect taxes.

In 2018 and 2017 the Group did not incur any expenses which were expected to be non-recurring in future financial periods.

17.2 Personnel expenses incurred during the year

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Directors' emoluments	388,162	375,594	388,162	375,594
Staff costs:				
- wages, salaries and allowances	22,237,079	23,965,345	13,278,596	12,656,667
- defined contribution costs	1,195,580	1,185,814	560,855	526,845
	23,820,821	**25,526,753**	**14,227,613**	**13,559,106**

17.3 Average number of employees

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

	Group		Bank	
	2018	2017	2018	2017
	No. of employees	No. of employees	No. of employees	No. of employees
Executive and senior managerial	34	34	19	20
Other managerial, supervisory and clerical	340	368	162	161
Other staff	13	15	3	3
	387	**417**	**184**	**184**

Administrative expenses - continued

17.4 Executive share option schemes

FIMBank

At 31 December 2018, the Executive Share Option Scheme for the Bank expired. Movements in the number of share options awarded to executives are as follows:

	2018 No. of share options	2017 No. of share options
At 1 January	1,362,396	1,762,867
Exercised *	(150,505)	(170,135)
Forfeited due to termination of employment	(137,417)	(230,336)
Forfeited due to expiry of exercise period	(1,074,474)	-
At 31 December	**-**	**1,362,396**

Details of share options granted:

	Exercise period 2011 scheme 01/01/14 to 31/12/18
Exercise price per USD0.50 share	USD0.5903
Number of share options unexercised at 1 January 2018	1,362,396
Exercised *	(150,505)
Forfeited due to termination of employment	(137,417)
Forfeited due to expiry of exercise period	(1,074,474)
Number of share options unexercised at 31 December 2018	**-**

	Exercise period 2011 scheme 01/01/14 to 31/12/18
Exercise price per USD0.50 share	USD0.5903
Number of share options unexercised at 1 January 2017	1,762,867
Exercised	(170,135)
Forfeited due to termination of employment	(230,336)
Number of share options unexercised at 31 December 2017	**1,362,396**

‘ * ’ Executive share options exercised in December 2018 and allotted in March 2019.

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

India Factoring

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

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

At 31 December 2018, the company had 2,152,800 (31 December 2017: 2,152,800) outstanding share options, at an exercise price of INR10/option (31 December 2017: INR10/option).

18 Taxation

18.1 Amounts recognised in profit or loss

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Current tax	(993,941)	(286,221)	(145,332)	(60,598)
Deferred tax				
- deferred tax assets	(1,717,481)	-	(969,917)	-
- deferred tax liabilities	(78,796)	(275,546)	-	-
Taxation	**(2,790,218)**	**(561,767)**	**(1,115,249)**	**(60,598)**

18.2 Amounts recognised in other comprehensive income

Group – 31 December 2018

	Before tax	Tax (expense)/ benefit	Net of tax
	USD	USD	USD
Items that will not be reclassified to profit or loss:			
Movement in fair value reserve (property and equipment)	2,119,688	(617,595)	1,502,093
Movement in fair value reserve (equity instruments)	(7,608)	2,662	(4,946)
	2,112,080	**(614,933)**	**1,497,147**
Items that are or may be reclassified subsequently to profit or loss:			
Movement in translation reserve:			
- Foreign currency translation differences for foreign operations	(2,263,430)	-	(2,263,430)
	(2,263,430)	**-**	**(2,263,430)**
Movement in fair value reserve (debt instruments):			
- Net change in fair value			
Fair value movement	(710,757)	248,765	(461,992)
Amortisation	1,117,476	-	1,117,476
Loss allowance	(3,816)	-	(3,816)
	402,903	**248,765**	**651,668**
- Net amount reclassified to profit or loss			
Fair value movement	40,200	(14,070)	26,130
Amortisation	45,849	-	45,849
	86,049	**(14,070)**	**71,979**
	337,602	**(380,238)**	**(42,636)**

Taxation - continued

Group – 31 December 2017

	Before tax USD	Tax (expense)/ benefit USD	Net of tax USD
Items that will not be reclassified to profit or loss:			
Movement in fair value reserve (property and equipment)	**9,297,574**	**(2,688,502)**	**6,609,072**
Items that are or may be reclassified subsequently to profit or loss:			
Movement in translation reserve:			
- Foreign currency translation differences for foreign operations	3,848,686	-	3,848,686
	3,848,686	**-**	**3,848,686**
Movement in fair value reserve (available-for-sale financial assets):			
- Net change in fair value			
Fair value movement	78,392	(27,437)	50,955
Amortisation	1,912,155	-	1,912,155
	1,990,547	**(27,437)**	**1,963,110**
- Net amount reclassified to profit or loss			
Fair value movement	83,789	(29,326)	54,463
Amortisation	(44,932)	-	(44,932)
	38,857	**(29,326)**	**9,531**
	15,175,664	**(2,745,265)**	**12,430,399**

Bank – 31 December 2018

	Before tax USD	Tax (expense)/ benefit USD	Net of tax USD
Items that will not be reclassified to profit or loss:			
Movement in fair value reserve (equity instruments)	**(7,608)**	**2,662**	**(4,946)**
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve (debt instruments):			
- Net change in fair value			
Fair value movement	(710,757)	248,765	(461,992)
Amortisation	1,117,476	-	1,117,476
Loss allowance	(3,816)	-	(3,816)
	402,903	**248,765**	**651,668**
- Net amount reclassified to profit or loss			
Fair value movement	40,200	(14,070)	26,130
Amortisation	45,849	-	45,849
	86,049	**(14,070)**	**71,979**
	481,344	**237,357**	**718,701**

Taxation - continued

Bank – 31 December 2017

	Before tax USD	Tax (expense)/ benefit USD	Net of tax USD
Items that are or may be reclassified subsequently to profit or loss:			
Movement in fair value reserve (available-for-sale financial assets):			
- Net change in fair value			
Fair value movement	78,392	(27,437)	50,955
Amortisation	1,912,155	-	1,912,155
	1,990,547	**(27,437)**	**1,963,110**
- Net amount reclassified to profit or loss			
Fair value movement	83,789	(29,326)	54,463
Amortisation	(44,932)	-	(44,932)
	38,857	**(29,326)**	**9,531**
	2,029,404	**(56,763)**	**1,972,641**

18.3 Reconciliation of effective tax rate

	Group		Bank	
	2018 USD	2017 USD	2018 USD	2017 USD
Profit before tax	**12,993,851**	**11,684,438**	**4,852,596**	**176,416**
Tax income using the domestic income tax rate of 35%	**(4,547,848)**	**(4,089,553)**	**(1,698,409)**	**(61,746)**
Tax effect of:				
Non-deductible expenses	(604,413)	1,034,104	2,139	(35,740)
Non-taxable income	3,067,067	2,127,289	6,181,095	3,656,220
Unrecognised temporary differences	(5,490,720)	(3,042,040)	(5,505,608)	(3,579,943)
Temporary differences previously not recognised	1,506,672	1,496,789	-	-
Tax effect of investment tax credit	(177,564)	-	-	-
Capital gain at different tax rates	762,402	930,097	-	-
Effect of tax rates in foreign jurisdictions	2,694,186	981,547	(94,466)	(39,389)
Taxation	**(2,790,218)**	**(561,767)**	**(1,115,249)**	**(60,598)**

19 Loss on discontinued operations

	Group		Bank	
	2018 USD	2017 USD	2018 USD	2017 USD
BrasilFactors	-	(3,395,976)	-	-

During the year ended 31 December 2017, the Group resolved to dispose of its investment in BrasilFactors and as a result the investment had been classified as a 'discontinued operations held-for-sale'.

20 Earnings per share

20.1 Basic earnings per share

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

Profit attributable to ordinary shareholders (basic):

Group

	Continuing operations		Discontinued operations		Total	
	2018	2017	2018	2017	2018	2017
	USD	USD	USD	USD	USD	USD
Profit/(loss) attributable to equity holders of the Bank	10,196,095	10,915,608	-	(3,395,976)	**10,196,095**	**7,519,632**

Bank

	Continuing operations		Discontinued operations		Total	
	2018	2017	2018	2017	2018	2017
	USD	USD	USD	USD	USD	USD
Profit attributable to equity holders of the Bank	3,737,347	115,818	-	-	**3,737,347**	**115,818**

Weighted average number of ordinary shares (basic):

	2018	2017
	No. of shares	No. of shares
Weighted average number of ordinary shares at 31 December (basic)	442,784,350	313,071,215

20.2 Diluted earnings per share

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

Profit attributable to ordinary shareholders (diluted):

Group

	Continuing operations		Discontinued operations		Total	
	2018	2017	2018	2017	2018	2017
	USD	USD	USD	USD	USD	USD
Profit/(loss) attributable to equity holders of the Bank	10,196,095	10,915,608	-	(3,395,976)	**10,196,095**	**7,519,632**

Bank

	Continuing operations		Discontinued operations		Total	
	2018	2017	2018	2017	2018	2017
	USD	USD	USD	USD	USD	USD
Profit attributable to equity holders of the Bank	3,737,347	115,818	-	-	**3,737,347**	**115,818**

Earnings per share - continued

Weighted average number of ordinary shares (diluted):

	2018 No. of shares	2017 No. of shares
Weighted average number of ordinary shares at 31 December (basic)	442,784,350	313,071,215
Effect of share options in issue	-	301,089
Diluted weighted average number of ordinary shares at 31 December	**442,784,350**	**313,372,304**

21 Balances with the Central Bank of Malta, treasury bills and cash

	Group		Bank	
	2018 USD	2017 USD	2018 USD	2017 USD
Balances with the Central Bank of Malta and treasury bills	151,882,061	208,128,778	151,882,061	208,128,778
Cash	28,804	42,521	8,944	18,735
	151,910,865	**208,171,299**	**151,891,005**	**208,147,513**

'Balances with the Central Bank of Malta and treasury bills' include a reserve deposit of EUR9,769,463 (USD11,185,554) (2017: EUR7,830,728 (USD9,391,614)) in terms of Regulation (EC) No: 1745/2003 of the European Central Bank.

22 Derivatives held for risk management

	Group		Bank	
	2018 USD	2017 USD	2018 USD	2017 USD
Derivative assets held for risk management				
- foreign exchange	92,852	722,256	92,852	722,256
- interest rate	-	-	16,875	-
	92,852	**722,256**	**109,727**	**722,256**
Derivative liabilities held for risk management				
- foreign exchange	(2,928,925)	(722,922)	(2,928,925)	(722,922)
- interest rate	-	-	-	(532)
	(2,928,925)	**(722,922)**	**(2,928,925)**	**(723,454)**

23 Trading assets

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

At 31 December 2018, there were no 'trading assets' pledged in favour of third parties under reverse-repos or borrowing arrangements (2017: USD72,542,262).

24 Loans and advances to banks

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Repayable on call and at short notice	223,141,479	131,882,035	220,339,291	106,235,211
Term loans and advances	92,131,192	78,913,795	90,913,857	82,020,348
	315,272,671	**210,795,830**	**311,253,148**	**188,255,559**
Pledged in favour of third parties	14,965,698	19,632,078	14,965,698	19,632,078
Gross loans and advances to banks	**330,238,369**	**230,427,908**	**326,218,846**	**207,887,637**
Less loss allowance	(5,133,096)	(4,334,974)	(5,133,096)	(4,334,974)
Net loans and advances to banks	**325,105,273**	**226,092,934**	**321,085,750**	**203,552,663**

'Loans and advances to banks' include blocked funds amounting to USD88,176 (2017: USD113,126) pursuant to US Sanctions.

See Note 49 for balances due from related parties. All such loans and deposits are priced on an arm's length basis.

25 Loans and advances to customers

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Repayable on call and at short notice	425,810,445	338,743,688	222,650,783	186,405,373
Term loans and advances	293,104,430	267,088,423	293,103,880	267,088,572
	718,914,875	**605,832,111**	**515,754,663**	**453,493,945**
Pledged in favour of third parties	279,523	106,312	279,523	106,312
Amounts owed by subsidiary companies	-	-	247,499,910	148,694,577
Total loans and advances	**719,194,398**	**605,938,423**	**763,534,096**	**602,294,834**
Less loss allowance	(63,606,247)	(39,576,893)	(38,128,991)	(20,764,882)
Net loans and advances	**655,588,151**	**566,361,530**	**725,405,105**	**581,529,952**

'Pledged in favour of third parties' include an amount of USD200,657 (2017: USD111,029) pledged in favour of the Single Resolution Fund. In 2017 this pledged amount was included in 'other assets' (see Note 35).

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

See Note 49 for balances due from other related parties. All such loans and deposits are priced on an arm's length basis.

26 Financial assets designated at fair value through profit or loss

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Equity investments designated at FVTPL	173,362,850	-	173,362,850	-
Equity investments available-for-sale	-	156,612,036	-	156,612,036
	173,362,850	**156,612,036**	**173,362,850**	**156,612,036**

Amounts for 2018 are presented in accordance with IFRS 9, which replaced IAS 39 effective from 1 January 2018. The effect of initially applying IFRS 9 is described in Notes 4 and 5. Amounts for 2017 are presented in accordance with IAS 39.

At reporting date, the Group and Bank held an investment of USD156,085,932 (2017: USD141,619,464) in a sub-fund of a local unlisted collective investment scheme, which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in London. The Group is a seed investor in the fund, being the subscriber of all seed shares currently in issue (or 99% of total units, as an additional 1% of the units consist of Founders' Shares). Such investor shares entitle the Group to a preferential fee structure as applicable to all other holders of the same class of shares. The sub-fund continues to seek additional investment capital from third-parties which would dilute the Group's unit holding percentage in the sub-fund. In addition to this, the Group is represented on the sub-fund's Advisory Board by 1 out of 3 members. The Advisory Board acts solely in an advising capacity and the Investment Manager may, in its own discretion, ignore, accept or reject any recommendations of the Advisory Board.

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

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

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

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

27 Financial assets designated at fair value through other comprehensive income

	Group 2018 USD	Group 2017 USD	Bank 2018 USD	Bank 2017 USD
Equity investments designated at FVOCI	75,524	-	75,524	-
Equity investments available-for-sale	-	40,314	-	40,314
	75,524	**40,314**	**75,524**	**40,314**
Debt investments designated at FVOCI	86,654,139	-	86,654,139	-
Debt investments available-for-sale	-	104,592,448	-	104,592,448
Less loss allowance	(45,764)	-	(45,764)	-
	86,608,375	**104,592,448**	**86,608,375**	**104,592,448**
	86,683,899	**104,632,762**	**86,683,899**	**104,632,762**

Amounts for 2018 are presented in accordance with IFRS 9, which replaced IAS 39 effective from 1 January 2018. The effect of initially applying IFRS 9 is described in Notes 4 and 5. Amounts for 2017 are presented in accordance with IAS 39.

At 31 December 2018, 'debt investments designated at FVOCI' included assets with a carrying amount of USD18,880,824 (2017: USD182,720,208) pledged in favour of third parties under reverse-repos or borrowing arrangements.

28 Investments at amortised cost

	Group 2018 USD	Group 2017 USD	Bank 2018 USD	Bank 2017 USD
Debt investments at amortised cost	9,881,423	-	9,881,423	-
Less loss allowance	(34,674)	-	(34,674)	-
	9,846,749	**-**	**9,846,749**	**-**

29 Interests in equity-accounted investees

29.1 The Group's interests in equity-accounted investees are analysed as follows:

	Country of incorporation	Nature of business	Class of shares	Equity interest 2018 %	Equity interest 2017 %	Group 2018 USD	Group 2017 USD
Levant Factors S.A.L	Lebanon	Factoring	Ordinary shares	-	50	-	-
Latam Factors S.A.	Chile	Factoring	Ordinary shares	-	51	-	5,561,181

	2018 USD	2017 USD
At 1 January	5,561,181	-
Adjustment on initial recognition of IFRS 9	(777,095)	-
Restated balance at 1 January	**4,784,086**	**-**
Transfer of Latam Factors from investment in subsidiaries	-	5,298,643
Net share of profits	238,634	8,893
Currency translation difference	(489,779)	253,645
Disposal of investment in Latam Factors	(4,532,941)	-
At 31 December	**-**	**5,561,181**

Interests in equity-accounted investees - continued

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

During 2018, the Group through, its subsidiary Menafactors, disposed of its entire investment in Levant Factors. No profit or loss resulted from this disposal.

29.3 Latam Factors S.A. ("Latam Factors")

During 2018, the Group resolved to seek an orderly disposal of its investment in Latam Factors and in June 2018 the investment was reclassified from 'investment in equity-accounted investees' to 'non-current assets held for sale'. This resulted in a change in measurement of the investment, as required by IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations, to the lower of its carrying amount and its fair value less costs to sell. On 8 November 2018, the Group, through its subsidiary FIM Holdings (Chile) S.p.A. finalised the disposal of its entire investment in Latam Factors, with a residual loss of USD2,062,937 being recognised in the Group's Statement of Profit or Loss.

29.4 Summary of financial information for 'interests in equity-accounted investees' not adjusted for the percentage ownership of the Group:

Name of company	Total assets USD	Total liabilities USD	Total revenue USD	Total expenses USD	Profit/(Loss) USD
31 December 2017					
Latam Factors	54,339,152	20,921,868	8,080,568	(8,069,488)	11,080
Levant Factors	10,018	1,037,029	-	(7,093)	(7,093)

30 Investments in subsidiaries

30.1 Capital subscribed

	Bank 2018 USD	Bank 2017 USD
At 1 January	94,050,884	86,305,594
Additional investment in London Forfaiting Company Limited	10,000,000	-
Additional investment in The Egyptian Company for Factoring S.A.E.	-	10,000,000
Movement in impairment of investments	(1,455,270)	(2,254,710)
At 31 December	**102,595,614**	**94,050,884**

Name of company	Country of incorporation	Nature of business	Equity interest 2018 %	Equity interest 2017 %	Bank 2018 USD	Bank 2017 USD
FIM Business Solutions Limited	Malta	IT services provider	100	100	5,000	5,000
FIM Property Investment Limited	Malta	Property management	100	100	1,005,749	1,005,749
London Forfaiting Company Limited	United Kingdom	Forfaiting	100	100	47,366,435	37,366,435
The Egyptian Company for Factoring S.A.E.	Egypt	Factoring	100	100	11,664,984	11,664,984
FIMFactors B.V.	Netherlands	Holding company	100	100	42,553,445	42,553,445
FIM Holdings (Chile) S.p.A.	Chile	Holding company	100	100	1	1,455,271
					102,595,614	**94,050,884**

Investments in subsidiaries - continued

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

Name of company	Country of incorporation	Nature of business	Equity interest 2018 %	Equity interest 2017 %
CIS Factors Holdings B.V. *	Netherlands	Holding company	-	100
India Factoring and Finance Solutions Private Limited	India	Factoring	86	86
Menafactors Limited *	United Arab Emirates	Factoring	100	100

' * ' In liquidation

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

Name of company	Country of incorporation	Nature of business	Equity interest 2018 %	Equity interest 2017 %
London Forfaiting International Limited	United Kingdom	Holding company	100	100

In turn, London Forfaiting International Limited controls the following subsidiaries:

Name of company	Country of incorporation	Nature of business	Equity interest 2018 %	Equity interest 2017 %
London Forfaiting Americas Inc.	United States of America	Marketing	100	100
London Forfaiting do Brasil Ltda.	Brazil	Marketing	100	100

30.2 Impairment assessment

At each reporting date the Bank carries out an impairment assessment to calculate the recoverable amounts of its investment in subsidiaries (at cost) and determine the possibility of an impairment loss. The recoverable amounts of the investment in subsidiaries are calculated based on their value-in-use, determined by discounting the future cash flows expected to be generated from the continuing use of each entity. Net impairment losses for the year amounted to USD1,455,270 (2017: USD2,254,710).

FIM Holdings (Chile) S.p.A.

At reporting date, the recoverable amount was determined to be lower than the investment (at cost) of the CGU and an impairment loss of USD1,455,270 has been recognised in 'net impairment charge on financial assets' in the Bank's Statement of Profit or Loss.

31 Property and equipment

31.1 Reconciliation of carrying amount

Group

	Freehold Land USD	Freehold premises USD	Computer system USD	Improvement to premises USD	Computer equipment USD	Others USD	Total USD
Cost							
At 1 January 2017	6,124,258	23,213,427	1,955,011	1,254,081	3,700,248	3,665,429	**39,912,454**
Derecognition of intangible assets on deconsolidation of Latam Factors	-	(180,284)	-	(520,743)	(194,524)	(408,707)	**(1,304,258)**
Fair value movement	2,217,091	119,281	-	-	-	-	**2,336,372**
Additions	-	16,529	-	-	248,330	98,783	**363,642**
Disposals	(8,651)	(200,236)	-	-	(139,246)	(122,872)	**(471,005)**
Effect of movement in exchange rates	-	-	-	-	12,550	36,488	**49,038**
Reclassification from investment property	(1,055,848)	(2,026,674)	-	-	-	22,295	**(3,060,227)**
At 31 December 2017	**7,276,850**	**20,942,043**	**1,955,011**	**733,338**	**3,627,358**	**3,291,416**	**37,826,016**
At 1 January 2018	7,276,850	20,942,043	1,955,011	733,338	3,627,358	3,291,416	**37,826,016**
Fair value movement	460,353	1,647,854	-	-	1,849	9,631	**2,119,687**
Additions	-	-	-	-	376,538	280,880	**657,418**
Disposals	-	-	-	-	(66,682)	(346,560)	**(413,242)**
Effect of movement in exchange rates	-	-	-	-	(19,723)	(47,447)	**(67,170)**
At 31 December 2018	**7,737,203**	**22,589,897**	**1,955,011**	**733,338**	**3,919,340**	**3,187,920**	**40,122,709**
Depreciation							
At 1 January 2017	-	3,549,051	1,952,926	795,569	2,899,177	2,884,207	**12,080,930**
Derecognition of intangible assets on deconsolidation of Latam Factors	-	(36,057)	-	(506,551)	(200,489)	(402,974)	**(1,146,071)**
Charge for the year	-	676,153	2,085	133,759	387,165	412,315	**1,611,477**
Disposals	-	(20,357)	-	-	(138,577)	(101,023)	**(259,957)**
Effect of movement in exchange rates	-	-	-	-	12,607	21,149	**33,756**
Reversal of depreciation upon revaluation	-	(4,540,176)	-	-	-	-	**(4,540,176)**
Reclassification from investment property	-	371,386	-	-	3,167	10,761	**385,314**
At 31 December 2017	**-**	**-**	**1,955,011**	**422,777**	**2,963,050**	**2,824,435**	**8,165,273**
At 1 January 2018	-	-	1,955,011	422,777	2,963,050	2,824,435	**8,165,273**
Charge for the year	-	701,207	-	39,612	354,482	220,904	**1,316,205**
Disposals	-	-	-	-	(66,682)	(346,560)	**(413,242)**
Effects of movement in exchange rates	-	-	-	-	(18,572)	(38,724)	**(57,296)**
At 31 December 2018	**-**	**701,207**	**1,955,011**	**462,389**	**3,232,278**	**2,660,055**	**9,010,940**
Carrying amounts							
At 1 January 2017	6,124,258	19,664,376	2,085	458,512	801,071	781,222	**27,831,524**
At 31 December 2017	7,276,850	20,942,043	-	310,561	664,308	466,981	**29,660,743**
At 31 December 2018	**7,737,203**	**21,888,690**	**-**	**270,949**	**687,062**	**527,865**	**31,111,769**

Property and equipment for December 2017 include assets hypothecated in favour of third party banks up to EUR15,000,000 (USD 17,174,262).

Property and equipment - continued

Bank

	Computer system USD	Improvement to premises USD	Computer equipment USD	Others USD	Total USD
Cost					
At 1 January 2017	1,955,011	571,772	2,625,783	1,875,029	**7,027,595**
Additions	-	-	154,286	41,082	**195,368**
Disposals	-	-	-	(2,146)	**(2,146)**
At 31 December 2017	**1,955,011**	**571,772**	**2,780,069**	**1,913,965**	**7,220,817**
At 1 January 2018	1,955,011	571,772	2,780,069	1,913,965	**7,220,817**
Additions	-	-	246,917	97,534	**344,451**
At 31 December 2018	**1,955,011**	**571,772**	**3,026,986**	**2,011,499**	**7,565,268**
Depreciation					
At 1 January 2017	1,952,926	221,601	1,980,933	1,566,703	**5,722,163**
Additions	2,085	39,612	291,821	130,773	**464,291**
Disposals	-	-	-	(1,127)	**(1,127)**
At 31 December 2017	**1,955,011**	**261,213**	**2,272,754**	**1,696,349**	**6,185,327**
At 1 January 2018	1,955,011	261,213	2,272,754	1,696,349	**6,185,327**
Additions	-	39,612	272,383	99,474	**411,469**
At 31 December 2018	**1,955,011**	**300,825**	**2,545,137**	**1,795,823**	**6,596,796**
Carrying amounts					
At 1 January 2017	2,085	350,171	644,850	308,326	**1,305,432**
At 31 December 2017	-	310,559	507,315	217,616	**1,035,490**
At 31 December 2018	**-**	**270,947**	**481,849**	**215,676**	**968,472**

Property and equipment - continued

31.2 Measurement of fair values

During the financial year ended 31 December 2017, the Group changed its Accounting Policy on the measurement of freehold land and buildings. In prior financial years these two asset classes were measured at cost less accumulated depreciation and any accumulated impairment losses. Following the change in Accounting Policy (see Note 3.17), the property is being measured at fair value.

Land and buildings are revalued by an independent professionally qualified architect in accordance with Accounting Policy 3.17.1. Valuations of land and buildings are done using the 'investment income approach' whereby market value is derived by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties. The income is arrived at by analysing a number of rental rates taking cognisance of the location of the property, its size, layout, and planning and energy performance considerations.

The land and premises were revalued on 31 December 2018.

Property fair value measurement is classified as Level 3 (see Note 2.4.2.1). Significant unobservable inputs used in the valuation of these properties is the rental income and the percentage capitalisation rate which indicates the multiplier relationship between net rental income and property value. Further details about these significant inputs are summarised in the table below:

	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Office space	Investment income approach	Rental value per square metre	€284 to €619	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	6.0%	The higher the capitalisation rate the lower the fair value
Parking space	Investment income approach	Rental value per square metre	€160 to €230	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	8.0%	The higher the capitalisation rate the lower the fair value
Stores and ancillary	Investment income approach	Rental value per square metre	€88 to €165	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	8.5%	The higher the capitalisation rate the lower the fair value

32 Investment property

32.1 Reconciliation of carrying amount

Group

	Group 2018 USD	Group 2017 USD
Cost		
At 1 January	16,238,869	6,932,960
Reclassification from property and equipment	-	5,861,107
Fair value gain	984,951	3,444,802
At 31 December	**17,223,820**	**16,238,869**
Carrying amounts		
Cost	7,049,357	7,049,357
Net fair value gains	10,174,463	9,189,512
Carrying amount	**17,223,820**	**16,238,869**

'Investment property' comprises a number of areas within the Group Head Office building in St. Julian's, Malta which are available for rent to third parties.

Investment property - continued

32.2 Measurement of fair values

During the financial year ended 31 December 2017, the Group changed its Accounting Policy on the measurement of investment property. In prior financial years investment property was measured at cost less accumulated depreciation and any accumulated impairment losses. Following the change in Accounting Policy, the property is being measured at fair value.

Investment property is revalued by an independent professionally qualified architect in accordance with Accounting Policy 3.19. Valuations of investment property is done using a combination of the 'investment income approach' and the 'comparative value approach'. Under the 'investment income approach', the market value is derived by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties. The income is arrived at by analysing a number of rental rates taking cognisance of the location of the property, its size, layout, and planning and energy performance considerations. Under the 'comparative value approach' the market value of the property is estimated by selecting an appropriately adjusted price per unit (€/square metre) based on transactions in comparable properties located in proximity to the property.

The investment property was revalued on 31 December 2018.

Property fair value measurement is classified as Level 3 (see Note 2.4.2.1). Significant unobservable inputs used in the valuation of these properties is the rental income, the sales price and the percentage capitalisation rate which indicates the multiplier relationship between net rental income and property value. Further details about these significant inputs are summarised in the table below:

	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Office space	Investment income approach	Rental value per square metre	€284 to €619	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	6.0%	The higher the capitalisation rate the lower the fair value
Retail space	Comparative value approach	Sales price per square metre	€1,900 to €2,450	The higher the sale price the higher the fair value
Stores and ancillary	Investment income approach	Rental value per square metre	€88 to €165	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	8.5%	The higher the capitalisation rate the lower the fair value

33 Intangible assets and goodwill

33.1 Reconciliation of carrying amount

Group

	Goodwill USD	Software USD	Other USD	Total USD
Cost				
At 1 January 2017	15,570,668	6,676,066	345,028	**22,591,762**
Derecognition of intangible assets on deconsolidation of Latam Factors	-	(83,620)	(345,028)	**(428,648)**
Additions	-	763,788	-	**763,788**
Disposals	-	(25,694)	-	**(25,694)**
Write-offs	-	(25,889)	-	**(25,889)**
Effects of movement in exchange rates	861,292	8,950	-	**870,242**
At 31 December 2017	**16,431,960**	**7,313,601**	**-**	**23,745,561**
At 1 January 2018	16,431,960	7,313,601	-	**23,745,561**
Additions	-	2,586,154	-	**2,586,154**
Effects of movement in exchange rates	(1,220,164)	(12,728)	-	**(1,232,892)**
At 31 December 2018	**15,211,796**	**9,887,027**	**-**	**25,098,823**
Accumulated amortisation and impairment losses				
At 1 January 2017	6,752,727	4,066,944	70,156	**10,889,827**
Derecognition of intangible assets on deconsolidation of Latam Factors	-	(83,620)	(134,178)	**(217,798)**
Charge for the year	-	585,025	64,022	**649,047**
Disposals	-	(1,657)	-	**(1,657)**
Effects of movement in exchange rates	432,754	8,440	-	**441,194**
At 31 December 2017	**7,185,481**	**4,575,132**	**-**	**11,760,613**
At 1 January 2018	7,185,481	4,575,132	-	**11,760,613**
Charge for the year	-	673,615	-	**673,615**
Effects of movement in exchange rates	(613,068)	(12,738)	-	**(625,806)**
At 31 December 2018	**6,572,413**	**5,236,009**	**-**	**11,808,422**
Carrying amounts				
At 1 January 2017	8,817,941	2,609,122	274,872	**11,701,935**
At 31 December 2017	9,246,479	2,738,469	-	**11,984,948**
At 31 December 2018	**8,639,383**	**4,651,018**	**-**	**13,290,401**

Intangible assets and goodwill - continued

Bank

	Software USD
Cost	
At 1 January 2017	4,361,410
Additions	753,025
Write-offs	(25,889)
At 31 December 2017	**5,088,546**
At 1 January 2018	5,088,546
Additions	2,543,743
At 31 December 2018	**7,632,289**
Accumulated amortisation	
At 1 January 2017	1,893,780
Charge for the year	458,167
At 31 December 2017	**2,351,947**
At 1 January 2018	
Charge for the year	2,351,947
Charge for the year	611,000
At 31 December 2018	**2,962,947**
Carrying amounts	
At 1 January 2017	2,467,630
At 31 December 2017	2,736,599
At 31 December 2018	**4,669,342**

33.2 Impairment testing for CGUs containing goodwill

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

	Group	
	2018 USD	2017 USD
India Factoring		
- cost, net of exchange differences	13,080,796	14,300,960
- accumulated impairment, net of exchange differences	(6,572,413)	(7,185,481)
Egypt Factors		
- cost	2,131,000	2,131,000
	8,639,383	**9,246,479**

33.2.1 India Factoring

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

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

	31 December 18	31 December 17
Pre-tax discount rate	15.8%	6.2%
Terminal value exit multiple	1.5x	2.12x
Budgeted portfolio growth rates (average during projection period)	57.6%	56.0%

Intangible assets and goodwill - continued

The discount rate used is based on the rate (2018: 7.38%, 2017: 6.6%) of 10-year government bonds issued by the government in India and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally (2018: 7.0%, 2017: 8.6%) and the systemic risk (2018: 3%, 2017: 1%) of the specific entity.

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

Budgeted profits were based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was projected taking into account the updated business model of the entity and the estimated growth over the projection period.

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

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

33.2.2 Egypt Factors

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

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

	31 December 18	31 December 17
Pre-tax discount rate	15.5%	17.0%
Terminal value exit multiple	0.52x	0.67x
Budgeted portfolio growth rates (average during projection period)	38.6%	48.4%

The discount rate used is based on the rate (2018: 2.68%, 2017: 2.4%) of 10-year US-government bond representing the functional currency of the company, adjusted for a risk premium to reflect the increased risk of investing in Egypt-based equities (2018: 12.58%, 2017: 11.6%) and the systemic risk (2018: 3%, 2017: 3%) of the specific entity. The cost of equity was adjusted for the pre-tax cost of debt to reflect the equity-debt composition of the company.

Cash flows of five years were included in the discounted cash flow model, based on a long range plan for the company. Projected profits were based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was projected taking into account the updated business model of the entity and the estimated growth for over the projection period. In determining the value-in-use, the projections have been extrapolated over an additional 5-year period to reflect the effective start-up position of the company – no equity on acquisition, insignificant portfolio size and profitability trend in the projected period. Terminal value into perpetuity was determined by reference to economic indicators, further adjusted for size and margins, illiquidity and control premium.

Management has approved the forecasts, relating to the business carried out by Egypt Factors based on a strategy to grow the business through the exercise of full control over the subsidiary, and by executing changes in strategy, management, risk profile and governance. These forecasts form the basis on which the recoverable amount of goodwill is arrived at (the recoverable amount exceeds the carrying amount of goodwill). Whilst it is inherent that actual results may differ from those budgeted, and such variations may be significant, the Directors believe that the business plan can be supported, such that the Group will recover such goodwill at least at the amount stated.

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

34 Deferred taxation

34.1 Analysis of deferred taxation

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Deferred tax assets				
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	(553,247)	(374,657)	(572,983)	(343,212)
- allowances for uncollectibility	22,277,847	18,151,232	12,891,926	7,897,233
- changes in fair value of financial instruments	2,245,380	986,347	2,245,380	986,347
- investment tax credits	-	238,527	-	-
- unabsorbed capital allowances	1,556,143	975,625	1,556,143	976,134
- unabsorbed tax losses *	13,167,981	21,046,171	6,478,575	13,786,765
Total deferred tax assets	**38,694,104**	**41,023,245**	**22,599,041**	**23,303,267**
Deferred tax liabilities				
Tax effect of temporary differences relating to:				
- fair valuation of property and equipment	2,837,170	2,219,575	-	-
- fair valuation of investment property	1,377,905	1,299,109	-	-
Total deferred tax liabilities	**4,215,075**	**3,518,684**	**-**	**-**

' * ' In 2018, the Group continued growing its asset portfolios across the different business units resulting in taxable profits reported in both the Bank and subsidiaries. As a result, it is considered probable that future taxable profits would be available to absorb the current level of recognised tax losses. 'Deferred tax assets' related to unabsorbed tax losses amounting to USD9,921,565 recognised in a subsidiary having an expiry period ranging between 31 March 2023 to 31 March 2027.

34.2 Unrecognised deferred taxation

At the financial reporting date, the Bank had unrecognised temporary differences amounting to USD78.7 million (2017: USD63.1 million). In addition, Group subsidiaries had unrecognised and unutilised tax losses and tax credits amounting to USD8.6 million (2017: USD21.9 million) and USD0.6million (2017: USD0.6 million) respectively. Unrecognised unabsorbed tax losses amounting to USD6,902,232 carried in a subsidiary have an expiry period ranging between 31 March 2024 to 31 March 2027.

Deferred taxation - continued

34.3 Movements in temporary differences during the year

34.3.1 Deferred tax assets

Group

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Effect of movement in exchange rates USD	De-consolidation of subsidiary USD	Closing balance USD
2018						
Excess of capital allowances over depreciation	(374,657)	-	(178,590)	-	-	**(553,247)**
Allowances for uncollectibility	18,151,232	-	5,003,963	877,351	-	**22,277,844**
Changes in fair values of financial instruments	986,347	265,691	993,343	-	-	**2,245,381**
Investment tax credits	238,527	-	(238,527)	-	-	**-**
Unabsorbed capital allowances	975,625	-	580,517	-	-	**1,556,142**
Unabsorbed tax losses	21,046,171	-	(7,878,187)	-	-	**13,167,984**
	41,023,245	**265,691**	**(1,717,481)**	**877,351**	**-**	**38,694,104**
2017						
Excess of capital allowances over depreciation	(293,967)	-	(104,724)	-	24,034	**(374,657)**
Allowances for uncollectibility	18,068,596	-	64,611	619,306	(601,281)	**18,151,232**
Changes in fair values of financial instruments	3,577,628	(32,192)	(2,559,089)	-	-	**986,347**
Investment tax credits	238,527	-	-	-	-	**238,527**
Unabsorbed capital allowances	541,982	-	433,643	-	-	**975,625**
Unabsorbed tax losses	19,749,921	-	2,165,559	-	(869,309)	**21,046,171**
	41,882,687	**(32,192)**	**-**	**619,306**	**(1,446,556)**	**41,023,245**

Bank

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Closing balance USD
2018				
Excess of capital allowances over depreciation	(343,212)	-	(229,772)	**(572,984)**
Allowances for uncollectibility	7,897,233	-	4,994,688	**12,891,921**
Changes in fair values of financial instruments	986,347	265,691	993,343	**2,245,381**
Unabsorbed capital allowances	976,134	-	580,008	**1,556,142**
Unabsorbed tax losses	13,786,765	-	(7,308,184)	**6,478,581**
	23,303,267	**265,691**	**(969,917)**	**22,599,041**
2017				
Excess of capital allowances over depreciation	(231,752)	-	(111,460)	**(343,212)**
Allowances for uncollectibility	7,825,887	-	71,346	**7,897,233**
Changes in fair values of financial instruments	3,578,137	(32,192)	(2,559,598)	**986,347**
Unabsorbed capital allowances	541,982	-	434,152	**976,134**
Unabsorbed tax losses	11,621,205	-	2,165,560	**13,786,765**
	23,335,459	**(32,192)**	**-**	**23,303,267**

Deferred taxation - continued

34.3.2 Deferred tax liabilities

Group

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Closing balance USD
2018				
Changes in fair value of property and equipment	(3,518,684)	(617,595)	(78,796)	**(4,215,075)**
2017				
Changes in fair value of property and equipment	(554,636)	(2,688,502)	(275,546)	**(3,518,684)**

35 Other assets

	Group 2018 USD	Group 2017 USD	Bank 2018 USD	Bank 2017 USD
Operational debtors and other recoverable amounts	6,519,971	11,734,526	4,298,790	8,020,694
Indirect taxation	1,139,609	1,013,448	1,067,514	985,100
	7,659,580	**12,747,974**	**5,366,304**	**9,005,794**

'Other assets' include an amount of USD3,725,497 (2017: USD7,026,546) pledged in favour of the Depositor Compensation Scheme. In 2017, 'other assets' included USD111,029 which was pledged in favour of the Single Resolution Fund. In 2018 this pledged amount is included in 'loans and advances to customers' (see Note 25).

36 Prepayments and accrued income

	Group 2018 USD	Group 2017 USD	Bank 2018 USD	Bank 2017 USD
Accrued income	7,499,502	5,020,916	7,393,994	5,067,709
Prepayments	1,486,105	2,755,255	886,731	1,987,046
	8,985,607	**7,776,171**	**8,280,725**	**7,054,755**

See Note 49 for balances receivable from related parties.

37 Amounts owed to banks

	Group 2018 USD	Group 2017 USD	Bank 2018 USD	Bank 2017 USD
Term loans and deposits	331,415,468	373,257,171	276,276,233	273,312,116
Repayable on demand	121,639,859	119,935,675	121,636,800	119,935,675
	453,055,327	**493,192,846**	**397,913,033**	**393,247,791**

See Note 49 for balances due to related parties. All such loans and deposits are priced on an arm's length basis.

The Group and Bank includes balances amounting to USD6,798,387 (2017: USD40,682,505) held as collateral for irrevocable commitments. Pledges are generally conducted under terms that are usual and customary for standard borrowing contracts.

38 Amounts owed to customers

	Group 2018 USD	Group 2017 USD	Bank 2018 USD	Bank 2017 USD
Term deposits	663,507,278	507,698,720	657,542,463	499,792,528
Repayable on demand	360,465,609	339,499,285	295,696,852	305,885,642
	1,023,972,887	**847,198,005**	**953,239,315**	**805,678,170**
Amounts owed to subsidiaries	-	-	4,481,456	10,134,400
	1,023,972,887	**847,198,005**	**957,720,771**	**815,812,570**

The Group has deposits amounting to USD35,014,291 (2017: USD73,107,534) held as collateral for irrevocable commitments. Pledges are generally conducted under terms that are usual and customary for standard borrowing contracts.

See Note 49 for balances due to related parties. All such deposits are priced on an arm's length basis.

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

39 Debt securities in issue

'Debt securities in issue' comprise of promissory notes. At 31 December 2018 and 31 December 2017 promissory notes in issue had a tenor of up to one year. The Group's effective interest rate ranges between 1.30% and 4.75% (2017: 1.00% and 3.70%). The Bank's effective interest rate is 4.55% (2017: Nil).

40 Subordinated liabilities

As at 31 December 2017, the Group had outstanding 'subordinated liabilities' amounting to USD50 million, granted by a bank holding a significant shareholding in the Group. The loan had a floating rate of interest and was priced in an arm's length basis. This loan qualified as Tier 2 capital under the provisions of the Capital Requirements Regulation.

As part of the 2018 Rights Issue, the USD50m subordinated loan was used to set-off the amount owed by the Bank against the subscription proceeds due by the respective Shareholder (see Note 42.2).

41 Accruals and deferred income

	Group 2018 USD	Group 2017 USD	Bank 2018 USD	Bank 2017 USD
Accrued interest	4,929,883	5,458,398	4,489,704	4,878,048
Other accruals	12,152,211	14,575,885	4,560,775	2,940,042
	17,082,094	**20,034,283**	**9,050,479**	**7,818,090**

See Note 49 for balances due to related parties.

42 Equity

42.1 Share capital

	2018 Shares of 50 US cents		2017 Shares of 50 US cents	
	Shares	USD	Shares	USD
Authorised:				
Ordinary shares at 31 December	1,000,000,000	500,000,000	1,000,000,000	500,000,000
Issued and fully paid up:				
Ordinary shares at 31 December	505,440,214	252,720,107	314,531,123	157,265,562

	Ordinary shares 2018	2017
	No of shares	No of shares
On issue at 1 January	314,531,123	310,478,525
Bonus issue of shares	-	3,882,463
Rights issue of shares	190,909,091	-
Exercise of share options	-	170,135
On issue at 31 December	**505,440,214**	**314,531,123**

42.2 Rights issue

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

42.3 Share premium

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

42.4 Reserve for general banking risks

The reserve for general banking risks is a regulatory reserve created by virtue of Banking Rule 9 - Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act 1994. Under this Rule, banks are required to calculate a regulatory allocation which would be equal to their level of non-performing exposures (gross of any collateral but reduced for suspended interest) reduced by the specific impairment allowance as calculated and disclosed in these Financial Statements. An amount ranging between 2.5% and 5.0% of the regulatory allocation is then appropriated to the reserve for general banking risks.

42.5 Currency translation reserve

The currency translation reserve consists of exchange differences arising on the translation of the net investment in foreign operations and the fair value changes on the hedging of net investment in foreign operations.

Equity - continued

42.6 Fair value reserve

The fair value reserve comprises:

- the cumulative net change in the fair value of revalued property;
- the cumulative net change in the fair value of equity securities measured at FVOCI (2017: available-for-sale financial assets); and
- the cumulative net change in the fair value of debt securities measured at FVOCI (2017: available-for-sale financial assets) until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance.

Amounts recognised in fair value reserve are net of deferred tax.

42.7 Other reserve

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

42.8 Dividends

No dividends were declared or paid during the year (2017: Nil). The Board of Directors is not recommending the payment of a dividend for the financial year ended 31 December 2018 (2017: Nil).

42.9 Availability of reserves for distribution

At 31 December 2018, the Bank had accumulated losses of USD37,269,073 (2017: USD35,768,147).

43 Non-controlling interests

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

31 December 2018

	India Factoring
Acquisition date	31 March 2014
NCI percentage	14%
	USD
Total assets	154,186,809
Total liabilities	120,741,094
Net assets	33,445,715
Carrying amount of NCI	**(1,615,254)**
Profit for the year	53,849
Profit allocated to NCI	**7,538**
Net increase in cash and cash equivalents	**4,434,839**

Non-controlling interests - continued

31 December 2017

	India Factoring	Latam Factors *	Total
Acquisition date	31 March 2014	1 October 2014	
NCI percentage	14%	49%	
	USD	USD	
Total assets	114,201,833	-	
Total liabilities	77,200,701	-	
Net assets	37,001,132	-	
Carrying amount of NCI	**(1,709,475)**	**-**	**(1,709,475)**
Profit for the year	1,506,351	(6,272)	
Profit allocated to NCI	**210,136**	**(3,073)**	**207,063**
Net increase/(decrease) in cash and cash equivalents	**21,604,215**	**(3,079,770)**	

'*' During 2017, the Group lost control over Latam Factors and changed the classification and measurement to equity method. As a result, the carrying amount of non-controlling interests as at December 2017 is Nil.

44 Contingent liabilities

'Contingent liabilities' comprise of guarantee obligations incurred on behalf of third parties. Guarantees issued to subsidiaries amount to USD64,654,610 (2017: USD56,508,748).

45 Commitments

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Commitments to purchase assets				
Undrawn credit facilities	107,966,535	190,875,472	82,283,205	167,450,639
Confirmed letters of credit	22,988,539	39,270,259	47,220,241	45,944,596
Documentary credits	5,111,809	23,755,009	20,275,337	33,918,871
Risk participations	8,399,339	5,166,842	8,399,339	5,166,842
Factoring commitments	29,858	12,383	207,898	1,772,895
Commitment to purchase assets	36,610,687	47,236,123	-	-
Credit default swaps	7,500,000	47,577,185	-	-
	188,606,767	**353,893,273**	**158,386,020**	**254,253,843**

The Bank has total sanctioned limits to customers amounting to USD1,890,104,415 (2017: USD1,735,586,855). In addition, as at the financial reporting date the Bank had open back-to-back documentary credits amounting to USD3,283,705 (2017: USD1,336,862).

Subsidiary companies have confirmed USD41,609,760 (2017: USD18,616,342) of documentary credits in favour of the Bank.

See Note 49 for 'commitments' to related parties.

46 Cash and cash equivalents

Balances of cash and cash equivalents as shown on the Statements of Financial Position are analysed as follows:

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Balances with the Central Bank of Malta, treasury bills and cash	151,910,865	208,171,299	151,891,005	208,147,513
Loans and advances to banks	237,463,775	156,913,007	233,961,588	123,634,700
Amounts owed to banks	(307,592,639)	(186,407,684)	(286,845,741)	(178,389,068)
Cash and cash equivalents at end of year	**81,782,001**	**178,676,622**	**99,006,852**	**153,393,145**
Adjustment to reflect balances with contractual maturity of more than three months	(57,821,190)	(237,605,235)	(23,943,130)	(134,940,760)
As per statements of financial position	**23,960,811**	**(58,928,613)**	**75,063,722**	**18,452,385**
Analysed as follows:				
Balances with the Central Bank of Malta, treasury bills and cash	151,910,865	208,171,299	151,891,005	208,147,513
Loans and advances to banks	325,105,273	226,092,934	321,085,750	203,552,663
Amounts owed to banks	(453,055,327)	(493,192,846)	(397,913,033)	(393,247,791)
	23,960,811	**(58,928,613)**	**75,063,722**	**18,452,385**

47 Operating leases

Leases as lessee

The Group leases motor vehicles and office premises under operating lease arrangements. Details of amounts charged under operating leases are disclosed in Note 17.1.

Non-cancellable operating lease rentals are payable as follows:

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Less than one year	855,411	986,761	1,074,088	1,103,823
Between one and five years	922,232	1,073,846	479,295	764,593
More than five years	146,340	237,426	146,340	237,426
	1,923,983	**2,298,033**	**1,699,723**	**2,105,842**

48 Finance leases

Leases as lessee

In 2017 the Group leased office furniture under a non-cancellable finance lease arrangement, payable as follows:

	Group		Bank	
	2018	2017	2018	2017
	USD	USD	USD	USD
Less than one year	-	72,949	-	-

49 Related parties

49.1 Identity of related parties

The Bank has a related party relationship with its significant Shareholders, subsidiaries, Directors, executive officers and companies forming part of the KIPCO Group. For the purpose of this note, significant shareholders include all shareholders (and their connected parties) holding at least five percent of the issued share capital of the Bank.

49.2 Parent, shareholder having significant influence and other related companies

The aggregate values of transactions and outstanding balances related to the parent and subsidiaries of the parent company were as follows:

		Parent		Subsidiaries of parent	
		2018	2017	2018	2017
	Note	USD	USD	USD	USD
Assets					
Loans and advances to banks	24	9,881,423	-	-	-
Loans and advances to customers	25	53,812,686	-	-	35,979,851
Prepayments and accrued income	36	523,694	-	-	255,217
Liabilities					
Derivative liabilities held for risk management	22	-	-	78,100	-
Amounts owed to banks	37	-	-	-	30,002,732
Amounts owed to customers	38	10,036,494	-	2,658	-
Accruals and deferred income	41	-	-	-	10,833
Commitments	45	-	-	-	30,000,000
Statements of profit or loss					
Interest income	9	1,455,012	235,646	-	425,127
Interest expense	9	(383,216)	-	(1)	(11,312)
Fee and commission income	10	802	-	8,831	61,561
Net loss from other financial instruments carried at fair value	12	-	-	(74,851)	-
Administrative expenses	17	-	-	(27,439)	-

Related parties - continued

The aggregate values of transactions and outstanding balances related to the shareholder having significant influence, subsidiary of shareholder having significant influence and other related companies were as follows:

		Shareholder having significant influence		Subsidiary of shareholder having significant influence		Other related companies	
		2018	2017	2018	2017	2018	2017
	Note	USD	USD	USD	USD	USD	USD
Assets							
Derivative assets held for risk management	22	-	476,526	-	-	-	-
Loans and advances to banks	24	10,306	13,741	34,348,523	-	-	-
Loans and advances to customers	25	-	-	-	-	12,600,608	-
Other assets	35	858	-	-	-	-	-
Prepayments and accrued income	36	-	-	142,999	-	-	-
Liabilities							
Derivative liabilities held for risk management	22	-	-	-	-	-	-
Amounts owed to banks	37	65,000,000	30,000,000	-	-	-	914,415
Amounts owed to customers	38	-	-	-	-	13,944,116	-
Subordinated liabilities	40	-	50,000,000	-	-	-	-
Other liabilities		630	-	-	-	-	-
Accrued and deferred income	41	99,040	911,948	-	-	-	-
Commitments	45	-	-	14,779,555	-	-	-
Statements of profit or loss							
Interest income	9	-	-	136,100	-	196,066	46,795
Interest expense	9	(3,180,831)	(4,561,306)	-	-	(2,970)	(74)
Fee and commission income	10	-	-	-	-	102,216	25,222
Fee and commission expense	10	(106)	(434)	-	-	(11)	-
Net gain from other financial instruments carried at fair value	12	362,247	6,767,091	-	-	-	-
Administrative expenses	17	(99,235)	(85,393)	-	-	(1,275)	(8,700)

49.3 Transactions with key management personnel

		Directors		Executive officers	
		2018	2017	2018	2017
	Note	USD	USD	USD	USD
Assets					
Loans and advances to customers	25	-	-	24,092	62,050
Other assets	35	18	-	-	-
Prepayments and accrued income	36	-	-	1	126
Liabilities					
Amounts owed to customers	38	78,841	545,424	1,036,096	624,296
Accruals and deferred income	41	-	2,791	3,359	-
Statements of profit or loss					
Interest income	9	-	-	2,927	337
Interest expense	9	(458)	(8,999)	(4,636)	(4,045)
Fee and commission income	10	-	-	100	-
Fee and commission expense	10	-	-	(202)	(44)
Administrative expenses - remuneration	17	(388,408)	(375,593)	(3,988,767)	(2,898,544)
Administrative expenses - others	17	(43,819)	(35,736)	(46,900)	-
Unexercised share options		-	-	-	65,438

Directors of the Group control less than 1 per cent of the voting shares of the Bank (2017: less than one per cent).

Related parties - continued

49.4 Other related party transactions

	Note	Other related parties 2018 USD	Other related parties 2017 USD
Assets			
Prepayments and accrued income *	36	-	101
Liabilities			
Amounts owed to customers **	38	292,397	425,745
Accrued and deferred income **	41	2,040	2,038
Statements of profit or loss			
Interest income **	9	-	7,910
Interest expense **	9	(7,421)	-
Fee and commission expense *	10	(478)	-

' * ' relates to a company holding shares in a subsidiary of the Group.
' ** ' relates to family members of Directors of the Group.

49.5 Related party balances

Information on amounts related to subsidiary companies and equity-accounted investees are reported in Notes 9, 13, 14, 15, 17, 25, 29, 30, 38, 45 and 50 of these Financial Statements.

50 Financial commitments

For 2019, the Board approved capital injections of up to USD10 million to provide additional support to existing factoring investments by way of additional capital.

51 Capital commitments

At financial reporting date the Group had the following commitments:

	2018 USD	2017 USD
Authorised and contracted	477,000	1,639,126
Authorised but not contracted	-	277,527
	477,000	**1,916,653**

52 Subsequent events

On 10 January 2019 the Group made an additional investment of INR350 million (USD5 million on investment date) in India Factoring. This investment is intended to support the further growth of the company and its ability to do this within the regulatory capital requirements. Following this investment, the Group increased the ownership in the subsidiary to 87.19%.

On 28 January 2019, FactorRus LLP was officially liquidated. FactorRus LLP was a wholly owned subsidiary registered in Russia. FactorRus LLP ceased its operations and was put into liquidation during 2016. The Group deconsolidated FactorRus LLP during 2016 and its liquidation had no financial impact on the Financial Statements as at reporting date.

53 Comparative information

Certain comparative amounts have been restated, reclassified or re-represented due to the implementation of IFRS 9 Financial Instruments on 1 January 2018 (see Note 5.1).

54 Ultimate parent company

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

The immediate parent company is United Gulf Holding Company B.S.C. ("UGH"), a holding company licensed by the Ministry of Industry, Commerce and Tourism in Bahrain. The registered address is PO Box 5565, Diplomatic Area, UGB Tower, Manama, Kingdom of Bahrain.

Statement by the directors pursuant to Listing Rule 5.68

For the year ended 31 December 2018

We, the undersigned, declare that to the best of our knowledge, the financial statements set out on pages 28 to 141 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 23 March 2019 by:

John C. Grech
Chairman

Masaud M.J. Hayat
Vice Chairman

KPMG

Independent auditors' report

To the shareholders of FIMBank p.l.c.

1 Report on the audit of the financial statements

Opinion

We have audited the financial statements of FIMBank p.l.c. (the "Bank" or the "Company") and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

a. give a true and fair view of the financial position of the Bank and of the Group as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

b. have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Banking Act, 1994 (Chapter 371, Laws of Malta) (the "Banking Act") and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. During the course of our audit, we maintained our independence from the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta) ("APA"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters, together with our response by way of the audit procedures we performed to address that matter in our audit, and key observations arising with respect to such risks of material misstatement.

Independent auditors' report

To the shareholders of FIMBank p.l.c.

Key audit matters - continued

Carrying amounts of goodwill at group level and investment in subsidiaries at company level

Accounting policy notes 3.1.1, 3.1.2, 3.19 and 3.20 to the financial statements and notes 30 and 33 for further disclosures.

'Goodwill' (Group: USD8,639,383); and
'Investment in subsidiaries' (Company: USD102,595,614).

'Investment in subsidiaries' includes, among others, the investment in The Egyptian Company for Factoring S.A.E. (referred to as "Egypt Factors") and, indirectly through FIM Factors B.V., the investment in India Factoring and Finance Solutions Private Limited (referred to as "India Factoring"), to which the key audit matter relates.

The Group

The Group holds goodwill relating to the acquisition of the interests in Egypt Factors and India Factoring (the "components"). Both components are separately identified by the Group as cash generating units ("CGU" or "CGUs"), in line with the applicable financial reporting framework, as they generate cash-inflows for the Group that are largely independent of the cash inflows generated by other assets or groups of assets.

At Group level, an assessment of each CGU is required annually by the relevant financial reporting framework to establish whether the recoverable amount is at least equal to the carrying amount, and therefore, whether any impairment should be recorded. Significant judgement is required in determining the recoverable amount of each CGU, namely due to the (i) inherent uncertainty in forecasting the future cash flows; and the (ii) judgement required in determining the appropriate discount rates and terminal value exit multiples applied to those cash flows in arriving at the value-in-use (being the basis on which the carrying amount is determined).

The Company

'Investments in subsidiaries' are carried at cost less any impairment losses in the Company's statement of financial position. That financial statement caption includes the components to which those CGUs relate (Egypt Factors and India Factoring). Any impairment relating to those CGUs may result in the Company's investment in subsidiaries being impaired should such impairment at Group level result in the recoverable amount of the related investment being lower than its carrying amount.

Our response

For each of the CGUs, as part of our procedures:

- we evaluated the reasonableness of the data used in the preparation of the cash flow forecasts (in the main, projected factoring volumes and margins) with reference to our understanding of the components' historical trends;
- we involved our valuation specialist to assist us in assessing (i) the appropriateness of the selected valuation model; and (ii) whether the discount rates and the terminal value exit multiples applied to the cash flow forecasts were within a reasonable range by comparison with market data consisting mainly of the respective country Gross Domestic Product growth rate and rate of inflation;
- we assessed the impact of reasonable possible changes in the key assumptions in the valuation model including discount rates, terminal value exit multiples and average factoring margins used for estimating the recoverable amounts of each CGU in concluding on the impairment assessment, and assessed whether there were any indicators of management bias in the selection of those assumptions; and
- we compared the Group's and Company's 2018 budgets with the actual performance for the reporting period, and made enquiries as to the reasons for any significant variations identified and assessed the reasonableness of the explanations provided, by corroborating these against our knowledge of the Group.

We have no key observations to report, specific to this matter.

Independent auditors' report

To the shareholders of FIMBank p.l.c.

Key audit matters - continued

Recoverability of recognised deferred tax assets

Accounting policy note 3.9 to the financial statements and note 34 for further disclosures.

'Deferred tax assets' (Group: USD38,694,104 and Company: USD22,599,041).

The Group and the Company recognised deferred tax assets in respect of the future benefit of net deductible temporary differences and accumulated tax losses. In accordance with the applicable financial reporting framework, the recognition of those deferred tax assets is permitted to the extent that it is probable that future taxable profits will be available against which these assets can be used. Such restrictions are more pronounced in certain jurisdictions, in which to Group operates, where the carry forward of losses to future periods are time-barred. The recognition of deferred tax assets, therefore, requires significant judgement in estimating future profitability (and the extent of taxable profits) based on business plans drawn up by the directors. Due to estimation uncertainty, the projected relief of the tax losses, for which the deferred tax assets are recognised, might be materially different from the amount ultimately relieved.

Our response

As part of our procedures:

- we evaluated the assumptions underlying the Company's and its subsidiaries' projections used to support the recognition of the deferred tax asset having regard to (i) our understanding of the respective jurisdiction; and (ii) the current pipeline of new business;
- we compared the Group's and Company's 2018 budgets with the actual performance for the reporting period, and made enquiries as to the reasons for any significant variations identified and assessed the reasonableness of the explanations provided, by corroborating these against our knowledge of the Group; and
- specifically in relation to carry forward losses subject to time-barring, we also assessed the impact of reasonable possible changes in the underlying assumptions of the forecasts on the Group's ability to utilise the losses before their expiry.

We have no key observations to report, specific to this matter.

Independent auditors' report

To the shareholders of FIMBank p.l.c.

Key audit matters - continued

Impairment allowances on loans and advances measured at amortised cost

Accounting policy note 3.10.8 to the financial statements and notes 2.4.1, 2.4.2, 4.1, 5.2.1, 24 and 25 for further disclosures.

'Loans and advances to banks' (Group: USD325,105,273 and Company: USD321,085,750); and
'Loans and advances to customers' (Group: USD655,588,151 and Company: USD725,405,105).

IFRS 9 Financial Instruments was implemented on 1 January 2018. This new financial reporting standard requires the Group to recognise expected credit loss ("ECL") allowances on loans and advances. The calculation of the ECL involves a number of complex, judgmental and highly sensitive assumptions. The following elements resulting from the adoption of IFRS 9 represent, in the main, the key judgments applicable to the Group, and therefore areas of increased levels of audit focus:

- ECL is measured on a forward-looking basis reflecting a range of estimates of future economic conditions. Significant judgment is present in (i) the selection of forward looking macroeconomic scenarios, (ii) the determination of the associated scenario probabilities, and (iii) the identification of the material economic variables which drive the scenarios and the related weightings.

- The criteria selected by the Group to identify a significant increase in credit risk ("SICR") within the Group's ECL calculation determines whether a twelve month or lifetime provision is recorded, and is therefore another key area of judgement.

- Complex and inherently judgmental modelling techniques are used to estimate ECLs which involve determining 'Probabilities of Default' ("PD"), 'Loss Given Default' ("LGD"), and 'Exposures at Default' ("EAD"). The PD models used in the loans and advances portfolios represent the most significant judgmental aspect of the Group's ECL modelling approach, being the key drivers of the Group's ECL calculation.

- Qualitative adjustments to the model-driven ECL results are raised by the Group to address known impairment model limitations or emerging trends. Estimating those adjustments also involves significant judgement.

- The carrying value of loans and advances to banks and customers that are individually assessed as 'stage 3' (that is, credit impaired) requires the identification of loss events and an estimation of the impairment charge. The estimation of expected credit losses includes a range of estimates of future cash flows and valuation of collateral, which are inherently uncertain and judgemental.

The disclosures regarding the application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements made, as referred to in this key audit matter, and inputs used to generate the IFRS 9 ECL results.

KPMG

Independent auditors' report

To the shareholders of FIMBank p.l.c.

Key audit matters - continued

Impairment allowances on loans and advances measured at amortised cost - continued

Our response

In relation to the ECL model, as part of our procedures:

- we assessed the design and implementation as well as the operating effectiveness of controls within the ECL process with respect to (a) the approval of the credit application by the Credit Committee or the delegated authority (depending on monetary value); and (b) the review of ECL provision levels and movements by the Chief Financial Officer and the Chief Risk Officer;

- we involved our financial risk modelling specialists in evaluating the appropriateness of the Group's selected IFRS 9 impairment methodologies, including the SICR criteria used; and

- we involved our economics specialists to assist in assessing:

  - the appropriateness of the Group's methodology for determining the macroeconomic scenarios used and the reasonableness of the probability weightings applied to them; and

  - the relevance of the key macroeconomic variables used in the ECL model.

Specifically in relation to a sample of performing loans ('stage 1' and 'stage 2'), we:

- performed testing over key data elements (EAD, PD and LGD) impacting the ECL calculations to assess the accuracy of information used; and

- performed tests to determine whether a significant increase in credit risk was appropriately identified by the Group, including 'days past due'.

Specifically in relation to a sample of loans and advances discussed in the Board Risk Committee and the Credit Committee (the "focus exposures"), including those not otherwise automatically captured by the ECL model as non-performing loans ('stage 3'):

- we performed credit reviews focusing on the borrowers' ability to repay from normal operations, the performance history of the account and receipts after the financial reporting date; and

- in the case of non-performing loans, we evaluated the appropriateness of the inputs, particularly the LGD and discount rates used in the ECL model. In cases where the LGD involved the realisation of collateral, we corroborated the extendible value of collateral with external data sources.

We assessed whether the disclosures in relation to IFRS 9 adequately explain the key judgements made and significant inputs used in the recognition of expected credit losses as at the beginning and end of the financial reporting period.

We have no key observations to report, specific to this matter.

Independent auditors' report

To the shareholders of FIMBank p.l.c.

Key audit matters - continued

Valuation of unquoted assets measured at fair value

Accounting policy notes 3.10.9 and 3.12 to the financial statements and notes 23 and 26 for further disclosures.

Shares in sub-fund of a local unlisted collective investment scheme (Bank and Group: USD156,085,932) included within 'Financial assets designated at fair value through profit or loss'; and 'Trading assets' (Group: USD347,284,967).

The fair value of certain financial assets held by the Group is determined through the application of valuation techniques that involve the exercise of judgement, and the use of assumptions based on limited observable market data. This relates primarily to:

- the equity instruments in the form of shares (classified as financial assets at fair value through profit or loss) held in a sub-fund of a local unlisted collective investment scheme ('the Fund') which holds assets that cannot be valued through observable market data; and
- the trading assets, held by London Forfaiting Company Limited ("LFC"), that represent forfaiting assets (discounted receivables generated from an export contract) that are also constrained by limited observable data.

Our response

For equity instruments held in the Fund, we evaluated reports prepared by the external auditor engaged by the Investment Manager of the Fund, specifically on the valuation of the investments held by the Fund.

Specifically in relation to non-performing forfaiting financial assets:

- we involved our financial risk modelling specialists to assist us in assessing the appropriateness of LFC's discount cash flow valuation model and the reasonableness of the underlying assumptions used to determine the fair value of the forfaiting assets portfolio;
- on assets determined by us to have heightened country and/or industry risk, we challenged the validity of the assumptions used by the Group in setting the risk premium in the discount rate, by comparing the value as per LFC to that of the market. Where no market data was available, we assessed the valuation amounts by comparing them to value of similar assets; and

for the remaining portfolio of assets, we looked at all valuation fluctuations over a period of three months and for assets with either significant fluctuations or no fluctuations at all, assessed whether the data points (in the main, the cash flows and the discount rate) used to determine the fair value were reasonable. In this regard, we evaluated the assumptions behind the risk ratings applied by the Group and considered whether those assumptions were reasonable and consistent with publicly available information and information from other relevant sources.

Key observation

Our discussions with the Company in this respect were focused on ways to enhance the controls around the robustness of the LFC's valuation model.

Independent auditors' report

To the shareholders of FIMBank p.l.c.

Other information

The directors are responsible for the other information which comprises:

- the 'Chairman's Statement to the Shareholders';
- the 'FIMBank Group Performance 2018';
- the 'Directors' Report';
- the 'Statement of Compliance with the Principles of Good Corporate Governance';
- the 'Remuneration Report';
- the 'Statement by the Directors Pursuant to Listing Rule 5.68'; and
- the 'Schedules to the annual report'

but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the directors' report on which we report separately below in our 'Opinion on the Directors' Report', we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act and the Banking Act, and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and/or the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the financial reporting process.

KPMG

Independent auditors' report

To the shareholders of FIMBank p.l.c.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit 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 Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditors' report

To the shareholders of FIMBank p.l.c.

2 Opinion on the directors' report

The directors are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Listing Rule 5.62 issued by the Listing Authority in Malta.

We are required to consider whether the information given in the directors' report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, we are also required to:

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and

- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

Pursuant to Listing Rule 5.62 of the Listing Rules issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;
- we have not identified material misstatements in the directors' report; and
- we have nothing to report in relation to the statement on going concern.

KPMG

Independent auditors' report

To the shareholders of FIMBank p.l.c.

3 Report on other legal and regulatory requirement

Matters on which we are required to report by the Act, specific to public-interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors on 8 November 1994 by the Board of Directors and subsequently reappointed by the shareholders at the Company's general meetings for each financial year thereafter. The period of total uninterrupted engagement is twenty-four years;
- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and
- we have not provided any of the prohibited services as set out in the APA.

Matters on which we are required to report by the Banking Act and by exception by the Act

Pursuant to article 31(3)(a), (b) and (c) of the Banking Act, 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; and
- the Bank's financial statements are in agreement with the books of account.

Furthermore, we have nothing to report in respect of the above matters, where the Act requires us to report to you by exception pursuant to articles 179(10) and 179(11).

Pursuant to article 31(3)(d) of the Banking Act, in our opinion 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.

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

KPMG
Registered Auditors

23 March 2019

KPMG

Independent auditors' report

To the shareholders of FIMBank p.l.c.

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta

We are required, pursuant to Listing Rule 5.98, to express an opinion to the shareholders of FIMBank p.l.c (the "Bank") on specific disclosures in the Annual Report which relate to the directors' corporate governance statement (the "Disclosures") for the year ended 31 December 2018.

Specifically, with respect to the following matters noted in Listing Rule 5.100, we report whether:

a. we have identified material misstatements with respect to the disclosures referred to in Listing Rule 5.97.4 and Listing Rule 5.97.5. Where any material misstatements are identified, we are required to provide an indication of the nature of such misstatements; and

b. the other disclosures required by Listing Rule 5.97 have been provided.

Responsibilities of the Directors

Pursuant to Listing Rule 5.97, the directors are responsible for preparing the Disclosures that are free from material misstatement in accordance with the requirements of the Listing Rules.

Auditors' Responsibilities

Our responsibility is to examine the Disclosures and to report thereon in the form of a reasonable assurance conclusion based on our work. We conducted our engagement in accordance with International Standard on *Assurance Engagements 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

We apply International Standard on Quality Control 1 and, accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We are not required to, and we do not, consider whether the directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risks and control procedures, nor on the ability of the Bank to continue in operational existence. Our opinion in relation to the disclosures pursuant to Listing Rule 5.97.4 and Listing Rule 5.97.5 is based solely on our knowledge and understanding of the Bank and its environment obtained in forming our opinion on the audit of the financial statements. We have not performed any procedures by way of audit, verification or review on the underlying information from which the other disclosures required by Listing Rule 5.97 is derived.

We also read the other information included in the Annual Report in order to identify any material inconsistencies with the Disclosures.

Independent auditors' report

To the shareholders of FIMBank p.l.c.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

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

In our opinion:

a. in light of the knowledge and understanding of the Bank and its environment obtained during the course of our audit of the financial statements, we have not identified material misstatements with respect to the following disclosures:

   i. the information referred to in Listing Rule 5.97.4, included in the directors' Statement of Compliance with the Principles of Good Corporate Governance, as this relates to the Bank's internal control and risk management systems in relation to the financial reporting process; and

   ii. the information referred to in Listing Rule 5.97.5, included in the Directors' Report, insofar as it is applicable to the Bank;

b. the other disclosures required by Listing Rule 5.97 have been included in the directors' Statement of Compliance with the Principles of Good Corporate Governance, and in Section 11 of Schedule V, Additional Regulatory Disclosures (Pillar III) insofar as the requirement of Listing Rule 8.A.4.5, as these apply to the Bank.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Noel Mizzi.

KPMG
Registered Auditors

23 March 2019

Schedule I

Statements of profit or loss

Five year summary - Bank

	2018 USD	2017 USD	2016 USD	2015 USD	2014 USD
Interest income	35,303,561	28,323,748	24,663,531	25,024,359	28,392,379
Interest expense	(19,139,771)	(17,738,857)	(16,542,171)	(13,069,821)	(13,742,561)
Net interest income	**16,163,790**	**10,584,891**	**8,121,360**	**11,954,538**	**14,649,818**
Fee and commission income	12,849,903	11,048,533	10,021,804	11,657,912	15,617,702
Fee and commission expense	(2,799,252)	(2,482,765)	(2,009,569)	(2,515,148)	(2,022,658)
Net fee and commission income	**10,050,651**	**8,565,768**	**8,012,235**	**9,142,764**	**13,595,044**
Net trading results	2,632,452	(3,031,664)	2,310,309	2,559,817	3,424,789
Dividend income	17,660,271	10,446,343	5,455,550	3,324,960	1,523,364
Other operating income	125,068	87,088	407,520	5,201	27,441
Operating income before net impairment losses	**46,632,232**	**26,652,426**	**24,306,974**	**26,987,280**	**33,220,456**
Net impairment charge on financial assets	(16,970,119)	(767,889)	(2,311,574)	(11,093,560)	(63,921,856)
Operating income	**29,662,113**	**25,884,537**	**21,995,400**	**15,893,720**	**(30,701,400)**
Administrative expenses	(23,787,047)	(24,785,664)	(20,727,352)	(28,012,370)	(25,114,822)
Depreciation and amortisation	(1,022,470)	(922,457)	(869,126)	(915,049)	(880,693)
Total operating expenses	**(24,809,517)**	**(25,708,121)**	**(21,596,478)**	**(28,927,419)**	**(25,995,515)**
Profit/(Loss) before tax	**4,852,596**	**176,416**	**398,922**	**(13,033,699)**	**(56,696,915)**
Taxation	(1,115,249)	(60,598)	(58,539)	7,112,303	6,458,782
Profit/(Loss) for the year	**3,737,347**	**115,818**	**340,383**	**(5,921,396)**	**(50,238,133)**

Schedule II

Statements of financial position

Five year summary - Bank

	2018 USD	2017 USD	2016 USD	2015 USD	2014 USD
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	151,891,005	208,147,513	33,165,601	77,413,470	7,804,628
Derivative assets held for risk management	109,727	722,256	19,302,604	18,883,952	20,570,036
Loans and advances to banks	321,085,750	203,552,663	438,799,241	212,123,584	423,146,523
Loans and advances to customers	725,405,105	581,529,952	589,579,473	567,176,993	635,248,176
Financial assets designated at FVTPL	173,362,850	-	-	-	-
Financial assets designated at FVOCI	86,683,899	-	-	-	-
Investments at amortised cost	9,846,749	-	-	-	-
Investments available-for-sale	-	261,244,798	327,075,827	274,048,615	30,103,691
Investments held-to-maturity	-	-	-	7,476,940	7,116,353
Interests in equity-accounted investees	-	-	-	305,641	6,013,425
Investments in subsidiaries	102,595,614	94,050,884	86,305,594	84,678,486	61,278,380
Property and equipment	968,472	1,035,490	1,305,432	1,749,101	2,065,906
Intangible assets	4,669,342	2,736,599	2,467,630	1,078,027	1,070,658
Current tax assets	-	1,052,348	1,052,348	-	-
Deferred tax assets	22,599,041	23,303,267	23,335,459	22,535,293	15,594,796
Other assets	5,366,304	9,005,794	2,613,913	1,852,600	2,297,271
Prepayments and accrued income	8,280,725	7,054,755	6,148,570	3,993,887	3,752,521
Total assets	**1,612,864,583**	**1,393,436,319**	**1,531,151,692**	**1,273,316,589**	**1,216,062,364**
Liabilities and equity					
Liabilities					
Derivative liabilities held for risk management	2,928,925	723,454	8,834,092	921,237	1,606,718
Amounts owed to banks	397,913,033	393,247,791	426,137,477	665,277,976	580,466,522
Amounts owed to customers	957,720,771	815,812,570	915,367,604	405,611,504	496,006,520
Debt securities in issue	14,834,943	-	-	20,000,000	-
Subordinated liabilities	-	50,000,000	50,000,000	50,000,000	-
Current tax liabilities	-	-	-	-	1,456,521
Other liabilities	1,007,819	793,060	535,339	135,830	2,398,694
Accruals and deferred income	9,050,479	7,818,090	7,422,362	7,373,994	4,589,759
Total liabilities	**1,383,455,970**	**1,268,394,965**	**1,408,296,874**	**1,149,320,541**	**1,086,524,734**
Equity					
Share capital	252,720,107	157,265,562	155,239,263	149,268,322	135,698,296
Share premium	9,275,773	173,113	2,101,335	8,072,276	21,642,302
Reserve for general banking risks	1,242,511	608,284	764,792	1,000,027	415,293
Fair value reserve	758,254	81,501	(1,891,140)	(409,528)	(789,342)
Other reserve	2,681,041	2,681,041	2,681,041	2,681,041	2,681,041
Accumulated losses	(37,269,073)	(35,768,147)	(36,040,473)	(36,616,090)	(30,109,960)
Total equity	**229,408,613**	**125,041,354**	**122,854,818**	**123,996,048**	**129,537,630**
Total liabilities and equity	**1,612,864,583**	**1,393,436,319**	**1,531,151,692**	**1,273,316,589**	**1,216,062,364**
Memorandum items					
Contingent liabilities	**67,466,612**	**57,601,096**	**19,782,148**	**37,002,036**	**31,805,224**
Commitments	**158,386,020**	**254,253,843**	**120,282,416**	**117,122,920**	**157,125,360**

Schedule III

Cash flow statements

Five year summary - Bank

	2018 USD	2017 USD	2016 USD	2015 USD	2014 USD
Net cash flows (used in)/from operating activities	**(115,353,904)**	**20,694,088**	**211,100,534**	**(145,013,306)**	**105,650,593**
Cash flows from investing activities					
Payments to acquire financial assets at FVTPL	(18,092,429)	-	-	-	-
Payments to acquire financial assets at amortised cost	(9,881,423)	-	-	-	-
Payments to acquire available-for-sale financial assets	-	-	(30,187,210)	(110,000,000)	(5,237,791)
Payments to acquire shares in subsidiary companies	-	(10,304,042)	(6,359,342)	(24,906,146)	(21,065,318)
Payments to acquire shares in equity-accounted investees	-	-	-	(1,504,875)	-
Payments to acquire shares in other investments	(35,210)	-	(25,317,000)	-	-
Payments to acquire property and equipment	(344,451)	(195,368)	(307,742)	(400,228)	(656,961)
Payments to acquire intangible assets	(2,543,743)	(727,136)	(1,672,306)	(264,389)	(585,213)
Proceeds from maturity of debt investments at FVOCI	15,000,000	-	-	-	-
Proceeds on disposal of available-for-sale financial assets	-	62,397,260	-	-	-
Proceeds from maturity of investments held-to-maturity	-	27,543,320	7,800,000	-	-
Proceeds on disposal of property and equipment	-	2,674	550,255	47,281	19,404
Receipt of dividend	7,472,717	10,207,806	5,455,550	3,324,960	1,523,364
Cash flows generated (used in)/from investing activities	**(8,424,539)**	**88,924,514**	**(50,037,795)**	**(133,703,397)**	**(26,002,515)**
Cash flows from financing activities					
Issue of share capital	54,557,206	98,077	-	-	47,920,950
Net movement in debt securities	14,834,943	-	(20,000,000)	20,000,000	-
Net movement in subordinated debt	-	-	-	50,000,000	-
Net cash flows from/(used in) financing activities	**69,392,149**	**98,077**	**(20,000,000)**	**70,000,000**	**47,920,950**
(Decrease)/Increase in cash and cash equivalents	(54,386,294)	109,716,679	141,062,739	(208,716,703)	127,569,028
Cash and cash equivalents at beginning of year	153,393,145	43,676,466	(97,386,273)	111,330,430	(16,238,598)
Cash and cash equivalents at end of year	**99,006,851**	**153,393,145**	**43,676,466**	**(97,386,273)**	**111,330,430**

Schedule IV

Accounting ratios

Five year summary - Bank

	2018 %	2017 %	2016 %	2015 %	2014 %
Net interest income and other operating income to total assets	3.06	2.09	1.72	2.32	2.90
Operating expenses to total assets	(1.54)	(1.84)	1.41	2.27	2.14
Profit/(Loss) before tax to total assets	0.30	0.01	0.03	(1.02)	(4.66)
Pre-tax return on capital employed	2.12	0.14	0.32	(10.51)	(43.77)
Profit/(Loss) after tax to equity	1.63	0.09	0.28	(4.78)	(38.78)

	2018	2017	2016	2015	2014
Weighted average number of shares in issue (000's)	442,784	313,071	310,076	304,874	269,532
Net assets per share (US cents) *	51.81	39.94	39.62	40.67	48.06
Basic earnings per share (US cents) *					
Basic	0.84	0.04	0.11	(1.94)	(18.64)
Diluted	0.84	0.04	0.11	(1.94)	(18.64)

' * ' Ratios for 2014 to 2016 have been restated to reflect the number of shares in issue as a result of the 2015, 2016 and 2017 bonus issue of shares.

Schedule V

Additional regulatory disclosures (Pillar III)

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 2018

1 Introduction

1.1 Background

This document comprises the Pillar III regulatory disclosures required by BR/07 as at 31 December 2018 for FIMBank p.l.c. (the "Bank") and its subsidiary undertakings (the "Group").

These disclosures reflect the requirements of Articles 431 to 455 of 'Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012' ("Capital Requirements Regulation", or "CRR"), the European Banking Authority's ("EBA") 'Final Report on the Guidelines on Disclosure Requirements under Part Eight of Regulation (EU) No 575/2013' (EBA/GL/2016/11 version 2) and of the applicable European Commission's implementing and delegated regulations, as well as the EBA Guidelines, including:

- Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regards to disclosure of own funds requirements for institutions;
- Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions;
- European Banking Authority Guidelines on Disclosure of Encumbered and Unencumbered Assets EBA/GL/2014/03;
- Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile;
- EBA guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013 (EBA/GL/2015/22);
- EBA's Final Report on the Guidelines on LCR disclosure to complements the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 (EBA/GL/2017/01);
- EBA guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Article 432(1), 432(2) and 433 of Regulation (EU) No 575/2013 (EBA/GL/2014/14); and
- EBA guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01).

1.2 Basis and frequency of disclosures

These disclosures are based on 31 December 2018 year-end data. The disclosures are updated on an annual basis taking into consideration the requirements under EBA/GL/2014/14 in relation to materiality and frequency of disclosures.

1.3 Publication and verification

The Pillar III disclosures are not subject to external audit, except to the extent that any such disclosures are also required for the purpose of the preparation of the Group's International Financial Reporting Standards Financial Statements. Nonetheless, these disclosures have been internally reviewed by the Group as well as independently reviewed by KPMG. The Pillar III disclosures have been approved by the Bank's Audit Committee and the Board of Directors (the "Board").

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

2 Scope of application of applicable consolidated requirements

Both the Bank and the Group are supervised on a solo and consolidated basis, by the Malta Financial Services Authority ("MFSA"), in terms of the general provisions under Part 1 of the CRR.

The structure and principal activities of the Bank and the Group are disclosed in the Directors' Report in page 9. As at 31 December 2018, the following entities are fully consolidated within the Group's Financial Statements on a line-by-line basis: London Forfaiting Company Limited; FIM Business Solutions Limited; FIM Property Investment Limited; FIM Holdings (Chile) S.p.A.; The Egyptian Company for Factoring S.A.E.; FIMFactors B.V.; Menafactors Limited; India Factoring and Finance Solutions Private Limited. In addition, BrasilFactors S.A. is included within the Group's Financial Statements as a discontinued operation held-for-sale, with its financial performance disclosed separately in the Statement of Profit or Loss.

There are no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.

3 Risk governance

3.1 Risk management function

The Board is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group, and for ensuring that proper systems of internal control are in place. The Group's risk management framework is designed to support the delivery of the strategic objectives determined by the Board. The Board has delegated to committees and management the task of creating an effective control environment to the highest possible standards. In line with the Bank's Articles of Association, the Board has established the following committees in order to assist directors in the oversight of its functions:

- Executive Committee
- Audit Committee
- Board Risk Committee
- Asset-Liabilities Committee
- Nomination and Remuneration Committee
- Board Credit Committee
- Corporate Governance Committee

Details of the composition and responsibilities of these committees are laid out in the Statement of Compliance with the Principles of Good Corporate Governance in pages 16 and 25 of the Annual Report.

The Group adopts a three lines of defence model for risk management, with the first line of defence being represented by the business origination units. The second line of defence is represented by (i) the Risk Management Department, which reports to an independent Group Chief Risk Officer ("GCRO") and oversees all risks within the Group, and (ii) the Compliance Department. The third line of defence is constituted by Internal Audit, being the function which provides independent assurance to the Board on the processes and procedures employed by the Bank. The three lines of defence model attributes responsibility for risk management at all levels within the Group.

The GCRO reports directly to the Chairman of the Board Risk Committee, with a dotted reporting line to the Group's Chief Executive Officer ("CEO"). Currently, the GCRO is Ronald Haverkorn, who was appointed to this role in May 2015.

The Risk Management Department is a group function and oversees and manages risks for the Bank and all consolidated subsidiaries of the Group. The department includes a wide range of professionals with a degree of specialisation in certain areas of risk (credit, market, operational, funding and liquidity risks) and is supported by risk specialists located at the different subsidiaries of the Group, who report directly to the Risk Management Department. The risk profile of the Group is defined in the Risk Appetite Statement endorsed by the Board and gathers key risk metrics on a Group level, encompassing credit, market, liquidity, operational and reputational risk metrics. Overall the risk profile is a mirror of the Group's business model; that is to provide short-term trade finance solutions to exporters, with risk diversification across several geographies, as well as through the provisions of multiple trade finance products (structured trade finance, forfaiting, factoring, etc.) to customers operating in several sectors. The risk dimension of the various portfolios is managed by risk professionals both locally and in the markets where the Group has presence. The overall Risk Appetite Statement for the Group is presented by the GCRO for approval to the Board Risk Committee and the Board on an annual basis.

Risk governance - continued

3.2 Adequacy of risk management systems

The risk management framework and processes in place reflect the business strategy being followed by the Group. The Bank's Board acknowledges that such processes need to be robust to safeguard against inherent risks faced within emerging markets, including those of political and economic nature. Trade flows may also be affected by market downturns in supply and demand, whether cyclical, economic or seasonal that may impact significantly on the business. The Group continuously endeavours to upgrade its risk management processes to meet such developments. The risk management processes cascade down to all entities within the Group and are monitored and controlled at various levels. Members of the Bank's executive team, form part of the respective Boards at the level of each local entity, and is tasked to maintain control over the respective operations' key business decisions. Business reviews of each entity are presented to the Board Risk Committee by the GCRO via reports and dashboards that monitor the entities performance in line with the set risk appetite.

The Risk Appetite Statement defines the acceptable field of play of the Group and is integrated in business decision making and management of the various risks the Group faces given the nature of diversified trade finance products provided globally. The Risk Appetite Statement sets out acceptable risk levels and has been endorsed by the Board – being presented for review on a quarterly basis and revisited and refined annually or as the need arises. Reporting of the risk levels vis-a-vis the set thresholds are reported on a continuous basis to executive management and it presented to the Board Risk Committee and Board in each meeting. Exposure and portfolio management takes place on a continuous basis, with formal updates to senior management. On a business and subsidiary level the process of risk approval is centralised locally, with all credit approvals obtained through the Head Office and with local entity risk managers reporting directly to the Head of Risk at Head Office. Moreover, Head Office has access to the entities' local loan book system. Usage of all approved limits is monitored centrally through a number of different systems and platforms.

3.3 Risk management profile

As a general rule, the risk profile of the Group is presented, analysed and discussed at each Board Risk Committee meeting. As mentioned earlier the Risk Management function has a Group sub-function and risk approvals at Group level are centralised at Head Office. Deviations from the Risk Appetite Statement (within the risk tolerance set by the management body) are approved and/or ratified as appropriate.

The below table and commentary summarises the risk profile of the Group at two different reporting dates:

	2018 USD million	2017 USD million
Gross portfolio (on-balance sheet)	1,646.1	1,561.2
Gross portfolio (off-balance sheet)	191.5	355.9
Total gross portfolio	**1,837.6**	**1,917.1**
Impaired portfolio (net of suspended interest and collateral) *	96.3	54.4
Impaired portfolio/gross portfolio	**5.24%**	**2.84%**
Loan loss reserves **	44.3	35.9
Loan loss reserves/impaired portfolio	**46.00%**	**65.99%**

' * ' Impaired Portfolio includes trading assets which were subject to fair value adjustments

' ** ' Loan Loss Reserves includes fair value adjustments on trading book. General reserves are excluded.

During the year under review, notwithstanding the continuous efforts to recover and write-off a number of impaired assets, the impaired portfolio increased to USD96.3 million (2017: USD54.4 million) representing 5.24% of the Group's gross portfolio (2017: 2.84%) as new impairments emerged in Q2 2018, due to higher non-performing loans reported during such quarter. As a result, as at the end of the year, the loan loss reserves increased from USD35.9 million (2017) to USD44.3 million (2018). The overall impact was a weakening of the loan loss reserve's coverage, closing at 45.96% at year-end (2017: 65.99%).

Risk governance - continued

3.4 Board and senior management

The management body of the Group is deemed to be the Board of Directors, which is appointed in accordance with the Bank's Articles of Association. At 31 December 2018, the Board of Directors consisted of:

	Number of directorships held in:	
	other corporates	charitable organisations
John C. Grech (Chairman)	5	-
Masaud M. J. Hayat (Vice Chairman)	12	-
Adrian Alejandro Gostuski	1	-
Edmond Brincat	2	-
Eduardo Eguren Linsen	4	1
Hussain Abdul Aziz Lalani	5	-
Majed Essa Ahmed Al-Ajeel	4	-
Mohamed Fekih Ahmed	5	-
Osama Talat Al-Ghoussein	4	-
Rabih Soukarieh	4	-
Rogers David LeBaron	-	-

The MFSA had no objection to the list of directorships held by the Chairman of the Board of Directors. The directorships held by the rest of the Directors in non-EU entities and the directorships held by Mr. Edmond Brincat (less than four directorships held in Maltese entities) are not subject to MFSA approval.

As disclosed in Principle 8 of the Statement of Compliance with the Principles of Good Corporate Governance (page 16), in 2015 the Board had set up a Nomination and Remuneration Committee which was granted the power to lead the process for Board and Board committee appointments. This committee can amongst others, present recommendations to the Board regarding nomination to the Board's membership in accordance with approved policies, standards, and instructions on nomination regulations for the Board of Director's membership. Prior to making its recommendations for appointment, this committee evaluates the balance of knowledge, skills, diversity and experience of candidates for the Board to ensure that they have the requisite experience, personal abilities, integrity and that they adhere to sound professional practices. Furthermore, it prepares a description of the roles and capabilities for a particular appointment, and assesses the time commitment expected for the execution of duties related to the role. The knowledge, skills and expertise of the Board are disclosed in the Statement of Compliance with the Principles of Good Corporate Governance (page 16). The committee is empowered to perform an annual review of the needs required in regards to suitable skills for board membership and prepare a description of the skills and qualifications required for board membership.

The Board has established separate Risk and Credit Committees with specific responsibilities on risk management and governance across the Group. Further details on the duties, composition and number of times these committees have met during 2018 are disclosed in Principle 8 of the Statement of Compliance with the Principles of Good Corporate Governance.

Board Risk Committee

The Board Risk Committee ("BRC") has an oversight responsibility for all material risks in all business functions and subsidiaries of the Group. As a result, the BRC ensures that the material risks and cases which might affect the Group are duly identified. In addition, the BRC oversees the updating and monitoring of the Group's Risk Appetite Framework. The Committee's responsibilities also include, but are not limited to, the following matters:

a. Overseeing risk management and governance structures;
b. Monitoring Risk Appetite and Risk Tolerance limits for credit, market and product risk;
c. Reviewing updates to the Risk Appetite Statement;
d. Providing updates on limits as approved by the Board Credit Committee;
e. Reviewing and proposing recommendations to the Board on Funding Risk (Capital and Liquidity);
f. Reviewing and monitoring the Group's overall process for risk assessment, ranking and management/mitigation, as well as ensuring that the Board is fully informed and updated on all major potential risks;
g. Reviewing and monitoring the Group's Operational Risk Framework; and
h. Reviewing, assessing and determining Key Operational Risk indicators.

The Chairman of the BRC reports the outcome of all its meetings to the Board of Directors by means of a presentation during Board meetings. The report highlights the key emerging risks related to credit, market, operational and reputation and key changes to the Group's risk profile (including developments on new and existing NPAs). The Secretary (Head of Risk Management) prepares and maintains minutes of all meetings of the Committee.

The BRC appoints, terminates and sets remuneration of the GCRO, who in turn reports on a day-to-day basis to the CEO. The BRC shall meet at least four (4) times a year, with authority to convene additional meetings, as circumstances require. For the composition and the number of times the BRC has met during 2018, please refer to Principle 8 of the Statement of Compliance with the Principles of Good Corporate Governance.

Risk governance - continued

Board Credit Committee

The Board Credit Committee ("BCC") is the main body (subject to specified delegated authorities to management) with the powers and duties to review credit applications and approve credit limits and specific transactions up to the legal lending limit of the Bank, and within the guidelines specified in the Group's credit policy procedures. The BCC records the outcome of all its meetings by keeping record of the approved minutes of meetings held, which are available to BCC members and the Bank's internal auditors, and by issuing a circular – shortly after each meeting - to management and to the key business origination officers, highlighting the main credit decisions taken by the BCC. The BCC shall meet as frequently as exigencies dictate, and meetings are normally expected to be convened every 2 weeks. For the composition and frequency of meetings held in 2018, please refer to Principle 8 of the Statement of Compliance with the Principles of Good Corporate Governance.

4 Identification of risks

The Group identified the following Pillar I and Pillar II risks as being significant and manages such risks as detailed below:

a. credit and concentration risk;
b. counterparty credit risk;
c. operational risk;
d. market risk;
e. exposures to interest rate risk in the non-trading book;
f. credit and market risk from equities not included in the trading book;
g. liquidity risk;
h. reputational and conduct risk;
i. strategic and business risk; and
j. information technology risk.

In the following sections, we lay out the manner in which the Group manages and mitigates the above mentioned risks, indicating whether such risks are allocated a capital charge under Pillar I and Pillar II.

4.1 Credit risk and concentration risk

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

4.1.1 Minimum capital requirements under Pillar I: credit risk

The Group calculates the overall minimum capital requirement for credit risk using the Standardised Approach to credit expressed as 8% of the risk weighted exposure amounts for each of the Standardised Credit Risk Exposure Classes. The table below illustrates the capital requirement for each of the exposure classes as at 31 December 2018.

	Risk weighted amount 2018 USD	Minimum capital requirement (8%) 2018 USD
Type of exposure		
Central governments or central banks	3,877	310
Public sector entities	4,318,090	345,447
Institutions	134,468,509	10,757,481
Corporates	441,244,321	35,299,546
Retail	1,850,835	148,067
Secured by mortgages on immovable property	450,547	36,044
Exposures in default	56,436,277	4,514,902
Items associated with particular high risk	158,187,316	12,654,985
Collective investments undertakings (CIU)	173,362,850	13,869,028
Equity	75,524	6,042
Other items	132,557,397	10,604,592
	1,102,955,543	**88,236,444**

The above exposures relate solely to those subject to credit risk and exclude those subject to counterparty risk.

Identification of risks - continued

The exposure type 'other items' includes cash balances, property and equipment (net of depreciation), prepayments and accrued income, current tax recoverable, deferred tax asset and other remaining assets. During 2018, the Group recognised exposures that are collateralised with immoveable property under the 'Secured by mortgages on immovable property' exposure class (2017: USD nil) based on the requirements of Article 125 and 126 of the CRR. Following a rights issue of its share capital in 2018 and subsequently a stronger capital ratio, the Group was able to grow its activities during the year. As a result, the 2018 Risk Weighted Amount increased when compared to that disclosed in 2017 (USD887,777,993).

4.1.2 Credit risk management strategy and processes

Strict credit assessment and control procedures are in place in order to monitor credit exposures. The Board Credit Committee is responsible for implementing the Group's credit policy within the risk parameters identified by the Board, for approving individual limits for banks and corporates within its delegated parameters of authority as set out in the Statement of Compliance with the Principles of Good Corporate Governance in page 16 of the Annual Report.

All on- and off- balance sheet exposures are approved after a thorough review of the counterparties' creditworthiness. Whilst any external rating of the counterparty by established Credit Rating Agencies is taken into account, an internal rating is given to each counterparty through an internal rating system provided by a third party vendor. The Group has implemented Moody's RiskAnalyst software at Head Office to establish internal ratings. In addition to this, a credit review is also done by means of other assessment criteria, including but not limited to, financial statements review, analysis of relevant markets and sectors, commodity prices outlook, structure of proposed transactions and market position of the relevant counterparties.

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

The Group maintains a prudent provisioning policy in accordance with the applicable laws and regulations to ensure that losses are immediately recognised in the Statement of Profit or Loss. Efforts at recovering losses incurred in past financial periods are continuous. To this purpose, legal proceedings have been undertaken in the courts of competent jurisdictions. Such efforts are co-ordinated and promoted under the supervision of a Recovery Unit with overall Group responsibilities, which was established in March 2015.

4.1.3 Credit risk limit setting and monitoring

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

Single-name counterparty limits follow the prudential rules emanating from the CRR which apply maximum limits for large exposures. A large exposure is defined as a consolidated exposure to a single entity or an economic group that exceeds 10% of a bank's regulatory capital. The maximum limit for non-institutions is 25% of regulatory capital. The maximum limit for institutions is 25% of its regulatory capital or EUR150 million whichever is the higher. Where the amount of EUR150 million is higher than 25% of the bank's regulatory capital a reasonable limit shall be determined by the Group which however 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 BCC and supervised by the Board Risk Committee, which set up a specific policy for country risk concentration. This policy defines a ceiling – in terms of percentage of the Group's Own Funds - for each individual country exposure, which is linked to the rating granted to each country by international rating agencies. The ceiling increases (up to a maximum of 100% of the Bank's Own Funds for investment grade countries) with the rating of the country. As for single-name limits, country limits do not automatically increase to the pre-defined ceiling, as the initial assessment is based on the country's specific economic, financial and political risk conditions. Group entities put forward their business request and counterparty approval requests to the Group Head of Risk following a thorough review from the local risk managers.

Identification of risks - continued

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 which will eventually settle from receivables generated from the buyers of goods, bank letters of credit, or even settled directly by the customer. Depending on the sector of exposure an overall sector limit might be assigned by the Bank's BCC which is reviewed regularly. These include specialised sectors such as ship demolition financing, which is collateralised through a mortgage on each vessel financed, and real estate project financing, which is collateralised by a mortgage over property.

Credit risk exposure by region

The geographic distribution of the Group exposures as at 31 December 2018, broken down in significant areas by the same exposure classes shown in the previous table is set out in Note 5.2.10 to the Financial Statements.

Credit risk exposure by sector

Note 5.2.9 to the Financial Statements also sets out the distribution of the Group's exposures as at 31 December 2018 by sector.

Credit risk exposures by maturity

The residual maturity breakdown of the Group's exposures as at 31 December 2018, broken down by exposure classes is set out in Note 5.3.2.2 to the Financial Statements.

4.1.4 Credit concentration risk

In addition to policies aimed at managing credit risk and concentrations within credit portfolios as set out in Note 5.2 to the Financial Statements and this section, the Group assesses the requirement for an additional capital charge against undesired concentrations across various portfolios. The Group uses the Herfindhal-Hirschmann Index ("HHI") in assessing concentrations within single/connected counterparties, countries and industries/sectors.

4.2 Counterparty credit risk

Counterparty credit risk is defined as the risk that a counterparty to an over-the-counter derivative transaction may default before completing the settlement of the transaction. An economic loss might occur if the transaction has a positive economic value at the time of default.

4.2.1 Minimum capital requirements under Pillar I: counterparty credit risk

	Risk weighted amount 2018 USD	Minimum capital requirement (8%) 2018 USD
Type of exposure		
Institutions	579,315	46,345
Corporates	12,087	967
	591,402	**47,312**

4.2.2 Counterparty credit risk management strategy and processes

Use of derivatives within the Group is limited to hedging balance-sheet positions, hedging capital investments, interest rate hedging on behalf of LFC and to a lesser extent to satisfy customer requests (for example, for foreign exchange hedging). The Group's Treasury unit is responsible for the internal management of such instruments. In addition, LFC (via ISDA (International Swaps and Derivatives Association) agreements between the Bank and selected Protection Buyers) engages in Loan Credit Default Swaps ("LCDS") to enhance returns and provide additional unfunded assets to its forfaiting portfolio.

Such a risk is monitored through the setting up of counterparty limits to capture the position and settlement risks associated with forward and other derivative instruments. The Group has in place operational procedures to mitigate these risks. Counterparty credit risk is assigned a capital charge using the mark-to-market method, based on the residual maturities of the contracts.

Identification of risks - continued

4.2.3 Credit derivatives

As at December 2018, the amount of Loan Credit Default Swaps stood at USD7.5 million (2017: USD47.5 million). All LCDSs entered between LFC (Protection Seller) and typically top-tier investment grade rated banks (Protection Buyer) were on an unfunded basis. Transactions are entered into primarily on the strength of the referenced entity under a deliverable obligation (restricted to loans to investment grade institutions that are approved in accordance to the Group's Credit Risk Policies). The credit derivative is structured as a contractual agreement pursuant to which the Protection Seller agrees with the Protection Buyer to take on risk of a default or non-performance of a specified entity (Reference Entity), with a specific loan as the only deliverable obligation. Following the occurrence of a default or non-performance, the Protection Seller is required to make a payment to the Protection Buyer (at a pre-determined price). In return for the protection offered, the Protection Buyer pays the Protection Seller a fixed premium at pre-determined intervals up to the termination of the LCDS.

4.3 Operational risk

The Group defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. When controls fail to perform, there is potential of business disruption which can lead to financial losses. Operational risks can have legal or regulatory implications, potentially also leading to financial loss.

4.3.1 Management and mitigation of operational risk

The Group cannot expect to eliminate all operational risk but its main objective is to maintain such risk within acceptable levels and parameters. Although the prime responsibility of establishing detailed processes to identify, assess, monitor and report operational risks in accordance with the Operational Risk Management ("ORM") policy, lies with the Business/ Support Unit head functions and the appointed Operational Risk Champion in each department, an independent Operational Risk Management Unit ("ORMU") within Risk Management Group and a senior management Operational Risk Management Committee ("ORMC") exist to oversee and embed the operational risk culture within the Group. Each of the respective roles and responsibilities are covered under the Group ORM policy which was approved by the Board.

The ORMU assesses the identified reported operational risk exposure and recommends measures to manage and mitigate such risks. Monitoring and oversight of the Group's operational risk is achieved through: the Group's operational risk management system that covers loss data reporting; risk identification and assessment through Risk and Control Self-Assessments; risk control and monitoring through key risk indicators and control testing; and reporting through dashboards and reporting functionalities. Any significant operational lapses are escalated and discussed in ORMC for review of corrective measures to be eventually considered.

As part of the Enterprise Risk Management Framework, the Group maintains a Business Continuity Management Program which provides a plan to ensure an available comprehensive strategy that minimizes the risk and cost in case business as usual gets disrupted and adversely impacts business processes, information technology services, communications & stakeholders. Critical systems and procedures are regularly tested, to ensure continued improvement.

4.3.2 Minimum capital requirement: operational risk

Presently the Group uses the Basic Indicator Approach, as detailed in the CRR, in order to calculate its capital charge. Under this approach, the capital requirement for operational risk is equal to 15% of the relevant indicator, being the average over the last three years of the sum of Operating Income before net impairment. At 31 December 2018, the Group took an operational risk capital charge of USD6,977,486 as disclosed below and in Note 5.6 to the Financial Statements.

	2018 USD
Gross income	
Financial year ending 31/12/2017	48,878,302
Financial year ending 31/12/2016	44,597,967
Financial year ending 31/12/2015	46,073,444
Average gross income	**46,516,571**
Capital requirement (15%)	**6,977,486**
Notional risk weighted amount	**87,218,575**

Identification of risks - continued

4.4 Market risk

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

4.4.1 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.

4.4.2 Foreign exchange risk

Currency risk is mitigated by a closely monitored currency position and is managed through matching within the foreign currency portfolio and capital hedging. However, mismatches could arise where the Group enters into foreign exchange transactions (for example, 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.

Minimum capital requirement: foreign exchange risk

When calculating its capital requirements, the Group also considers its net open foreign currency position in terms of the CRR. Through this approach, each net currency position is analysed and a capital charge is taken on the net short or long currency exposure.

At 31 December 2018, the Group took a foreign exchange capital charge as follows:

	Long position USD equivalent	Short position USD equivalent
Foreign currency		
Euro	-	991,708
Pound Sterling	-	480,822
Indian Rupee	-	4,908,092
Egyptian Pound	242,096	-
Russian Ruble	134,780	-
United Arab Emirates Dirham	-	194,003
Kuwaiti Dinar	57,374	-
Other foreign currencies	33,493	43,955
Total position	**467,743**	**6,618,580**
Notional risk weighted amount		**6,618,580**
8% capital requirement		**529,486**

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 I calculations. However, an additional capital charge is taken under the Pillar II framework.

The calculation is based on the 'mark-to-market' approach as laid down in Article 274 of the CRR. The percentage capital charge would be dependent 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 2018.

Identification of risks - continued

4.4.3 Position risk

The Group has non-securitised debt instruments for which a specific capital charge is taken under the CRR. Such assets are allocated a) a 'specific risk' charge based on the percentage risk weight which would be attributable to the assets under the Standardised Approach for credit risk in line with Article 336 of the CCR and b) a 'general risk' charge based on the maturity profile of the asset in line with Article 339 of the CCR.

At 31 December 2018, the Group took a position risk capital charge as follows:

	Risk weighted amount	Minimum capital requirement
	2018	2018
	USD	USD
Specific risk		
Debt securities which would receive the following risk weight under the standardised approach for credit risk:		
- 20% or 50% risk weight with a residual term <= 6 months	2,153,858	172,309
- 20% or 50% risk weight with a residual term > 6 months and <= 24 months	2,704,100	216,328
- 100% risk weight	256,651,849	20,532,148
- 150% risk weight	115,294	9,224
General risk		
Zone one - debt securities with a residual term <= 12 months	20,853,482	1,668,279
Zone two - debt securities with a residual term > 1 year and <= 4 years	5,254,607	420,369
Zone three - debt securities with a residual term > 4 years	1,158,588	92,687
	288,891,778	**23,111,344**

4.4.4 Settlement risk

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

The Group controls the deals performed on a recorded line by the dealer and further ensures that the receipt of the deal and the confirmation received from the counterparty 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.

4.4.5 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 5.4.3 to the Financial Statements, the Group's exposure to other price risk is considered relevant in the case of the bond portfolio which is measured by reference to their quoted market values in active markets. Other 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 other price risk by building a diversified forfaiting portfolio with different geographical exposures and short time-to-maturity positions.

For marketable securities, other 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 5.4.3 to the Financial Statements, changes in the market value of marketable securities are recorded in the Group's Statement of Profit or Loss, directly impacting equity. An increase in the price of instruments would increase the value of the underlying asset and would therefore result in an increase in equity. A decrease in prices would have an opposite effect on both value of instruments and equity.

The Group assesses the requirement for a capital allocation against other price risk under Pillar II.

Identification of risks - continued

4.5 Exposures to interest rate risk on positions not included in the trading book

Interest rate risk on positions not included in the trading book (i.e. Interest Rate Risk in the Banking Book or ("IRRBB")) refers to the risk to earnings or Group's financial instruments to movements in interest rates. The risk impacts the earnings and equity of the Group as a result of changes in the economic value of its assets, liabilities and off-balance sheet instruments. The Group's operations are subject to interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or at different amounts.

Accordingly, interest rate risk in the non-trading book is managed on a monthly basis, through the use of maturity/re-pricing schedules that distribute interest-bearing assets and liabilities into different time bands. Such computations are done separately for USD, EUR and INR given that transactions held in such currencies are material when compared to the rest of the Banking Book portfolio. The determination of each instrument into the appropriate time period is dependent on the contractual maturity (if fixed rate) or time remaining to their next re-pricing date (if floating rate). This method also referred to as 'gap analysis', will eventually portray the Group's sensitivity of earnings. On the other hand, the modified duration method is used to measure the sensitivity of equity valuation to changes in 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 5.4.2 to the Financial Statements details the effect to the Group's assets and liabilities due to a +/- 200 basis point change in interest rates.

Notwithstanding that no capital charge is taken under the Pillar I framework, an additional capital charge is taken under Pillar II.

4.6 Credit and market risk from equities not included in the trading book

The only Group's exposure to equities is in its non-trading book and such equities are in unlisted entities. The accounting and valuation methodologies differ depending on the percentage holding and marketability of the instruments. All interests in equity investments are in line with the Group's strategic objectives of investing in trade finance related companies to be able to carry out trade finance activities.

4.6.1 Equity investments less than 10%

Equity investments comprising less than 10% of the investee company's capital are classified as 'equity instruments at fair value through other comprehensive income'. All equity securities carried by the Group are not listed on an exchange and there is no readily available active market. These unquoted securities are carried at fair value, with fair value movement being recognised as 'other comprehensive income' in the Statement of Other Comprehensive Income.

The Group calculates the overall minimum capital requirement for equity investments less than 10% using the standardised approach for credit risk expressed as 8% of the risk weighted exposure amount, as shown in the table below:

	Balance sheet value 2018 USD	Fair value 2018 USD	Risk weighted exposure amount 2018 USD	Minimum capital requirement 2018 USD
Credit risk	75,524	75,524	75,524	6,042

4.6.2 Equity investments between 10% and 50%

Equity investments comprising between 10% and 50% of the investee company's capital are generally classified as 'investments in equity-accounted investees' and are accounted for using the equity method, 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 interests in equity-accounted investees are allocated (a) a 'specific risk' charge by multiplying the overall position by 8% and (b) a 'general risk' charge which also requires multiplying the overall position by 8%, under market risk. As at 31 December 2018, the balance sheet value and the fair value of such interests was nil, resulting in a USD nil risk weighted exposure and no minimum capital requirement.

Identification of risks - continued

4.6.3 Equity investments exceeding 50%

Equity investments exceeding 50% of the investee company's capital are classified as 'subsidiaries' and are fully consolidated in the Group results and financial position. The equity investment in the Group's Financial Statements is therefore replaced by the financial result and position of the subsidiaries, net of any minority interests.

During 2018, the Group sold its shareholdings of 20,277 shares (51%) in Latam Factors S.A. recording in the Statement of Profit or Loss (i) a USD2,062,937 realised loss under 'Loss upon disposal of equity-accounted investee' and (ii) a realised gain of USD238,634 under 'Share of results of associates (net of tax)'. During the financial year, the Group also sold its shareholding of 6,705,652 shares in CIS Factors Holdings B.V. (100%) and 1,000,001 shares in Levant Factors S.A.L. (50%). No realised gains or losses were recorded in relation to the latter two investments.

4.6.4 Unit investments in collective investment schemes

Unit investments in collective investment schemes are classified as 'financial assets at fair value through profit or loss'. These unit investments are not listed on an exchange and there is no readily available active market. Fair value for the collective investment schemes is determined by reference to the funds' net asset values, with fair value movement being recognised in the Statement of Profit or Loss.

The Group calculates the overall minimum capital requirement for unit investments in collective investment schemes using the standardised approach for credit risk expressed as 8% of the risk weighted exposure amount, as shown in the table below:

	Balance sheet value 2018 USD	Fair value 2018 USD	Risk weighted exposure amount 2018 USD	Minimum capital requirement 2018 USD
Credit risk	173,362,850	173,362,850	173,362,850	13,869,028

During 2018, 29,846.886 unit investments in a collective investment scheme were redeemed, resulting in a realised gain of USD15,311. In addition, a total unrealised loss of USD671,622 was recorded in the Statements of Profit or Loss and an unrealised loss adjustment of USD685,304 was recorded under 'Retained Earnings' in the Statements of Financial Position accounting for the effect of reclassification of assets on implementation of IFRS 9.

4.7 Liquidity risk

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

4.7.1 Management and mitigation of liquidity risk

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

In additional to the number of policies, procedures and internal controls which the Group has in place to manage its liquidity and funding risks, in line with Article 86 of Directive 2013/36/EU, prepares an Internal Liquidity Adequacy Assessment Process ("ILAAP") report on an annual basis. The ILAAP forms part of the Group's management processes. The ILAAP is designed to demonstrate the Group's robust funding and liquidity risk management strategies whilst also to ensure that the Group has adequate liquidity to meet its liabilities both in normal and stressed conditions. Liquidity Risk Management is described in detail in Note 5.3.1 to the Financial Statements.

The following Group figures represent the values and figures reported for the most recent four calendar quarters irrespective of currency denomination. The 'liquidity buffer' is the total high-quality liquid assets after the application of haircuts and any applicable cap, whilst the 'total net cash outflows' is calculated after the application of the cap on inflows as prescribed in the Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

Identification of risks - continued

Quarter ending on	Total adjusted value 31 March 2018 USD million	Total adjusted value 30 June 2018 USD million	Total adjusted value 30 September 2018 USD million	Total adjusted value 31 December 2018 USD million
Liquidity buffer	176.9	191.4	165.1	202.9
Total net cash outflows	176.5	133.3	115.0	134.0
Liquidity coverage ratio (%)	**100.2%**	**143.6%**	**143.5%**	**151.4%**

Following the capital injection early Q2 2018, the Bank maintained a Liquidity Coverage Ratio at levels above 140%, above desired level (110%) as set in the Group's Risk Appetite Statement.

4.7.2 Liquidity concentration risk

Note 5.3 to the Financial Statements set out the Group's policies, tools and other mitigants used in managing liquidity risk. The Group also uses the HHI in assessing the need of a capital allocation against concentrations in terms of single/connected counterparties, countries and industries within its funding liabilities. Capital charges against detected concentrations in liabilities help in having the Group's business units more vigilant against concentrations in funding sources. Capital charge for liquidity concentration is considered under the Pillar II framework.

4.8 Reputational and conduct 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, involve the Bank in costly litigation, or lead to 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 - including but not limited to Anti–Money Laundering ("AML") and Counter Funding of Terrorism ("CFT") and other banking 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, CFT and fraud documentation policies and procedures, a robust Business Risk Assessment and Customer Acceptance Policy as well as a strong and capillary oversight by the Group's Board and management have been devised. These are constantly maintained to reflect the latest changes in legislations and related guidance. These were updated to comply with the fourth AML directive in 2017, although the Bank will be undertaking further updates following the issuance of the updated FIAU Implementing Procedures. 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, clients and transactions deriving from non-compliant jurisdictions and correspondent banking. In addition, reputational risk is also indirectly mitigated through the setting of country limits. Some of the criteria used in setting up a transaction limit for particular countries are closely related to reputational risk, including issues relating to the political environment such as the fairness and frequency of election processes and access to power and effectiveness in reforming political systems and implementing economic agendas.

The Group has also installed adequate internal monitoring systems to discover any such irregularities on the part of persons who may cause such risk, thus ensuring that persons not maintaining the highest standards of integrity in their activities, even if such activities are unrelated to their position, are not allowed to retain their positions of responsibility within the Group. Moreover, regulatory authorities require a formalised review process for senior management personnel which results are submitted to the same authorities and also published to the market.

The Group has zero tolerance to activities or business practices that could cause damage to the Group's reputation and such appetite is reflected in the Group's Risk Appetite Statement under a specific metric. Separately another measure is considered in the Risk Appetite Statement to monitor breaches of regulatory nature, fraud cases and sanction to which extent might not always have a direct impact on the Group's reputation.

Conduct risk is the risk that the Group's business practices or activities cause a detriment to its customers, counterparties, or itself. The Group seeks to manage this risk through: appropriate goal setting; policies and procedures; client selection and 'tone from the top'.

In addition to these mitigants, the Group assesses the need for capital allocation against reputational risk under Pillar II framework. Capital was allocated against reputational risk at 31 December 2018.

Identification of risks - continued

4.9 Strategic and business risk

Strategic risk is the risk associated with the Group's future business plans and strategies. Improper strategic choices or the actual implementation of strategic decisions, as well as lack of responsiveness to changes in the economic environment, can have a serious and significant impact on prospective profit and capital results. As the Group is mainly engaged in trade finance business, this risk category is intimately connected with the overall performance of international trade in the global economy, and in particular to the level of cross-border trade between countries and in markets that are typically in the developing stages of their economic development and political stability.

Closely linked with the above, Business risk is the risk associated with the particular business and operating circumstances of the Group, and is more within the control of decisions taken by Management but which nevertheless can have a significant impact on operating and business results.

The Group adopts various ways to mitigate strategic and business risks. Primarily, the Group has in place a 'corporate governance' structure composed of both executive and non-executive officials as detailed in the Statement of Compliance with the Principles of Good Corporate Governance. 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 economic 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.

In addition to these mitigants, the Group assesses the need for capital allocation against strategic and business risk under Pillar II framework. Capital was allocated against strategic and business risk at 31 December 2018.

4.10 Information technology risk

Information Technology ("IT") risk arises from system downtime, security breaches, inadequate IT processes, usage, policy, governance or strategy. IT risks may have an adverse impact on the integrity, confidentiality and availability of data and information resulting in a direct or indirect impact the Group's performance and operation and may also affect clients' accessibility to their accounts, thus creating or increasing exposure to operational risks. Given the importance and the potential materiality of this risk, the Group strongly believes that IT risks merits a separate focus and treatment.

The Group IT Steering Committee aims to ensure that IT and Information/Cyber Security strategic decisions are aligned with the overall Group's business strategy, and to oversee IT governance and controls including associated risk management.

The Group adopts various measures to manage IT risk and strives to keep up to date with the changes and developments in the IT environment. The Group is also constantly on the look-out for new risks and vulnerabilities with the aim to safe-guard the business and Group against these risks.

The Group has well established policies and procedures aimed at regulating the use of technology assets which, amongst others, safeguards against information security breaches. The Group also operates a contingency site for systems that are classified as mission critical. The Group is committed to ongoing development and testing of its Business Continuity Plan to ensure awareness, relevance and effectiveness, and to maintain effective IT controls to reduce losses caused by system disruption or unauthorised use.

The Group assesses the requirement for a capital allocation against IT risk under Pillar II by assessing the risks by reference to their likelihood of occurrence and the significance of the impact. A weighting factor is applied in order to establish and indicate their overall importance of all identified risks.

5 External credit assessment institutions (ECAI)

The Group complies with the standard association of exposure ratings to credit quality steps as detailed in Part Three, Title II, Chapter 2 of the CRR. The Group applies the ratings of the following External Credit Assessment Institutions ("ECAIs") in determining the appropriate credit quality step:

- Fitch Ratings; or
- Moody's; or
- A.M. Best

Fitch Ratings is used as the primary reference agency and if a particular exposure is not rated by Fitch Ratings, reference would subsequently be made to the other agencies. During the review period, A.M. Best was nominated as ECAI in view that the credit assessment from this entity was used for the risk-weight calculation for credit risk mitigation under Chapter 4 of the CRR for a particular transaction, in view that obligor was not rated by the available ECAIs. In instances where the counterparty is rated by more than one nominated ECAI, reference would be made to the lower rating.

The rating of each ECAI is linked to each exposure using the credit quality steps and risk weights prescribed in Part Three, Title II, Chapter 2 of the CRR. The Group applies the ECAI ratings to the following exposure classes:

- Central governments or central banks
- Public sector entities
- Institutions
- Corporates

At 31 December 2018, the Group classified it's on- and off- balance sheet exposures subject to credit risk under the following exposure classes as defined in the CRR. The risk weights noted in the table below encompass those assigned to the relevant credit quality step in Article 113 to Article 134 in Part Three, Title II, Chapter 2 of the CRR.

External credit assessment institutions (ECAI) - continued

	Risk weightings %	Exposure value USD	Credit risk mitigation USD	Exposure value after credit risk mitigation USD
Exposure class				
Central governments or central banks	0%	177,655,466	-	177,655,466
	100%	3,877	-	3,877
		177,659,343	**-**	**177,659,343**
Public sector entities	100%	4,318,090	-	4,318,090
		4,318,090	**-**	**4,318,090**
Multilateral development banks	0%	39,920,000	-	39,920,000
		39,920,000	**-**	**39,920,000**
International organisations	0%	200,657	-	200,657
		200,657	**-**	**200,657**
Institutions	20%	291,336,616	1,481,064	292,817,680
	50%	72,290,295	-	72,290,295
	100%	47,632,594	-	47,632,594
	150%	15,676,997	-	15,676,997
		426,936,502	**1,481,064**	**428,417,566**
Corporates	100%	624,336,926	(1,481,064)	622,855,862
		624,336,926	**(1,481,064)**	**622,855,862**
Retail	75%	2,921,680	-	2,921,680
		2,921,680	**-**	**2,921,680**
Secured by mortgages on immovable property	35%	253,330	-	253,330
	50%	723,763	-	723,763
		977,093	**-**	**977,093**
Exposures in default	100%	37,956,614	-	37,956,614
	150%	7,647,527	-	7,647,527
		45,604,141	**-**	**45,604,141**
Items associated with particular high risk	150%	105,458,210	-	105,458,210
		105,458,210	**-**	**105,458,210**
Claims in the form of CIU	100%	173,362,850	-	173,362,850
		173,362,850	**-**	**173,362,850**
Equity exposures	100%	75,524	-	75,524
		75,524	**-**	**75,524**
Other items	0%	1,725,027	-	1,725,027
	100%	66,701,696	-	66,701,696
	250%	26,342,280	-	26,342,280
		94,769,003	**-**	**94,769,003**

The Group's exposures value subject to credit risk of USD1,696,540,019 has remained stable when compared to 2017 (USD1,716,239,372). This is attributable to the Group's focus on the monitoring and management of its risk weighted assets. The major factors that contributed to the movement in the exposure value were due to the following exposures as held on the reporting date: (i) a larger balance held with the Central Bank of Malta, (ii) increases in the portfolio of customer loans and (iii) a higher value of CIU.

6 Credit risk mitigation

The Group also makes use of different types of collateral, all aimed at mitigating credit risk within on- and off- balance sheet credit facilities.

Main types of collateral and concentrations in credit risk mitigations

FIMBank seeks to secure, when possible, its exposure to both financial institutions and corporate clients either by property (including shipping vessels), cash collateral, credit insurance cover, personal or bank guarantees or by pledged goods. For financial collateral, the main counterparties would be reputable credit institutions, financial institutions, or credit insurers. Procedures are in place to limit the market and credit risk concentrations of collateral, including the regular monitoring of commodity market prices and assessment of credit worthiness of collateral counterparties.

The collateral policies are reviewed periodically by management both in terms of exposure to the Bank and the Group and to ensure the validity and enforceability of the security taken. Investment securities are not usually held as collateral, and no such collateral was held at 31 December 2018. The table below provides an estimate of the fair value of collateral and other security enhancements held against the Group's loan portfolio (some items of collateral are not being extended a value for regulatory purposes).

When goods are pledged the value of goods representing collateral for such facilities is determined by monitoring the market prices of such commodities. Screen prices are readily available on most commodities exchanges and are monitored on a regular basis. Collateral management is performed on FIMBank's behalf by specialised companies (SGS, Bureau Veritas, Control Union, etc.) appointed ad hoc for a particular transaction. Collateral management agreements are usually tri-partite agreements (between FIMBank, the borrower and the collateral manager) and where applicable, also give FIMBank title to the goods held as collateral, in addition to physical control.

The Group's provision of collateral to third parties is mainly limited to repo transactions with a contractual maturity generally not exceeding 12 months. Given the short nature of such transactions, the Group does not expect a material change to its collateral value as a result of a downgrade in the credit rating of the counterparty.

The table below shows the total exposure value subject to credit risk that is covered by eligible collateral for each exposure class as defined in CRR:

	Exposure value covered by cash	Exposure value covered by guarantees	Exposure value covered by residential immovable property	Exposure value covered by commercial immovable property	Exposure value for uncovered assets
	2018	2018	2018	2018	2018
	USD	USD	USD	USD	USD
Central governments or central banks	-	-	-	-	177,659,343
Public sector entities	-	-	-	-	4,318,090
Multilateral development banks	-	-	-	-	39,920,000
International organisations	-	-	-	-	200,657
Institutions	2,323,601	10,301,260	-	-	414,311,640
Corporate	115,957,833	47,875,953	-	-	460,503,140
Retail	453,900	-	-	-	2,467,780
Secured by mortgages on immovable property	-	-	253,330	723,763	-
Items associated with particular high risk	-	-	-	-	105,458,210
Exposures in default	1,139,895	-	-	-	44,464,246
Claims in the form of CIU	-	-	-	-	173,362,850
Equity exposures	-	-	-	-	75,524
Other items	-	-	-	-	94,769,003
	119,875,229	**58,177,213**	**253,330**	**723,763**	**1,517,510,483**

7 Credit risk adjustments

Past due and impaired facilities

Impaired facilities are exposures for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). On the other hand, 'past due but not impaired' facilities are exposures where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

Credit reserves

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

Specific credit risk adjustments

Review of all Group exposures is made on an on-going basis and an identification of a facility which encroaches its terms and conditions would trigger a specific impairment process and a possible charge to the credit reserve. The basis of allocating amounts to the specific credit reserve is dependent on the grading of non-performing exposures assigned in accordance with Banking Rule 09. In addition, these are measured on the basis of the adopted policy that is noted under Note 3.10.8.1 of the Financial Statements following the implementation of IFRS 9. Whilst the impaired portfolio on the total portfolio, as mentioned earlier stands at 5.24%, the Group's two year average non-performing loans, calculated solely on the loan book (excluding any other assets), exceeded the threshold as specified in the rule itself. Based on this, an non-performing loans reduction plan will be presented to the regulator.

General credit risk adjustments

For those exposures where no individual impairment is identified, the Group calculates an expected credit loss in line with the requirements of IFRS 9. Further information on how this is calculated is provided in Note 3.10.8.1 of the Financial Statements.

The following tables provides details of the Group's exposures subject to credit risk, broken down by geography, industry and residual maturity as at 31 December 2018:

7.1 Credit risk exposures by geography

	Europe USD	Sub-Saharan Africa USD	Middle East and North Africa (MENA) USD	Commonwealth of Independent States (CIS) USD	Others USD
Exposure class					
Central governments or central banks	171,737,339	3,877	5,918,127	-	-
Public sector entities	-	-	4,294,909	-	23,181
Multilateral development banks	39,920,000	-	-	-	-
International organisations	200,657	-	-	-	-
Institutions	233,782,278	28,173,108	82,519,609	5,142,709	77,318,796
Corporate	230,996,352	711,054	174,889,192	-	217,740,328
Retail	2,803,135	-	59,887	-	58,658
Secured by mortgages on immovable property	-	-	-	-	977,093
Items associated with particular high risk	105,458,210	-	-	-	-
Exposures in default	4,415,977	6,579,453	27,935,472	-	6,673,240
Claims in the form of CIU	173,362,850	-	-	-	-
Equity exposures	75,524	-	-	-	-
Other items	-	-	-	-	94,769,003

Credit risk adjustments - continued

7.2 Credit risk exposures by industry

	Industrial raw materials USD	Ship and transportation USD	Wholesale/retail USD	Financial intermediaries USD	Others USD
Exposure class					
Central governments or central banks	-	-	-	151,882,061	25,777,282
Public sector entities	4,318,090	-	-	-	-
Multilateral development banks	-	-	-	39,920,000	-
International organisations	-	-	-	-	200,657
Institutions	-	-	-	426,936,500	-
Corporate	253,793,515	18,317,739	203,716,670	109,581,601	38,927,402
Retail	773,665	-	1,180,351	5,504	962,160
Secured by mortgages on immovable property	369,162	493,258	114,672	-	-
Items associated with particular high risk	57,555,103	-	-	3,820,860	44,082,247
Exposures in default	20,570,507	295,474	12,648,369	9,677,935	2,411,857
Claims in the form of CIU	-	-	-	173,362,850	-
Equity exposures	-	-	-	-	75,524
Other items	-	-	-	-	94,769,003

7.3 Credit risk exposures by residual maturity

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD	No residual maturity USD
Exposure class							
Central governments or central banks	151,885,938	-	-	-	-	25,773,405	-
Public sector entities	4,318,090	-	-	-	-	-	-
Multilateral development banks	-	39,920,000	-	-	-	-	-
International organisations	200,657	-	-	-	-	-	-
Institutions	270,493,982	33,470,477	58,251,362	30,585,634	10,688,310	23,446,736	-
Corporate	256,440,078	109,897,283	119,346,461	65,078,451	56,744,997	16,829,656	-
Retail	728,304	68,127	239,752	1,188,336	80,548	616,613	-
Secured by mortgages on immovable property	862,421	-	114,672	-	-	-	-
Items associated with particular high risk	2,068,777	1,466,496	7,533,387	12,732,051	31,105,160	50,552,340	-
Exposures in default	41,560,184	2,265,938	1,778,020	-	-	-	-
Claims in the form of CIU	-	-	-	-	-	-	173,362,850
Equity exposures	-	-	-	-	-	-	75,524
Other items	-	-	-	-	-	-	94,769,003

The following tables provide details of the Group's impaired exposures, past due exposures and credit risk adjustments:

7.4 Breakdown by industry

	Industrial raw materials USD	Ship and transportation USD	Wholesale/retail USD	Financial intermediaries USD	Others USD
Individually impaired (net of specific credit risk adjustment)	20,815,788	788,732	12,648,369	9,677,935	2,391,586
Past due but not impaired	173,629,655	747,739	45,821,627	66,862,788	14,058,554
Specific credit risk adjustment	16,195,635	1,410,876	29,295,230	10,131,127	4,896,310
General credit risk adjustment	3,861,347	55,326	693,681	1,638,815	641,429

Credit risk adjustments - continued

7.5 Breakdown by geography

	Europe USD	Sub-Saharan Africa USD	Middle East and North Africa (MENA) USD	Commonwealth of Independent States (CIS) USD	Others USD
Individually impaired (net of specific credit risk adjustment)	4,415,977	6,579,453	27,935,472	-	7,391,509
Past due but not impaired	54,101,187	7,462,789	82,017,306	10,276	157,528,803
Specific credit risk adjustment	15,649,023	2,288,812	38,384,380	-	5,606,965
General credit risk adjustment	2,435,843	117,060	3,385,196	263,164	689,336

Please refer to Note 5.2.4 for a reconciliation of the changes in the specific (Stage 3) and general (Stage 1 and Stage 2) credit risk adjustments for impaired exposures.

8 Asset encumbrance

The following tables provide an overview of the encumbered assets of the Group. The 'debt securities' consist of debt investments which are pledged under central bank main-refinancing operation facilities. In 2018, no 'debt securities' or 'equity instruments' were pledged under other borrowing arrangements or repoed transactions. 'Other assets' encumbered represent amounts pledged in favour of the Depositor Compensation Scheme or to counterparties under documentary credits.

	Carrying amount of encumbered assets USD	Fair value of encumbered assets USD	Carrying amount of unencumbered assets USD	Fair value of unencumbered assets USD
Equity instruments	-	-	173,438,375	173,438,375
Debt securities	18,880,824	18,880,824	78,510,844	78,510,844
Other assets	15,094,318	-	1,327,208,176	-
Assets	**33,975,142**		**1,579,157,395**	

	Fair value of collateral received available for encumbrance USD
Other assets	174,708,131
Collateral received	**174,708,131**

	Matching liabilities USD	Assets and collateral received USD
Carrying amount of selected financial liabilities	15,573,411	24,491,529

The Group continues to recognise these encumbered assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the encumbered assets being derecognised for accounting purposes. There are no encumbered assets between entities of the Group.

Encumbered assets decreased by around USD259.1 million from December 2017. This was mainly a result of the equity instrument (2017: USD141.6 million) and trading assets reported under debt securities (2017: USD86.2 million) no longer being encumbered during 2018.

9 Own funds and capital requirements

A detailed analysis on the composition of Tier 1, Tier 2 and Own Funds is disclosed in Note 5.6 of the Financial Statements as at 31 December 2018.

9.1 Full reconciliation of own funds items to audited financial statements in accordance with article 437(1)(a) of the CRR

9.1.1 Reconciliation between the statement of financial position used to calculate own funds and that used to calculate regulatory own funds

	Note *	TA **	SOFP in accordance with IFRS scope of consolidation 2018 USD	Effect of deconsolidation for regulatory consolidation 2018 USD	SOFP in accordance with regulatory scope of consolidation 2018 USD
Equity					
Share capital	42		**252,720,107**	**-**	**252,720,107**
Share premium	42		**9,275,773**	**-**	**9,275,773**
Retained earnings	42		**7,684,096**	**-**	**7,684,096**
Reserve for general banking risks	42		1,242,511	-	1,242,511
Currency translation reserve	42		(5,166,834)	-	(5,166,834)
Fair value reserve	42		11,712,299	-	11,712,299
Other reserve	42		2,837,122	-	2,837,122
Other Reserves			**10,625,098**	**-**	**10,625,098**
Other transitional adjustments to CET1: Non-controlling interests deductible from own funds		TA1	-	-	-
Non-controlling interests not deductible from own funds			(1,615,254)	(1,615,254)	-
Non-controlling interests	43		**(1,615,254)**	**(1,615,254)**	**-**
Assets					
Deposits placed directly in the Depositor Compensation Scheme's account with the Central Bank of Malta reported under other assets	35		3,725,497	-	3,725,497
Market value of assets held as payment commitments in favour of the Depositor Compensation Scheme			**3,725,497**	**-**	**3,725,497**
Collective impairment	24/25		**(6,890,599)**	**-**	**(6,890,599)**
Goodwill accounted for as intangible asset			8,639,383	-	8,639,383
Other intangible assets			4,651,018	-	4,651,018
Intangible assets and goodwill	33		**13,290,401**	**-**	**13,290,401**
Deferred tax liabilities associated to other intangible assets			(133,625)	-	(133,625)
Deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds			12,798,564	-	12,798,564
Other transitional adjustments to CET1: deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds		TA2	(2,589,703)	-	(2,589,703)
Deferred tax asset that rely on future profitability and arise from temporary differences and not deductible from own funds			28,618,868	28,618,868	-
Deferred taxation	34		**38,694,104**	**28,618,868**	**10,075,236**

' * ' Cross-reference to Notes to the Financial Statements
' ** ' Cross-reference to Statement of Transitional Adjustments

Own funds and capital requirements - continued

9.1.2 Statement of transitional adjustments

	Note	2018 USD
Non-controlling interests deductible from own funds	TA 1	-
Deferred tax asset that relies on future profitability and arises from temporary differences and is deductible from own funds	TA 2	2,589,703
IFRS 9 adjustment prescribed under Regulation (EU) No 2017/2395	TA 3	8,063,051
Transitional adjustments to CET 1		**10,652,754**

9.1.3 Mapping between own funds statement as reported in note 5.6 and the statement of financial position in accordance with regulatory scope of consolidation and the statement of transitional adjustments as reported in tables 9.1.1 and 9.1.2 respectively

	Own funds statement 2018 USD		SOFP in accordance with regulatory scope of consolidation 2018 USD		Statement of transitional adjustments 2018 USD
Tier 1					
Paid up capital instruments	252,720,107	Share capital	252,720,107		
Share premium	9,275,773	Share premium	9,275,773		
Retained earnings	7,684,096	Retained earnings	7,684,096		
Other reserves	10,625,098	Other Reserves	10,625,098		
Deductions					
Goodwill accounted for as intangible asset	(8,639,383)	Goodwill accounted for as intangible asset	(8,639,383)		
Other intangible assets	(4,651,018)	Other intangible assets	(4,651,018)		
Deferred tax liabilities associated to other intangible assets	133,625	Deferred tax liabilities associated to other intangible assets	133,625		
Deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds	(12,798,564)	Deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds	(12,798,564)		
Market value of assets held as payment commitments in favour of the Depositor Compensation Scheme	(3,725,497)	Market value of assets held as payment commitments in favour of the Depositor Compensation Scheme	(3,725,497)		
Other transitional adjustments	10,652,754			Transitional adjustment to CET 1	10,652,754
Common Equity Tier 1	**261,276,991**				
Total Tier 1	**261,276,991**				
Tier 2					
General credit risk adjustments	6,890,599	Collective impairment	6,890,599		
Total Tier 2	**6,890,599**				
Total own funds	**268,167,590**				

Own funds and capital requirements - continued

9.2 Description of the main features of common equity tier 1 and tier 2 capital instruments in accordance with article 437(1)(b) of the CRR

	Paid up capital instruments
Issuer	FIMBank plc
ISIN number	MT0000180100
Governing law of the instrument	Maltese law
Regulatory treatment	
- transitional CRR rules	Common Equity Tier 1
- post transitional CRR rules	Common Equity Tier 1
- eligibility for inclusion in own funds	Bank solo and Group consolidated
- Instrument type	CET1 as published in the EBA list (art. 26(3))
- amount recognised in regulatory capital	505,440,214 shares
- nominal value of each share	USD0.50
- issue price	N/A
- redemption price	N/A
- accounting classification	Shareholders' equity
- original date of issuance	8 November 1994
- perpetual or dated	N/A
- original maturity date	N/A
- issuer call subject to prior supervisory approval	N/A
Dividends	
- fixed or floating dividend	Floating
- coupon rate and any related index	N/A
- existence of a dividend stopper	No
- fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
- fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
- existence of step-up or incentive to redeem	N/A
- non-cumulative or cumulative	Non-cumulative
- convertible or non-convertible	Non-convertible
- write-down features	N/A
- position in subordination hierarchy in liquidation	Subordinated to senior creditors and depositors
- non-compliant transitional features	No

The Subordinated Liability reported in the 2017 Pillar III disclosures was disposed of during 2018.

Own funds and capital requirements - continued

9.3 Comparison of own funds, and capital and leverage ratios in accordance with article 473a of the CRR

In 2016, the European Union (''EU") adopted the IFRS 9, 'Financial Instruments' which came into force on 1 January 2018. To mitigate the impact of this standard on own funds, and capital and leverage ratios due to sudden increases in Expected Credit Loss provisions ("ECL"), in 2018 the EU approved Regulation (EU) No 2017/2395 which created Article 473a of the CRR. The introduction of IFRS 9 led to a significant increase in the Bank's ECL provisions which will ultimately impact the Bank's CET1 capital levels. The Group has therefore decided to apply the transitional arrangements prescribed in this above-mentioned regulation, allowing it to phase-in the impact of the increased ECL on the Bank's capital levels. From 2018, the transitional arrangement allows the Group to include in its Common Equity Tier 1 Capital a portion of the increased ECLs for five years, decreasing over time to zero to ensure full implementation of the standard.

Regulation (EU) No 2017/2395 also requires the disclosure of the following items with and without the application of the transitional arrangements prescribed within the same Article. The following table is based on 'Template IFRS 9-FL' from the 'Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds' (EBA/GL/2018/01).

	2018 USD
Available capital (amounts)	
CET1 capital	261,276,991
CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	253,213,940
Tier 1 capital	261,276,991
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	253,213,940
Total capital	268,167,590
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	260,104,539
Risk-weighted assets (amounts)	
Total risk-weighted assets	1,486,275,878
Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,478,178,852
Capital ratios	
CET1 (as a % of risk exposure amount)	17.6%
CET1 (as a % of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.1%
Tier 1 (as a % of risk exposure amount)	17.6%
Tier 1 (as a % of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.1%
Total capital (as a % of risk exposure amount)	18.0%
Total capital (as a % of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.6%
Leverage ratio (fully phased in)	
Tier 1 capital (fully phased in)	250,624,237
Leverage ratio total exposure measure	1,879,028,894
Leverage ratio	13.3%
Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.5%

The transitional arrangement resulted in a higher total capital ratio of 18.1% (17.6% without applying the transitional arrangement). This increase of 0.5% in the capital ratio was a result of an additional USD8 million in the Group's own funds and a lower total risk weighted assets (reduction of USD8.3 million) being adjusted in line with the transitional arrangement. As a result, the Group's leverage ratio increased to 13.6% (13.4% without applying the arrangement).

Own funds and capital requirements - continued

9.4 Nature and amounts of specific items on own funds during the transitional period in accordance with articles 437(1)(d) and (e) of the CRR

	Amount at disclosure date 2018 USD	Amount subject to pre-CRR treatment or prescribed residual amount of CRR 2018 USD
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts: ordinary share capital	261,995,880	
Retained earnings	7,684,096	
Accumulated other comprehensive income (and other reserves)	9,382,587	
Funds for general banking risk	1,242,511	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**280,305,074**	**-**
Common equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(13,156,776)	-
Deferred tax asset arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38(3) of the CRR are met)	(10,208,861)	2,589,703
Market value of assets pledged in favour of the Depositor Compensation Scheme	(3,725,497)	-
IFRS 9 adjustment prescribed under regulation (EU) No 2017/2395	8,063,051	8,063,051
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(19,028,083)**	**10,652,754**
Common Equity Tier 1 (CET1) capital	**261,276,991**	**10,652,754**
Tier 1 capital	**261,276,991**	**10,652,754**
Tier 2 capital: instruments and provisions		
Credit risk adjustments	6,890,599	-
Tier 2 capital	**6,890,599**	**-**
Total capital	**268,167,590**	**10,652,754**
Total risk weighted assets	1,486,275,878	
Capital ratios and buffers (as a percentage of risk exposure amount)		
Common Equity Tier 1 (CET1)	17.6%	
Tier 1	17.6%	
Total capital	18.0%	
Institution specific buffer requirement		
of which: capital conservation buffer requirement	1.875%	
of which: countercyclical buffer requirement	0.026%	
Amounts below the thresholds for deduction (before risk weighting)		
Deferred tax asset arising from temporary differences (below 10% threshold and net of related tax liability)	26,342,280	
Applicable caps on the inclusion of provisions in Tier 2		
Credit risk adjustments included in T2 in respect of exposures subject to standardized approach	6,890,599	
Cap on inclusion of credit risk adjustments in T2 under standardized approach	6,890,599	

Own funds and capital requirements - continued

The Group is required to maintain additional capital buffers, specifically the Capital Conservation Buffer and the Countercyclical Capital Buffer. These buffers are a requirement of Banking Rule 15, Capital Buffers of Credit Institutions authorised under the Banking Act, 1994, which will be fully implemented by January 2019. If the Group's CET1 capital falls below the combined buffer, automatic restrictions apply on capital distributions.

The Capital Conservation Buffer of 2.5% is being phased-in until 1 January 2019 (2018: 1.875%). In addition, the Group is required to retain an institution-specific Countercyclical Capital Buffer ("CCB") in line with Article 130 of Directive 2013/36/EU. This buffer is based on the weighted average of the CCB rates that apply in those countries where the exposures are located. In this regard, the following tables disclose the Group's (a) geographical distribution of exposures relevant for the calculation; and (b) amount of institution-specific CCB. These tables are in line with the disclosure requirements of Article 440 of the CRR and the supplementary Commission Delegated Regulation (EU) 2015/1555.

	General credit exposures	Trading book exposures	Own funds requirement				
	Exposures for standardised approach	Sum of long and short position of trading book	Of which general credit exposures	Of which trading book exposures	Total	Own funds requirements weights	Countercyclical capital buffer rate
	2018	2018	2018	2018	2018	2018	2018
	USD	USD	USD	USD	USD	USD	USD
Czech Republic	819,876	-	65,590	-	65,590	0.06%	1.00%
United Kingdom	27,779,699	6,788,625	2,170,315	157,817	2,328,132	2.07%	1.00%
Norway	1,857,066	-	148,565	-	148,565	0.13%	2.00%
Sweden	2,797,238	-	128,702	-	128,702	0.11%	2.00%
	33,253,879	**6,788,625**	**2,513,172**	**157,817**	**2,670,989**	**2.37%**	

	2018
Total risk exposure amount	USD1,486,275,878
Institution specific countercyclical buffer rate	0.026%
Institution specific countercyclical buffer requirement	USD386,432

9.5 Capital requirements

The Group uses the Standardised Approach under the capital requirements framework. The overall capital requirements have to be calculated and compared with the own funds described above. The overall capital requirements are expressed in terms of Risk Weighted Assets ("RWA") whereby capital requirements need to be 8% of RWA. The Group's minimum capital requirement under Pillar I is calculated by adding the credit risk charge to that required for operational risk and market risk.

The following table shows the Group's overall capital requirement under Pillar I:

	Risk weighted assets	Capital requirement
	2018	2018
	USD	USD
Credit risk (section 4.1 above)	1,102,955,543	88,236,443
Counterparty risk (section 4.2 above)	591,402	47,312
Operational risk (section 4.3 above)	87,218,575	6,977,486
Market risk - position risk in traded debt instruments (section 4.4.3 above)	288,891,778	23,111,344
Market risk - equity investments between 10% and 50% (section 4.6 above)	-	-
Market risk - foreign exchange risk (section 4.4.2 above)	6,618,580	529,486
	1,486,275,878	**118,902,071**

9.6 Internal capital adequacy assessment process

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

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

The ICAAP process is managed by the Group's Risk Management which is responsible for the preparation, formulation and overall coordination of this document. Inputs are received as appropriate by other relevant departments, including but not limited to the Finance, Legal, Treasury, IT, Administration, Human Resources and Operations departments. Each of these departments has a direct connection with one or more risks, policies and procedures analysed and assessed in the ICAAP.

Throughout this process, senior officers from each department provide their input and guidance on how risks are being mitigated and how these risks can be analysed and assessed both in a qualitative as well as quantitative manner. The final document is subjected to a review by the Group's Internal Audit department, and the findings arising from this review are documented in an Auditors' Report.

The final version of the ICAAP is eventually discussed by the Audit Committee before being presented to the Board Risk Committee, and following its recommendation, it is ultimately approved and further ratified by the Board of Directors.

10 Leverage ratio

CRR requires credit institutions to calculate a non-risk based leverage ratio to supplement risk based capital requirements. The leverage ratio is defined as Tier 1 capital divided by a non-risk-based measure of an institution's on- and off-balance sheet items, not deducted from Tier 1 capital (the 'exposure measure'). The leverage ratio has two objectives, namely to limit the risk of excessive leverage by constraining the building up of leverage in the banking sector during economic upswings and to act as a simple instrument that offers a safeguard against the risks associated with the risk models underpinning risk weighted assets.

European banks are currently following a monitoring period to gather the data relevant to the calculation of the leverage ratio. Presently, the minimum requirement of the Tier 1 leverage ratio is 3%. This is in line with the fully-transitioned Basel III standards as internationally agreed by the Governors of Central Banks and heads of supervision of Basel Committee member jurisdictions.

Leverage ratio - continued

	Applicable amount 2018 USD
Summary reconciliation of accounting assets and leverage ratio exposures	
Total assets as per published Financial Statements	1,868,561,808
Adjustments for derivative financial instruments	836,726
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	43,606,180
Other adjustments	(33,975,820)
Leverage ratio total exposure measure	**1,879,028,894**

	CRR leverage ratio exposures 2018 USD
Leverage ratio common disclosure	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,868,468,963
Asset amounts deducted in determining Tier 1 capital	(33,975,820)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**1,834,493,143**
Replacement cost associated with all derivatives transactions	929,571
Total derivatives exposures	**929,571**
Off-balance sheet exposures at gross notional amount	191,471,593
Adjustments for conversion to credit equivalent amounts	(147,865,413)
Other off-balance sheet exposures	**43,606,180**
Tier 1 capital (fully phased-in)	**250,624,236**
Leverage ratio total exposure measure	**1,879,028,894**
Leverage ratio	**13.3%**
Choice on transitional arrangements for the definition of the capital measure	Fully phased-in

	CRR leverage ratio exposures 2018 USD
Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	**1,834,493,143**
Trading book exposures	**347,284,967**
Banking book exposures	**1,487,208,176**
of which:	
Exposures treated as sovereigns	217,780,001
Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	4,318,090
Institutions	346,673,122
Secured by mortgages of immovable properties	977,093
Retail exposures	2,566,728
Corporate	551,498,551
Exposures in default	53,653,942
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	309,740,649

Leverage ratio - continued

10.1 Description of the processes used to manage the risk of excessive leverage

Leverage risk is managed through regular monitoring and reporting of the leverage ratio, which forms part of the Risk Appetite Framework. FIMBank has set a prudent threshold for the leverage ratio at 5% (at group level). The leverage ratio for FIMBank has never breached the required minimum level of 3%, as prescribed by European regulations. The Group's strategy is based on profit improvement and selective asset growth which will further improve the leverage ratio. Changes in regulation relating to leverage ratio are monitored and their potential impact is assessed.

10.2 Description of the factors that had an impact on the leverage ratio during the period to which the disclosed ratio refers

The leverage ratio amounted to 13.4% (2017: 7.7%). This is more than 100% in excess of the required prudential level. The change in leverage was mainly due to capital injection in the second quarter of the year.

11 Remuneration policy

The Remuneration Policy ("Policy") outlines the key guiding principles and framework of the Group in terms of remuneration structure. This structure comprises both fixed and variable remuneration and is intended to attract, develop and retain a high-performing workforce while remaining aligned to the Group's long-term strategy, risk appetite, sustainable performance and espoused values. This policy is reviewed annually and is approved by the Nomination and Remuneration Committee ("Committee") which is also the body delegated by the Board of Directors to oversee its implementation. As at 31 December 2018, the composition of the Committee was as defined under the Remuneration Report section in this Annual Report. The Committee seeks advice when it considers it necessary. In 2018, the Committee met four times. It also engaged a third party to evaluate the potential introduction of an Employee Share Incentive Scheme. The current Employee Share Option Scheme ("ESOS") expired on 31 December 2018 and the Bank is evaluating the potential introduction of a new Scheme. Such an introduction would require Shareholders' approval at the Annual General Meeting.

The Policy was last updated in August 2018 and did not include any impact on the fixed and variable components of remuneration.

The Policy governs the remuneration of 'identified staff' as determined in line with the EBA's qualitative and quantitative regulatory technical standards as currently in force. The Group's Identified Staff includes the management body in its management function and senior employees who are inter alia responsible for one or more of the below:

- a material business unit or are directly accountable to the person heading the material business unit;
- an internal control in terms of risk, compliance and audit;
- a unit providing legal, financial budgeting and accounting, human resources, information technology or economic analysis support;
- taking decisions on new products, material systems or material processes;
- serving on a committee tasked with overseeing the management of a risk category;
- initiating credit proposals & have the authority to approve/decline or veto credit applications that result in credit risk exposure of a nominal amount per transaction which represents 0.5% of the institution's Common Equity Tier 1 capital and is at least EUR5 million;
- taking a decision on transactions on the trading book; or
- match one or more of the quantitative criteria as per Article 4 (paragraphs 1(a), 1(b), 1(c) of EBA/RTS/2015/09 dated 16 July 2015).

For the purpose of remuneration, the Group's 'identified staff' are being sub-categorised according to the EBA guidelines and namely the following business areas:

- Supervisory;
- Management;
- Independent Control;
- Corporate;
- Commercial Lending; and
- Others

In aggregate these amount to 8.9% of the Group's total workforce.

Remuneration policy - continued

The below table includes total fixed and variable remuneration for Identified Staff in each business area;

	Supervisory	Management	Corporate	Independent	Commercial lending *	Other
Number of identified staff	**11**	**9**	**5**	**5**	**4**	**4**
	USD	USD	USD	USD	USD	USD
Total fixed remuneration	388,162	3,440,114	627,619	199,336	658,063	887,269
Total variable remuneration	-	548,655	55,371	7,658	73,631	30,443
Total remuneration	**388,162**	**3,988,769**	**682,990**	**206,994**	**731,694**	**917,712**

' * ' including lending activity to enterprises

The fixed remuneration includes all statutory and non-statutory amounts disbursed to or on behalf of employees, including fringe benefits, premia for insurance cover and other cash payments.

The variable remuneration consists of the performance bonuses awarded in line with the Group's Performance Management Programme. Performance is measured bi-annually through the performance appraisal process. Individual performance is linked to core competences and role goals. As per Remuneration Policy, the bonus pool for the award of performance bonuses is decided by the Committee.

In accordance with Article 94(1)(g) of Directive 2013/36/EU, the Group did not award a performance bonus in excess of 100% of the fixed remuneration disbursed to the respective employee, nor were there cash bonuses which exceeded EUR100,000. The Policy stipulates that before the deferred part of the variable remuneration is paid out, the Group Chief Risk Officer reassesses performance to ensure that this variable remuneration reflects the risks and errors that might have arisen or materialised since the component was awarded. This is carried out as part of Group's Performance Management Process. Furthermore, the Policy stipulates that in cases where the Group incurs financial losses, payment of any deferred bonuses will be decided by the Committee. This approach is carried out in the interest of strengthening the capital base. In cases of resignations and where deferred bonus payments are still due, such payments shall be effected as and when they become due. Moreover, in case of termination due to failure or misconduct, any deferred bonus(es) will be subject to malus and paid bonus(es) will be subject to clawback up to a maximum of five years as per the terms defined in the contract of employment. The Group did not pay any deferred bonuses since none were due and no individual was remunerated more than EUR1 million. No severance payments were made.

In 2018, the ratio of variable remuneration to fixed remuneration for the target population of Identified Staff for the whole group stood at 11.54%.

Supplementary information on remuneration is included in the Remuneration Report section of this Annual Report.

Directors and executive management

Board of Directors

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

Company Secretary

Andrea Batelli

Registered Address

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

Contact Number

Tel: +356 2132 2100

Executive Management

FIMBank p.l.c.

Group Chief Executive Officer	Murali Subramanian	
Senior Executive Vice President	Howard Gaunt	Group Chief Operating Officer
Executive Vice Presidents	Andrea Batelli	Group Head of Legal & Investor Relations
	Michael Davis	Group Chief Compliance Officer/MLRO
	Nilanjan Ray	Chief Executive Officer of FIMBank Dubai Branch
	Ronald Haverkorn	Group Chief Risk Officer
	Ronald Mizzi	Group Chief Financial Officer

London Forfaiting Company Limited

Chief Executive Officer	Simon Lay	
Company Secretary	William Ramzan	Head of Finance & Human Resources

India Factoring and Finance Solutions (Private) Limited

Chief Executive Officer	Sandeep Mathkar	
Company Secretary	Swati Zawar	Compliance Assistant Manager

The Egyptian Company for Factoring S.A.E.

Chief Executive Officer	Ahmed Shaheen	
Company Secretary	Hesham Amin	General Manager & Chief Financial Officer

FIMBank Group contact details

MALTA

FIMBANK P.L.C.
Mercury Tower
The Exchange Financial & Business Centre
Elia Zammit Street
St. Julian's STJ 3155, Malta
Tel: +356 2132 2100
Fax: +356 2132 2122
S.W.I.F.T.: FIMB MT M3
Email: info@fimbank.com

LONDON FORFAITING COMPANY LIMITED
Forfaiting Operations Department
Mercury Tower
The Exchange Financial & Business Centre
Elia Zammit Street
St. Julian's STJ 3155, Malta
Tel: +356 2328 0736
Fax: +356 2328 0735
Email: lfc.malta@forfaiting.com
Contact: Lorna Pillow

FIM PROPERTY INVESTMENT LIMITED
Mercury Tower
The Exchange Financial & Business Centre
Elia Zammit Street
St. Julian's STJ 3155, Malta
Tel: +356 2132 2100
Fax: +356 2328 0127
Email: fpi@fimbank.com
Contact: Jason Zammit

MEDFACTORS
FIMBANK P.L.C.
Mercury Tower
The Exchange Financial & Business Centre
Elia Zammit Street
St. Julian's STJ 3155 Malta
Tel: +356 21 32 2100
Fax: +356 2328 0154
Email: tiago.trepatorres@fimbank.com
Contact: Tiago Trepa Torres

BRAZIL

LONDON FORFAITING DO BRASIL LTDA
World Trade Center
Av. das Nações Unidas 12.551 - 17th floor
São Paulo, SP 04578-903, Brazil
Tel: +55 11 3443 7440
Fax: +55 11 3443 7474
Email: lfc.brasil@forfaiting.com
Contact: Alexandre Ozzetti

BRASILFACTORS S.A.
(Associated Company)
Av. Eng Luis Carlos Berrini 1681
8 Andar, Brooklin
São Paulo, SP 04571-011, Brazil
Tel: +55 11318 68310
Email: marcos.kairuz@brasilfactors.com.br
Contact: Marcos Kairuz

EGYPT

THE EGYPTIAN COMPANY FOR FACTORING S.A.E. (Egypt Factors)
Nasr City, Public Free Zone
Block H/11, Cairo, Egypt
Tel: +202 2672 0787
Fax: +202 2672 0986
Email: info@egyptfactors.com
Contact: Ahmed Shaheen

FRANCE

LONDON FORFAITING COMPANY LIMITED
Representative Office
Multiburo Neuilly
60 Avenue Charles de Gaulle
92200 Neuilly Sur Seine
France
Tel: +33 1 77 72 64 64
Email: lfc.france@forfaiting.com

GERMANY

LONDON FORFAITING COMPANY LIMITED
Representative Office
Richmodstrasse 6
50667 Cologne
Germany
Tel: +49 221 920 42 223
Fax: +49 221 920 42 200
Email: wenli.wang@forfaiting.com
Contact: Wenli Wang

GREECE

FIMBANK P.L.C.
Hellenic Branch
19-21 Aristotelous Str.
Metamorfosi, Athens
GR-14451, Greece
Tel: +30 21222 22100
Fax: +30 21222 22130
Email: demetris.zouzoukis@fimbank.com
Contact: Demetris Zouzoukis

INDIA

INDIA FACTORING FINANCE AND SOLUTIONS PRIVATE LIMITED
(Associated Company)
Unit No 401, 4th Floor
Windsor House,
Off C.S.T. Road, Vidyanagari Marg,
Kalina, Santacruz (E),
Mumbai 400 098, Maharashtra
Tel: +91 22 44125555
Fax: +91 22 44125556
Email: info@indiafactoring.in
Contact: Sandeep Mathkar

RUSSIA

LONDON FORFAITING COMPANY LIMITED
Representative Office
9th Floor, Smolensky Passage
3 Smolenskaya Square
Moscow 121099, Russian Federation
Tel: +74 9577 17142
Fax: +74 9577 17140
Email: irina.babenko@forfaiting.com
Contact: Irina Babenko

SINGAPORE

LONDON FORFAITING COMPANY LIMITED
Representative Office
10 Changi Business Park Central 2,
#05-01 HansaPoint@CBP,
Singapore 486030
Email: lfc@forfaiting.com

UNITED ARAB EMIRATES

FIMBANK P.L.C. DIFC BRANCH
Level 10 - 02
South Tower
Emirates Financial Towers
Dubai International Financial Centre, Dubai
United Arab Emirates
Tel: +971 4567 0192
Fax: +971 4434 2344
Email: nilanjan.ray@fimbank.com
Contact: Nilanjan Ray

UNITED KINGDOM

FIMBANK P.L.C.
Representative Office
3rd Floor, 11 Ironmonger Lane
London EC2V 8EY
United Kingdom
Tel: +44 20739 71527
Fax: +44 20771 00039
Email: simon.lay@fimbank.com
Contact: Simon Lay

LONDON FORFAITING COMPANY LIMITED
Head Office
11 Ironmonger Lane, London EC2V 8EY
United Kingdom
Tel: +44 20 7397 1510
Fax: +44 20 7397 1511
Email: lfc@forfaiting.com
Contact: Simon Lay

UNITED STATES OF AMERICA

LONDON FORFAITING AMERICAS INC.
1 East 52nd Street
Suite 602
New York, NY 10022, U.S.A.
Tel: +1 212 759 1919
Fax: +1 212 377 2018
Email: lfa@forfaiting.com
Contact: Gregory Bernardi