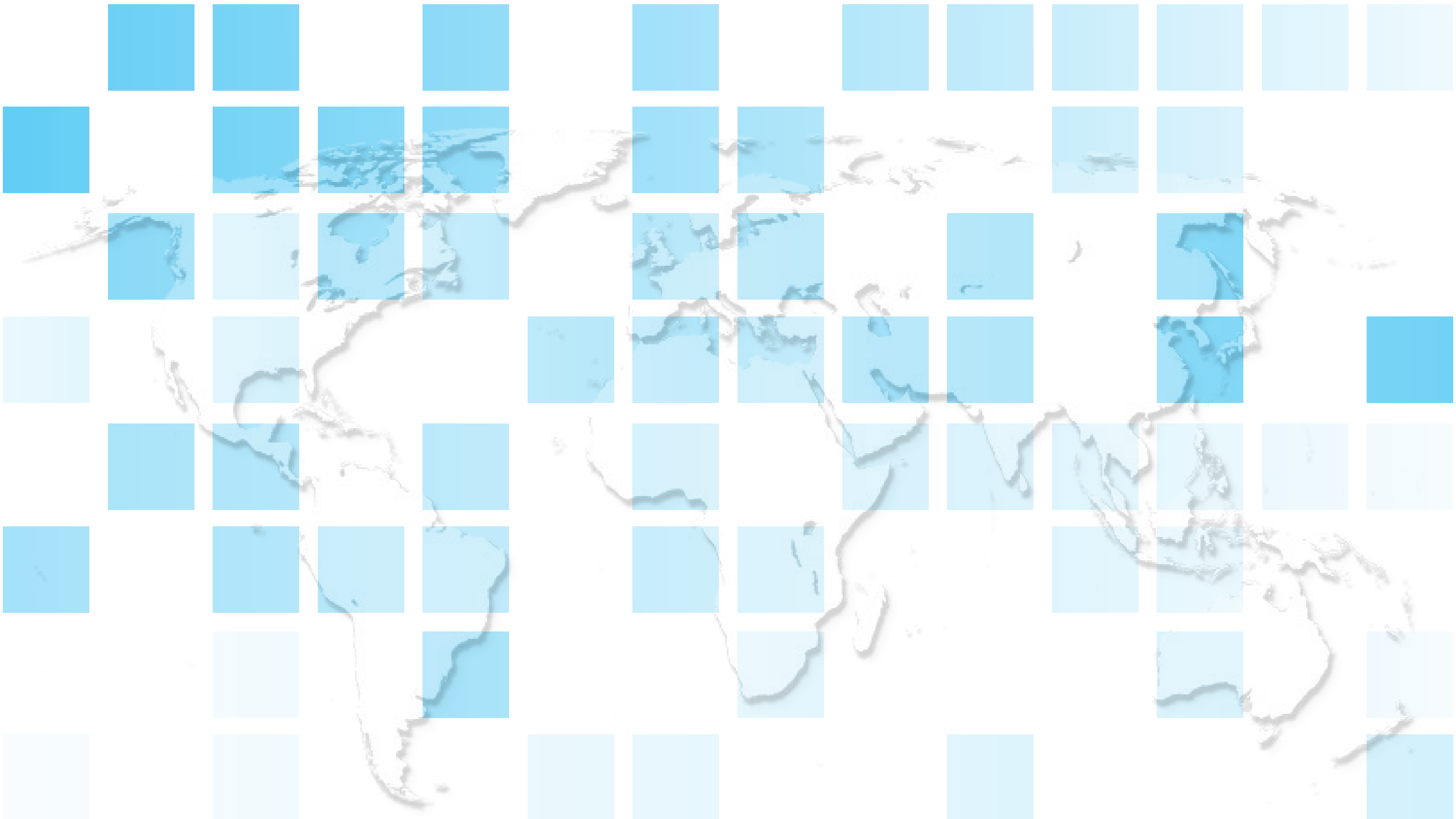

FIMBANK
GROUP

annual report & financial statements 2016

annual report & financial statements 2016

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chairman's statement to the shareholders

Dr John C. Grech, Chairman

FIMBank's performance in the year under review marks an important stage in a journey which saw its beginning two years ago. It is therefore essential to trace the developments and highlight the context in which the results outlined in this Report were achieved, and to provide an overview of the Bank's vision for the coming months.

The year 2015 was a pivotal year for the fortunes of the FIMBank Group. It was a time to weigh the effect of past decisions, and establish a way forward which would determine a positive future for FIMBank. We were steadfast in our resolve to implement a focused course of action, designed to bring the Group back to profitability and long-term growth, following the bleak performance and financial results emerging in 2014. Despite the predicament in which we found ourselves, I was confident that our resolute and timely response strategy would positively influence the outcome. We were all aware that overcoming these challenges would require good judgement, perseverance, and relentless execution.

At our last AGM in May, after nearly two years of hard work and sound strategic decision-making, the positive signs were already evident. The first months of 2016 had corroborated our expectations in terms of the financial response to a successful turnaround strategy, superbly crafted and ably delivered by FIMBank's management team, led by our CEO Murali Subramanian. By August, we were pleased to announce a return to profitability, for the first time since June 2014. Later on in the year on the back of consistent support of our controlling shareholders, Fitch Ratings upgraded the Bank to 'BB' and its Support Rating to '3' from '5'.

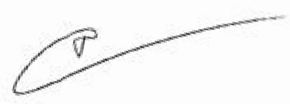
The end-of-year results for 2016 provide conclusive evidence of the success of that consolidation and turnaround strategy launched in 2015. They represent the tangible outcome of a journey of transformation. The Group Consolidated Audited Financial Statements show that for the year ended 31 December 2016, the FIMBank Group registered a profit of USD5.3 million, compared to a loss of USD7.1 million in 2015.

There is no doubt that our employees and members of management at head office and across the globe, deserve our congratulations on the achievement of this turnaround. Their dedication and expertise, not to mention their sense of loyalty and perseverance, continues to be one of our most formidable assets, and a major determinant of success. Their concerted effort has led not only to greater efficiency and profit, but has also enabled the organisation to adapt more effectively to changing market conditions.

Meanwhile, the Board of Directors will be recommending a 1 for 80 Bonus Issue of shares by way of capitalisation of the Share Premium account.

Throughout these complicated times, I have often emphasised the importance we give to investor relations, and our sincere appreciation of the support we receive from all our shareholders. My colleagues on the Board and I remain extremely grateful for the show of trust and loyalty demonstrated by investors time and time again. This has also been a great source of encouragement, and boosted in no small measure our resolve to turn the situation around at FIMBank. Today, I can confidently predict that our shareholders can look forward to a continually improving performance by the Group. I would also like to thank my fellow Directors for their support and counsel, and I look forward to their continued contribution in the coming year.

Similarly, the show of support we received from our controlling shareholders, namely Burgan Bank and United Gulf Bank of the KIPCO Group, was nothing short of vital. Their practical and fundamental show of commitment in support of FIMBank's strategic plan was a keystone of the success we can report today.



John C. Grech
Chairman

stqarrija taċ-chairman lill-azzjonisti

Dr John C. Grech, Chairman

Il-prestazzjoni tal-FIMBank għas-sena taħt analiżi timmarka stadju importanti fi vjaġġ li beda sentejn ilu. Għalhekk huwa essenzjali li nittraċċaw l-iżviluppi u li nixħtu dawl fuq il-kuntest li fih ġew akkwistati r-riżultati f'dan ir-Rapport u li nipprovdu ħarsa ġenerali tal-viżjoni tal-Bank għax-xhur li ġejjin.

Is-sena 2015 kienet sena ċentrali għar-rendiment tal-Grupp FIMBank. Kien żmien fejn kellu jitqies l-effett tad-deċiżjonijiet li ttieħdu fil-passat u li tiġi stabbilita t-triq 'il quddiem li kienet se tiddetermina futur pożittiv għall-FIMBank. Wara l-prestazzjoni skoraġġanti fl-2014 u r-riżultati finanzjarji li ħarġu minnha, konna sodi fid-determinazzjoni tagħna li nimplimentaw pjan ta' azzjoni ffukat magħmul biex ireġġa' l-Grupp lura għall-profittabilità u t-tkabbir fuq terminu twil. Minkejja s-sitwazzjoni prekarja li sibna ruħna fiha, kont kunfidenti li l-istrateġija ta' rispons riżoluta u f'waqtha tagħna kienet se tinfluwenza r-riżultat b'mod pożittiv. Konna lkoll konxji li kien hemm bżonn ta' ġudizzju tajjeb, perseveranza u eżekuzzjoni kostanti sabiex negħlbu dawn l-isfidi.

Fl-aħħar Laqgħa Annwali Ġenerali tagħna f'Mejju, wara kważi sentejn ta' xogħol iebes u teħid ta' deċiżjonijiet strateġiċi u sodi, is-sinjali pożittivi kienu diġà evidenti. L-ewwel xhur tal-2016 kienu kkonfermaw l-aspettattivi tagħna f'dak li hu rispons finanzjarju għal strateġija ta' bidla totali ta' suċċess maħduma b'mod eċċellenti u mwassla b'abbiltà mit-tim tal-maniġment ta' FIMBank, immexxi mis-CEO tagħna, Murali Subramanian. Sa Awwissu, għall-ewwel darba minn Ġunju 2014, kellna l-pjaċir li nħabbru ritorn għall-profittabilità. Bis-saħħa tas-sapport konsistenti tal-azzjonisti prinċipali tagħna, Fitch Ratings tejbu il-grad ta FIMBank għal BB u s-Support Rating minn 5 għal 3.

Ir-riżultati tal-aħħar tas-sena tal-2016 jipprovdu evidenza konkluživa tas-suċċess li dik l-istrateġija ta' konsolidazzjoni u ta' bidla li ġiet imnedija fl-2015. Dawn jirrappreżentaw ir-riżultat tanġibbli ta' vjaġġ ta' trasformazzjoni. Ir-Rapporti Finanzjarji Konsolidati Awditjati tal-Grupp juru li fis-sena li ntemmet fil-31 ta' Diċembru 2016, il-Grupp FIMBank irreġistra profitt ta' USD5.3 miljun meta mqabbel ma' telf ta' USD7.1 miljun fl-2015.

Ma hemm l-ebda dubju li l-impjegati tagħna u l-membri tal-maniġment fl-uffiċċju prinċipali u madwar id-dinja ħaqqhom l-awguri tagħna għall-kisba ta' din il-bidla. Id-dedikazzjoni u l-ħila tagħhom, biex ma nsemmux ukoll is-sens ta' lealtà u perseveranza tagħhom ikomplu jkunu fost l-assi formidabbli tagħna u fattur determinanti enormi ta' suċċess. L-isforz koordinat tagħhom mhux biss wassal għal effiċjenza u profitti ikbar imma wasslu wkoll biex l-organizzazzjoni tadatta għall-kundizzjonijiet dejjem jinbidlu tas-swieq b'mod iktar effiċjenti.

Sadattant, il-Bord tad-Diretturi se ikun qed jirrakkomanda Bonus Issue ta' Sehem Ordinarju għal kull 80 permezz ta' kapitalizzazzjoni tax-Share Premium Account.

Matul dawn iż-żminijiet ikkumplikati, ta' spiss enfasizzajt fuq l-importanza li nagħtu lir-relazzjonijiet mal-investituri, u l-apprezzament sinċier tagħna għall-appoġġ li nirċievu mingħand l-azzjonisti kollha tagħna. Jiena u l-kollegi tiegħi fuq il-Bord nibqgħu grati ħafna għat-turija ta' fiduċja u lealtà murija kull darba mill-investituri. Dan kien ukoll sors kbir ta' inkoraġġiment u żied mhux ftit fid-determinazzjoni tagħna li nbiddlu għall-aħjar is-sitwazzjoni fil-FIMBank. Illum, b'kunfidenza nista' nbassar li l-azzjonisti tagħna jistgħu jistennew prestazzjoni li kontinwament qed titjieb mill-Grupp.

B'mod simili, it-turija ta' appoġġ li rċevejna mill-azzjonisti kontrollanti, jiġifieri, mill-Burgan Bank u mill-United Gulf Bank tal-Grupp KIPCO, kienet vitali ħafna. It-turija prattika u fundamentali tagħhom ta' impenn fl-appoġġ tal-pjan strateġiku tal-FIMBank kien prinċipju ċentrali għas-suċċess li nistgħu nirrappurtaw illum.

John C. Grech
Chairman

FIMBank group performance 2016

Murali Subramanian, Chief Executive Officer

CEO Review

The positive financial results outlined in this Annual Report reflect our perseverance in implementing the turnaround strategy set out in 2015. With FIMBank's return to profitability during the year in review, one must mention how and where this journey commenced. The dire situation at the end of 2014 required an immediate course of action to return FIMBank to a state of good health, and ultimately to profitability, by implementing a turnaround strategy which involved consolidation and a firm focus on the bottom line. This was founded on the need to improve our origination strategy, harmonise our product offering, whilst looking at new product opportunities, a market-appropriate risk appetite, and cost efficiencies across the whole Group.

These principles provided a framework from which FIMBank has been successfully stabilising its performance, growing its loan book and reversing the negative financial trend, eventually returning to profitability by end 2016.

The strengthening of FIMBank's management team was an important driver of group governance discipline. This was a key factor in our success, as indeed was the consistent backing we had from our Board of Directors, and the decisive support from our investors.

Within this context, over the past 18 months we vigorously pursued the implementation of a range of cost control measures. This cost discipline, led by the GCOO and managed by the team, showed commendable results. We also made significant improvements to the Group governance framework, increasing transparency and accountability in the process.

In the year under review, with the active support of Burgan Bank's risk management team, we continued to extend and refine further the implementation of a common risk management framework covering our portfolio. We also reinforced earlier measures to address issues which were negatively impacting the Group's financial performance.

During 2016, FIMBank acquired all the remaining shares in Egypt Factors from Commercial International Bank (CIB) and took control of this entity. This acquisition was in line with the ongoing restructuring of business units across the factoring network. Meanwhile, the Group took a decision to wind down the Menafactors business and integrate the factoring business in the Bank's Branch in Dubai while FactorRus in Russia was placed in liquidation. The restructuring of our factoring network plays an important part in the adopted strategy and will provide the basis for a steady operating performance in the coming months. I am glad to state that by the end of the year, all subsidiaries showed positive operating results, with the exception of Egypt Factors, which we acquired recently with the intention of restoring to profit.

The year under review also saw shipping, which along with factoring represent two of our highest margin businesses, demonstrate renewed momentum, with significant opportunity to grow further. Meanwhile, in August we launched a new business line of lending into selected real estate in Malta. During the rest of 2016, this continued to build a solid pipeline of transactions, with early results showing significant promise for the future.

I would also like to highlight the Group's successful approach to the retail depositor market, thanks to the diversification of our funding base and a reduction in the overall cost of funding. During the year under review, we also introduced new product offerings which capitalised on existing expertise, and aimed at diversifying revenue streams.

overview of financial results

The Group Consolidated Audited Financial Statements for the year under review show that for the year ended 31 December 2016, the FIMBank Group registered a profit of USD5.3 million, compared to a loss of USD7.1 million in 2015, and more significantly, the loss of USD45.2 million in 2014.

At 31 December 2016, total Consolidated Assets stood at USD1.74 billion, a substantial increase of 21% over the USD1.44 billion reported at end 2015, while total Consolidated Liabilities stood at USD1.57 billion, up by 24% from USD1.27 billion in 2015. Operating income for 2016 stood at USD46.1 million, at par with 2015 levels. On the other hand, during the year in review, net interest income decreased by USD7.6 million to USD22.0 million. Operating expenses decreased by USD8.3 million, from USD47.0 million to USD38.7 million.

As a result of energetic and consistent recovery efforts, for the second successive financial year, net impairments saw a very significant decrease, this time by more than 70%, to stand at USD2.3 million, compared to USD10.3 million in 2015.

corporate social responsibility

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. During the year under review, our CSR programme continued to highlight the beauty and uniqueness of the Maltese language. In 2016, we once again partnered with Public Broadcasting Services Ltd (PBS), which runs the national TV station, in an initiative which complemented the 2015 project focusing on the meaning of selected Maltese words. This time round, our marketing team launched a new series of sixty video clips putting the spotlight on Maltese proverbs and their meanings. The new series was featured extensively on PBS and the Bank's social media channels. These educational clips will also be distributed amongst schoolchildren in all primary and secondary schools in Malta.

"Achieving such a turnaround in the Group's fortunes has required strong doses of sound strategic thinking, considerable will, strong discipline, and focus by all."

people

There is no doubt that the successful turnaround we have experienced would not have been possible without the strong dedication and professional competence of our 434 people at our Malta head office and throughout our global network. Since we are essentially a customer-centric institution, our people have always been the backbone of the FIMBank Group. The partnerships and long-term relationships they continue to build with our customers constitute the foundation of our global reputation.

During the year in review, the Bank further reinforced its commitment towards fostering a positive and sustainable working environment which is conducive to employees' personal and professional development. This was achieved by maintaining a secure workplace environment which favours employee wellbeing and continuing to deliver an array of value-driven initiatives.

Recognising the importance of having engaged and committed employees who are strongly aligned with the aims of the Bank, during the year in review we also intensified our investment in the training and professional development of members of staff across all levels, both at head office as well as within our subsidiaries.

outlook and way forward

During the coming year, we intend to consolidate our achievements in terms of cost efficiency, governance and risk management. We will also be pursuing business segments which are showing renewed promise, such as shipping, as well as newly-tapped sectors, including real estate, which should channel important revenue streams to the Group. In the meantime, we will continue looking for new avenues for sustainable business growth in areas where we can capitalise on our strengths in terms of knowhow, efficient delivery and superior service levels.

The macro-economic outlook we face is encouraging, with positive prospects of global economic growth driven by a gradual recovery in commodity prices, although the fortunes of emerging markets continue to show mixed signals for the near future. We will continue monitoring closely developments in all the markets, thus allowing us to exploit opportunities and protect ourselves from potential external risks to the business.

We will evaluate further avenues to diversify the target sectors wherever viable, in order to reinforce balance and rebuild or consolidate the different portfolios. Africa, Asia, as well as Europe, will retain our strategic focus, as we continue looking for stable sources of trade. Meanwhile, trading companies, commodity traders, and SMEs remain our natural partners, and we will be following trends and developments in their business environment, so as to be in a position to provide the required support, and together exploit existing and potential trade flows.

The process of restructuring of our factoring network will remain high on our agenda. We will continue to monitor closely operations throughout the network in terms of business undertakings, risk management and profitability. Our objective is to align all these operations along the Group's strategic rationale and general profitability targets. This will be effected within the context of control considerations, as well as our intention to proceed with the winding down of companies which hold little or no strategic relevance to the Group from a business or geographical perspective. These measures are intended to improve our readiness to capitalise on the impending economic recovery and global growth indicated for 2017.

We are also currently in the process of launching a digital banking platform, branded FIMBank Direct. This new platform will increase the reach of the Bank beyond the limitations of its standard banking hours and geographical presence. It will also effectively help us increase operational efficiencies, reduce transaction costs, and enable us to introduce new products to our retail customers. FIMBank Direct is equipped with state of the art authentication software compliant with future EU directives, providing the end user with peace of mind.

We are determined to stay the course we have embarked upon, and that the key pillars of the turnaround strategy which have proved vital, will remain at the heart of the Group's operations. Furthermore, together with my colleagues in the management team, we intend to ensure that FIMBank will continue to respond with agility and strategic direction to the changes in economic cycles across its international geographical presence, and to reposition itself as a growing profitable institution, through adequate returns and value creation to all its stakeholders.

Murali Subramanian
Chief Executive Officer

Il-Prestazzjoni tal-Grupp FIMBank għall-2016

Murali Subramanian, Uffiċjal Eżekuttiv Ewlieni

l-analiżi tas-CEO

Ir-riżultati finanzjarji pożittivi deskritti f'dan ir-Rapport Annwali jirriflettu l-perseveranza tagħna fl-implimentazzjoni tal-istrateġija tal-bidla li tnediet fl-2015. Bil-kisba mill-ġdid tal-profittabilità min-naħa tal-FIMBank waqt is-sena taħt analiżi, ta' min isemmi kif u fejn beda dan il-vjaġġ. Is-sitwazzjoni kritika fi tmiem l-2014 kienet teħtieġ li jittieħed minnufih kors ta' azzjoni sabiex il-FIMBank ikun jista' jerġa' lura għal stat b'saħħtu u fl-aħħar nett, jerġa' jikseb il-profittabilità bl-implimentazzjoni ta' strateġija ta' bidla li kienet tinvolvi l-konsolidazzjoni u attenzjoni soda fuq il-fattur fundamentali. Dan kien ibbażat fuq il-ħtieġa li ntejbu l-istrateġija tagħna tal-bidu, li narmonizzaw il-prodotti offruti minna filwaqt li nħarsu lejn opportunitajiet għal prodotti ġodda, aptit għar-riskju marbut mas-suq u effiċjenzi fl-ispejjeż mal-Grupp kollu.

Dawn il-prinċipji pprovdew qafas li permezz tiegħu l-FIMBank stabbilixxa b'suċċess il-prestazzjoni tiegħu billi żied l-ammont ta' self li jagħti u billi dawwar fid-direzzjoni l-kuntrarja x-xejra finanzjarja negattiva u b'hekk eventwalment, terga' lura lejn il-profittabilità lejn l-aħħar tal-2016.

It-tisħiħ fit-tim tal-maniġment tal-FIMBank serva ta' motivazzjoni importanti fid-dixxiplina tal-governanza tal-Grupp. Dan kien fattur ewlieni fis-suċċess tagħna, bħalma kien l-appoġġ konsistenti mill-Bord tad-Diretturi u l-appoġġ deċiżiv li kellna mill-investituri tagħna.

F'dan il-kuntest, matul dawn l-aħħar 18-il xahar segwejna b'mod rigoruż l-implimentazzjoni ta' xelta ta' miżuri ta' kontroll fuq l-ispejjeż. Din id-dixxiplina fl-ispejjeż, immexxija mill-GCOO u mmaniġġjata mit-tim, uriet riżultati ta' min ifaħħarhom. Wettaqna wkoll titjib sinifikanti fil-qafas ta' governanza tal-Grupp billi żidna t-trasperanza u l-kontabilità tul il-proċess.

Fis-sena taħt analiżi, bl-appoġġ attiv mit-tim tal-immaniġġjar tar-riskji ta' Burgan Bank, komplejna nestendu u nirfinaw l-implimentazzjoni ta' qafas komuni fl-immaniġġjar tar-riskji li jkopri l-portafoll tagħna. Saħħaħna wkoll miżuri ta' qabel biex nindirizzaw kwistjonijiet li kien qed ikollhom impatt negattiv fuq il-prestazzjoni finanzjarja tal-Grupp.

Tul l-2016, il-FIMBank akkwista l-ishma kollha li kien għad fadal ta' Egypt Factors mill-Commercial International Bank (CIB) u ħa l-kontroll ta' din l-entità. Dan l-akkwist sar fl-istess żmien tar-ristrutturar kontinwu tal-unitajiet tan-negozju fin-netwerk tal-factoring. Din l-istrateġija se tipprovdi l-bażi għal prestazzjoni operattiva b'saħħitha fix-xhur li ġejjin. Sadattant, għandi l-pjaċir ngħid illi sal-aħħar tas-sena, is-sussidjarji kollha wrew riżultati operattivi pożittivi, bl-eċċezzjoni ta' Egypt Factors, li riċentament akkwistajna bl-intenzjoni li nreġġgħuh biex jerġa' jrendi l-profitti. Fis-sena taħt analiżi kellna wkoll l-aspett tat-trasport bil-baħar, li flimkien mal-factoring, jirrappreżentaw tnejn min-negozji tagħna bl-ogħla marġini, juru momentum imġedded, b'opportunità sinifikanti li jkomplu javvanzaw. Sadattant, f'Awwissu nedejna settur ġdid ta' negozju ta' self f'propjetà immobbli selettiva f'Malta. Tul il-bqija tal-2016, dan is-settur baqa' jrendi sensiela soda ta' tranżazzjonijiet, b'riżultati bikrija li wrew wegħda sinifikanti għall-futur.

Nixtieq ukoll nixħet dawl fuq l-approċċ ta' suċċess tal-Grupp lejn is-suq depożitanti fis-settur tar-retail grazzi għad-diversifikazzjoni tal-bażi tagħna ta' finanzjament u tnaqqis fl-ispejjeż ġenerali fil-finanzjament. Tul is-sena taħt analiżi, introduċejna wkoll prodotti ġodda offruti minna li kkapitalizzaw fuq l-abbiltà eżistenti u li kellhom l-għan li jiddiversifikaw il-flussi ta' dħul.

ħarsa ġenerali lejn ir-riżultati finanzjarji

Ir-Rapporti Finanzjarji Konsolidati Awditjati tal-Grupp għas-sena taħt analiżi juru li fis-sena li ntemmet fil-31 ta' Diċembru 2016, il-Grupp FIMBank irreġistra profitt ta' USD5.3 miljun meta mqabbel ma' telf ta' USD7.1 miljun fl-2015, u b'mod iktar sinifikanti, it-telf ta' USD45.2 miljun fl-2014.

Fil-31 ta' Diċembru 2016, l-Assi Konsolidati Totali kienu ta' USD1.74 biljun, żieda sostanzjali ta' 21% fuq il-USD1.44 biljun li kien irrappurtat fl-aħħar tal-2015, filwaqt li l-Obbligazzjonijiet Konsolidati Totali kienu ta' USD1.57 biljun, żieda ta' 24% fuq il-USD1.27 biljun fl-2015. L-introjtu tal-operat nett għall-2016 kien ta' USD46.1 miljun, bħalma kien fl-2015. Min-naħa l-oħra, tul is-sena taħt analiżi, id-dħul nett minn imgħax naqas b'USD7.6 miljun għal USD22.0 miljun. L-ispejjeż tal-operat naqsu b'USD8.3 miljun, minn USD47.0 miljun għal USD38.7 miljun.

B'riżultat ta' sforzi ta' rkupru enerġetiċi u kostanti, għat-tieni sena finanzjarja suċċessiva, kien hemm tnaqqis sinifikanti kbir fl-indebboliment nett, din id-darba b'aktar minn 70%, minn USD10.3 miljun fl-2015 għal USD2.3 miljun.

responsabbiltà soċjali korporattiva

Il-politika ta' Responsabbiltà Soċjali Korporattiva tal-FIMBank hija mibnija madwar il-valuri fundamentali tagħna u tirrifletti l-impenji korporattivi li nagħmlu lejn il-klijenti, l-azzjonisti, l-impjegati tagħna u lejn il-komunità Maltija. Tul is-sena taħt analiżi, il-programm tagħna ta' Responsabbiltà Soċjali Korporattiva kompliet tixħet dawl fuq is-sbuħija u l-uniċità tal-lingwa Maltija. Fl-2016, għal darba oħra, issieħibna mal-Public Broadcasting Services Ltd (PBS) li jmexxi l-istazzjon nazzjonali televiżiv, f'inizjattiva li kkomplementat il-proġett tal-2015 li ffoka fuq it-tifsira ta' xi kelmiet Maltin. Din id-darba, it-tim tagħna tal-Marketing nieda serje ġdida ta' sittin filmat li jixħtu dawl fuq il-qwiel Maltin u t-tifsiriet tagħhom. Is-serje l-ġdida ntweriet b'mod estensiv fuq il-PBS u fuq il-mezzi tal-midja soċjali tal-Bank. Dawn il-filmati edukattivi se jitqassmu wkoll lit-tfal tal-iskola fl-iskejjel primarji u sekondarji kollha f'Malta.

l-impjegati

Ma hemm l-ebda dubju li l-bidla totali ta' suċċess li esperjenzajna ma kinitx tkun possibbli mingħajr id-dedikazzjoni qawwija u l-kompetenza professjonali tal-434 impjegat fl-uffiċċju prinċipali tagħna f'Malta u fin-netwerk globali. Peress li aħna istituzzjoni essenzjalment iffukata fuq il-klijenti, l-impjegati tagħna minn dejjem kienu s-sinsla tal-Grupp FIMBank. Is-sħubiji u r-relazzjonijiet fuq terminu twil li jkomplu jibnu mal-klijenti tagħna jiffurmaw il-fondazzjoni tar-reputazzjoni globali tagħna.

Tul is-sena taħt analiżi, il-Bank kompla jsaħħaħ l-impenn tiegħu lejn iż-żamma ta' ambjent ta' ħidma pożittiva u sostenibbli li jwassal għall-iżvilupp personali u professjonali tal-impjegati. Dan twettaq billi żammejna ambjent tax-xogħol sikur li jiffavorixxi l-benesseri tal-impjegati u billi komplejna nwasslu għażla ta' inizjattivi mmexxija mill-valuri.

Peress li nagħrfu l-importanza li jkollna impjegati impenjati li għandhom rabtiet b'saħħithom mal-għanijiet tal-Bank, tul is-sena taħt analiżi intensifikajna wkoll l-investiment tagħna fit-taħriġ u fl-iżvilupp professjonali tal-impjegati fil-livelli kollha, kemm fl-uffiċċju prinċipali kif ukoll fi ħdan is-sussidjarji tagħna.

"Il-kisba ta' bidla bħalma hi din fir-rendiment tal-Grupp kienet teħtieġ dożi qawwija ta' ħsieb strateġiku sod, rieda konsiderevoli, dixxiplina b'saħħitha u attenzjoni."

ħarsa 'l quddiem u t-triq tal-futur

Matul din is-sena għandna l-intenzjoni li nikkonsolidaw il-kisbiet tagħna f'termini ta' effiċjenzi fl-ispejjeż, governanza u mmaniġġjar tar-riskji. Se nkunu qed insegwu wkoll setturi tan-negozju li qed jerġgħu juru prospett favorevoli, bħalma huma t-trasport bil-baħar, kif ukoll setturi li bdew jiġu użati riċentament, fosthom il-propjetà immobbli, li għandhom iwasslu flussi ta' dħul importanti għall-Grupp. Sadattant se nkomplu nfittxu għal toroq ġodda għal tkabbir sostenibbli fin-negozju f'oqsma fejn nistgħu nikkapitalizzaw l-aqwa aspetti tagħna f'termini ta' għarfien, twassil effiċjenti u livelli superjuri ta' servizz.

Il-ħarsa ġenerali makroekonomika li qed niffaċċjaw hija waħda inkoraġġanti, bi prospetti pożittivi għal tkabbir ekonomiku globali mmexxi minn irkupru gradwali fi prezzijiet tal-prodott, għalkemm ir-rendiment tas-swieq emerġenti jibqgħu juru sinjali mħallta għall-futur qarib.

Se nkomplu nissorveljaw mill-qrib l-iżviluppi fis-swieq kollha li għalhekk se jippermettilna nużaw opportunitajiet u se jippermettilna nipproteġu lilna nfusna minn riskji esterni potenzjali għan-negozju. Se nevalwaw toroq oħra kif nistgħu niddeversifikaw is-setturi fil-mira kull fejn dawn ikunu vijabbli sabiex insaħħu l-bilanċ mill-ġdid u nibnu mill-ġdid jew nikkonsolidaw il-portafolli differenti. L-Afrika, l-Asja kif ukoll l-Ewropa se jibqgħu l-għanijiet strateġiċi tagħna hekk kif nibqgħu nfittxu għal sorsi stabbli ta' kummerċ. Sadattant, kumpaniji fil-kummerċ, negozjanti tal-komoditajiet u l-SMEs se jibqgħu s-sieħba naturali tagħna u se nkunu qed nsegwu xejriet u żviluppi fl-ambjent tan-negozju tagħhom sabiex inkunu f'pożizzjoni li nipprovdu l-appoġġ meħtieġ u flimkien, nużaw flussi ta' negozju eżistenti u potenzjali.

Il-proċess tar-ristrutturar tan-netwerk tal-fatturat tagħna se jibqa' wieħed mill-ogħla prijoritajiet tagħna. Se nibqgħu nissorveljaw mill-qrib l-operazzjonijiet fin-netwerk f'termini ta' impriżi ta' negozju, l-immaniġġjar tar-riskji u l-profittabilità. L-għan tagħna huwa li nallinjaw dawn l-operati kollha tul il-bażi strateġika tal-Grupp u l-miri ġenerali tal-profittabilità. Dan se jiġi effettwat fil-kuntest tal-konsiderazzjonijiet ta' kontroll, kif ukoll fl-intenzjoni tagħna li nipproċedu fl-għeluq ta' kumpaniji li għandhom ftit jew l-ebda relevanza strateġika fi ħdan il-Grupp minn perspettiva ta' kummerċ u ġeografija. Dawn il-miżuri huma mistennija li jtejbu l-ħeġġa tagħna li nikkapitalizzaw fuq l-irkupru ekonomiku imminenti u t-tkabbir globali indikati għall-2017.

Bħalissa qegħdin fil-proċess ukoll li nniedu pjattaforma bankarja diġitali, taħt l-isem ta' FIMBank Direct. Din il-pjattaforma l-ġdida se żżid il-kapaċità tal-Bank lil hinn mil-limitazzjonijiet tas-sigħat bankarji standard u l-preżenza ġeografika. Se tgħinna wkoll biex inżidu l-effiċjenzi operattivi b'mod effettiv, innaqqsu mill-ispejjeż tat-tranżazzjonijiet u tippermettilna nintroduċu prodotti ġodda għall-klijenti kummerċjali tagħna. FIMBank Direct huwa mgħammar b'software ta' awtentifikazzjoni tal-aqwa kwalità u huwa konformi mad-direttivi futuri tal-UE li jipprovdu lill-klijent aħħari b'serħan il-moħħ.

Aħna ninsabu determinati li nippersistu f'dan il-vjaġġ li bdejna u li l-pilastri ewlenin tal-istrateġija ta' bidla totali li kienu essenzjali jibqgħu fil-qalba tal-operat tal-Grupp. Barra minn hekk, flimkien mal-kollegi tiegħi fit-tim tal-maniġment, għandna l-intenzjoni li niżguraw li l-FIMBank se jkompli jaġixxi b'aġilità u direzzjoni strateġika għall-bidliet fiċ-ċikli ekonomiċi fil-preżenza ġeografika internazzjonali tiegħu u li jistabbilixxi ruħu mill-ġdid bħala istituzzjoni profittabbli dejjem tikber permezz ta' ritorni adegwati u ħolqien ta' valur għall-azzjonisti kollha tiegħu.

Murali Subramanian
Uffiċjal Eżekuttiv Ewlieni

directors' report

For the year ended 31 December 2016

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 2016. 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 Act.

results for the year

The Group and the Bank reported a profit after tax of USD5,265,992 and USD340,382 respectively for the year under review.

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

group structure and principal activities

The FIMBank Group of Companies comprises FIMBank p.l.c. 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, FIMFactors and FHC are themselves parents of a number of subsidiaries as set out in Note 29 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):

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

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

c. 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.

d. 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.

e. FHC (100%), registered in Chile, serves as the corporate vehicle for Latam Factors S.A. (51%), registered also under the laws of Chile, to provide all types of factoring, financial leasing and other management services. The other shareholders are Inversiones El Mayorazgo Limitada, Marín y Compañía S.A., Asesoría e Inversiones CABS S.A., Compañía de Rentas Epulafquén Ltd., Compañía de Rentas Trigal Ltd., and Compañía General de Rentas Ltd.

f. On 28 July 2016, the Group acquired the remaining 50% shareholding in Egypt Factors previously held by Commercial International Bank (Egypt). As a result of this transaction the Group now holds 100% shareholding of the company with Egypt Factors becoming a fully owned subsidiary. Egypt Factors is active in providing factoring and forfaiting services to Egyptian companies.

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

   i. Menafactors Limited (100%), incorporated in the United Arab Emirates and licensed and regulated by the Dubai Financial Services Authority to provide international factoring and forfaiting services in the Gulf and MENA region. Menafactors, in turn, holds 50% in Levant Factors S.A.L., a company registered in Lebanon.

   ii. CIS Factors Holdings B.V. (100%), incorporated in the Netherlands and served as the holding vehicle for other factoring companies. Currently the company is not carrying any investments.

   iii. India Factoring and Finance Solutions (Private) Limited (86%), 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%), India Factoring Employee Welfare Trust (8%) and Blend Financial Services Limited (1%). India Factoring is regulated by the Reserve Bank of India.

   iv. Brasilfactors S.A. (50%), a company incorporated in São Paulo, Brasil, with its core business focused on factoring services and forfaiting targeting small and medium-sized companies. The other shareholder is Banco Industrial e Comercial S.A. ("Bicbanco") with 50%.

review of performance

The return to profitability in 2016 signals a tangible outcome in a journey of transformation. The turnaround process initiated in 2015 is aimed to create value to stakeholders by approaching business in a structured, consistent and well-executed manner. With improved risk and governance structures in place, the Group was able to start transforming its origination business by aiming to offer the right products in the different geographies it operates in. This has been a central theme during the year, stabilising income streams and also providing a growth platform for the future. The Group's funding profile has also been re-balanced through a mix of wholesale funding and retail deposits, diversifying its funding base and reducing its overall cost of funding. The Group has also continued implementing a cost management discipline across its businesses aimed to streamline operations and reorganise business and support functions. In addition, in the last quarter of the year, the credit rating of the Group as issued by Fitch, was also upgraded by one notch.

This pattern has been broadly reflected throughout the Group. FIMBank, being the parent, had a dual role in driving change and putting in place the right control frameworks across its own internal operations and extending this to ensure conformity and alignment across the branches and subsidiaries. Carrying most of the funding for the Group, the Bank continues to implement the most effective strategies to allocate resources across the business units whilst ensuring that it operates well within and above capital and regulatory thresholds. Across the Group, LFC in the UK remains the key subsidiary able to generate sustained growth, stable income and contained credit losses. LFC has closed the year with a higher portfolio level compared to 2015 and also improved profitability – all consistent with the measured and controlled approach to its business. India Factoring's business has been transformed following the significant credit losses suffered during 2014 now operating within an overhauled risk framework and with new management in place for over a year. The India business is putting greater emphasis on tapping the export-oriented business and at the same time managing the recoveries of non-performing loans – these two pillars contributed to a profitable performance in 2016 at an adequate portfolio level aimed to grow further in 2017. In the second half of the year, the Group acquired a controlling interest in Egypt Factors and has embarked on a strategy to re-capitalise, transform and grow the business. The Egypt operation sustained a loss in 2016 which reflects the lack of economies in carrying a small business portfolio at relatively high cost of operation. Action has already been initiated in replacing key management and implementing change in line with the approved strategy and Group framework. In the Middle East, the Dubai subsidiary Menafactors suffered the effect of legacy issues from prior years which required a level of loan impairments well above the norm. This resulted in the company sustaining significant losses for 2016 and led to a decision by the Group to wind-down the business and integrate the factoring business in the operations of the Bank's Branch also in Dubai. In Latin America, the Chile subsidiary Latam Factors also transformed its origination strategy bringing it closer to the Group through the exploitation of cross-border driven opportunities. In an aggressively competitive market, Latam Factors has put in place more cost-effective funding structures which enabled it to source business at adequate returns. This enabled the company to start growing an erstwhile static book and return a marginal profit for the year. In Brazil, the 50%-owned Brasilfactors has not been able to achieve the targeted growth and return prospects, suffering a loss for the year mainly due to the inability to scale-up the business.

income statement

For the year ended 31 December 2016, the Group registered a profit of USD5.3 million compared to a loss of USD7.1 million in 2015. Group profits per share stood at US cents 1.61 (2015: losses per share of US cents 2.12) while on the basis of continuing operations the profits per share amount to US cents 1.63 (2015: losses per share of US cents 1.39). In the second half of 2016, the Group acquired full control of Egypt Factors resulting in the line-by-line consolidation of the new subsidiary – with the initiated restructuring resulting in a marginal negative impact on operating income and operating expenses.

directors' report - continued

Operating income before net impairment for 2016 stood at USD46.1 million, level with 2015. During 2016, net interest income decreased by USD7.6 million (to USD22.0 million) due to a number of factors, namely: the holding of temporary idle liquidity and a higher stock of regulatory liquidity assets; the tightening of margins in the Group's markets and products; and reduced income on forborne or delinquent assets. This decrease was offset by an increase in dividend income from the Group's investment in a trade-finance fund, improved fee levels on documentary credits and forfaiting, as well as additional income from the disposal of non-core assets in the United Arab Emirates and Malta.

Net trading results and net gains from other financial instruments were impacted by various factors - from the trading of investment securities, the Group realised profits of USD3.4 million compared to a loss of USD0.3 million in 2015; market value adjustments in LFC's trading portfolio were lower, registering a loss of USD1.8 million in 2016 compared to a loss of USD4.6 million in 2015; whilst the results on foreign currency operations registered weaker returns mainly as a result of higher cost of swaps used to hedge the net asset/liability position of the Group. During the year, the Group also registered a profit of USD0.8 million on currency differences arising out of the de-consolidation of the Russian subsidiary FactorRus LLC; and a gain of USD0.8 million on the fair valuation of the previous 50% share of investment in Egypt Factors following the full acquisition of the company in the second half of 2016.

Net impairments showed another marked improvement, decreasing by USD8.0 million from USD10.3 million in 2015 to USD2.3 million in 2016 - as a result of the continuous recovery efforts across the Bank and its subsidiaries, largely off-set by run-off provisions on already impaired exposures at the Dubai subsidiary.

Operating expenses decreased by USD8.3 million from USD47.0 million to USD38.7 million. This decrease is largely attributed to a number of non recurring items incurred in 2015 (related to business reorganisation and professional advice on legal matters connected to a review of banking transactions carried out in prior years). The sole remaining equity-accounted investee entity, Brasilfactors, sustained a loss of USD0.4 million - compared to a loss of USD0.8 million in 2015 which also included the results of Egypt Factors. The months leading to the placement into liquidation of FactorRus LLC resulted in a marginal loss of USD0.1 million compared to a loss of USD2.6 million in 2015.

financial position

At 31 December 2016, total Consolidated Assets stood at USD1.74 billion, an increase of 21% over the USD1.44 billion reported at end 2015. The principal balance sheet items registered growth over 2015, with the main increase of USD231 million in Loans and Advances to Banks, largely driven by higher balances held for liquidity management. Growth has also been registered in the Group's loan book across the different products and geographies. The Group's trading book managed by the UK subsidiary LFC continued registering growth, reaching USD379 million (from USD355 million) whilst liquidity regulatory requirements also resulted in growth in the fixed-income available-for-sale book.

Total Consolidated Liabilities as at 31 December 2016 stood at USD1.57 billion, up by 24% from USD1.27 billion at end 2015. Deposits from corporate and retail clients grew by USD526 million, which were partly offset by decreases in wholesale funding and bank deposits. Similar to 2015, at 31 December 2016, the Group is carrying a USD50 million subordinated loan from Burgan Bank, which loan qualifies as Tier 2 capital under the CRD IV regime. Total Equity attributable to the equity holders of the Bank as at financial reporting date stood at USD151 million, up from USD149 million in 2015 reflecting the profit for the year and net adverse movements in currency translation and fair value reserves.

Group Commitments, consisting mainly of confirmed letters of credit, documentary credits, commitments to purchase forfaiting assets and factoring commitments stood at USD186 million while Contingent Liabilities, principally consisting of outstanding guarantee obligations, stood at USD7 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 states 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 subsidiary companies 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.

Further disclosures on the Group's principle risks and uncertainties are provided in Note 4 to the financial statements and Schedule V to this Annual Report.

outlook for 2017

For 2017, the Group is expected to relentlessly continue pursuing transformation and excellence, continuing the value creation journey initiated in 2015. The financial results achieved so far have provided an underlying platform to achieve a superior performance in the months to come. Addressing changes in the market and regulatory landscapes, the Group is able to leverage the transformed platform for growth, whilst consolidating its existing geographical footprint, driving down the structural costs and realising the growth and profitability targets. The Group's core strengths in structuring cross-border transactions allows it to be successful in a low growth economic environment by exploiting opportunities as they arise through its varied products' offering and regional expertise. The key foundations of its business strategy – origination, risk management, funding and cost efficiency – will remain central in attaining these objectives, supported by a strong management and talented workforce as well as continued commitment and drive from the Group's key shareholders.

dividends and reserves

The Directors will not be recommending the payment of a dividend to the Annual General Meeting of shareholders (2015: Nil) but, subject to Regulators' approval, will instead be recommending a 1 for 80 Bonus Issue of Ordinary Shares by way of capitalisation of the Share Premium Account.

standard licence conditions and regulatory sanctions

During the year under review, no breaches of licence requirements occurred. 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 10 May 2016. Along with the statutory Ordinary Resolutions, the Meeting approved an ordinary resolution, presented as special business to the shareholders, to issue bonus shares to those shareholders on the register of the Central Securities Depository of the Malta Stock Exchange as at the Record Date (10 April 2016) by means of a capitalisation of the Share Premium Account.

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. 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 2016 are as follows:

	Number of Shares	Percentage Holding
United Gulf Bank B.S.C	190,020,024	61.20%
Burgan Bank K.P.S.C.	61,231,905	19.72%

In addition to shareholders listed in the above table, at 31 December 2016, Tunis International Bank S.A. (a subsidiary of Burgan Bank K.P.S.C.) holds 8,800,000 shares (2.83%);

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

d. 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;

e. 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;

f. 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;

g. Articles 115 to 122 of the Articles of Association indicate the powers and duties of Directors. More specifically, at the 2015 Annual General Meeting, the Bank requested and obtained a renewal authorisation from the shareholders to i) generally authorise the Board of Directors (with full powers of delegation) to restrict or withdraw the statutory pre-emption rights of the Bank's equity security holders for as long as the Board remains authorised to issue and allot equity securities in terms of Article 85 of the Companies Act; and ii) authorise the Board of Directors to issue equity securities up to the maximum value of the Authorised Share Capital limitedly for the purpose of raising equity capital through two rights issues over a period of two years;

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;

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.

It is hereby declared that as at 31 December 2016, information required under Listing Rule 5.64.4 is not applicable to the Bank.

events after the financial reporting date

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

going concern

As required by Listing Rule 5.62, upon due consideration of the Bank's 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, NRC, CC, EC
Masaud M.J. Hayat (Vice Chairman)	NRC
Majed Essa Ahmed Al-Ajeel	AC, GC, NRC
Osama Talat Al-Ghoussein	AC, BRC
Eduardo Eguren Linsen	AC
Mohamed Fekih Ahmed	BRC, CC
Adrian Alejandro Gostuski	BRC
Rogers David LeBaron	AC, GC, NRC
Rabih Soukarieh	BRC, CC, EC

Denotes membership of:

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) and the Banking Act, 1994 (Chapter 371, Laws of Malta). The Directors also ensure that the financial statements of the Group are prepared in accordance with Article 4 of the International Accounting Standards ("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 control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

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

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

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 14 March 2017 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

introduction

The Board of Directors (the "Board" or "Directors") of FIMBank p.l.c. (the "Bank") as of 31 December 2016 continued to have their governance arrangements revisited with the intention of having the Bank's corporate governance aligned with that of its parent.

Pursuant to the requirements of Listing Rules 5.94 et seq of the Malta Financial Services Authority (the "MFSA"), the Board of the Bank hereby detail 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 are 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 discharges 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 Bank/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; and

h. appointing the CEO or Acting CEO who is entrusted with day-to-day management of the Group and its operations, together with members of Management.

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.

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 whilst 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.

The end of 2016 marks the CEO's second term of office whereby in his role at the helm of the Bank he continues to grow the Bank's investment, through the acquisition by the Group of the remaining shares in Egypt Factors, whilst also ensuring stability within the Bank. The Bank is constantly striving to adhere to the principles of good corporate governance and will continue making changes and improvements going forward.

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

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

	Year when first appointed
John C. Grech (Chairman)	2004
Rogers David LeBaron	2006
Masaud M. J. Hayat	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

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

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

In March 2012, the Board, after noting the contents of an Internal Memorandum on the subject prepared by the Company Secretary, 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, Mr Rogers David LeBaron is, as at 31 December 2016, the only independent Director 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/she undertook:

a) to maintain in all circumstances his/her independence of analysis, decision and action;
b) not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and
c) to clearly express his/her opposition in the event that he/she 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 2017. Some of the Directors have served on the Board for more than 12 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.

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. 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 5 meetings in 2016. 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. Since early 2011, an intranet facility has been introduced which allows Directors to access Board documents, including all past minutes of Board and committee meetings.

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, Credit Committee) or include the participation of Management (Audit Committee, Nomination and Remuneration Committee, Board Risk Committee). Committees report to the Board on their activities through their respective chairmen 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 introduced in 2011 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 2016 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.

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 Governance 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 2016, with the formal evaluation taking place, and expected to be concluded in March 2017.

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
- Asset-Liability Committee
- Nomination and Remuneration Committee (refer to Remuneration Report on page 26)
- Credit Committee
- Governance Committee

executive committee

The Executive Committee 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 2016 are the following:

Murali Subramanian (Chairman)
John C. Grech (Vice Chairman)
Michael Davis
Howard Gaunt
Simon Lay
Rabih Soukarieh

The Executive Committee met on 12 occasions during 2016. The Company Secretary also attends these meetings.

audit committee

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

a. the monitoring of the financial reporting process, including the audit of the annual and consolidated accounts;

b. the monitoring of the effectiveness of the Group's internal control, internal audit, compliance and risk management systems;

c. the maintenance of communication on such matters between the Board, Management, the External Auditors, the Internal Auditors and the Compliance function;

d. the monitoring and reviewing of the External Auditor's independence, and in particular, the provision of additional services to the Issuer;

e. the monitoring and reviewing of proposed transactions by the Group with related parties; and

f. the performance of the Group's Internal Audit and Compliance functions.

The Audit Committee also considers the arm's length nature of related party transactions, vets and approves them. Both the Audit Committee's and the Head of Internal Audit's terms of reference clearly stipulate their independence from other Board Committees and Management, and such independence is also acknowledged by external regulatory verification. The Head of Internal Audit has direct access to the Audit Committee Chairman at all times, attends all meetings and acts as secretary to the Audit Committee. The 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 2016 are the following:

Rogers David LeBaron (Chairman)
Eduardo Eguren Linsen (Vice Chairman)
Majed Essa Ahmed Al-Ajeel
Osama Talat Al-Ghoussein

Further to Listing Rule 5.117.3, the member of the Audit Committee who, is designated as independent and competent in auditing and/or accounting is Mr Rogers David LeBaron. Mr 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. Mr 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 International Finance Corporation ("IFC").

The remaining members of the Committee have served or serve as executives of other Banks and consequently are deemed to be competent in the sectors in which the Bank operates.

Notwithstanding the fact that the majority of the members of the Audit Committee do not satisfy the independence criteria set out in the Listing Rules, the 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.

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

The Audit Committee held 5 meetings during 2016. The External Auditors were invited to 2 of the Audit Committee meetings (March 2016 and August 2016). The External Auditors were only present for the Agenda Item which considered and discussed the 2015 Annual Report (March 2016) and 2016 Interim Report (August 2016).

board risk committee

The Board Risk Committee is responsible for overseeing the Group's risk management strategy, systems and policies, and for recommending country limits 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 2016 are the following:

Adrian Alejandro Gostuski (Chairman)
Rabih Soukarieh (Vice Chairman)
Osama Talat Al-Ghoussein
Mohamed Fekih Ahmed

During 2016, the Board Risk Committee met on 7 occasions.

asset-liability committee

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

The Asset-Liability Committee is mainly made up of members forming part of the management team and the members as at 31 December 2016 are the following:

Michael Davakis (Chairman)
Giovanni Bartolotta
Robert Frost
Howard Gaunt
Ronald Haverkorn
Simon Lay
Ronald Mizzi
Murali Subramanian
Christian Trapani
Aly Siby (resigned on 22 December 2016)

Giovanni Bartolotta, Head of Risk is a non-voting member of the ALCO.

During 2016, the ALCO met on 11 occasions.

board credit committee

The Credit Committee ("CC") is a Committee appointed by the Board of Directors of FIMBank. The CC is directly responsible and accountable to the Board. The Board may delegate any of its authorities and powers in relation to the CC to the Board Risk Committee ("BRC"). The CC'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 CC 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 CC.

The Credit Committee members as at 31 December 2016 are the following:

John C. Grech (Chairman)
Rabih Soukarieh (Vice Chairman)
Mohamed Fekih Ahmed
Howard Gaunt
Ronald Haverkorn
Corinne Lanfranco
Simon Lay
Murali Subramanian
Aly Siby (resigned on 22 December 2016)

Ronald Haverkorn, Chief Risk Officer, is a non-voting member of the CC.

corporate governance committee

The purpose of the Governance Committee 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 Governance Committee also serves as the Evaluation Committee, a Committee created to evaluate the performance of Directors.

The Governance Committee members as at 31 December 2016 are the following:

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

During 2016, the Corporate Governance Commitee met on 5 occassions.

nomination and remuneration committee

The Nomination and Remuneration Committee was set up in 2015 to carry out the following tasks:

a. 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.

b. 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 Director's structure and present recommendations on the changes which can be performed in accordance with the Bank's interest; and

c. 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 Nomination and Remuneration Committee provides information and summaries on the background of some important issues of the Bank and presents the reports and information to the Board. It shall ensure that the Board are continuously updated on the latest issues related to the banking profession. In this regard, the Board undertakes to have 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 2016 are the following:

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

During 2016, the Nomination and Remuneration Committee met on 5 occasions.

changes to committee membership during 2016

Aly Siby was a member of the Asset-Liability Committee and member of the Credit Committee until he resigned from the Bank in December 2016 and he ceased to be a member. In the first quarter of 2016, Michael Davakis was appointed as Chairman of the Asset-Liability Committee whilst in the last quarter of 2016 Christian Trapani was appointed as a new member of the Asset-Liability Committee. Corinne Lanfranco replaced Aly Siby as member of the Credit Committee.

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

The Chairman should arrange 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 14 clear days before the date of the Annual General Meeting. Advance notification of the resolutions proposed for approval is also given by way of a Company Announcement as soon as these are decided and approved, normally at the same Board meeting that approves the Annual Financial Statements. The Board also considers the Annual Report to be an effective document which, in addition to the statutory disclosures, contains detailed information about the Group's performance. Moreover, the Board ensures that the Annual General Meeting serves as a medium at which information is communicated to Shareholders in a transparent and accountable manner. Additionally, the Bank holds meetings from time to time with financial intermediaries and financial market practitioners to disseminate information about the Group's progress, activities and financial performance. These meetings are usually organised to follow the publication of the half yearly and annual financial results as well as in connection with other Group developments and events.

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 2016 the Bank issued twelve announcements. Although listed companies are no longer required to issue interim statements, FIMBank's Board of Directors decided to continue communicating with the market through regular Company Announcements reporting on information carried in these statements. Two such announcements were in fact made regarding the Interim Directors' Statements, on 8 June 2016 and 19 October 2016 respectively.

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 2016 is as follows:

John C. Grech* (Chairman)	1,057,065
Masaud M. J. Hayat* (Vice Chairman)	Nil
Majed Essa Ahmed Al-Ajeel*	Nil
Osama Talat Al-Ghoussein*	Nil
Eduardo Eguren Linsen*	Nil
Mohamed Fekih Ahmed *	Nil
Adrian Alejandro Gostuski *	Nil
Rogers David LeBaron	Nil
Rabih Soukarieh*	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 to economic and societal development. They also assist and promote small-scale projects of a charitable and humanitarian nature. Details of corporate social responsibility initiatives undertaken by the Group in 2016 are explained in other parts of the Annual Report.

part 2: non-compliance with the principles

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 committee

The manner in which the Directors are nominated for appointment follows the procedure set out in the Articles of Association, i.e. any nomination must be seconded by a member or members who in the aggregate hold at least 20,000 shares. This process is also rendered public with an announcement in the Malta press, usually in the first quarter of the financial year and in good time before the Annual General Meeting, which allows at least 10 business days for any nomination to be made to the Company Secretary.

Principle 8: nomination and remuneration committee

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 Mr 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.

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 14 March 2017 and signed on its behalf by:

John C. Grech
Chairman

Masaud M. J. Hayat
Vice Chairman

remuneration report

For the year ended 31 December 2016

1. terms of reference and membership

The Nomination and Remuneration Committee (the "Committee") is responsible for ensuring that the Boards 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 Board of Directors' remuneration and that of the senior executives.

In 2016 the Committee was composed of Masaud M.J. Hayat (Chairman), Majed Essa Al-Ajeel (Vice Chairman) and Rogers David LeBaron (Member) and John C. Grech (Member). Murali Subramanian was invited to attend the meetings in his capacity as Group CEO.

2. meetings

The Committee met five 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)	3
John C. Grech	5
Rogers David LeBaron	5

The following matters were determined and/or discussed:

a. Changes in the directorship of the Subsidiaries
b. Salary reviews and bonuses for Group employees
c. Senior management promotions
d. Remuneration Policy
e. Diversity Policy
f. Grievance Policy
g. Training and Development Policy
h. Succession Planning Policy
i. Board of Directors Chairman job specification
j. Recommending the appointment of independent non-executive directors on the Audit Committee for approval by the Board of Directors of the Bank
k. Board of Directors evaluation and Directors self-assessment
l. New senior positions relating to reorganization and new Organisation Chart
m. HR budget

3. remuneration statement

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

The Annual General Meeting of shareholders approves the maximum annual aggregate remuneration which the Directors may receive for the holding of their office. At the Annual General Meeting of the 10 May 2016 the shareholders approved the maximum aggregate emoluments of the Directors for the financial year ending 31 December 2016 at USD350,000. No Director, in his capacity as a Director of the Bank, is entitled to profit sharing, share options or pension benefits. The total Board Committee fees for the financial year ending 31 December 2016 amounted to USD152,000.

4. code provision 8.A.5

For 2016, the total payments received by Directors were:

Fixed remuneration	USD305,874
Variable remuneration	NIL
Executive share options	NIL
Expenses relating to meetings	USD15,818

Apart from a fixed annual emolument, Directors are also remunerated depending upon which committee they sit on.

For Senior Executives, namely the CEO and the Executive Vice Presidents, the remuneration package ensures the right qualities and skills for the proper management of the Group as well as the proper execution of the strategy devised by the Board of Directors. In March 2016, the Group introduced a Remuneration Policy mirroring 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. No new significant changes are envisaged for year ending 2017.

The various remuneration components for Executives are:

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

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

For 2016, the total emoluments received by Senior Executives were:

Fixed remuneration	USD2,756,072
Variable remuneration	USD143,111
Executive share options	NIL
Expenses/fringe benefits	USD738,652

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

statements of financial position

As at 31 December 2016

	Note	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
ASSETS					
Balances with the Central Bank of Malta, Treasury Bills and cash	20	33,193,245	77,432,606	33,165,601	77,413,470
Trading assets	21	379,397,964	355,063,998	-	-
Derivative assets held for risk management	22	1,502,704	1,139,090	1,502,704	1,142,952
Financial assets designated at fair value through profit or loss	23	17,799,900	17,741,000	17,799,900	17,741,000
Loans and advances to banks	24	454,362,226	223,189,558	438,799,241	212,123,584
Loans and advances to customers	25	426,612,356	388,951,224	589,579,473	567,176,993
Investments available-for-sale	26	327,076,529	274,049,316	327,075,827	274,048,615
Investments held-to-maturity	27	-	7,476,940	-	7,476,940
Investments in associates	28	1,161,332	1,317,118	-	305,641
Investments in subsidiaries	29	-	-	86,305,594	84,678,486
Non-current assets held for sale	30	-	1,027,794	-	-
Property and equipment	31	27,751,932	33,134,984	1,305,432	1,749,101
Investment property	32	3,514,392	3,804,004	-	-
Intangible assets and goodwill	33	11,701,935	8,564,596	2,467,630	1,078,027
Current tax assets		3,695,826	2,554,970	1,052,348	-
Deferred taxation	34	41,882,687	40,568,247	23,335,459	22,535,293
Other assets	35	4,263,474	3,250,235	2,613,913	1,852,600
Prepayments and accrued income	36	7,031,898	4,639,766	6,148,570	3,993,887
Total assets		1,740,948,400	1,443,905,446	1,531,151,692	1,273,316,589
LIABILITIES AND EQUITY					
Liabilities					
Derivative liabilities held for risk management	22	8,816,410	917,114	8,834,092	921,237
Amounts owed to banks	37	528,939,251	729,941,157	426,137,477	665,277,976
Amounts owed to customers	38	948,710,544	422,077,303	915,367,604	405,611,504
Debt securities in issue	39	8,225,869	45,646,755	-	20,000,000
Subordinated liabilities	40	50,000,000	50,000,000	50,000,000	50,000,000
Liabilities associated with non-current assets held for sale	30	-	165,762	-	-
Current tax liabilities		1,437	-	-	-
Other liabilities		569,758	135,830	535,339	135,830
Accruals and deferred income	41	20,917,768	20,101,911	7,422,362	7,373,994
Total liabilities		1,566,181,037	1,268,985,832	1,408,296,874	1,149,320,541
Equity					
Share capital	42	155,239,263	149,268,322	155,239,263	149,268,322
Share premium	42	2,101,335	8,072,276	2,101,335	8,072,276
Reserve for general banking risks	42	764,792	1,000,027	764,792	1,000,027
Currency translation reserve	42	(6,715,522)	(5,690,377)	-	-
Fair value reserve	42	(1,891,140)	(409,528)	(1,891,140)	(409,528)
Other reserve	42	2,481,760	2,486,644	2,681,041	2,681,041
Accumulated losses	42	(487,210)	(5,644,809)	(36,040,473)	(36,616,090)
Total equity attributable to equity holders of the bank		151,493,278	149,082,555	122,854,818	123,996,048
Non-controlling interests	43	23,274,085	25,837,059	-	-
Total equity		174,767,363	174,919,614	122,854,818	123,996,048
Total liabilities and equity		1,740,948,400	1,443,905,446	1,531,151,692	1,273,316,589

statements of financial position

As at 31 December 2016

	Note	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
MEMORANDUM ITEMS					
Contingent liabilities	44	6,507,529	10,422,946	19,782,148	37,002,036
Commitments	45	186,030,894	149,958,903	120,282,416	117,122,920

The official middle rate of exchange issued by the European Central Bank between US Dollar and Euro as at 31 December 2016 was 1.0541.

The notes on pages 39 to 123 are an integral part of these financial statements.

The financial statements on pages 28 to 123 were approved and authorised for issue by the Board of Directors on 14 March 2017 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

income statements

For the year ended 31 December 2016

	Note	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Interest income	8	45,015,303	52,518,625	24,663,531	25,024,359
Interest expense	8	(23,051,984)	(22,921,308)	(16,542,171)	(13,069,821)
Net interest income	8	21,963,319	29,597,317	8,121,360	11,954,538
Fee and commission income	9	20,090,223	19,719,218	10,021,804	11,657,912
Fee and commission expense	9	(5,252,886)	(5,164,385)	(2,009,569)	(2,515,148)
Net fee and commission income	9	14,837,337	14,554,833	8,012,235	9,142,764
Net trading results	10	14,167,498	1,008,618	16,686,346	5,186,999
Net loss from other financial instruments carried at fair value	11	(14,439,294)	(2,671,472)	(14,376,037)	(2,627,182)
Net fair value gains on previously-held investments in associates	12	771,654	-	-	-
Dividend income	13	5,455,550	3,324,960	5,455,550	3,324,960
Gain upon loss of control of subsidiary undertaking	14	777,677	-	-	-
Other operating income	15	2,613,557	259,188	407,519	5,201
Operating income before net impairment		46,147,298	46,073,444	24,306,973	26,987,280
Net impairment loss on financial assets	16	(2,299,116)	(10,331,801)	(2,311,574)	(11,093,560)
Operating income		43,848,182	35,741,643	21,995,399	15,893,720
Administrative expenses	17	(35,692,670)	(43,991,588)	(20,727,352)	(28,012,370)
Depreciation and amortisation	31 - 33	(2,996,095)	(2,992,472)	(869,126)	(915,049)
Total operating expenses		(38,688,765)	(46,984,060)	(21,596,478)	(28,927,419)
Operating profit/(loss)		5,159,417	(11,242,417)	398,921	(13,033,699)
Share of results of associates (net of tax)	28	(410,685)	(805,800)	-	-
Profit/(loss) before tax		4,748,732	(12,048,217)	398,921	(13,033,699)
Taxation	18	596,996	7,470,653	(58,539)	7,112,303
Profit/(loss) from continuing operations		5,345,728	(4,577,564)	340,382	(5,921,396)
Loss on discontinued operations	30	(79,736)	(2,554,378)	-	-
Profit/(loss) for the year		5,265,992	(7,131,942)	340,382	(5,921,396)

income statements

For the year ended 31 December 2016

	Note	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Attributable to:					
Equity holders of the bank		4,922,364	(6,389,807)	340,382	(5,921,396)
Non-controlling interests		343,628	(742,135)	-	-
Profit/(loss) for the year		5,265,992	(7,131,942)	340,382	(5,921,396)
Profit/(loss) per share					
Basic profit/(loss) per share (US cents)	19	1.61	(2.12)	0.11	(1.97)
Diluted profit/(loss) per share (US cents)	19	1.61	(2.12)	0.11	(1.97)
Profit/(loss) per share – continued operations					
Basic profit/(loss) per share (US cents)	19	1.63	(1.39)	0.11	(1.97)
Diluted profit/(loss) per share (US cents)	19	1.63	(1.39)	0.11	(1.97)

The results for the year ended 31 December 2015 have been restated to take into effect the impact of the Bonus Issue of shares in May 2016 on Earnings per Share (see Note 19).

The notes on pages 39 to 123 are an integral part of these financial statements.

statements of profit or loss and other comprehensive income

For the year ended 31 December 2016

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Profit/(loss) for the year	5,265,992	(7,131,942)	340,382	(5,921,396)
Other comprehensive income:				
Items that are, or may be, reclassified to profit or loss				
Foreign currency translation differences for foreign operations	(1,025,145)	(4,674,293)	-	-
Fair value reserve (available-for-sale financial assets), net of deferred tax	(1,481,612)	379,814	(1,481,612)	379,814
Total comprehensive income for the year	2,759,235	(11,426,421)	(1,141,230)	(5,541,582)
Attributable to:				
Equity holders of the bank	2,415,607	(10,684,286)	(1,141,230)	(5,541,582)
Non-controlling interests	343,628	(742,135)	-	-
Total comprehensive income for the year	2,759,235	(11,426,421)	(1,141,230)	(5,541,582)

The notes on pages 39 to 123 are an integral part of these financial statements.

statements of changes in equity

For the year ended 31 December 2016

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 losses) USD	Total USD	Non-controlling interests USD	Total equity USD
At 1 January 2016	149,268,322	8,072,276	1,000,027	(5,690,377)	(409,528)	2,486,644	(5,644,809)	149,082,555	25,837,059	174,919,614
Total comprehensive income										
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	4,922,364	4,922,364	343,628	5,265,992
Other comprehensive income										
Change in fair value of available-for-sale assets	-	-	-	-	(1,481,612)	-	-	(1,481,612)	-	(1,481,612)
Currency translation reserve	-	-	-	(1,025,145)	-	-	-	(1,025,145)	340,693	(684,452)
Total comprehensive income	-	-	-	(1,025,145)	(1,481,612)	-	4,922,364	2,415,607	684,321	3,099,928
Transactions with owners of the Bank										
Contributions and distributions										
Issue of new shares, net of transactions costs	-	-	-	-	-	(4,884)	-	(4,884)	-	(4,884)
Bonus Issue of shares	5,970,941	(5,970,941)	-	-	-	-	-	-	-	-
Changes in ownership interests										
Change in non-controlling interests at subsidiaries	-	-	-	-	-	-	-	-	(3,247,295)	(3,247,295)
Total transactions with owners of the Bank	5,970,941	(5,970,941)	-	-	-	(4,884)	-	(4,884)	(3,247,295)	(3,252,179)
Transfer from reserve for general banking risks	-	-	(235,235)	-	-	-	235,235	-	-	-
As at 31 December 2016	155,239,263	2,101,335	764,792	(6,715,522)	(1,891,140)	2,481,760	(487,210)	151,493,278	23,274,085	174,767,363

statements of changes in equity

For the year ended 31 December 2016

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 losses) USD	Total USD	Non-controlling interests USD	Total equity USD
At 1 January 2015	135,698,296	21,642,302	415,293	(1,016,084)	(789,342)	681,041	3,919,616	160,551,122	23,846,290	184,397,412
Total comprehensive income										
Comprehensive income for the year										
Loss for the year	-	-	-	-	-	-	(6,389,807)	(6,389,807)	(742,135)	(7,131,942)
Other comprehensive income										
Change in fair value of available-for-sale assets	-	-	-	-	379,814	-	-	379,814	-	379,814
Currency translation reserve	-	-	-	(4,674,293)	-	-	-	(4,674,293)	118,998	(4,555,295)
Total comprehensive income	-	-	-	(4,674,293)	379,814	-	(6,389,807)	(10,684,286)	(623,137)	(11,307,423)
Transactions with owners of the Bank										
Contributions and distributions										
Bonus issue of shares	13,570,026	(13,570,026)	-	-	-	-	-	-	-	-
Share issue costs by subsidiary undertaking	-	-	-	-	-	(194,397)	-	(194,397)	-	(194,397)
Changes in ownership interests										
Change in non-controlling interests at subsidiaries	-	-	-	-	-	-	-	-	1,530,061	1,530,061
Acquisition of non-controlling interests	-	-	-	-	-	-	(2,589,884)	(2,589,884)	1,083,845	(1,506,039)
Put option exercised by non-controlling interests	-	-	-	-	-	2,000,000	-	2,000,000	-	2,000,000
Total transactions with owners of the Bank	13,570,026	(13,570,026)	-	-	-	1,805,603	(2,589,884)	(784,281)	2,613,906	1,829,625
Transfer to reserve for general banking risks	-	-	584,734	-	-	-	(584,734)	-	-	-
As at 31 December 2015	149,268,322	8,072,276	1,000,027	(5,690,377)	(409,528)	2,486,644	(5,644,809)	149,082,555	25,837,059	174,919,614

statements of changes in equity

For the year ended 31 December 2016

Bank

	Share capital USD	Share premium USD	Reserve for general banking risks USD	Fair value reserve USD	Other reserve USD	Retained earnings/ (accumulated losses) USD	Total USD
At 1 January 2016	149,268,322	8,072,276	1,000,027	(409,528)	2,681,041	(36,616,090)	123,996,048
Total comprehensive income							
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	340,382	340,382
Other comprehensive income							
Change in fair value of available-for-sale assets	-	-	-	(1,481,612)	-	-	(1,481,612)
Total comprehensive income	-	-	-	(1,481,612)	-	340,382	(1,141,230)
Transactions with owners of the Bank							
Contributions and distributions							
Bonus issue of shares	5,970,941	(5,970,941)	-	-	-	-	-
Total transactions with owners of the Bank	5,970,941	(5,970,941)	-	-	-	-	-
Transfer from reserve for general banking risks	-	-	(235,235)	-	-	235,235	-
As at 31 December 2016	155,239,263	2,101,335	764,792	(1,891,140)	2,681,041	(36,040,473)	122,854,818

statements of changes in equity

For the year ended 31 December 2016

Bank

	Share capital USD	Share premium USD	Reserve for general banking risks USD	Fair value reserve USD	Other reserve USD	Retained earnings/ (accumulated losses) USD	Total USD
At 1 January 2015	135,698,296	21,642,302	415,293	(789,342)	2,681,041	(30,109,960)	129,537,630
Total comprehensive income							
Total comprehensive income for the year							
Loss for the year	-	-	-	-	-	(5,921,396)	(5,921,396)
Other comprehensive income							
Change in fair value of available-for-sale assets	-	-	-	379,814	-	-	379,814
Total comprehensive income	-	-	-	379,814	-	(5,921,396)	(5,541,582)
Transactions with owners of the Bank							
Contributions and distributions							
Bonus issue of shares	13,570,026	(13,570,026)	-	-	-	-	-
Total transactions with owners of the Bank	13,570,026	(13,570,026)	-	-	-	-	-
Transfer to reserve for general banking risks	-	-	584,734	-	-	(584,734)	-
As at 31 December 2015	149,268,322	8,072,276	1,000,027	(409,528)	2,681,041	(36,616,090)	123,996,048

The notes on pages 39 to 123 are an integral part of these financial statements.

statements of cash flows

For the year ended 31 December 2016

	Note	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Cash flows from operating activities					
Interest and commission receipts	8/9	58,296,267	70,769,568	32,048,919	35,796,876
Exchange received	22	16,445,346	3,034,384	10,702,723	527,288
Interest and commission payments	8/9	(27,351,959)	(26,108,868)	(20,292,680)	(12,849,306)
Payments to employees and suppliers	17	(36,929,887)	(42,644,171)	(18,963,879)	(28,000,219)
Operating profit/(lost) before changes in operating assets liabilities		10,459,767	5,050,913	3,495,083	(4,525,361)
(Increase)/decrease in operating assets:					
- Trading assets and financial assets at fair value through profit or loss		(21,198,615)	(227,974,781)	-	(134,532,569)
- Loans and advances to customers and banks		(73,893,234)	134,779,342	(105,787,528)	92,066,304
- Other assets		(1,973,550)	1,739,012	(761,314)	444,668
Increase/(decrease) in operating liabilities:					
- Amounts owed to customers and banks		261,462,741	(51,351,784)	297,386,325	(55,238,991)
- Other liabilities		(2,892,277)	(2,851,886)	399,506	(2,262,860)
- Net advances from/(to) subsidiary companies		-	-	17,481,718	(39,475,263)
Net cash generated from/(absorbed by) operating activities before income tax		171,964,832	(140,609,184)	212,213,790	(143,524,072)
Income tax refunded/(paid)		589,969	(2,177,056)	(1,113,256)	(1,489,234)
Net cash flows from/(used in) operating activities		172,554,801	(142,786,240)	211,100,534	(145,013,306)
Cash flows from investing activities					
- Payments to acquire property and equipment	31	(626,032)	(747,757)	(307,742)	(400,228)
- Payments to acquire intangible assets	33	(1,719,375)	(258,630)	(1,672,306)	(264,389)
- Proceeds on disposal of property and equipment	31	5,755,200	47,281	550,255	47,281
- Payments to acquire shares in subsidiary company	29	-	(1,039,920)	(6,359,342)	(24,906,146)
- Payments to acquire shares in associate undertaking	28	(1,359,346)	(1,504,875)	-	(1,504,875)
- Payments to acquire shares in other investments		(25,317,000)	-	(25,317,000)	-
- Payments to acquire available-for-sale financial assets	26	(30,187,210)	(110,000,000)	(30,187,210)	(110,000,000)
- Proceeds from maturity of investments held-to-maturity	27	7,800,000	-	7,800,000	-
- Net investment in discontinued operations	30	-	4,172,363	-	-
- Receipt of dividend		5,455,550	3,324,960	5,455,550	3,324,960
Net cash flows used in investing activities		(40,198,213)	(106,006,578)	(50,037,795)	(133,703,397)
Increase/(decrease) in cash and cash equivalents c/f		132,356,588	(248,792,818)	161,062,739	(278,716,703)

statements of cash flows

For the year ended 31 December 2016

	Note	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Increase/(decrease) in cash and cash equivalents b/f		132,356,588	(248,792,818)	161,062,739	(278,716,703)
Cash flows from financing activities					
- Share issue costs		(4,884)	(194,397)	-	-
- Net movement in debt securities	39	(37,420,886)	35,047,559	(20,000,000)	20,000,000
- Repayment of subordinated debt	40	-	50,000,000	-	50,000,000
Net cash flows/(used in) from financing activities		(37,425,770)	84,853,162	(20,000,000)	70,000,000
Increase/(decrease) in cash and cash equivalents		94,930,818	(163,939,656)	141,062,739	(208,716,703)
Analysed as follows:					
- Effect of exchange rate changes on cash and cash equivalents		(220,859)	(19,042,161)	263,035	(19,042,161)
- Net increase/(decrease) in cash and cash equivalents		95,151,677	(144,897,495)	140,799,704	(189,674,542)
Increase/(decrease) in cash and cash equivalents		94,930,818	(163,939,656)	141,062,739	208,716,703
Cash and cash equivalents at beginning of year		(42,108,474)	121,831,182	(97,386,273)	111,330,430
Cash and cash equivalents at end of year	46	52,822,344	(42,108,474)	43,676,466	(97,386,273)

The notes on pages 39 to 123 are an integral part of these financial statements.

notes to the financial statements

For the year ended 31 December 2016

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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 2016 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 ("IFRS") as adopted by the EU ("the applicable framework"). All references in these financial statements to IAS, IFRS or SIC / IFRIC interpretations refer to those adopted by the EU.

Article 4 of Regulation 1606/2002/EC requires that, for each financial year starting on or after 1 January 2005, 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 14 March 2017.

2.2 basis of measurement

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

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

The financial statements are also prepared on the going concern basis, which takes into account the Directors' confirmation that they have adequate assurances of continued financial support from the shareholders, in particular the significant shareholders of the ultimate parent group. This support underpins the statement made in the Directors' Report on page 9 that the Bank is capable of continuing to operate as a going concern for the foreseeable future.

2.3 functional and presentation currency

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

2.4 use of judgements and estimates

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

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

2 basis of preparation - continued

2.4.1 *key sources of estimation uncertainties*

allowances for credit losses

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

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

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

determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10.6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The fair value hierarchy that reflects the significance of the inputs used in measuring financial instruments is set out in Note 5.1 and 5.2.

2.4.2 *critical accounting judgements in applying the Group's accounting policies*

impairment losses on loans and advances

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

impairment of investments available-for-sale

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

2.4.3 *assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2016 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

- Note 33 – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts;
- Note 34 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

3 significant accounting policies

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 remeasured 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 *associates*

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

Interests in associates 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 statements of profit or loss and other compehensive income of investment in associates, until the date on which significant influence or joint control ceases.

3.1.4 *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.

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:

- represents a separate major line of business or geographic areas of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- 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 income statements and statements of profit or loss and other compehensive income 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 and loss. Any interest retained in the former subsidiary is measured at the fair value when the control is lost.

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.

Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale instruments which are recognised directly in other comprehensive income. 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.

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

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

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

Interest income and expense presented in the income statements include:

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

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 income.

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

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 income or expense

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

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

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

3.7 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.

3.10 financial assets and liabilities

3.10.1 recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. All other financial instruments (including regular way purchases and sales of financial assets) are recognised on the settlement 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 fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.10.2 classification

financial assets

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

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at fair value through profit or loss, and within this category as:
  – held for trading; or
  – designated at fair value through profit or loss.

financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

See accounting policies 3.11-3.15.

3.10.3 derecognition

financial assets

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

The derecognition criteria are also applied to the transfer of part of an asset, rather than the asset as a whole, or to a group of similar financial assets in their entirety, when applicable. If transferring a part of an asset, such part must be a specifically identified cash flow, a fully proportionate share of the asset, or a fully proportionate share of a specifically identified cash flow.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statements of financial position.

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

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

financial liabilities

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

3.10.4 offsetting

Financial assets and liabilities are offset and the net amount presented in the statements 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 IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.10.5 amortised cost measurement

The amortised cost of a financial asset or 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.

3.10.6 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.

3.10.7 identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. 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:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- 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 asset 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.

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:

- 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.

- 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 4.2.7).

3.10.8 *designated at fair value through profit or loss*

The Group has designated financial assets and liabilities at fair value through profit or loss in 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 6 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.

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

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

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

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

3.14 loans and advances

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

3 significant accounting policies - continued

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

Loans and advances also include finance lease receivables in which the Group is the lessor (see accounting policy 3.8.3).

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.

3.15 investment securities

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

3.15.1 *fair value through profit or loss*

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

3.15.2 *available-for-sale*

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

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

Other fair value changes, other than impairment losses (see accounting policy 3.10.7) are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

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

3.15.3 *held-to-maturity*

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

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see accounting policy 3.10.7). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent 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 not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are 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).

3 significant accounting policies - continued

3.17 property and equipment

3.17.1 *recognition and measurement*

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

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

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.

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.

3.18 investment property

Investment property is property held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured at cost less depreciation and impairment losses if any. Depreciation is calculated by using the straight-line method over its estimated useful life of 50 years.

3.19 intangible assets and goodwill

3.19.1 *recognition and measurement*

- 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.

- 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.

- 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.

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, 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 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.

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 income statements.

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.

Unallocated assets comprise mainly corporate assets.

3.28 new standards and interpretations not yet effective

3.28.1 *IFRS as adopted by the EU*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and earlier application is permitted, however the Group has not early adopted the following new or amended standards in preparing these financial statements.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments, Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at the time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2015.

IFRS 9 Implementation Strategy

The Group's IFRS 9 implementation process is governed by a Steering Committee whose members include representative from risk and finance functions. The implementation process is following that of Burgan Bank, a shareholder having a significant influence, and a subsidiary of KIPCO Group.

The Group has completed a preliminary impact assessment and most of the accounting analysis and has commenced work on the design and build of models, systems, processes and controls. The Group intends to undertake a parallel run during 2017.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS15.

3.28.2 *relevant standards and amendments issued by the IASB but not yet endorsed by the EU*

amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional 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.

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

The Group has started an initial assessment of the potential impact of its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of branches and office premises. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for ROU assets and interest expense on lease liabilities. The Group has not yet decided whether it will use the optional exemptions. No significant impact is expected for the Group's finance leases. The Group is also in the process of assessing the impact on its CET1 ratio, particularly in respect of ROU assets in leases where the Group is a lessee.

transition

The Group currently plans to apply IFRS 16 initially on 1 January 2019. As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The Lessee applies the election consistently to all of its leases. The Group has not yet determined which transition approach to apply. As a lessor, the Group is not required to make any adjustments for leases except where it is an intermediate lessor in a sub-lease.

The Group has not yet quantified the impact on its reported assets and liabilities of the adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group enters into. The Group expects to disclose its transition approach and quantitative information before adoption.

disclosure initiative (amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances liabilities that form part of the financing activities in the consolidation statement of cash flows.

The Directors anticipate that the adoption of other IFRS that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements of the Group and the Bank in the period of initial application.

4 financial risk review

4.1 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 of Directors (the "Board") is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group and for ensuring that proper systems of internal controls are in place. The Board 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 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.

4.2 credit risk

Credit risk is the risk that one party to a financial transaction might fail to discharge an obligation and cause the other party to incur a financial loss. 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 Malta Financial Services Authority ("MFSA") and a limit of 25% of Own Funds applies to any particular customer or group of connected customers. Overall responsibility for credit risk is entrusted to the Credit Committee 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 Credit Committee. The Credit Committee is also responsible for the oversight of operational, legal and reputational risk related to credit activity. Further information on the composition and function of the Credit Committee and Board Risk Committee 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.

4.2.1 maximum exposure

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

Group

	Loans and advances to banks		Loans and advances to customers	
	2016 USD	2015 USD	2016 USD	2015 USD
Individually impaired	19,148,192	18,810,017	11,834,883	25,781,684
Past due but not impaired	14,871,140	61,948	27,627,085	7,427,205
Neither past due nor impaired	420,342,894	204,317,593	387,150,388	355,742,335
Total carrying amount	454,362,226	223,189,558	426,612,356	388,951,224

Bank

	Loans and advances to banks		Loans and advances to customers	
	2016 USD	2015 USD	2016 USD	2015 USD
Individually impaired	19,148,192	18,810,017	881,568	2,469,697
Past due but not impaired	14,871,140	61,948	27,697,635	12,189,905
Neither past due nor impaired	404,779,909	193,251,619	561,000,270	552,517,391
Total carrying amount	438,799,241	212,123,584	589,579,473	567,176,993

4.2.2 credit quality

The table below presents an analysis of financial assets, which are neither past due nor impaired, by rating agency designation based on Fitch ratings or their equivalent, together with an analysis of the past due and impaired assets.

Group

	Loans and advances to banks		Loans and advances to customers		Trading assets, financial assets designated at fair value through profit or loss, debt securities available-for-sale and held-to-maturity	
	2016 USD	2015 USD	2016 USD	2015 USD	2016 USD	2015 USD
Neither past due nor impaired						
AAA/AA	1,339	656,136	6,272,983	6,207,170	107,370,144	184,601,952
A/BBB	180,678,784	67,270,076	105,108	-	250,596,138	150,044,006
BB/Lower	31,089,574	35,793,587	23,962,955	5,219,931	85,456,160	-
Unrated	208,573,197	100,597,794	356,809,342	344,315,234	115,617,238	180,356,292
	420,342,894	204,317,593	387,150,388	355,742,335	559,039,680	515,002,250
Past due or impaired						
0 to 30 days	13,097,247	18,871,965	11,144,918	4,272,962	-	-
31 to 60 days	14,871,140	-	9,879,911	1,300,218	-	-
61 to 90 days	-	-	858,165	1,213,917	-	-
91 to 180 days	-	-	4,940,323	11,402,022	-	-
181 to 365 days	-	-	8,386,174	9,812,532	-	-
Over 1 year	6,050,945	-	4,252,477	5,207,238	-	-
	34,019,332	18,871,965	39,461,968	33,208,889	-	-
Total	454,362,226	223,189,558	426,612,356	388,951,224	559,039,680	515,002,250

Bank

	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss, debt securities available-for-sale, and held-to-maturity	
	2016 USD	2015 USD	2016 USD	2015 USD	2016 USD	2015 USD
Neither past due nor impaired						
AAA/AA	1,192	656,136	6,272,985	6,207,170	106,787,772	77,685,206
A/BBB	171,106,684	56,057,068	105,108	-	72,853,944	59,849,871
BB/Lower	31,088,990	35,793,402	23,962,954	5,219,931	-	-
Unrated	202,583,043	100,745,013	530,659,223	541,090,290	-	22,403,178
	404,779,909	193,251,619	561,000,270	552,517,391	179,641,716	159,938,255
Past due or impaired						
0 to 30 days	13,097,247	18,871,965	15,829,194	4,139,960	-	-
31 to 60 days	14,871,140	-	3,921,128	-	-	-
61 to 90 days	-	-	203,479	293,519	-	-
91 to 180 days	-	-	2,218,188	3,046,925	-	-
181 to 365 days	-	-	6,275,062	4,709,501	-	-
Over 1 year	6,050,945	-	132,152	2,469,697	-	-
	34,019,332	18,871,965	28,579,203	14,659,602	-	-
Total	438,799,241	212,123,584	589,579,473	567,176,993	179,641,716	159,938,255

4.2.3 *individually impaired loans and investment debt securities*

The Group regards a loan and advance or an investment debt security as triggering impairment in the following circumstances:

- there is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset; or
- a loan is overdue for 90 days or more.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be 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.

Loans that are subject to a collective 'loss incurred but not reported' provision are not considered impaired.

4.2.4 *loans and investment debt securities that are past due but not impaired*

Loans and investment debt securities that are 'past due but not impaired' are those for which 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 or collateral available and/or the stage of collection of amounts owed to the Group. The amounts disclosed exclude assets measured at FVTPL.

4.2.5 *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.

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.

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

The Group renegotiate 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. 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 2016 and 2015 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 USD26,201,755 (31 December 2015: USD23,597,991), of which USD8,666,839 (31 December 2015: USD393,943) are performing, whilst USD17,534,916 (31 December 2015: USD23,204,048) are non-performing (individually impaired) with an extendible collateral value of USD9,419 (31 December 2015: USD3,054,964). Interest income recognised during 2016 in respect to renegotiated and forborne assets amounts to USD2,404,861 (31 December 2015: USD2,422,202)

For the Bank, the aggregate amount of renegotiated and forborne loans at reporting date amounted to USD15,732,408 (31 December 2015: USD13,784,325), of which USD7,237,706 (31 December 2015: USD393,943) are performing, whilst USD8,494,702 (31 December 2015: USD13,390,382) are non-performing (individually impaired) with an extendible collateral value of USD9,419 (31 December 2015: USD3,054,964). Interest income recognised during 2016 in respect to renegotiated and forborne assets amounts to USD1,594,475 (31 December 2015: USD1,129,020).

Movement in forbearance activity during the year is as follows:

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
At 1 January	23,597,991	54,486,179	13,784,325	25,341,245
Additions	15,178,501	12,636,845	8,079,605	7,226,724
Recovered	(7,584,277)	(22,900,770)	(4,352,190)	(18,783,644)
Written off	(4,990,460)	(20,624,263)	(1,779,332)	-
At 31 December	26,201,755	23,597,991	15,732,408	13,784,325

4.2.6 *allowances for impairment*

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

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

4.2.7 *write-off policy*

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

4.2.8 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 2016 and 2015.

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

Group

	Loans and advances to banks		Loans and advances to customers	
	2016 USD	2015 USD	2016 USD	2015 USD
Against neither past due nor impaired				
Cash or quasi cash	41,824,320	22,887,864	5,927,920	8,410,947
Property	-	-	-	864,255
Other	64,409,804	17,929,053	58,581,466	70,889,079
Against past but not impaired				
Cash or quasi cash	10,409,093	-	413,941	-
Property	-	-	-	-
Other	5,000,000	-	13,040,050	-
Against impaired				
Cash or quasi cash	-	-	9,504	312,839
Property	-	-	132,632	183,586
Other	-	-	-	2,775,578
	121,643,217	40,816,917	78,105,513	83,436,284

Bank

	Loans and advances to banks		Loans and advances to customers	
	2016 USD	2015 USD	2016 USD	2015 USD
Against neither past due nor impaired				
Cash or quasi cash	41,824,320	22,887,864	5,927,920	8,410,947
Property	-	-	-	864,255
Other	64,409,804	17,929,053	58,581,466	70,889,079
Against past but not impaired				
Cash or quasi cash	10,409,093	-	413,941	-
Property	-	-	-	-
Other	5,000,000	-	13,040,050	-
Against impaired				
Cash or quasi cash	-	-	9,504	312,839
Property	-	-	132,632	183,586
Other	-	-	-	2,775,578
	121,643,217	40,816,917	78,105,513	83,436,284

4.2.9 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 2016 and 2015 all financial assets and respective collaterals are disclosed separately in the financial statements without any offsetting.

4.2.10 concentration of credit risk by sector

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

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Industrial raw materials	123,454,832	99,250,774	52,969,026	44,375,870
Shipping and transportation	13,488,529	23,605,357	5,586,945	18,517,290
Wholesale and retail trade	168,903,419	169,990,269	129,528,598	121,216,620
Financial intermediation	509,728,245	298,388,619	756,783,224	551,927,613
Other services	65,399,557	20,905,763	83,510,921	43,263,184
	880,974,582	612,140,782	1,028,378,714	779,300,577

4.2.11 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.

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.

Group

	Loans and advances to banks		Loans and advances to customers		Trading assets, financial assets designated at fair value through profit or loss, debt securities available-for-sale and held-to-maturity		Equity securities available-for-sale	
	2016 USD	2015 USD	2016 USD	2015 USD	2016 USD	2015 USD	2016 USD	2015 USD
Europe	185,546,603	23,441,517	161,652,396	126,554,208	153,793,291	150,918,942	165,234,713	139,305,851
Sub-Sahara Africa (SSA)	168,053,548	103,450,703	4,379,173	2,124,061	63,540,823	119,926,506	-	-
Middle East and North Africa (MENA)	43,218,512	16,104,018	120,939,933	131,818,482	128,580,371	61,395,646	-	-
Commonwealth of Independent States (CIS)	32,904,690	31,867,046	-	8,117,042	15,919,181	26,730,565	-	23,150
Others	24,638,873	48,326,274	139,640,854	120,337,431	197,206,014	156,030,594	-	-
	454,362,226	223,189,558	426,612,356	388,951,224	559,039,680	515,002,253	165,234,713	139,329,001

Bank

	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss, debt securities available-for-sale and held-to-maturity		Equity securities available-for-sale	
	2016 USD	2015 USD	2016 USD	2015 USD	2016 USD	2015 USD	2016 USD	2015 USD
Europe	187,351,734	27,239,865	417,675,584	378,922,133	114,300,558	74,776,109	165,234,011	139,305,852
Sub-Sahara Africa (SSA)	168,053,548	103,450,703	4,379,173	2,124,061	-	-	-	-
Middle East and North Africa (MENA)	35,243,213	15,793,637	114,702,808	118,001,081	7,764,900	7,476,939	-	-
Commonwealth of Independent States (CIS)	32,876,129	31,835,929	-	8,117,035	-	-	-	22,448
Others	15,274,617	33,803,450	52,821,908	60,012,683	57,576,258	77,685,207	-	-
	438,799,241	212,123,584	589,579,473	567,176,993	179,641,716	159,938,255	165,234,011	139,328,300

4.2.12 *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 counter-party are reconciled and matched. This ensures that any settlement risk is identified immediately and that real-time action is taken to rectify any problematic situation.

4.3 liquidity risk

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

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

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

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

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

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

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

4.3.2 *exposure to liquidity risk*

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

4.3.2.1 *net liquid assets to deposits ratio*

This ratio assesses the Group's liquidity position by dividing the Group's total loans and advances by its net liquid assets. For this purpose net liquid assets are computed by reference to BR/05/2007 "Liquidity Requirements of Credit Institutions Authorised under the Banking Act 1994" issued by the Malta Financial Services Authority.

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

	2016	2015
At 31 December	45.8%	45.8%
Average for the year	46.9%	40.5%
Maximum for the year	67.0%	53.0%
Minimum for the year	34.4%	33.2%

4.3.2.2 *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 2016, the LCR requirement was set at a minimum level of 70% (2015: 60%). The required minimum level will be set to 100%, when fully implemented in 2019. As at December 2016 the Group's calculated LCR stood at 113%.

4.3.2.3 *residual contractual maturities of financial assets and liabilities*

Group – 31 December 2016

	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
Balances with the Central Bank of Malta, Treasury Bills and cash	33,193,245	33,190,824	22,666,280	10,524,544	-	-	-	-
Trading assets	379,397,964	396,281,069	19,175,627	54,322,615	111,612,309	134,844,218	35,637,924	40,688,376
Derivative assets held for risk management	1,502,704	1,502,704	209,847	834,665	458,192	-	-	-
Financial assets designated at fair value through profit or loss	17,799,900	18,168,534	7,984,562	9,177	18,354	36,708	73,415	10,046,318
Loans and advances to banks	454,362,226	459,376,074	322,096,473	52,647,197	48,282,255	612,709	29,150,565	6,586,875
Loans and advances to customers	426,612,356	443,130,556	133,595,613	32,998,003	83,966,540	59,218,564	34,358,847	98,992,989
Investments available-for-sale	327,076,529	335,982,233	165,234,713	7,742,770	-	38,683,847	15,274,087	109,046,816
Derivative liabilities held for risk management	8,816,410	8,816,410	4,115,575	4,394,253	306,582	-	-	-
Amounts owed to banks	528,939,251	532,979,030	300,951,345	96,988,777	42,079,147	74,777,674	18,108,717	73,370
Amounts owed to customers	948,710,544	956,161,711	427,563,740	136,353,354	99,925,706	202,472,655	34,784,945	55,061,311
Debt securities in issue	8,225,869	8,249,768	-	8,249,768	-	-	-	-
Subordinated liabilities	50,000,000	59,985,729	181,879	528,035	1,061,937	2,141,475	4,282,951	51,789,452

Group – 31 December 2015

	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
Balances with the Central Bank of Malta, Treasury Bills and cash	77,432,606	77,466,745	24,151,967	47,317,646	-	5,997,132	-	-
Trading assets	355,063,998	373,495,724	23,431,147	47,374,837	70,669,369	126,685,788	67,504,282	37,830,301
Derivative assets held for risk management	1,139,090	1,139,090	752,043	230,207	-	156,840	-	-
Financial assets designated at fair value through profit or loss	17,741,000	20,090,934	186,662	70,458	514,239	657,205	8,129,662	10,532,708
Loans and advances to banks	223,189,558	228,222,560	122,343,855	18,368,661	15,901,788	32,007,893	32,749,360	6,851,003
Loans and advances to customers	388,951,224	396,715,322	267,107,311	37,830,851	25,247,230	17,433,103	6,036,277	43,060,550
Investments available-for-sale	274,049,316	304,164,917	139,516,748	-	-	-	39,473,410	125,174,759
Investments held-to-maturity	7,476,940	9,061,101	746,440	-	-	8,314,661	-	-
Derivative liabilities held for risk management	917,114	917,114	674,200	97,229	-	145,685	-	-
Amounts owed to banks	729,941,157	742,066,544	299,885,712	94,287,200	62,574,145	126,323,135	158,894,609	101,743
Amounts owed to customers	422,077,303	425,644,802	331,197,432	25,287,276	20,987,619	24,956,220	10,337,422	12,878,833
Debt securities in issue	45,646,755	45,825,562	23,694,964	2,016,409	20,114,189	-	-	-
Subordinated liabilities	50,000,000	59,389,731	-	901,728	-	1,803,456	3,606,911	53,077,636

4 *financial risk review - continued*

Bank - 31 December 2016

	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
Balances with the Central Bank of Malta, Treasury Bills and cash	33,165,601	33,163,180	22,638,636	10,524,544	-	-	-	-
Derivative assets held for risk management	1,502,704	1,502,705	209,848	834,665	458,192	-	-	-
Financial assets designated at fair value through profit or loss	17,799,900	18,168,534	7,984,562	9,177	18,354	36,708	73,415	10,046,318
Loans and advances to banks	438,799,241	443,813,090	305,284,841	52,647,197	48,906,579	1,237,033	29,150,565	6,586,875
Loans and advances to customers	589,579,473	657,576,410	86,944,847	70,243,540	299,508,033	30,348,070	33,628,995	136,902,925
Investments available-for-sale	327,075,829	335,981,531	165,234,011	7,742,770	-	38,683,847	15,274,087	109,046,816
Derivative liabilities held for risk management	8,834,092	8,834,092	4,133,257	4,394,253	306,582	-	-	-
Amounts owed to banks	426,137,477	427,346,645	261,126,142	96,507,718	41,741,352	9,862,716	18,108,717	-
Amounts owed to customers	915,367,604	922,349,668	406,641,731	137,515,486	99,875,474	188,470,721	34,784,945	55,061,311
Subordinated liabilities	50,000,000	59,985,729	181,879	528,035	1,061,937	2,141,475	4,282,951	51,789,452

Bank – 31 December 2015

	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
Balances with the Central Bank of Malta, Treasury Bills and cash	77,413,470	77,447,610	24,132,831	47,317,646	-	5,997,133	-	-
Derivative assets held for risk management	1,142,952	1,142,952	755,905	230,207	-	156,840	-	-
Financial assets designated at fair value through profit or loss	17,741,000	20,090,934	186,662	70,458	514,239	657,205	8,129,662	10,532,708
Loans and advances to banks	212,123,584	217,156,586	107,420,504	18,368,661	16,804,851	33,156,082	34,555,486	6,851,002
Loans and advances to customers	567,176,993	625,463,862	190,001,310	278,012,216	5,124,878	10,228,430	4,790,230	137,306,798
Investments available-for-sale	274,048,615	304,164,216	139,516,046	-	-	-	39,473,410	125,174,760
Investments held-to-maturity	7,476,940	9,061,101	746,440	-	-	8,314,661	-	-
Derivative liabilities held for risk management	921,237	921,237	678,324	97,229	-	145,684	-	-
Amounts owed to banks	665,277,976	673,439,313	272,720,048	94,276,309	63,455,425	124,255,476	118,732,055	-
Amounts owed to customers	405,611,504	409,042,184	323,925,836	16,347,836	20,987,619	24,985,400	10,337,422	12,458,071
Debt securities in issue	20,000,000	20,114,189	-	-	20,114,189	-	-	-
Subordinated liabilities	50,000,000	59,389,731	-	901,728	-	1,803,456	3,606,911	53,077,636

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

4.4 market risk

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

foreign exchange risk

Foreign exchange risk is attached to those monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the Group. Transactional exposures give rise to foreign currency gains and losses that are recognised in the income statements. 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 2016

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	10,963	33,176,896	3,361	2,025	33,193,245
Trading assets	225,438,885	145,615,794	8,343,285	-	379,397,964
Financial assets designated at fair value through profit or loss	17,799,900	-	-	-	17,799,900
Loans and advances to banks	227,487,850	214,918,657	891,647	11,064,072	454,362,226
Loans and advances to customers	227,178,961	106,221,588	1,480,517	91,731,290	426,612,356
Investments available-for-sale	101,366,719	60,475,097	-	-	161,841,816
Other assets	30,769,485	3,436,852	36,699	20,032,164	54,275,200
Amounts owed to banks	(337,707,702)	(155,811,316)	(414,800)	(35,005,433)	(528,939,251)
Amounts owed to customers	(222,318,067)	(711,963,937)	(7,174,692)	(7,253,848)	(948,710,544)
Debt securities in issue	(2,979,107)	(5,246,762)	-	-	(8,225,869)
Subordinated liabilities	(50,000,000)	-	-	-	(50,000,000)
Other liabilities	(10,976,851)	(6,775,899)	(828,840)	(23,318,697)	(41,900,287)
Net on balance sheet financial position	206,071,036	(315,953,030)	2,337,177	57,251,573	(50,293,244)
Notional amount of derivative instruments held for risk management	-	306,018,539	(3,551,258)	(615,157)	-

Group - 31 December 2015

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	25,969,863	51,454,396	4,131	4,216	77,432,606
Trading assets	258,296,030	70,437,801	15,698,980	10,631,187	355,063,998
Derivative assets held for risk management	18,485	804,353	11,009	305,243	1,139,090
Financial assets designated at fair value through profit or loss	17,741,000	-	-	-	17,741,000
Loans and advances to banks	140,127,193	74,738,824	245,855	8,077,686	223,189,558
Loans and advances to customers	259,800,137	63,166,576	718,993	65,265,518	388,951,224
Investments held-to-maturity	7,476,940	-	-	-	7,476,940
Investments available-for-sale	226,274,372	47,774,944	-	-	274,049,316
Other assets	29,188,472	1,784,685	-	22,400,422	53,373,579
Derivative liabilities held for risk management	(18,657)	(585,233)	-	(313,224)	(917,114)
Amounts owed to banks	(548,801,203)	(147,277,351)	(6,078,557)	(27,784,046)	(729,941,157)
Amounts owed to customers	(231,468,200)	(177,706,450)	(8,356,159)	(4,546,494)	(422,077,303)
Debt securities in issue	(32,879,205)	(12,767,550)	-	-	(45,646,755)
Subordinated liabilities	(50,000,000)	-	-	-	(50,000,000)
Other liabilities	(13,246,920)	(3,680,560)	(833,321)	(2,642,702)	(20,403,503)
Net on balance sheet financial position	88,478,307	(31,855,565)	1,410,931	71,397,806	129,431,479
Notional amount of derivative instruments held for risk management	-	41,275,183	(2,224,199)	(10,333,109)	-

Bank - 31 December 2016

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	-	33,165,601	-	-	33,165,601
Financial assets designated at fair value through profit or loss	17,799,900	-	-	-	17,799,900
Loans and advances to banks	216,173,550	214,909,215	790,148	6,926,328	438,799,241
Loans and advances to customers	333,374,833	245,597,969	10,178,982	427,689	589,579,473
Investments available-for-sale	101,366,719	60,475,097	-	-	161,841,816
Other assets	28,009,302	3,468,267	194	4,773	31,482,536
Amounts owed to banks	(268,924,971)	(155,811,316)	(414,800)	(986,390)	(426,137,477)
Amounts owed to customers	(193,811,272)	(708,926,319)	(7,125,652)	(5,504,361)	(915,367,604)
Debt securities in issue	-	-	-	-	-
Subordinated liabilities	(50,000,000)	-	-	-	(50,000,000)
Other liabilities	(2,930,081)	(4,630,457)	(282,941)	(42,428)	(7,885,907)
Net on balance sheet financial position	181,057,980	(311,751,943)	3,145,931	825,611	(126,722,421)
Notional amount of derivative instruments held for risk management	-	306,018,539	(3,551,258)	(615,157)	-

4 *financial risk review - continued*

Bank - 31 December 2015

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	25,966,067	51,447,403	-	-	77,413,470
Derivative assets held for risk management	22,348	804,353	11,009	305,242	1,142,952
Financial assets designated at fair value through profit or loss	17,741,000	-	-	-	17,741,000
Loans and advances to banks	132,490,712	74,983,511	196,349	4,453,012	212,123,584
Loans and advances to customers	422,077,147	117,796,585	16,481,268	10,821,993	567,176,993
Investments held-to-maturity	7,476,940	-	-	-	7,476,940
Investments available-for-sale	226,273,671	47,774,944	-	-	274,048,615
Other assets	26,723,050	1,886,318	-	78,053	28,687,421
Derivative liabilities held for risk management	(22,780)	(585,302)	-	(313,155)	(921,237)
Amounts owed to banks	(512,413,453)	(145,336,923)	(6,078,557)	(1,449,043)	(665,277,976)
Amounts owed to customers	(215,759,998)	(178,055,237)	(8,356,159)	(3,440,110)	(405,611,504)
Debt securities in issue	(20,000,000)	-	-	-	(20,000,000)
Subordinated liabilities	(50,000,000)	-	-	-	(50,000,000)
Other liabilities	(5,598,665)	(1,790,403)	(111,616)	(9,139)	(7,509,823)
Net on balance sheet financial position	54,976,039	(31,074,751)	2,142,294	10,446,853	36,490,435
Notional amount of derivative instruments held for risk management	-	41,275,183	(2,224,199)	(10,333,109)	-

The following exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
USD	2016	2015	2016	2015
1 EUR	1.1063	1.1105	1.0526	1.0928
1 GBP	1.3507	1.5294	1.2277	1.4828

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

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
31 December 2016				
EUR	(695,414)	(695,414)	(401,338)	(401,338)
GBP	(84,986)	(84,986)	(28,373)	(28,373)
Other currencies	3,964,549	25,150	14,732	14,732
31 December 2015				
EUR	659,373	659,373	720,382	720,382
GBP	(56,929)	(56,929)	(5,728)	(5,728)
Other currencies	3,815,976	77,971	7,957	7,957

A 7 percent 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.

4 *financial risk review - continued*

interest rate risk

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

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

Group - 31 December 2016

	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	22,633,763	10,526,316	-	-	-	33,166	33,193,245
Trading assets	90,606,660	139,981,007	94,803,046	31,688,186	11,415,826	10,903,238	379,397,963
Derivative assets held for risk management	-	-	-	-	-	1,502,704	1,502,704
Financial assets designated at fair value through profit or loss	7,764,900	10,035,000	-	-	-	-	17,799,900
Loans and advances to banks	247,184,690	28,822,388	29,852,709	-	25,526,316	122,976,123	454,362,226
Loans and advances to customers	261,268,364	24,544,347	38,546,031	4,299,055	25,135,367	72,819,191	426,612,355
Investments available-for-sale	-	7,725,618	-	38,442,852	115,673,348	165,234,712	327,076,530
Other assets	-	-	-	-	-	101,003,477	101,003,477
Total assets	629,458,377	221,634,676	163,201,786	74,430,093	177,750,857	474,472,611	1,740,948,400
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	8,816,410	8,816,410
Amounts owed to banks	221,399,233	157,641,043	40,382,795	8,947,368	15,855,739	84,713,073	528,939,251
Amounts owed to customers	398,647,292	133,005,773	99,344,248	186,140,851	86,018,216	45,554,165	948,710,545
Debt securities in issue	-	8,225,869	-	-	-	-	8,225,869
Subordinated liabilities	50,000,000	-	-	-	-	-	50,000,000
Other liabilities	-	-	-	-	-	21,488,963	21,488,963
Equity	-	-	-	-	-	174,767,362	174,767,362
Total liabilities and equity	670,046,525	298,872,685	139,727,043	195,088,219	101,873,955	335,339,973	1,740,948,400

	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	851,093,053	163,201,786	74,430,093	177,750,857	474,472,611	1,740,948,400
Liabilities	(968,919,210)	(139,727,043)	(195,088,219)	(101,873,955)	(335,339,973)	(1,740,948,400)
Interest sensitivity gap	(117,826,157)	23,474,743	(120,658,126)	75,876,902	139,132,638	-
Cumulative gap	(117,826,157)	(94,351,414)	(215,009,540)	(139,132,638)	-	-
change in interest rate for the period						
200bps increase	(1,767,392)	234,747	(201,097)			
200bps decrease	1,767,392	(234,747)	201,097			

Group - 31 December 2015

Assets	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
Balances with the Central Bank of Malta, Treasury Bills and cash	24,121,433	47,307,919	-	5,977,567	-	25,687	77,432,606
Trading assets	86,614,867	114,956,928	80,721,451	30,847,670	23,850,623	18,072,459	355,063,998
Derivative assets held for risk management	-	-	-	-	-	1,139,090	1,139,090
Financial assets designated at fair value through profit or loss	7,566,000	10,175,000	-	-	-	-	17,741,000
Loans and advances to banks	125,111,791	16,511,356	29,634,980	30,000,000	-	21,931,431	223,189,558
Loans and advances to customers	257,636,515	55,228,389	7,865,189	541,090	28,038,641	39,641,400	388,951,224
Investments available-for-sale	-	-	-	-	134,720,315	139,329,001	274,049,316
Investments held-to-maturity	-	-	-	7,476,940	-	-	7,476,940
Other assets	-	-	-	-	-	98,861,714	98,861,714
Total assets	501,050,606	244,179,592	118,221,620	74,843,267	186,609,579	319,000,782	1,443,905,446

Liabilities & equity	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
Derivative liabilities held for risk management	-	-	-	-	-	917,114	917,114
Amounts owed to banks	203,877,155	198,941,154	60,258,065	77,579,761	111,806,208	77,478,814	729,941,157
Amounts owed to customers	305,160,815	25,211,851	20,797,050	24,572,800	21,870,852	24,463,935	422,077,303
Debt securities in issue	23,633,674	2,013,081	20,000,000	-	-	-	45,646,755
Subordinated liabilities	50,000,000	-	-	-	-	-	50,000,000
Other liabilities	-	-	-	-	-	20,403,503	20,403,503
Equity	-	-	-	-	-	174,919,614	174,919,614
Total liabilities and equity	582,671,644	226,166,086	101,055,115	102,152,561	133,677,060	298,182,980	1,443,905,446

	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	745,230,198	118,221,620	74,843,267	186,609,579	319,000,782	1,443,905,446
Liabilities	(808,837,730)	(101,055,115)	(102,152,561)	(133,677,060)	(298,182,980)	(1,443,905,446)
Interest sensitivity gap	(63,607,532)	17,166,505	(27,309,294)	52,932,519	20,817,802	-
Cumulative gap	(63,607,532)	(46,441,027)	(73,750,321)	(20,817,802)	-	-

change in interest rate for the period			
200bps increase	(954,113)	171,665	(45,515)
200bps decrease	954,113	(171,665)	45,515

Bank - 31 December 2016

Assets	Less than 1 month USD	Between1 & 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
Balances with the Central Bank of Malta, Treasury Bills and cash	22,633,763	10,526,316	-	-	-	5,522	33,165,601
Derivative assets held for risk management	-	-	-	-	-	1,502,704	1,502,704
Financial assets designated at fair value through profit or loss	7,764,900	10,035,000	-	-	-	-	17,799,900
Loans and advances to banks	247,175,247	28,822,388	29,852,709	-	25,526,316	107,422,581	438,799,241
Loans and advances to customers	489,358,509	7,116,397	35,792,377	3,077,368	20,749,506	33,485,316	589,579,473
Investments available-for-sale	-	7,725,618	-	38,442,852	115,673,348	165,234,009	327,075,827
Other assets	-	-	-	-	-	123,228,946	123,228,946
Total assets	766,932,419	64,225,719	65,645,086	41,520,220	161,949,170	430,879,078	1,531,151,692

Liabilities & equity	Less than 1 month USD	Between1 & 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
Derivative liabilities held for risk management	-	-	-	-	-	8,834,092	8,834,092
Amounts owed to banks	187,263,925	92,641,043	40,382,795	8,947,368	15,789,474	81,112,872	426,137,477
Amounts owed to customers	385,999,001	133,048,691	99,344,248	186,168,798	86,018,216	24,788,650	915,367,604
Subordinated liabilities	50,000,000	-	-	-	-	-	50,000,000
Other liabilities	-	-	-	-	-	7,957,701	7,957,701
Equity	-	-	-	-	-	122,854,818	122,854,818
Total liabilities and equity	623,262,926	225,689,734	139,727,043	195,116,166	101,807,690	245,548,133	1,531,151,692

	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	831,158,138	65,645,086	41,520,220	161,949,170	430,879,078	1,531,151,692
Liabilities	(848,952,660)	(139,727,043)	(195,116,166)	(101,807,690)	(245,548,133)	(1,531,151,692)
Interest sensitivity gap	(17,794,522)	(74,081,957)	(153,595,946)	60,141,480	185,330,945	-
Cumulative gap	(17,794,522)	(91,876,479)	(245,472,425)	(185,330,945)	-	-

change in interest rate for the period			
200bps increase	(266,918)	(740,820)	(255,993)
200bps decrease	266,918	740,820	255,993

Bank - 31 December 2015

	Less than 1 month USD	Between1 & 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	24,121,433	47,307,919	-	5,977,567	-	6,551	77,413,470
Derivative assets held for risk management	-	-	-	-	-	1,142,952	1,142,952
Financial assets designated at fair value through profit or loss	7,566,000	10,175,000	-	-	-	-	17,741,000
Loans and advances to banks	110,624,031	16,511,356	29,634,980	30,000,000	-	25,353,217	212,123,584
Loans and advances to customers	509,344,846	1,782,301	6,373,761	454,545	27,578,835	21,642,705	567,176,993
Investments available-for-sale	-	-	-	-	134,720,315	139,328,300	274,048,615
Investments held-to-maturity	-	-	-	7,476,940	-	-	7,476,940
Other assets	-	-	-	-	-	116,193,035	116,193,035
Total assets	651,656,310	75,776,576	36,008,741	43,909,052	162,299,150	303,666,760	1,273,316,589
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	921,237	921,237
Amounts owed to banks	198,106,507	156,755,600	60,258,065	57,103,049	111,718,566	81,336,189	665,277,976
Amounts owed to customers	297,925,375	16,299,315	20,797,050	24,601,813	21,559,266	24,428,685	405,611,504
Debt securities in issue	-	-	20,000,000	-	-	-	20,000,000
Subordinated liabilities	50,000,000	-	-	-	-	-	50,000,000
Other liabilities	-	-	-	-	-	7,509,824	7,509,824
Equity	-	-	-	-	-	123,996,048	123,996,048
Total liabilities and equity	546,031,882	173,054,915	101,055,115	81,704,862	133,277,832	238,191,983	1,273,316,589

	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	727,432,886	36,008,741	43,909,052	162,299,150	303,666,760	1,273,316,589
Liabilities	(719,086,797)	(101,055,115)	(81,704,862)	(133,277,832)	(238,191,983)	(1,273,316,589)
Interest sensitivity gap	8,346,089	(65,046,374)	(37,795,810)	29,021,318	65,474,777	-
Cumulative gap	8,346,089	(56,700,285)	(94,496,095)	(65,474,777)	-	-
change in interest rate for the period						
200bps increase	125,191	(650,464)	(62,993)			
200bps decrease	(125,191)	650,464	62,993			

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	
Repricing instruments	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
31 December 2016	(1,733,742)	(1,733,742)	(1,263,731)	(1,263,731)
31 December 2015	(827,963)	(827,963)	(588,265)	(588,265)

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.

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	
	2016 USD	2015 USD	2016 USD	2015 USD
Credit linked notes	17,799,900	17,741,000	17,799,900	17,741,000
Available-for-sale securities	327,076,529	274,049,316	327,075,827	274,048,615
	344,876,429	291,790,316	344,875,727	291,789,615

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
31 December 2016	34,487,643	1,779,990	34,487,573	1,779,990
31 December 2015	29,179,032	1,774,100	29,178,962	1,774,100

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.

4.5 operational risk

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

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

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

4.6 capital management

regulatory capital

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

On 1 January 2014 the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulations (CRR) came into effect, constituting the European implementation of the Basel capital and liquidity agreement of 2010. The Group has made the necessary changes in order to ensure that it is compliant with the Pillar 1 capital requirements set by the CRR.

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

Schedule V to this Annual Report and Financial Statements includes additional regulatory disclosures (Pillar 3) in terms of Banking Rule BR/07/2014 "Publication of annual report and audited financial statements of credit institutions authorised under the Banking Act, 1994".

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

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

capital adequacy

The 2016 capital ratios are as follows:

OWN FUNDS	Group USD	Bank USD
Paid up capital instruments	155,239,263	155,239,263
Share premium	2,101,335	2,101,335
Accumulated losses	(487,210)	(36,040,473)
Other reserves	(5,360,110)	1,554,693
Deductions:		
- Goodwill accounted for as intangible asset	(8,817,941)	-
- Other intangible assets	(2,883,994)	(2,467,630)
- Deferred tax liabilities associated to other intangible assets	(51,648)	(202,431)
- Deferred tax asset that rely on future profitability and arise from temporary differences	(27,976,061)	(11,233,543)
- Market value of assets pledged in favour of Depositor Compensation Scheme	(1,189,929)	(1,189,929)
- Other transitional adjustments	24,102,330	5,764,170
Common Equity Tier 1	134,676,035	113,525,455
Total Tier 1	134,676,035	113,525,455
Tier 2		
General credit risk adjustments	4,632,424	4,180,239
Subordinated liabilities	50,000,000	50,000,000
Deductions:		
Amortisation: Subordinated Loan	(3,369,863)	(3,369,863)
Other transitional adjustments	16,711	16,711
Total Tier 2	51,279,272	50,827,087
Total own funds	185,955,307	164,352,542

Further information on the Group's capital adequacy ratios may be found in section 9.4 of the Additional Regulatory Disclosures ("Pillar 3 Disclosures"), which are subject to internal review as set out in section 1.3 of the Pillar 3 Disclosures.

5 fair values of financial instruments

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

5.1 valuation of financial instruments

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

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

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

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

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

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

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

The Group has an established control framework with respect to the measurement of fair values. This framework includes reports to the Group's Executive Management having overall responsibility for verifying the results of trading in financial instruments and all significant fair value measurements. Market risk and related exposure to fair value movement is also a key function of the Group's Asset-Liability Committee and all valuations of financial instruments are reported to the Committee for review and approval.

5.2 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 2016

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	21	-	-	379,397,964	379,397,964
Derivative assets held for risk management	22	-	1,502,704	-	1,502,704
Financial assets designated at fair value through profit or loss	23	-	-	17,799,900	17,799,900
Investments available-for-sale	26	161,841,816	159,658,216	5,576,479	327,076,529
		161,841,816	161,160,920	402,774,361	725,777,097
Derivative liabilities held for risk management	22	-	8,816,410	-	8,816,410
		-	8,816,410	-	8,816,410

Group - 31 December 2015

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	21	-	-	355,063,998	355,063,998
Derivative assets held for risk management	22	-	1,139,090	-	1,139,090
Financial assets designated at fair value through profit or loss	23	-	-	17,741,000	17,741,000
Investments available-for-sale	26	134,720,315	133,622,632	5,706,369	274,049,316
		134,720,315	134,761,722	378,511,367	647,993,404
Derivative liabilities held for risk management	22	-	917,114	-	917,114
		-	917,114	-	917,114

Bank - 31 December 2016

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	22	-	1,502,704	-	1,502,704
Financial assets designated at fair value through profit or loss	23	-	-	17,799,900	17,799,900
Investments available-for-sale	26	161,841,816	159,658,216	5,575,795	327,075,827
		161,841,816	161,160,920	23,375,695	346,378,431
Derivative liabilities held for risk management	22	-	8,834,092	-	8,834,092
		-	8,834,092	-	8,834,092

5 *fair values of financial instruments - continued*

Bank - 31 December 2015

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	22	-	1,142,952	-	1,142,952
Financial assets designated at fair value through profit or loss	23	-	-	17,741,000	17,741,000
Investments available-for-sale	26	134,720,315	133,622,632	5,705,668	274,048,615
		134,720,315	134,765,584	23,446,668	292,932,567
Derivative liabilities held for risk management	22	-	921,237	-	921,237
		-	921,237	-	921,237

5.3 level 3 fair value measurements

5.3.1 *reconciliation*

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

Group - 2016

	Trading assets USD	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2016	355,063,998	17,741,000	5,706,369	378,511,367
Total gains and losses in profit or loss	(3,596,299)	58,900	-	(3,537,399)
Total gains and losses in other comprehensive income	-	-	(129,872)	(129,872)
Purchases	632,414,798	-	-	632,414,798
Settlements	(604,484,533)	-	-	(604,484,533)
Balance at 31 December 2016	379,397,964	17,799,900	5,576,497	402,774,361

Total gains or losses for the year in the above table are presented in the income statements and statements of profit or loss and other compehensive income as follows:

	Trading assets USD	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Total gains and losses in profit or loss				
- Net trading results	(3,596,299)	-	-	(3,596,299)
- Net gain from other financial instruments carried at fair value	-	58,900	-	58,900
Total gains and losses in other comprehensive income				
- Net change in fair value of available-for-sale financial assets	-	-	(129,872)	(129,872)

5 *fair values of financial instruments - continued*

Group - 2015

	Trading assets USD	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2015	262,856,375	18,000,000	6,032,393	286,888,768
Total gains and losses in profit or loss	2,362,814	(259,000)	-	2,103,814
Total gains and losses in other comprehensive income	-	-	(326,024)	(326,024)
Purchases	450,292,973	-	-	450,292,973
Settlements	(360,448,164)	-	-	(360,448,164)
Balance at 31 December 2015	355,063,998	17,741,000	5,706,369	378,511,367

Total gains or losses for the year in the above table are presented in the income statements and statements of profit or loss and other compehensive income as follows:

	Trading assets USD	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Total gains and losses in profit or loss				
- Net trading results	2,362,814	-	-	2,362,814
- Net gain from other financial instruments carried at fair value	-	(259,000)	-	(259,000)
Total gains and losses in other comprehensive income				
- Net change in fair value of available-for-sale financial assets	-	-	(326,024)	(326,024)

Bank – 2016

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2016	17,741,000	5,705,668	23,446,668
Total gains and losses in profit or loss	58,900	-	58,900
Total gains and losses in other comprehensive income	-	(129,873)	(129,873)
Balance at 31 December 2016	17,799,900	5,575,795	23,375,695

Total gains or losses for the year in the above table are presented in the income statements and statements of profit or loss and other compehensive income as follows:

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Total gains and losses in profit or loss			
- Net gain from other financial instruments carried at fair value	58,900	-	58,900
Total gains and losses in other comprehensive income			
- Net change in fair value of available-for-sale financial assets	-	(129,873)	(129,873)

Bank - 2015

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2015	18,000,000	6,031,691	24,031,691
Total gains and losses in profit or loss	(259,000)	-	(259,000)
Total gains and losses in other comprehensive income	-	(326,023)	(326,023)
Balance at 31 December 2015	17,741,000	5,705,668	23,446,668

Total gains or losses for the year in the above table are presented in the income statements and statements of profit or loss and other compehensive income as follows:

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Total gains and losses in profit or loss			
- Net gain from other financial instruments carried at fair value	(259,000)	-	(259,000)
Total gains and losses in other comprehensive income			
- Net change in fair value of available-for-sale financial assets	-	(326,023)	(326,023)

5.3.2 unobservable inputs used in measuring fair value

The below sets out information about significant unobservable inputs used at 31 December 2016 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 2016, the interest rates used range between 0.54% and 9.81% (2015: between 0.42% and 9.00%).

The effect of an estimated general increase of one percentage point in interest rate on trading assets at 31 December 2016 would reduce the Group's profit before tax by approximately USD388,913 (2015: USD432,410).

financial assets designated at fair value through profit or loss

The financial assets designated at fair value through profit or loss ("FVTPL") consist of credit linked notes, whereby the Group is funding the risk of default with respect to specified borrowers.

The FVTPL portfolio is fair valued using a model based on the current credit worthiness of the counterparties by reference to specialised dealer price quotations. Periodical changes in dealer quotations are compared to changes in quoted prices for instruments with similar characteristics issued by the borrowers.

All credit linked notes have a floating-interest rate characteristic and the impact of interest rates on the value of the instrument is therefore limited to the interest repricing period which generally occurs on a quarterly or half-yearly basis. The effect on profit or loss is disclosed in Note 4.4 to these financial statements.

investments available-for-sale

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

The fair value is measured by the Group based on periodical net-asset-valuations prepared by the scheme's independent administrator. The sub-fund's assets are marked 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 2016 would increase/(decrease) the Bank and Group equity by approximately USD557,580 (2015: USD566,535).

6 classification of financial assets and liabilities

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

Group - 31 December 2016

	Trading	Designated at fair value	Loans and receivables	Available-for-sale	Liabilities at amortised cost	Total carrying amount
	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	-	33,193,245	-	-	33,193,245
Trading assets	379,397,964	-	-	-	-	379,397,964
Derivative assets held for risk management	-	1,502,704	-	-	-	1,502,704
Financial assets designated at fair value through profit or loss	-	17,799,900	-	-	-	17,799,900
Loans and advances to banks	-	-	454,362,226	-	-	454,362,226
Loans and advances to customers	-	-	426,612,356	-	-	426,612,356
Investments available-for-sale	-	-	-	327,076,529	-	327,076,529
Investments held-to-maturity	-	-	-	-	-	-
Derivative liabilities held for risk management	-	8,816,410	-	-	-	8,816,410
Amounts owed to banks	-	-	-	-	528,939,251	528,939,251
Amounts owed to customers	-	-	-	-	948,710,544	948,710,544
Debt securities in issue	-	-	-	-	8,225,869	8,225,869
Subordinated liabilities	-	-	-	-	50,000,000	50,000,000

Group - 31 December 2015

	Trading	Designated at fair value	Loans and receivables	Available-for-sale	Liabilities at amortised cost	Total carrying amount
	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	-	77,432,606	-	-	77,432,606
Trading assets	355,063,998	-	-	-	-	355,063,998
Derivative assets held for risk management	-	1,139,090	-	-	-	1,139,090
Financial assets designated at fair value through profit or loss	-	17,741,000	-	-	-	17,741,000
Loans and advances to banks	-	-	223,189,558	-	-	223,189,558
Loans and advances to customers	-	-	388,951,224	-	-	388,951,224
Investments available-for-sale	-	-	-	274,049,316	-	274,049,316
Investments held-to-maturity	-	-	7,476,940	-	-	7,476,940
Derivative liabilities held for risk management	-	917,114	-	-	-	917,114
Amounts owed to banks	-	-	-	-	729,941,157	729,941,157
Amounts owed to customers	-	-	-	-	422,077,303	422,077,303
Debt securities in issue	-	-	-	-	45,646,755	45,646,755
Subordinated liabilities	-	-	-	-	50,000,000	50,000,000

6 *classification of financial assets and liabilities - continued*

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

Bank - 31 December 2016

	Designated at fair value	Loans and receivables	Available- for-sale	Liabilities at amortised cost	Total carrying amount
	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	33,165,601	-	-	33,165,601
Derivative assets held for risk management	1,502,704	-	-	-	1,502,704
Financial assets designated at fair value through profit or loss	17,799,900	-	-	-	17,799,900
Loans and advances to banks	-	438,799,241	-	-	438,799,241
Loans and advances to customers	-	589,579,473	-	-	589,579,473
Investments available-for-sale	-	-	327,075,827	-	327,075,827
Investments held-to-maturity	-	-	-	-	-
Derivative liabilities held for risk management	8,834,092	-	-	-	8,834,092
Amounts owed to banks	-	-	-	426,137,477	426,137,477
Amounts owed to customers	-	-	-	915,367,604	915,367,604
Debt securities in issue	-	-	-	-	-
Subordinated liabilities	-	-	-	50,000,000	50,000,000

Bank - 31 December 2015

	Designated at fair value	Loans and receivables	Available- for-sale	Liabilities at amortised cost	Total carrying amount
	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	77,413,470	-	-	77,413,470
Derivative assets held for risk management	1,142,952	-	-	-	1,142,952
Financial assets designated at fair value through profit or loss	17,741,000	-	-	-	17,741,000
Loans and advances to banks	-	212,123,584	-	-	212,123,584
Loans and advances to customers	-	567,176,993	-	-	567,176,993
Investments available-for-sale	-	-	274,048,615	-	274,048,615
Investments held-to-maturity	-	7,476,940	-	-	7,476,940
Derivative liabilities held for risk management	921,237	-	-	-	921,237
Amounts owed to banks	-	-	-	665,277,976	665,277,976
Amounts owed to customers	-	-	-	405,611,504	405,611,504
Debt securities in issue	-	-	-	20,000,000	20,000,000
Subordinated liabilities	-	-	-	50,000,000	50,000,000

At 31 December 2016 and 31 December 2015, the fair value of the financial assets measured at amortised cost is approximately equal to the carrying amount. The approximate fair value is based on the following:

i. **Loans and advances to banks, balances with Central Bank and Treasury Bills**
The majority of these assets reprice or mature in less than 180 days. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

ii. **Loans and advances to customers**
Loans and advances to customers are reported net of allowances to reflect the estimated recoverable amounts. The carrying amount of loans and advances to customers is a reasonable approximation of fair value because these are repriced to take into account changes in both benchmark rate and credit spreads.

iii. **Amounts owed to banks and customers**
These liabilities are carried at amortised cost. The majority of these liabilities reprice or mature in less than 1 year. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

iv. **Debt securities in issue and subordinated liabilities**
These liabilities are carried at amortised cost. Their fair value is disclosed separately in the respective notes to the financial statements.

Financial assets not measured at fair value comprise loans and advances and balances with Central Bank. Loans and advances are reported net of impairment allowances to reflect the estimated recoverable amounts as at the financial reporting date. In the case of loans and advances which are repriceable in the short term, the carrying value approximates to fair value. 76% (2015: 82%) of the Group's and 81% (2015: 91%) of the Bank's loans and advances to customers are repriceable within six months 67% (2015: 77%) of the Group's and 70% (2015: 74%) of the Bank's loans and advances to banks are repriceable within six months.

Financial liabilities measured at amortised cost comprise amounts owed to banks and customers, debt securities in issue and subordinated liabilities. 71% (2015: 71%) of the Group's and 70% (2015: 70%) of the Bank's amounts owed to banks and customers are repriceable within six months. The Group's debt securities in issue are subject to fixed and variable interest rates whilst subordinated liabilities are subject to floating rates. Interest rates on debt securities and subordinated liabilities are further disclosed in Note 39 and Note 40 to these financial statements.

7 operating segments

The Group has 4 significant reportable segments, Trade Finance, Forfaiting, Factoring 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 following table, 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 8, including further analysis of its components.

information about operating segments

Group – 2016

	Trade Finance USD	Forfaiting USD	Factoring USD	Treasury USD	Other USD	Total USD
External revenue:						
Interest income	12,192,725	14,029,427	15,052,359	3,664,059	76,733	45,015,303
Fee and commission income	8,284,600	7,906,334	3,841,866	-	57,423	20,090,223
Trading income	-	(1,852,388)	(587,518)	16,686,345	(78,941)	14,167,498
	20,477,325	20,083,373	18,306,707	20,350,404	55,215	79,273,024
Intersegment revenue:						
Interest receivable	-	3,825,393	1,477,851	-	995,791	6,299,035
Fee and commission income	16,036	671	25,532	-	54	42,293
	16,036	3,826,064	1,503,383	-	995,845	6,341,328
Reportable segment profit/(loss) before income tax	466,641	5,273,003	(9,574,509)	(1,251,090)	(754,547)	(5,840,502)
Reportable segment assets	606,726,271	426,111,143	660,730,427	445,973,460	51,042,818	2,190,584,119
Reportable segment liabilities	1,151,611,801	314,566,640	111,763,995	243,572,384	34,291,705	1,855,806,525

Group – 2015

	Trade Finance USD	Forfaiting USD	Factoring USD	IT Solutions USD	Other USD	Total USD
External revenue:						
Interest income	17,238,937	12,050,690	23,228,998	-	-	52,518,625
Fee and commission income	9,928,982	3,879,471	5,394,737	416,347	99,681	19,719,218
Trading income	5,157,859	(4,699,243)	594,141	(120)	(44,019)	1,008,618
	32,325,778	11,230,918	29,217,876	416,227	55,662	73,246,461
Intersegment revenue:						
Interest receivable	5,120,048	-	-	-	-	5,120,048
Fee and commission income	-	55,322	-	266,763	-	322,085
	5,120,048	55,322	-	266,763	-	5,442,133
Reportable segment profit/(loss) before income tax	(15,837,869)	805,664	(3,152,695)	(79,646)	(1,004,295)	(19,268,841)
Reportable segment assets	1,203,141,610	363,054,561	223,705,263	794,932	99,085,196	1,889,781,562
Reportable segment liabilities	1,136,819,186	295,274,268	95,109,238	28,253	33,726,594	1,560,957,539

The comparative amounts for the Treasury segment have not been reclassified on the basis of immateriality and are included within the Trade Finance segment.

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

Group

	2016 USD	2015 USD
Revenues		
Total revenue for reportable segments	84,689,432	78,632,932
Other revenue	924,920	55,662
	85,614,352	78,688,594
Elimination of intersegment revenue	(6,341,328)	(5,442,133)
Consolidated revenue	79,273,024	73,246,461
Profit or loss		
Total loss for reportable segments	(4,959,815)	(18,264,546)
Other profit or loss	(880,687)	(1,004,295)
	(5,840,502)	(19,268,841)
Share of loss of associates	(410,685)	(805,800)
Net fair value gains on previously-held investments in associates	771,654	-
Effect of other consolidation adjustments on segment results	10,228,265	8,026,424
Consolidated profit/(loss) before tax	4,748,732	(12,048,217)
Assets		
Total assets for reportable segments	2,151,342,393	1,790,696,366
Other assets	39,241,726	99,085,196
	2,190,584,119	1,889,781,562
Elimination of intersegment assets	(457,669,045)	(460,326,727)
Effect of other consolidation adjustments on segment results	8,033,326	15,224,781
Unallocated amounts	-	(774,170)
Consolidated assets	1,740,948,400	1,443,905,446
Liabilities		
Total liabilities for reportable segments	1,821,514,820	1,527,230,945
Other liabilities	34,291,705	33,726,594
	1,855,806,525	1,560,957,539
Elimination of intersegment liabilities	(289,625,488)	(291,156,338)
Effect of other consolidation adjustments on segment results	-	165,762
Unallocated amounts	-	(981,131)
Consolidated liabilities	1,566,181,037	1,268,985,832

7 *operating segments - continued*

geographical areas

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

Group

	Malta		Other Countries		Total	
	2016 USD	2015 USD	2016 USD	2015 USD	2016 USD	2015 USD
External revenues	12,479,321	2,244,451	66,793,703	71,002,010	79,273,024	73,246,461
Non-current assets	34,217,221	33,514,782	8,751,039	11,988,802	42,968,259	45,503,584

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

8 net interest income

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Interest income				
On loans and advances to banks	4,534,411	5,191,460	4,344,193	3,785,262
On loans and advances to customers	22,251,977	32,183,290	10,401,584	13,255,660
On loans and advances to subsidiary companies	-	-	6,012,717	5,120,048
On balances with Central Bank of Malta and Treasury Bills	38,989	7,984	38,989	7,984
	26,825,377	37,382,734	20,797,483	22,168,954
On forfaiting assets	14,029,427	12,048,521	-	-
On financial instruments carried at fair value	2,550,642	907,871	2,550,642	907,871
On held-to-maturity financial instruments	529,226	596,360	529,226	596,360
On other trade finance activities	1,080,631	1,583,139	786,180	1,351,174
	45,015,303	52,518,625	24,663,531	25,024,359
Interest expense				
On amounts owed to banks	9,678,957	13,903,094	5,680,132	7,038,890
On amounts owed to customers	9,045,000	5,718,512	8,743,899	5,406,141
On debt securities in issue	2,324,613	2,682,214	113,525	7,303
On amounts owed to subsidiary companies	-	-	1,201	-
On derivative instruments	-	-	-	-
On subordinated debt	2,003,414	617,488	2,003,414	617,487
	23,051,984	22,921,308	16,542,171	13,069,821
Net interest income	21,963,319	29,597,317	8,121,360	11,954,538

Included in Group and Bank is interest income and interest expense payable to the parent company and to an entity holding a significant shareholding in the Group (see Note 48).

9 net fee and commission income

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Fee and commission income				
Credit related fees and commission	1,100,313	1,994,494	1,088,354	1,994,494
On letters of credit	3,595,800	4,768,593	3,589,089	4,768,593
On factoring	4,023,766	5,322,702	1,932,421	1,750,765
On forfaiting activities	7,906,335	3,879,471	-	-
On IT Solutions	13,959	416,347	-	-
Other fees	3,450,050	3,337,611	3,411,940	3,144,060
	20,090,223	19,719,218	10,021,804	11,657,912
Fee and commission expense				
Credit related fees	103,360	810	103,360	810
Correspondent banking fees	449,101	421,579	328,636	290,573
On forfaiting activities	1,598,364	431,157	-	-
Other fees	3,102,061	4,310,839	1,577,573	2,223,765
	5,252,886	5,164,385	2,009,569	2,515,148
Net fee and commission income	14,837,337	14,554,833	8,012,235	9,142,764

10 net trading results

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Net trading income from assets held for trading	(1,780,320)	(4,570,212)	-	-
Foreign exchange rate fluctuations	15,947,818	5,578,830	16,686,346	5,186,999
	14,167,498	1,008,618	16,686,346	5,186,999

11 net loss from other financial instruments carried at fair value

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Net income on derivatives held for risk management purposes	(17,813,101)	(2,412,472)	(17,749,844)	(2,368,182)
Investment securities designated at fair value through profit or loss	3,373,807	(259,000)	3,373,807	(259,000)
	(14,439,294)	(2,671,472)	(14,376,037)	(2,627,182)

12 net fair value gains on previously-held investments in associates

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Fair value gain on previously held 49% investment in Egypt Factors	771,654	-	-	-
	771,654	-	-	-

During the year ended 31 December 2016, the Group acquired a controlling interest in Egypt Factors which was previously recognised as an "Associate" and measured using the "Equity Method". Upon making further investment in the entity the Group re-measured its previously held non-controlling interest to fair value recognising the fair value gain in the Income Statements (see Note 29).

13 dividend income

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Dividend from an available-for-sale investment	5,455,550	3,324,960	5,455,550	3,324,960
	5,455,550	3,324,960	5,455,550	3,324,960

14 gain upon loss of control of subsidiary undertaking

During 2016 FactorRus LLC was put into liquidation, which resulted in the Group losing control over the subsidiary. Consequently, the Group discontinued the consolidation of the financial position and performance of this subsidiary, and a residual balance of USD777,677 was recognised in the Income Statements (see Notes 29.3 and 30).

15 other operating income

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Rental income from leased property	701,622	243,117	-	-
Profit/(loss) on disposal of property and equipment	1,889,665	(855)	385,266	(11,725)
Support fees receivable	16,915	16,926	16,915	16,926
Other non-trading income	5,355	-	5,338	-
	2,613,557	259,188	407,519	5,201

16 net impairment loss on financial assets

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Loans and advances to banks				
- specific impairment allowances	2,701	(3,972,829)	2,701	(3,972,829)
- collective impairment allowances	809,255	(338,364)	809,255	(338,364)
- write-offs	-	(1,708,360)	-	(1,708,360)
	811,956	(6,019,553)	811,956	(6,019,553)
Loans and advances to customers				
- specific impairment allowances	20,692,702	35,274,300	14,568,881	8,112,961
- collective impairment allowances	(139,645)	1,797,313	(418,099)	1,617,856
- write-offs	(25,764,929)	(40,173,233)	(13,192,206)	(6,365,400)
- recoveries	1,931,060	294,247	955,769	279,276
	(3,280,812)	(2,807,373)	1,914,345	3,644,693
Investments in subsidiaries				
- specific impairment allowances	-	-	(5,037,875)	(1,506,042)
	-	-	(5,037,875)	(1,506,042)
Investments in associates				
- specific impairment allowances	-	(1,504,875)	-	(7,212,658)
	-	(1,504,875)	-	(7,212,658)
Acquired assets in satisfaction of debt				
- specific impairment allowances	169,740	-	-	-
	169,740	-	-	-
Net impairment loss	(2,299,116)	(10,331,801)	(2,311,574)	(11,093,560)

17 administrative expenses

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

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Personnel expenses	23,989,577	24,710,301	12,857,202	13,226,759
Operating lease rentals	1,446,589	1,449,814	1,240,969	1,189,012
Other administrative expenses	10,256,504	17,831,473	6,223,333	13,165,927
Recharge of services rendered by subsidiaries	-	-	405,848	430,672
	35,692,670	43,991,588	20,727,352	28,012,370

Included in Operating Lease Rentals for the Bank is an amount of USD1,007,318 (2015: USD936,944) payable to subsidiary companies.

17 *administrative expenses - continued*

Included in Other Administrative Expenses of the Group for the financial year ended 31 December 2016 are the following fees charged by auditor:

	Audit services USD	Other assurance services USD	Tax advisory services USD	Other non-audit services USD
By the auditors of the parent	142,579	42,402	3,718	163,687
Other auditors	214,178	89,274	32,346	2,521

In 2016 the Group did not incur any expenses which were expected to be non-recurring in future financial periods. In 2015, the Group incurred the following non-recurring expenses:

- USD1.47 million incurred in connection with employment and consultancy contract terminations and reorganisation of various roles and positions; and
- USD6.43 million incurred on professional advice then sought by the Bank in relation to legal matters connected to a review of banking transactions carried out in prior years. In the opinion of the Directors, additional expenses to be incurred in this respect are unlikely to be material based on an assessment of the status of events at the date these financial statements have been approved.

All fees are inclusive of indirect taxes.

17.2 personnel expenses incurred during the year

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Directors' emoluments	395,185	285,126	305,874	277,907
Staff costs				
- wages, salaries and allowances	22,375,186	23,382,286	12,038,256	12,498,340
- defined contribution costs	1,219,206	1,042,889	513,072	450,512
	23,989,577	24,710,301	12,857,202	13,226,759

17.3 average number of employees

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

	Group		Bank	
	2016 No. of employees	2015 No. of employees	2016 No. of employees	2015 No. of employees
Executive and senior managerial	32	30	18	21
Other managerial, supervisory and clerical	361	341	163	146
Other staff	16	16	3	2
	409	387	184	169

For the financial year ending 31 December 2016, the Group average number of employees includes the effect of consolidation of Egypt Factors from August to December 2016 (See Note 29.5).

17 *administrative expenses - continued*

17.4 executive share option schemes

FIMBank

The Bank has in place Executive Share Option Schemes that are approved by the shareholders by extraordinary resolutions at different General Meetings. The rules for these Schemes regulate the award of Share Options based on the Bank's performance for the year in respect of which the grant is made. Under the Executive Share Option Scheme rules, the Bank awards share options to executives for targeted performance based on the results of the preceeding year at the exercise price established at grant date. When the options are exercised, equity is increased by the amount of the proceeds received based on the market price determined on grant date. As at 31 December 2016, there was one scheme under which awarded options are still unexercised.

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

	Group and Bank	
	2016 No. of share options	2015 No. of share options
As at 1 January	1,666,808	2,344,056
Additional share options as a result of capital restructuring	240,021	-
Forfeited due to termination of employment	(143,962)	(257,400)
Forfeited due to expiry of exercise period	-	(419,848)
As at 31 December	1,762,867	1,666,808

Details of share options granted:

	Exercise period
	2011 scheme 01/01/14 to 31/12/18
Exercise price per USD0.50 share	USD0.6753
Number of share options unexercised at 1 January 2016	1,666,808
Additional share options as a result of capital restructuring	240,021
Forfeited due to termination of employment	(143,962)
Number of share options unexercised at 31 December 2016	1,762,867

		Exercise period	
	Total	2011 scheme 01/01/14 to 31/12/18	2008 scheme 01/01/11 to 31/12/15
Exercise price per USD0.50 share	USD	USD0.6753	USD1.4468
Number of share options unexercised at 1 January 2015	2,344,056	1,884,168	459,888
Forfeited due to termination of employment	(257,400)	(217,360)	(40,040)
Forfeited due to expiry of exercise period	(419,848)	-	(419,848)
Number of share options unexercised at 31 December 2015	1,666,808	1,666,808	-

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

The share option scheme approved in 2008 expired during the financial year ended 31 December 2015 and all unexercised options as at the expiry date were forfeited in accordance with the applicable scheme rules.

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 2016, the Company had 1,913,040 (31 December 2015: 1,913,040) outstanding share options, at an exercise price of INR10/option (31 December 2015: INR10/option). The remaining contractual life of the shares ranging between 2 to 5 years.

The Company has adopted the intrinsic value method to account for the plan. No expense arising from stock option plan as per the intrinsic value method was recognized for the year (2015: Nil).

18 taxation

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

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Current tax				
- current year	(97,514)	(50,317)	(60,909)	(32,711)
Deferred tax				
- origination and reversal of temporary differences	694,510	7,520,970	2,370	7,145,014
Taxation in income statements	596,996	7,470,653	(58,539)	7,112,303

18.2 taxation for the year and the result of the accounting loss/profit multiplied by the tax rate applicable in Malta, are reconciled as follows:

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Profit/(loss) before tax	4,748,732	(12,048,217)	398,921	(13,033,699)
Tax income using the domestic income tax rate of 35%	(1,662,056)	4,216,876	(139,622)	4,561,795
Tax effect of:				
Non-deductible expenses	2,034,909	(253,276)	(143,031)	(155,182)
Non-taxable income	1,771,109	1,163,736	1,909,442	1,163,736
Unrecognised temporary differences	(1,004,154)	(264,707)	(1,763,256)	(3,051,545)
Temporary differences previously not recognised	1,418,018	3,723,480	412	4,614,761
Effect of tax rates in foreign jurisdictions	(13,295)	(21,262)	(6,651)	(21,262)
Investment tax credit	-	(5,476)	-	-
Share of loss from associates	-	(282,030)	-	-
Different tax rates	(1,947,535)	(806,688)	84,167	-
Taxation	596,996	7,470,653	(58,539)	7,112,303

19 earnings per share

19.1 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	
	2016 USD	2015 USD	2016 USD	2015 USD	2016 USD	2015 USD
Profit/(loss) attributable to equity holders of the Bank	5,002,100	(4,188,679)	(79,736)	(2,201,128)	4,922,364	(6,389,807)

Bank

	Continuing operations		Discontinued operations		Total	
	2016 USD	2015 USD	2016 USD	2015 USD	2016 USD	2015 USD
Profit/(loss) attributable to equity holders of the Bank	340,383	(5,921,396)	-	-	340,383	(5,921,396)

weighted average number of ordinary shares (basic):

	Group and Bank	
	2016 No. of shares	2015 No. of shares
Weighted average number of ordinary shares at 31 December (basic)	306,204,246	301,002,558

The weighted average number of ordinary shares at 31 December 2015 has been restated to take into effect the impact of the Bonus Issue of shares in May 2016.

19.2 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	
	2016 USD	2015 USD	2016 USD	2015 USD	2016 USD	2015 USD
Profit/(loss) attributable to equity holders of the Bank	5,002,100	(4,188,679)	(79,736)	(2,201,128)	4,922,364	(6,389,807)

Bank

	Continuing operations		Discontinued operations		Total	
	2016 USD	2015 USD	2016 USD	2015 USD	2016 USD	2015 USD
Profit/(loss) attributable to equity holders of the Bank	340,383	(5,921,396)	-	-	340,383	(5,921,396)

weighted average number of ordinary shares (diluted):

	2016 No. of shares	2015 No. of shares
Weighted average number of ordinary shares at 31 December (basic)	306,204,246	301,002,558
Effect of share options in issue	306,007	-
Diluted weighted average number of ordinary shares at 31 December	306,510,253	301,002,558

The weighted average number of ordinary shares at 31 December 2015 has been restated to take into effect the impact of the Bonus Issue of shares in May 2016.

20 balances with the central bank of malta, treasury bills and cash

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Balances with the Central Bank of Malta	6,844,289	7,729,782	6,844,289	7,729,782
Treasury bills	26,315,789	69,677,137	26,315,789	69,677,137
Cash	33,167	25,687	5,523	6,551
	33,193,245	77,432,606	33,165,601	77,413,470

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

21 trading assets

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

At 31 December 2016, trading assets included assets with a carrying amount of USD87,289,474 (2015: USD52,815,860) pledged in favour of third parties under reverse-repos or borrowing arrangements.

22 derivatives held for risk management

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Derivative assets held for risk management				
- foreign exchange	1,502,704	1,139,090	1,502,704	1,139,090
- interest rate	-	-	-	3,862
	1,502,704	1,139,090	1,502,704	1,142,952
Derivative liabilities held for risk management				
- foreign exchange	(8,816,410)	917,114	(8,816,410)	917,114
- interest rate	-	-	(17,682)	4,123
	(8,816,410)	917,114	(8,834,092)	921,237

23 financial assets designated at fair value through profit or loss

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Designated at fair value through profit or loss				
- unlisted debt securities	17,799,900	17,741,000	17,799,900	17,741,000
	17,799,900	17,741,000	17,799,900	17,741,000

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

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

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

At 31 December 2016, financial assets designated at fair value through profit or loss include assets amounting to USD12,470,065 (2015: Nil), pledged in favour of third parties under reverse-repo arrangements.

24 loans and advances to banks

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Repayable on call and at short notice	172,952,368	95,254,860	157,197,039	80,331,509
Term loans and advances	289,516,337	136,863,564	289,708,681	140,720,941
Total loans and advances	462,468,705	232,118,424	446,905,720	221,052,450
Specific impairment	(6,855,917)	(6,869,050)	(6,855,917)	(6,869,050)
Collective impairment	(1,250,562)	(2,059,816)	(1,250,562)	(2,059,816)
Net loans and advances	454,362,226	223,189,558	438,799,241	212,123,584

Loans and advances to banks include blocked funds amounting to USD113,126 (2015: USD113,126) pursuant to US Sanctions. The balances also include pledged funds amounting to USD18,895,010 (2015: USD7,216,270), none of which represents pledged funds in favour of the Depositor Compensation Scheme Reserve (2015: USD904,666).

The aggregate amount of impaired loans to banks amounted to USD26,607,699 (2015: USD25,822,214), gross of collaterals. Specific impairment is exclusive of USD202,408 (2015: USD143,147) in respect of suspended interest not recognised in interest receivable.

25 loans and advances to customers

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Repayable on call and at short notice	13,424,605	121,850,333	46,175,882	124,221,996
Term loans and advances	439,378,029	298,136,809	260,222,474	159,865,212
	452,802,634	419,987,142	306,398,356	284,087,208
Amounts owed by subsidiary companies	-	-	296,780,434	310,128,831
Total loans and advances	452,802,634	419,987,142	603,178,790	594,216,039
Specific impairment	(22,808,416)	(27,209,699)	(10,669,639)	(24,527,467)
Collective impairment	(3,381,862)	(3,826,219)	(2,929,678)	(2,511,579)
Net loans and advances	426,612,356	388,951,224	589,579,473	567,176,993

Loans and advances to customers include pledged funds amounting to USD211,282 (2015: USD109,276). In addition, loans and advances amounting to USD15,000,000 (2015: USD25,497,732) are owed by associate companies.

For the Group, the aggregate amount of impaired loans and advances to customers amounted to USD55,953,459 (2015: USD61,734,060), gross of collaterals. Specific impairment is exclusive of USD11,216,208 (2015: USD6,825,060) in respect of suspended interest not recognised in interest receivable.

For the Bank, the aggregate amount of impaired loans and advances to customers amounted to USD23,354,488 (2015: USD37,366,830), gross of collaterals. Specific impairment is exclusive of USD2,477,766 (2015: USD4,142,828) in respect of suspended interest not recognised in interest receivable.

Amounts owed by subsidiaries 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.

26 investments available-for-sale

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Debt instruments				
– local listed	13,522,312	42,108,871	13,522,312	42,108,871
– foreign listed	148,319,504	92,611,444	148,319,504	92,611,444
	161,841,816	134,720,315	161,841,816	134,720,315
Equity instruments				
- shares in sub-funds of a local unlisted collective investment scheme	165,193,697	139,287,986	165,193,697	139,287,986
- foreign unlisted equities	41,016	41,015	40,314	40,314
	165,234,713	139,329,001	165,234,011	139,328,300
	327,076,529	274,049,316	327,075,827	274,048,615

26 investments available-for-sale - continued

At 31 December 2016, investments available-for-sale included assets with a carrying amount of USD187,774,160 (2015: 175,543,758) pledged in favour of third parties under reverse-repos or borrowing arrangements.

Whilst there is no active market for these investments, fair value for the collective investment schemes is determined by reference to funds' net asset values and fair value for the equities is determined by reference to broker prices. Fair value movement is recognised, net of deferred tax, in fair value reserve.

At reporting date, the Group and Bank held an investment of USD159,617,902 (2015: USD133,622,632) in a sub-fund of a local unlisted collective investment scheme, categorised as a Professional Investor Fund, 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. Presently, the sub-fund is seeking 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 other comprehensive income.

27 investments held-to-maturity

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Foreign unlisted subordinated bonds	-	7,476,940	-	7,476,940
	-	7,476,940	-	7,476,940

28 investments in associates

28.1 the Group's investment in associates is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Equity interest 2016 %	Equity interest 2015 %	Group 2016 USD	Group 2015 USD
BRASILFACTORS S.A. ("BRASILFACTORS")	Brazil	Factoring	Ordinary Shares	50	50	1,161,332	1,301,671
Levant Factors S.A.L. ("Levant Factors")	Lebanon	Factoring	Ordinary Shares	50	50	-	-
The Egyptian Company for Factoring S.A.E. ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	100*	50	-	15,447
						1,161,332	1,317,118
At 1 January						1,317,118	2,821,670
Net share of losses						(410,685)	(805,800)
Investment in Egypt Factors - exercise of Put Option by IFC						-	1,504,875
Impairment of investment in Egypt Factors						-	(1,504,875)
Currency translation difference						254,899	(698,752)
At 31 December						1,161,332	1,317,118

28.2 the Bank's investment in associate entities is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Equity interest 2016 %	Equity interest 2015 %	Bank 2016 USD	Bank 2015 USD
The Egyptian Company for Factoring S.A.E. ("Egypt Factors")	Egypt	Factoring	Shares	100*	50	-	305,641
						-	305,641
At 1 January						305,641	6,013,425
Reclassification resulting from the acquisition of controlling interest in Egypt Factors						(305,641)	-
Investment in Egypt Factors - exercise of Put Option by IFC						-	1,504,875
Impairment of investment in Egypt Factors						-	(7,212,659)
At 31 December						-	305,641

*During the year ended 31 December 2016 the Group acquired a controlling interest in Egypt Factors which was previously recognised as an Investment in Associate. This investment is now disclosed in Note 29 "Investment in Subsidiaries", also including details of the acquisition and resulting goodwill.

28.3 BRASILFACTORS S.A. ("BRASILFACTORS")

In September 2011, the Group, through its wholly owned subsidiary FIMFactors B.V., incorporated BRASILFACTORS S.A. ("BRASILFACTORS"), a factoring company incorporated in São Paolo, Brazil. BRASILFACTORS' core business focuses on factoring services and forfaiting, with small and medium-sized companies being its target market.

On incorporation, the Group had a 40% holding in the company, with the other shareholders being Banco Industrial e Comercial S.A. ("BICBANCO") and the International Finance Corporation ("IFC"), each holding 40% and 20% respectively. During 2015, IFC exercised its Put Option on the other shareholders, with the Group acquiring 10% of BRASILFACTORS and bringing the investment in the entity by both the Group and BICBANCO to 50% each. The Group is not deemed to have a controlling interest in the company and continues to measure its investment using the Equity Method.

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

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

The Group's carrying amount of its investment in Levant Factors is Nil.

28.5 impairment assessment

At each reporting date the Bank carries out an impairment assessment to calculate the recoverable amounts of its investment in associates (at cost) and determine the possibility of an impairment loss.

BRASILFACTORS

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 lower than the investment (at cost) of the CGU and an impairment loss of USD2,746,045 has been recognised in "Net impairment loss on financial assets" in the Bank's Income Statements.

28.6 summary of financial information for investments in associates not adjusted for the percentage ownership of the Group:

	Total assets USD	Total liabilities USD	Total revenue USD	Total expenses USD	Profit/(loss) for the year USD
31 December 2016					
BRASILFACTORS	63,614,460	61,715,978	979,695	(1,770,172)	(790,477)
Levant Factors	9,184	1,044,318	190,218	(13,608)	176,610

	Total assets USD	Total liabilities USD	Total revenue USD	Total expenses USD	Profit/(loss) for the year USD
31 December 2015					
BRASILFACTORS	44,464,722	42,209,910	1,600,736	(2,076,861)	(476,125)
Egypt Factors	38,209,783	33,731,763	3,464,540	(6,298,485)	(2,833,945)
Levant Factors	28,549	1,239,244	153,271	(215,767)	(62,496)

29 investments in subsidiaries

29.1 capital subscribed

	Bank 2016 USD	Bank 2015 USD
At 1 January	84,678,486	61,278,380
Additional investment in FIMFactors B.V.	5,000,000	24,906,147
Additional investment in The Egyptian Company for Factoring S.A.E.	1,359,342	-
Reclassification resulting from the acquisition of controlling interest in Egypt Factors	305,641	-
Impairment of investments	(5,037,875)	(1,506,041)
At 31 December	86,305,594	84,678,486

29.2 investments in subsidiaries

Name of Company	Country of incorporation	Nature of business	Equity interest 2016 %	Equity interest 2015 %	Bank 2016 USD	Bank 2015 USD
FIMFactors B.V.	Netherlands	Holding company	100	100	44,808,155	44,846,031
FIM Business Solutions Limited	Malta	IT services provider	100	100	5,000	5,000
FIM Holdings (Chile) S.p.A.	Chile	Holding company	100	100	1,455,271	1,455,271
FIM Property Investment Limited	Malta	Property management	100	100	1,005,749	1,005,749
London Forfaiting Company Limited	UK	Forfaiting	100	100	37,366,435	37,366,435
The Egyptian Company for Factoring S.A.E.	Egypt	Factoring	100	50	1,664,984	-
					86,305,594	84,678,486

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

Name of Company	Country of incorporation	Nature of business	Equity interest 2016 %	Equity interest 2015 %
CIS Factors Holdings B.V. ("CIS Factors")	Netherlands	Holding company	100*	100
India Factoring and Finance Solutions Private Limited ("India Factoring")	India	Factoring	86	85
Menafactors Limited	United Arab Emirates	Factoring	100	100

* In liquidation

29 investments in subsidiaries - continued

The Bank, indirectly through FIM Holdings Chile S.p.A., controls the following subsidiary:

Name of Company	Country of incorporation	Nature of business	Equity interest 2016 %	Equity interest 2015 %
Latam Factors S.A. (previously First Factors S.A.)	Chile	Factoring and leasing	51	51

In turn, Latam Factors S.A. controls the following subsidiaries:

Name of Company	Country of incorporation	Nature of business	Equity interest 2016 %	Equity interest 2015 %
Fondo de Inversión Privado Factoring 1	Chile	Factoring fund	20*	20
FFSF S.A. Administradora de Fondos de Inversión	Chile	Factoring fund	99.98	99.98

* Latam Factors S.A. has been deemed to be exercising control over Fondo de Inversión Privado Factoring 1 by virtue of its relationship (controller and manager) to the company. The fund is therefore being recognised as a subsidiary and consolidated in the Group.

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

Name of Company	Country of incorporation	Nature of business	Equity interest 2016 %	Equity interest 2015 %
London Forfaiting International Limited	UK	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 2016 %	Equity interest 2015 %
London Forfaiting Americas Inc.	United States of America	Marketing	100	100
London Forfaiting do Brasil Ltda.	Brazil	Marketing	100	100

29.3 FactorRus LLC

During 2015, FIMFactors BV acquired the shareholding in FatorRus LLC held by its subsidiary CIS Factors Holdings B.V. Subsequently the shareholding was transferred from FIMFactors B.V. to the Bank.

During 2016, FactorRus LLC was put into liquidation, which resulted in the Group losing control over the subsidiary. Consequently, the Group discontinued the consolidation of the financial position and performance of this subsidiary (See Notes 14 and 30).

29.4 Latam Factors S.A.

On 1 October 2014, the Group through its wholly owned subsidiary FIM Holdings (Chile) S.p.A. acquired 51% of the shares and voting interests in Latam Factors S.A. Latam Factors is a factoring and leasing company incorporated and operating in Chile with its functional and reporting currency being the Chilean Peso (CLP).

put and call options

A Put and Call Options Agreement has been entered into between FIMBank, FIM Holdings (Chile) S.p.A., Latam Factors S.A. and the other shareholders in Latam Factors S.A. (hereinafter also referred to as the "Company"). This agreement sets out the terms of the Call Option to be written by the other Shareholders in favour of FIMBank and the terms of the Put Option to be written by FIMBank in favour of the other shareholders of the Company.

In accordance with the Put and Call Options Agreement the other shareholders and the Company have agreed to grant to FIMBank, for good and valuable consideration, the option and right, but not the obligation to increase its shareholding interest in the Company to 65% of all outstanding shares, through the subscription of newly issued shares (the "Subscription Option"). The Subscription Option shall be exercisable on the third anniversary of the Completion Date, as defined in the Shareholders Agreement, with FIMBank to deliver to the Company an irrevocable written notice of exercise of the Subscription Option no less than three months before expiry. The Aggregate Exercise Price to be paid by FIMBank to the Company for the subscription of the Issued Shares shall be 14% of the net asset book value of the Company reported in the most recently audited financial statements at the date of exercising the option.

Should FIMBank exercise the Subscription Option, FIMBank shall grant to each other Shareholder, for good and valuable consideration, the option and right, but not the obligation to sell to FIMBank no less than all of its shares in the Company (the "Put Option"). The Put Option may be exercised by each of the other Shareholders on the exercise date of the Subscription Option in respect of its respective shareholding interest. The exercise price to be paid by FIMBank to the selling shareholder(s) shall be equal to the net asset book value of the Company in accordance with the most recently audited financial statements at the exercise date of the Put Option, multiplied by the percentage of all the shareholding interest to be transferred.

In addition, the parties have agreed to grant to each other the right but not the obligation to buy all the shares of the Company held by the other parties in the event that either of the parties, as the case may be, fails to take the necessary actions to support any proposal presented by any of them, as applicable, to increase the share capital of the Company (the "Call Option Two"). Call Option Two is valid for an automatically renewable term of ten years.

In the opinion of the Directors, the fair value of the put and call options at the financial reporting date is close to zero.

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

On 28 July 2016, the Group obtained power and control in Egypt Factors by acquiring 50% of its shares and voting interests. As a result, the Group's equity interest in Egypt Factors increased from 50% to 100%. This acquisition forms part of FIMBank's Group strategy to further the ongoing consolidation in entities in which it has a significant but not a controlling interest with a view to achieve better synergy and control over Egypt Factors.

Egypt Factors is a factoring company incorporated and operating in Egypt, with its functional and reporting currency being the US Dollar (USD). The financial year-end of Egypt Factors is 31 December.

The share of results in Egypt Factors for the period 1 January to 31 July 2016 is being accounted for in the Income Statements as "Share of results of associates (net of tax)".

consideration transferred

The consideration for the transfer of shares in Egypt Factors amounts to USD1,359,346. In accordance with the share-purchase agreement, USD800,000 were paid immediately to the seller, with the balance of USD559,346 remaining in escrow (and managed by an appointed Escrow Agent) pending the potential collection by Egypt Factors of selected receivables amounting to USD1,442,345. Upon the collection of such receivables, the said balance of USD559,346 will be released by the Escrow Agent in favour of the seller. Should such receivables not be collected within the stipulated period of two years and two months from acquisition date, the USD559,346, or part thereof, will be returned to the Group. On acquisition date it is expected that such receivables will be collected in full within the stipulated period.

acquisition-related costs

The Group incurred acquisition-related costs of USD10,036 mainly relating to external legal fees. These costs have been included in 'administrative expenses' in the income statements.

identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	USD
Cash Balances	1,689
Loans and advances to banks	5,730,987
Loans and advances to customers	24,387,356
Property and equipment	18,753
Prepayments and accrued income	116,648
Other assets	10,806
Amounts owed to banks	(23,004,894)
Amounts owed to customers	(6,232,109)
Accruals and deferred income	(948,650)
Other liabilities	(78,906)
Current tax payable	(1,680)
Total identifiable net assets acquired	-

fair values

No intangible assets, other than Goodwill as disclosed below, or contingent liabilities have been identified upon the acquisition of the entity.

goodwill

Goodwill arising from the acquisition has been recognised as follows:

	USD
Total consideration transferred	1,359,346
Fair value of previously held interest	771,654
Fair value of identifiable net assets	-
Goodwill (see Note 33)	2,131,000

Goodwill is attributable mainly to growth potential, through synergies between the different Group entities and across the business segments of Trade Finance, Forfaiting and Factoring and to the strong technical expertise, talent and market knowledge of the work force. None of the goodwill recognised is expected to be deductible for tax purposes.

The re-measurement to fair value of the Group's existing 50% interest in Egypt Factors resulted in a gain of USD771,654 (this gain is explained by the fair value of the existing interest of USD771,654 less the carrying amount of equity-accounted investee at the date of acquisition of Nil). This amount is included in "Net fair value gains on previously held investments in associates" in the consolidated income statements (see Note 12).

29.6 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 have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of each entity. Net impairment losses for the year amounted to USD5,037,875 (2015: USD1,506,041). The movements in impairment losses for 2015 and 2016 are as follows:

	Group	
	2016 USD	2015 USD
India Factoring	6,991,139	-
Menafactors	(9,282,969)	-
Brasilfactors	(2,746,045)	-
FactorRus	-	(1,506,041)
Net impairment loss	(5,037,875)	(1,506,041)

India Factoring

At reporting date, an impairment assessment was carried on the carrying amount (at cost) of the investment in India Factoring (through FIMFactors). The assumptions and methodology applied in determining the recoverable amount of this CGU is disclosed in Note 33. As a result of this assessment, a reversal of impairments of USD6,991,139, representing the excess recoverable amount over the net carrying amount of the investment, was recognised (as a credit) in "Net impairment loss on financial assets" in the Bank's Income Statements.

Menafactors

During the financial year ending 31 December 2016, Menafactors sustained losses which brought the Company into a negative equity position. In addition, following a review of the operations and future strategic direction of the business, the Board resolved to curtail the Company's operations with a view to transfer its business to Bank's existing operation in the United Arab Emirates. Following an assessment of the current shortfall in net book value and based on the 1-year projected financial position of the Company, the recoverable amount of the investment was determined to be lower than the carrying amount of USD12,000,000 and an impairment loss of USD9,282,969 has been recognised in "Net impairment loss on financial assets" in the Bank's Income Statements.

30 discontinued operations

During the year ended 31 December 2016, the Group has placed FactorRus LLC into liquidation. The results of the entity up to the date of placement in liquidation, are being presented in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". Following the placement of the Company in liquidation, the Group discontinued the consolidation of the financial position and performance of this subsidiary (See Notes 14 and 29.3).

results of discontinued operation

The following information summarises the results of FactorRus:

	2016 USD	2015 USD
Net interest income	76,116	2,411,627
Net fee income	(736)	(2,878)
Net trading costs	(74)	(223,025)
Operating income before net impairment	75,306	2,185,724
Net impairment profit/(loss) on financial assets	1,770	(2,101,154)
Operating income	77,076	84,570
Operating expenses	(156,812)	(710,145)
Operating loss	(79,736)	(625,575)
Taxation	-	(1,928,803)
Loss for the year	(79,736)	(2,554,378)

No impairment losses are being recognised in "Net impairment loss on financial assets" in the Bank's Income Statements (2015: USD1,506,041) (see Note 29.6).

Earnings per share on discontinued operations are being disclosed in Note 19.

non-current assets held for sale

	Group	
	2016 USD	2015 USD
Loans and advances to banks	-	1,009,896
Other assets	-	17,898
At 31 December	-	1,027,794

liabilities associated with non-current assets held for sale

	Group	
	2016 USD	2015 USD
Other liabilities	-	165,762
At 31 December	-	165,762

31 property and equipment

Group

Cost	Freehold land USD	Freehold premises USD	Computer system USD	Improvement to premises USD	Computer equipment USD	Others USD	Total USD
At 1 January 2015	6,930,240	31,158,613	1,955,011	1,235,556	3,013,646	3,910,726	48,203,792
Other additions	-	76,406	-	2,579	496,845	574,969	1,150,799
Disposals during the year	-	-	-	(9,101)	(11,756)	(148,528)	(169,385)
Effect of movement in exchange rates	-	(28,350)	-	(70,503)	(140,581)	(140,186)	(379,620)
Reclassification to investment property	(848,165)	(3,315,351)	-	-	(4,138)	(21,035)	(4,188,689)
At 31 December 2015	6,082,075	27,891,318	1,955,011	1,158,531	3,354,016	4,175,946	44,616,897
At 1 January 2016	6,082,075	27,891,318	1,955,011	1,158,531	3,354,016	4,175,946	44,616,897
Acquisitions through business combinations	-	-	-	-	163,389	177,007	340,396
Other additions	-	89,344	-	69,642	313,378	153,668	626,032
Disposals during the year	-	(5,011,679)	-	-	(134,455)	(846,955)	(5,993,089)
Effect of movement in exchange rates	-	10,354	-	25,908	4,576	7,022	47,860
Reclassification from investment property	42,183	154,498	-	-	(656)	(1,259)	194,766
At 31 December 2016	6,124,258	23,133,835	1,955,011	1,254,081	3,700,248	3,665,429	39,832,862
Acumulated depreciation							
At 1 January 2015	-	2,695,452	1,712,956	646,811	2,267,828	2,481,271	9,804,318
Charge for the year	-	1,267,463	152,402	91,890	372,841	591,840	2,476,436
Disposals during the year	-	-	-	(5,631)	(10,905)	(92,351)	(108,887)
Effect of movement in exchange rates	-	(3,780)	-	(49,075)	(136,403)	(116,011)	(305,269)
Reclassification to investment property	-	(371,005)	-	-	(3,167)	(10,513)	(384,685)
At 31 December 2015	-	3,588,130	1,865,358	683,995	2,490,194	2,854,236	11,481,913
At 1 January 2016	-	3,588,130	1,865,358	683,995	2,490,194	2,854,236	11,481,913
Accumulated depreciation through business combinations	-	-	-	-	151,316	170,327	321,643
Charge for the year	-	1,203,730	87,568	90,185	385,784	696,729	2,463,996
Disposals during the year	-	(1,153,291)	-	-	(131,795)	(842,958)	(2,128,044)
Effect of movement in exchange rates	-	1,803	-	21,389	4,104	8,972	36,268
Reclassification to investment property	-	(91,321)	-	-	(426)	(3,099)	(94,846)
At 31 December 2016	-	3,549,051	1,952,926	795,569	2,899,177	2,884,207	12,080,930
Carrying amounts							
At 1 January 2015	6,930,240	28,463,161	242,055	588,745	745,818	1,429,455	38,399,474
At 31 December 2015	6,082,075	24,303,188	89,653	474,536	863,822	1,321,710	33,134,984
At 31 December 2016	6,124,258	19,584,784	2,085	458,512	801,071	781,222	27,751,932

Property and equipment include assets hypothecated in favour of third party banks up to USD15,000,000 (2015: Nil).

31 property and equipment - continued

Bank

Cost	Freehold premises USD	Computer system USD	Improvment to leasehold premises USD	Computer equipment USD	Others USD	Total USD
At 1 January 2015	221,708	1,955,011	580,873	1,998,269	2,027,956	6,783,817
Acquisitions during the year	-	-	-	362,144	38,085	400,229
Disposals during the year	-	-	(9,101)	(935)	(129,779)	(139,815)
At 31 December 2015	221,708	1,955,011	571,772	2,359,478	1,936,262	7,044,231
At 1 January 2016	221,708	1,955,011	571,772	2,359,478	1,936,262	7,044,231
Acquisitions during the year	-	-	-	266,305	41,437	307,742
Disposals during the year	(221,708)	-	-	-	(102,670)	(324,378)
At 31 December 2016	-	1,955,011	571,772	2,625,783	1,875,029	7,027,595
Accumulated depreciation						
At 1 January 2015	55,058	1,712,956	147,858	1,433,217	1,368,822	4,717,911
Charge for the year	4,434	152,402	39,762	267,600	193,830	658,028
Disposals during the year	-	-	(5,631)	(156)	(75,022)	(80,809)
At 31 December 2015	59,492	1,865,358	181,989	1,700,661	1,487,630	5,295,130
At 1 January 2016	59,492	1,865,358	181,989	1,700,661	1,487,630	5,295,130
Charge for the year	1,108	87,568	39,612	280,272	177,864	586,424
Disposals during the year	(60,600)	-	-	-	(98,791)	(159,391)
At 31 December 2016	-	1,952,926	221,601	1,980,933	1,566,703	5,722,163
Carrying amounts						
At 1 January 2015	166,650	242,055	433,015	565,052	659,134	2,065,906
At 31 December 2015	162,216	89,653	389,783	658,817	448,632	1,749,101
At 31 December 2016	-	2,085	350,171	644,850	308,326	1,305,432

The Group leases part of its Head Office building to third parties. During 2015, the areas leased out to third parties became more than insignificant in proportion to the whole building and therefore such areas were transferred to Investment Property (see N ote 32).

32 investment property

Group

	2016 USD	2015 USD
Cost		
At 1 January	4,188,689	-
Reclassification (to)/from property, plant and equipment	(194,766)	4,188,689
At 31 December	3,993,923	4,188,689
Accumulated depreciation		
At 1 January	384,685	-
Reclassification from property, plant and equipment	94,846	384,685
At 31 December	479,531	384,685
Carrying amounts		
At 1 January	3,804,004	-
At 31 December	3,514,392	3,804,004

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. At each reporting date, the Group reclassifies from Property and Equipment the cost and depreciation related to the floor area leased to third parties. During 2016 there was a reduction in the total floor area leased to third parties.

At the financial reporting date, the market value of the investment property as per independent architect valuation is USD6,789,474.

33 intangible assets and goodwill

reconciliation of carrying amount

Group

	Goodwill USD	Software licences USD	Other USD	Total USD
Cost				
At 1 January 2015	16,499,854	4,858,116	-	21,357,970
Recognition of intangible assets on acquisition of Latam Factors	(345,028)	-	345,028	-
Acquisitions	-	278,422	-	278,422
Effects of movement in exchange rates	(1,110,043)	(19,792)	-	(1,129,835)
At 31 December 2015	15,044,783	5,116,746	345,028	20,506,557
At 1 January 2016	15,044,783	5,116,746	345,028	20,506,557
Recognition of intangible assets on acquisition of Egypt Factors	-	39,281	-	39,281
Acquisitions	2,131,000	1,719,375	-	3,850,375
Write-offs	(1,242,492)	(200,373)	-	(1,442,865)
Effects of movement in exchange rates	(362,623)	1,037	-	(361,586)
At 31 December 2016	15,570,668	6,676,066	345,028	22,591,762
Accumulated amortisation and impairment losses				
At 1 January 2015	8,910,609	3,282,737	-	12,193,346
Accumulated amortisation through business combinations	-	-	-	-
Charge for the year	-	498,594	-	498,594
Impairment loss	-	-	-	-
Effects of movement in exchange rates	(733,191)	(16,788)	-	(749,979)
At 31 December 2015	8,177,418	3,764,543	-	11,941,961
At 1 January 2016	8,177,418	3,764,543	-	11,941,961
Accumulated amortisation through business combinations	-	39,281	-	39,281
Charge for the year	-	461,942	70,156	532,098
Write-offs	(1,242,492)	(200,373)	-	(1,442,865)
Effects of movement in exchange rates	(182,199)	1,551	-	(180,648)
At 31 December 2016	6,752,727	4,066,944	70,156	10,889,827
Carrying amounts				
At 1 January 2015	7,589,245	1,575,379	-	9,164,624
At 31 December 2015	6,867,365	1,352,203	345,028	8,564,596
At 31 December 2016	8,817,941	2,609,122	274,872	11,701,935

During the financial year ended 31 December 2016 no software research and development was either capitalised or expensed (2015: Nil).

33 intangible assets and goodwill - continued

Bank

	Software licences USD
Cost	
At 1 January 2015	2,424,715
Additions during the year	264,389
At 31 December 2015	2,689,104
At 1 January 2016	2,689,104
Additions during the year	1,672,306
At 31 December 2016	4,361,410
Accumulated amortisation	
At 1 January 2015	1,354,057
Charge for the year	257,020
At 31 December 2015	1,611,077
At 1 January 2016	1,611,077
Charge for the year	282,703
At 31 December 2016	1,893,780
Carrying amounts	
At 1 January 2015	1,070,658
At 31 December 2015	1,078,027
At 31 December 2016	2,467,630

impairment testing for CGUs containing goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs as follows:

	Group 2016 USD	Group 2015 USD
India Factoring		
– cost, net of exchange differences	13,439,668	13,802,291
– accumulated impairment, net of exchange differences	(6,752,727)	(6,934,926)
Egypt Factors		
– cost	2,131,000	-
FactorRus		
– cost, net of exchange differences	-	1,242,492
– accumulated impairment, net of exchange differences	-	(1,242,492)
	8,817,941	6,867,365

33 intangible assets and goodwill - continued

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:

	2016	2015
Pre-tax discount rate	17.51%	16.06%
Terminal value exit multiple	1.75x	1.75x
Budgeted portfolio growth rates (average during projection period)	52.3%	41.4%

The discount rate used is based on the rate (2016: 6.4%, 2015: 7.8%) 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 (2016: 9.1%, 2015: 6.3%) and the systemic risk (2016: 2%, 2015: 2%) 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, 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.

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:

	2016
Pre-tax discount rate	17.00%
Terminal value growth rate	3.00%
Budgeted portfolio growth rates (average during projection period)	51.10%

The discount rate used is based on the rate (2016: 2.2%) of 20-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 (2016: 17.2%) and the systemic risk (2016: 3.0%) 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.

Projections 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 price-to-book of comparable companies, 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.

FactorRus

As further disclosed in Note 29.3, FactorRus was put into liquidation which resulted in the Group losing control over the subsidiary. As a result FactorRus was de-consolidated from the Consolidated Financial Statements and as a result Goodwill and its related impairment were written-off.

34 deferred taxation

34.1 deferred taxation is analysed as follows:

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	(293,967)	(415,500)	(231,752)	(270,372)
- allowances for uncollectibility	18,068,596	23,608,558	7,825,887	13,363,327
- changes in fair value of financial instruments	3,577,628	163,331	3,578,137	163,473
- investment tax credits	238,527	328,489	-	-
- unabsorbed capital allowances	541,982	275,438	541,982	275,438
- unabsorbed tax losses	19,749,921	16,607,931	11,621,205	9,003,427
	41,882,687	40,568,247	23,335,459	22,535,293

Recognition of deferred tax assets is based on the historical levels of profitability which indicate that it is probable that the Group's entities will have future taxable profits against which these assets can be used.

34.2 unrecognised deferred taxation

At the financial reporting date the Bank had unrecognised temporary differences amounting to USD55.3 million (2015: USD50.3 million). In addition, Group subsidiaries had unrecognised and unutilised tax losses and tax credits amounting to USD31.8 million (2015: USD45.6 million) and USD0.6 million (2015: USD0.6 million) respectively.

34.3 movements in temporary differences during the year:

Group	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Effect of movement in exchange rates USD	Closing balance USD
2015					
Excess of capital allowances over depreciation	(472,365)	-	56,865	-	(415,500)
Allowances for uncollectibility	26,284,551	-	(2,214,574)	(461,419)	23,608,558
Changes in fair values of financial instruments	24,776	(204,515)	343,070	-	163,331
Investment tax credits	328,489	-	-	-	328,489
Unabsorbed capital allowances	-	-	275,438	-	275,438
Unabsorbed tax losses	7,746,597	-	9,060,171	(198,837)	16,607,931
	33,912,048	(204,515)	7,520,970	(660,256)	40,568,247
2016					
Excess of capital allowances over depreciation	(415,500)	-	121,533	-	(293,967)
Allowances for uncollectibility	23,608,558	-	(5,279,221)	(260,741)	18,068,596
Changes in fair values of financial instruments	163,331	797,796	2,616,501	-	3,577,628
Investment tax credits	328,489	-	(89,962)	-	238,527
Unabsorbed capital allowances	275,438	-	266,544	-	541,982
Unabsorbed tax losses	16,607,931	-	3,059,115	82,875	19,749,921
	40,568,247	797,796	694,510	(177,866)	41,882,687

Bank	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Closing balance USD
2015				
Excess of capital allowances over depreciation	(328,076)	-	57,704	(270,372)
Allowances for uncollectibility	15,897,951	-	(2,534,624)	13,363,327
Changes in fair values of financial instruments	24,921	(204,517)	343,069	163,473
Unabsorbed capital allowances	-	-	275,438	275,438
Unabsorbed tax losses	-	-	9,003,427	9,003,427
	15,594,796	(204,517)	7,145,014	22,535,293
2016				
Excess of capital allowances over depreciation	(270,372)	-	38,620	(231,752)
Allowances for uncollectibility	13,363,327	-	(5,537,440)	7,825,887
Changes in fair values of financial instruments	163,473	797,796	2,616,868	3,578,137
Unabsorbed capital allowances	275,438	-	266,544	541,982
Unabsorbed tax losses	9,003,427	-	2,617,778	11,621,205
	22,535,293	797,796	2,370	23,335,459

35 other assets

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Operational debtors and other recoverable amounts	3,601,769	2,876,503	2,147,387	1,399,890
Indirect taxation	661,705	373,732	466,526	452,710
	4,263,474	3,250,235	2,613,913	1,852,600

Other assets include an amount of USD1,189,929 (2015: USD603,110) pledged in favour of the Depositor Compensation Scheme.

36 prepayments and accrued income

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Accrued income	4,737,254	2,540,231	4,784,857	2,609,000
Prepayments	2,294,644	2,099,535	1,363,712	1,384,887
	7,031,898	4,639,766	6,148,569	3,993,887

37 amounts owed to banks

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Term loans and deposits	357,019,637	566,732,455	254,217,863	502,069,275
Repayable on demand	171,919,614	163,208,702	171,919,614	163,208,701
	528,939,251	729,941,157	426,137,477	665,277,976

Included in term loans and deposits are facilities of USD50,000,000 (2015: USD210,000,000) due to a bank holding a significant shareholding in the Group. As at December 2016, there are no amounts secured by equity shares classified as available-for-sale (2015: USD110,000,000). No funds are due to the Parent company as at December 2016 (2015: USD30,000,000). As at December 2016, no deposits were placed with the Group by any subsidiary of the shareholder having a significant influence in the Group (2015: USD10,000,000). All such loans and deposits are priced on an arm's length basis.

The Group and Bank includes balances amounting to USD105,199,552 (2015: USD108,553,613) 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 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Term deposits	693,930,217	196,614,352	672,055,672	186,597,248
Repayable on demand	254,780,327	225,462,951	240,269,523	218,588,789
	948,710,544	422,077,303	912,325,195	405,186,037
Amounts owed to subsidiaries	-	-	3,042,409	425,467
	948,710,544	422,077,303	915,367,604	405,611,504

The Group has deposits amounting to USD24,012,392 (2015: USD35,708,189) held as collateral for irrevocable commitments. Pledges are generally conducted under terms that are usual and customary for standard borrowing contracts.

Amounts owed to subsidiaries include facilities that are interest-free, unsecured and repayable on demand.

39 debt securities in issue

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Unsecured promissory notes	8,225,869	45,646,755	-	20,000,000
	8,225,869	45,646,755	-	20,000,000

At 31 December 2016, promissory notes in issue have a tenor of up to one year. The Group's effective interest rate ranges between 1.25% and 2.90% (2015: 1.70% and 2.38%) and the Bank's effective interest rate is nil (2015: 1.20%).

40 subordinated liabilities

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Subordinated loan	50,000,000	50,000,000	50,000,000	50,000,000
	50,000,000	50,000,000	50,000,000	50,000,000

The subordinated loan was granted by a bank holding a significant shareholding in the Group. The loan has a floating rate of interest, is priced in an arm's length basis and has a contractual maturity of five years. In the event of the Bank's liquidation, dissolution or winding up this loan will rank after the Bank's unsubordinated, secured and unsecured creditors. This loan qualifies as Tier 2 capital under the provisions of the Capital Requirements Regulation (see Note 4.6).

41 accruals and deferred income

	Group 2016 USD	Group 2015 USD	Bank 2016 USD	Bank 2015 USD
Accrued interest	5,861,970	4,725,806	5,400,979	4,320,274
Other accruals	15,055,798	15,376,105	2,021,383	3,053,720
	20,917,768	20,101,911	7,422,362	7,373,994

Accrued interest includes an amount of USD884,919 (2015: USD1,325,517) payable to a Bank holding a significant investment in the Group and Nil (2015: USD29,296) payable to the Parent company (see Note 51).

42 equity

42.1 share capital

	2016 Shares of 50 US cents Shares	2016 Shares of 50 US cents USD	2015 Shares of 50 US cents Shares	2015 Shares of 50 US cents 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	310,478,525	155,239,263	298,536,643	149,268,322

	Ordinary Shares 2016 No. of Shares	Ordinary Shares 2015 No. of Shares
On issue at 1 January	298,536,643	271,396,591
Bonus issue of shares	11,941,882	27,140,052
On issue at 31 December	310,478,525	298,536,643

bonus issue

In May 2016, the Annual General Meeting approved a 1 for 25 Bonus issue of shares through the capitalisation of the share premium reserve.

42.2 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.

42.3 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.

42.4 currency translation reserve

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

42 equity - continued

42.5 fair value reserve

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

42.6 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.

42.7 dividends

No dividends were declared or paid during the year (2015: Nil). The Board of Directors is not recommending the payment of a dividend for the financial year ended 31 December 2016 (2015: Nil).

42.8 availability of reserves for distribution

At 31 December 2016, the Bank had accumulated losses of USD36,040,473 (2015: USD36,616,090).

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 2016

	India Factoring	Latam Factors	Total
Acquisition date	31 March 2014	1 October 2014	
NCI percentage	14%	49%	
	USD	USD	USD
Total assets	81,433,311	51,577,265	
Total liabilities	(48,103,991)	(21,419,165)	
Net assets	33,329,320	30,158,100	
Carrying amount of NCI	(1,800,681)	25,074,766	23,274,085
Profit for the year	2,108,869	97,379	
Profit allocated to NCI	295,912	47,716	343,628
Net decrease in cash and cash equivalents	(17,864,454)	(329,341)	

31 December 2015

	India Factoring	Latam Factors	Total
Acquisition date	31 March 2014	1 October 2014	
NCI percentage	15%	49%	
	USD	USD	USD
Total assets	53,697,103	35,002,714	
Total liabilities	(26,621,011)	(2,236,371)	
Net assets	27,076,092	32,766,343	
Carrying amount of NCI	(2,167,448)	28,004,507	25,837,059
(Loss/profit) for the year	(3,343,885)	243,634	
(Loss/profit) allocated to NCI	(508,270)	119,385	(388,885)*
Net increase/(decrease) in cash and cash equivalents	10,207	(409,373)	

(*) During 2015, the Group acquired the remaining 20% shareholding in CIS Factors, reducing the share of non-controlling interests to NIL (2014: 20%). The allocation of loss to NCI up to acquisition date was USD353,250.

44 contingent liabilities

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Guarantee obligations incurred on behalf of third parties	6,507,529	10,422,946	19,782,148	37,002,036

Guarantees issued to subsidiaries amount to USD17,211,375 (2015: USD27,590,957).

45 commitments

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Commitments to purchase assets:				
Undrawn credit facilities	74,532,067	35,512,227	53,964,313	35,512,227
Confirmed letters of credit	29,125,426	84,232,796	45,893,638	73,914,393
Documentary credits	15,268,323	3,926,055	15,268,323	3,926,055
Risk participations	5,000,000	3,735,602	5,000,000	3,735,602
Factoring commitments	156,142	34,643	156,142	34,643
Commitment to purchase assets	61,458,936	22,517,580	-	-
Credit default swaps	2,500,000	-	-	-
Commitments to sell assets:				
Commitment to sell assets	(2,010,000)	-	-	-
	186,030,894	149,958,903	120,282,416	117,122,920

The Bank has total sanctioned limits to customers amounting to USD1,709,932,236 (2015: USD1,484,952,022). In addition, as at the financial reporting date the bank had open back-to-back documentary credits amounting to USD2,431,000 (2015: USD701,212).

Subsidiary companies have confirmed USD20,306,754 (2015: USD9,850,900) of Documentary Credits in favour of the Bank.

46 cash and cash equivalents

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

	Group		Bank	
	2016 USD	2015 USD	2016 USD	2015 USD
Balances with the Central Bank of Malta, Treasury Bills and cash	33,193,245	77,432,606	33,165,601	77,413,470
Loans and advances to banks	221,531,111	115,988,844	211,508,458	100,730,186
Amounts owed to banks	(201,902,012)	(235,529,924)	(200,997,593)	(275,529,929)
Cash and cash equivalents at end of year	52,822,344	(42,108,474)	43,676,466	(97,386,273)
Adjustment to reflect balances with contractual maturity of more than three months	(94,206,126)	(387,210,515)	2,150,899	(278,354,649)
Per statements of financial position	(41,383,780)	(429,318,994)	45,827,365	(375,740,922)
Analysed as follows:				
Balances with the Central Bank of Malta, Treasury Bills and cash	33,193,245	77,432,606	33,165,601	77,413,470
Loans and advances to banks	454,362,226	223,189,558	438,799,241	212,123,584
Amounts owed to banks	(528,939,251)	(729,941,158)	(426,137,477)	(665,277,976)
	(41,383,780)	(429,318,994)	45,827,365	(375,740,922)

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	
	2016 USD	2015 USD	2016 USD	2015 USD
Less than one year	985,220	1,077,982	834,899	618,623
Between one and five years	878,322	1,768,774	32,685	53,990
More than 5 years	-	-	-	-

48 related parties

48.1 identity of related parties

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

48.2 parent, shareholder having significant influence and other related companies

The aggregate values of transactions and outstanding balances related to the parent, shareholder having significant influence and other related companies were as follows:

	Note	Parent 2016 USD	Parent 2015 USD	Shareholder having significant influence 2016 USD	Shareholder having significant influence 2015 USD	Subsidiary of Shareholder having significant influence 2016 USD	Subsidiary of Shareholder having significant influence 2015 USD	Other related companies 2016 USD	Other related companies 2015 USD
Assets:									
Derivative assets held for risk management	22	-	-	328,206	-	-	-	-	-
Loans and advances to banks	24	26,315,789	-	4,390	-	-	-	-	-
Investments held-to-maturity	27	-	7,476,940	-	-	-	-	-	-
Other assets	35	-	-	326	8,824	-	-	-	-
Prepayments and accrued income	36	1,462	-	-	-	-	-	-	-
Liabilities:									
Derivative liabilities held for risk management	22	-	-	7,786,413	-	-	-	-	-
Amounts owed to banks	37	-	-	50,000,000	-	-	-	-	-
Subordinated liabilities	40	-	-	50,000,000	-	-	-	-	-
Accruals and deferred income	41	-	-	884,919	-	-	-	-	-
Income Statement:									
Interest income	8	621,539	596,360	74,467	1,657	-	-	-	-
Interest expense	8	(155,978)	(366,899)	(4,480,234)	(3,960,818)	(57,090)	(37,222)	-	-
Fee and commission expense	9	-	-	(297)	-	-	-	-	-
Net gain from other financial instruments carried at fair value	11	-	-	(12,528,963)	-	-	-	-	-
Administrative expenses - board travelling expenses	17	-	(30,829)	-	(4,323)	-	-	-	-
Administrative expenses - consultancy fees	17	-	-	-	-	-	-	-	(4,209)

48.3 transactions with key management personnel

	Note	Directors 2016 USD	Directors 2015 USD	Executive Officers 2016 USD	Executive Officers 2015 USD
Assets:					
Loans and advances to customers	25	-	-	26,377	197,715
Prepayments and accrued income	36	-	-	110	132
Liabilities:					
Amounts owed to customers	38	397,279	315,737	112,391	481,952
Accruals and deferred income	41	2,229	-	377	-
Contingent liabilities	44	-	20,000	-	2,545
Income Statement:					
Interest income	8	-	-	540	1,145
Interest expense	8	(7,159)	(7,624)	(5,327)	(13,788)
Fee and commission income	9	20	-	30	-
Fee and commission expense	9	-	-	(22)	-
Administrative expenses - remuneration	17	(305,874)	(277,907)	(4,096,172)	(2,928,370)
Administrative expenses - consultancy fees	17	-	-	-	(245,378)
Administrative expenses - board travelling expenses	17	(15,818)	(47,060)	-	-
Unexercised share options		-	-	78,525	234,440

Directors of the Group control less than 1 per cent of the voting shares of the Bank and the Group respectively (2015: less than 1 per cent).

48.4 other related party transactions

	Note	Other related parties 2016 USD	Other related parties 2015 USD
Assets:			
Prepayments and accrued income*	36	88	-
Liabilities:			
Amounts owed to customers**	38	268,421	-
Accruals and deferred income**	41	1,789	-
Income Statement:			
Interest expense**	8	(6,659)	-
Fee and commission income*	9	3,694	-

* Relates to a company holding shares in a subsidiary of the Group.
**Relates to family members of Directors of the Group.

48.5 related party balances

Information on amounts due to/by subsidiary companies and associated companies are reported in Notes 25, 28, 29, 38, 44 and 45 of these finacial statements.

49 financial commitments

For 2017, the Board approved capital injections of up to USD15 million to provide additional support to existing factoring investments by way of additional capital.

50 capital commitments

At financial reporting date the Group did not have any outstanding capital commitments (2015: Nil).

51 ultimate parent company

The ultimate parent company of FIMBank p.l.c. is by Kuwait Projects Company (Holding) K.S.C.P. ("KIPCO") a company registered in Kuwait, and the immediate parent company is United Gulf Bank B.S.C. ("UGB"), a credit institution licensed and supervised by the Central Bank of Bahrain. The registered address of KIPCO is KIPCO Tower, Khalid Bin Al Waleed Street, Sharq, Kuwait City and the registered address of UGB is UGB Tower, Manama, Kingdom of Bahrain.

52 comparative information

Certain comparative amounts have been reclassified or re-represented as a result of a 2016 Bonus Issue of shares having an impact on the prior year Earnings per Share (see Note 19).

statement by the directors pursuant to listing rule 5.68

For the year ended 31 December 2016

We, the undersigned, declare that to the best of our knowledge, the financial statements set out on pages 28 to 123 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 14 March 2017 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 Bank is the parent, which comprise the statements of financial position as at 31 December 2016, the income statements and 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:

i. give a true and fair view of the financial position of the Bank and the Group as at 31 December 2016, 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

ii. have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Banking Act, 1994 (Chapter 371, Laws of Malta) (and, as regards the financial statements of the Group, Article 4 of the 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. We are independent of the Company 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 of our opinion.

emphasis of matter

We draw attention to Notes 29 and 33 to the financial statements (the 'Notes'). At 31 December 2016, the Bank carried out an impairment assessment by calculating the recoverable amount of its investments in its subsidiary undertakings (and the related goodwill arising on the acquisition of India Factoring and Finance Solutions Private Limited and The Egyptian Company for Factoring S.A.E. reported in the Group's consolidated financial statements) to determine whether those amounts are at least equal to the carrying amounts at which such assets are stated. One of the principal assumptions underlying the models used to calculate the recoverable amount relating to the equity held in India Factoring and Finance Solutions Private Limited and The Egyptian Company for Factoring S.A.E. is the attainment of the approved set of budgets used as a basis to arrive at the recoverable amounts of the respective investment in these subsidiaries and the goodwill recognised on their initial accounting as a business combination. The Notes explain that actual results may differ from those projected (used to determine recoverable amounts) and that such variations may be material. Our opinion is not modified in respect of this matter.

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. 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.

independent auditors' report

to the shareholders of FIMBank p.l.c.

key audit matters - continued

unquoted assets measured at fair value

[See accounting policy note 3.10.6 to the financial statements and notes 5, 21 and 26 for further disclosures]

The Key Audit Matter	How the Matter was Addressed in our Audit
The Bank holds investments in available-for-sale assets by way of shares in a sub-fund of a local unlisted collective investment scheme ('the Fund') which in turn holds assets the valuation of which involve significant judgement and is constrained by the availability of limited observable market data. In addition, the Group, through its subsidiary London Forfaiting Company Limited, has exposure to forfaiting financial assets that are traded in the secondary market and accordingly valued by reference to conventional models or prices of similar transactions. The assets in the above two mentioned financial statements captions include purchased loans, promissory Notes, structured commodity financing, bills of exchange, letters of credit and other financial facilities. The measurement of such assets require the use of significant estimation and judgment.	KPMG discussed with management the methodology used to value forfaiting assets as well as the underlying assets of the fund. We obtained details of all assets as of 31 December 2016 and assessed the internal consistency of the fair valuation models provided by the client. In the case of the fund, KPMG also reviewed a limited scope report prepared by the external auditor of the fund on the portfolio. KPMG performed an independent check on the observable inputs used to measure the assets and obtained explanation for significant fair value movements from prior periods or from loan origination date. Based on our understanding of the market risk and country risk, we assessed the reasonableness of management valuation of distressed forfaiting assets. For the underlying assets of the Fund, KPMG performed further procedures on the credit worthiness of the counterparty and discussed with FIMBank management specific exposures.

Key Observation

Our discussion with the Audit Committee focused on the work carried out by the audit team on the observable inputs used by management in measuring the assets at fair value. The discussion focused on the importance of the continued monitoring of these investments in view of the fact that the fair value of illiquid trading assets is inherently subjective.

impairment of loans and advances

[See accounting policy note 3.10.7 to the financial statements and notes 2, 4, 5, 24 and 25 for further disclosures]

The Key Audit Matter	How the Matter was Addressed in our Audit
The Group may lend to banks and customers who will be unable to meet their obligations when these fall due. Over the years, this risk has increased in view of the turmoil in the financial markets which has impacted the industry as a whole.	We have tested a number of controls around the authorisation and monitoring of facilities granted, exposures and customer limits. Our substantive testing concentrated on the following: • Facilities which have been discussed as being problematic by the Board Risk Committee or the Credit Committee, taking into account the Bank's risk function follow up on 2016 over-dues and watch list; and

independent auditors' report

to the shareholders of FIMBank p.l.c.

key audit matters - continued

impairment of loans and advances (continued)

[See accounting policy note 3.10.7 to the financial statements and notes 2, 4, 5, 24 and 25 for further disclosures]

The Key Audit Matter	How the Matter was Addressed in our Audit
Due to the complexity involved in assessing customers' creditworthiness, significant judgment is involved in determining impairment allowances and the extent to which outstanding loans and advances would be recoverable. There is a risk that impairment allowances may be understated or overstated if this assessment is not conducted in the proper way. Impairment allowances represent management's best estimate of the losses incurred within the portfolios of loans and advances of the Group components at the balance sheet date. They are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for significant loans.	• Facilities related to new Real Estate lending, which present different risks than those ordinarily faced by the Bank with trade finance or factoring business. In this respect, we performed detailed credit reviews focusing on the borrowers' ability to repay out of the normal operations, the performance/history of the account, the quality of the collateral held and receipts after the financial reporting date. On the remaining population we have checked the credit status of borrowers where this was available, reviewed adherence with repayment programmes and searched for news that may represent impairment triggers.

Key Observation

We have considered the work being carried out by management in determining the impairment required as at reporting date, with particular emphasis on the impairment policies and practices applied which are consistent with the requirements of IFRS as adopted by the EU. The modelling being used to calculate impairment allowance is non-complex but the individual inputs can have a significant bearing on the impairment charge.

Our key observation related to the importance of having regular monitoring of the individual inputs being used in determining the need for specific impairment allowances, particularly in the case of scenarios where inputs are volatile due to new information being received with the progress of time.

valuation of recognised deferred tax assets

[See accounting policy note 3.9 to the financial statements and note 34 for further disclosures]

The Key Audit Matter	How the Matter was Addressed in our Audit
FIMBank has deferred tax assets of USD23.3 million (Group: USD41.9 million) as at 31 December 2016. These assets have arisen because of past losses, deductible temporary differences relating to impairment and other net deductible temporary differences. An assessment is required as to whether sufficient future taxable profits are likely to be generated to enable the assets to be realised. The estimation of future taxable profits is inherently judgemental, particularly when this extends beyond the normal planning cycle. There is the risk that the valuation of deferred tax is misstated due to the FIMBank's negative results during the past 3 years.	The calculations of current and deferred tax assets and liabilities were checked in terms of enacted or substantively enacted law to ensure that tax rules were properly applied. Particular attention was paid to ensure the accurate determination of taxable and deductible temporary differences as well as the carry forward of unavailed of tax losses. Supporting calculations were tested to check that the valuation of the asset is appropriately based on the temporary differences identified and the tax rates applied.

KPMG

independent auditors' report

to the shareholders of FIMBank p.l.c.

key audit matters - continued

valuation of recognised deferred tax assets (continued)

[See accounting policy note 3.9 to the financial statements and Note 34 for further disclosures]

The Key Audit Matter	How the Matter was Addressed in our Audit
	The basis for management's assessment of recoverability including the profit projections and underlying assumptions and the calculations performed to arrive at taxable profits from these projections, was challenged using our knowledge of the business, future strategy and past performance. The appropriateness and validity of tax planning strategies relied upon to support recognition, where relevant, was assessed.

Key Observation

The deferred tax asset was discussed in the light of the performance attained against the forecasts being used to support the recognition of this asset. In particular, these related to the Bank and the India subsidiary. In recognising this deferred tax asset, management is considering improved performance by individual components based on the results achieved during the current reporting period and the forecasts drawn up and approved by management. We have discussed with the Audit Committee the recognition of deferred tax income and the judgment involved in arriving at the availability of future taxable profits against which tax losses can be used, in particular the support being assumed to be received from the immediate parent company in order to be in a position to achieve the forecasted results.

carrying value of goodwill at consolidation level and investment in subsidiaries at bank level

[See accounting policy notes 3.1.1 and 3.1.2 to the financial statements and notes 29 and 33 for further disclosures]

The Key Audit Matter	How the Matter was Addressed in our Audit
Goodwill of USD8.8 million has arisen from the past acquisition of controlling interest in India Factoring and Finance Solutions Private Limited and another element relating to the acquisition of the remaining interest in The Egyptian Company for Factoring S.A.E. during the year. An assessment is required annually to establish whether this goodwill should continue to be recognised, or if any impairment is required. The assessment was performed for each component within the Group for which goodwill is allocated and which is referred to as a cash generating unit ('CGU'). The impairment assessment relied on the calculation of a value-in use for each of the CGUs. This calculation was based on estimated future cash flows / excess returns for each CGU discounted at an appropriate cost of equity rate.	KPMG's independent valuation experts critically assessed the discount rate and terminal growth rates used in the discounted cash flow / excess return models. The calculations used in the model were re-performed to check accuracy and the key inputs in the model were compared to approved sources. Management's projections used in the model were assessed by: • assessing the projections against the 2015 Long Range Plan (where applicable); • considering current year performance against plan and the reasons for any deviation. This was discussed with the respective management of the component and the Bank; and • reviewing the historical achievement of the Long Range Plan. Given the uncertainties in forecasting, this identified that forecasts have been less accurate for prior periods, and we considered if this was appropriately factored into the model used.

KPMG

independent auditors' report

to the shareholders of FIMBank p.l.c.

key audit matters - continued

carrying value of goodwill at consolidation level and investment in subsidiaries at bank level (continued)

[See accounting policy notes 3.1.1 and 3.1.2 to the financial statements and notes 29 and 33 for further disclosures]

The Key Audit Matter	How the Matter was Addressed in our Audit
The Group used its Long Range Plan as the basis for the first 5 years of cash flows in the case of matured business models and then extrapolated returns into perpetuity using a terminal growth factor. Cost of equity discount rates were based on the investment rates used within the Group and approved by the Board of Directors. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement. At Bank level, investments in a number of subsidiaries and associates are carried at cost less impairment losses. The investments being carried at the level of the Bank may not be supported through the results of the underlying. The same process is used to assess impairment of the carrying amount of the investment in subsidiaries at separate financial statements level. The extent of judgement and the size of the goodwill and/ or impairment of subsidiary, resulted in this matter being identified as an area of audit focus.	• performing independent sensitivity analysis, making adjustments to a number of modelled assumptions simultaneously to identify any further CGUs with a risk of impairment. The appropriateness of disclosures made in relation to goodwill was also reviewed and in this respect, an emphasis of matter paragraph has been included in this report.

Key Observation

The recoverable amount arrived at by management is dependent on a number of judgments, the most significant of which being those where the result was close to the carrying value of the CGU which means that slight adjustments to the inputs being used by management could result in critical fluctuations to the recoverable amount.

Reasonably possible alternative assumptions were considered in order to determine whether both the India and Egypt CGUs were sensitive to a change in the recoverable amount.

The discussion with the Audit Committee focused on the key assumptions used, both individually and when combined together. Our discussion centered around the significant disclosure included by management in order to clearly outline the key assumptions being used and the fact that, as disclosed in Note 33, a change in these assumptions could result in a significant change to the recoverable amount.

other information

The directors are responsible for the other information. The other information comprises (i) the Chairman's Statement to the Shareholders, (ii) FIMBank Group Performance 2016, (iii) Directors' Report, (iv) Statement of Compliance with the Principles of Good Corporate Governance, (v) Remuneration Report, (vi) Directors' Responsibility for the Financial Statements, (vii) Statement by the Directors Pursuant to Listing Rule 5.68 and (viii) 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 and the Directors' Statement of Compliance with the Principles of Good Corporate Governance, we do not express any form of assurance conclusion thereon.

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independent auditors' report

to the shareholders of FIMBank p.l.c.

other information - continued

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 those charged with governance 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, 1994 (Chapter 371, Laws of Malta) (and, as regards the financial statements of the Group, Article 4 of the Regulation on the application of IFRS as adopted by the EU), and for such internal control as the directors 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 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 Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process.

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.

- 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 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 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 Group to cease to continue as a going concern.

KPMG

independent auditors' report

to the shareholders of FIMBank p.l.c.

auditors' responsibilities for the audit of the financial statements - continued

- 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 consolidated financial statements. 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 directors 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 those charged with governance, 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.

2. report on other legal and regulatory requirements

auditors' opinion on the directors' report

The directors of the Bank 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 Group is a going concern with supporting assumptions or qualifications as necessary, as required by Listing Rule 5.62 issued by the Listing Authority of 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.

In accordance with Article 179(3) of the Act, we are also required to:

a. express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements;

b. state whether, in the light of the knowledge and understanding of the Group 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; and

c. 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.

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

In accordance with Article 31(3) of the Banking Act, 1994 (Chapter 371, Laws of Malta), in our opinion:

a. 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;

b. proper books of account have been kept by the Bank so far as appears from our examination thereof;

c. the Bank's financial statements are in agreement with the books of account; and

d. 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.

Furthermore, we have nothing to report in respect of matters (a), (b) and (c) above, where the Act requires us to report to you by exception.

report required by listing rule 5.98 issued by the listing authority in Malta on the directors' statement of compliance with the code of principles of good corporate governance (the "principles") outlined in Appendix 5.1 to Chapter 5 (continuing obligations) of the listing rules (the "appendix")

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

Our responsibility is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles included in the Group's Annual Report.

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

In our opinion, the Directors' Statement of Compliance provides the disclosures required by Listing Rules 5.94 and 5.97 issued by the Listing Authority of Malta.

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

KPMG
Registered Auditors
Portico Building
Marina Street
Pietà, PTA 9044
Malta

14 March 2017

schedule I

income statement

Five Year Summary

Bank

	2016 USD	2015 USD	2014 USD	2013 USD	2012 USD
Interest income	24,663,531	25,024,359	28,392,379	25,308,593	21,815,348
Interest expense	(16,542,171)	(13,069,821)	(13,742,561)	(18,318,032)	(16,288,411)
Net interest income	8,121,360	11,954,538	14,649,818	6,990,561	5,526,937
Fee and commission income	10,021,804	11,657,912	15,617,702	16,004,841	15,543,409
Fee and commission expense	(2,009,569)	(2,515,148)	(2,022,658)	(1,339,461)	(1,304,577)
Net fee and commission income	8,012,235	9,142,764	13,595,044	14,665,380	14,238,832
Net trading results	2,310,309	2,559,817	3,424,789	1,992,071	3,885,844
Dividend income	5,455,550	3,324,960	1,523,364	691	699
Other operating income	407,520	5,201	27,441	25,591	5,290
Operating income before net impairment losses	24,306,974	26,987,280	33,220,456	23,674,294	23,657,602
Net impairment loss/reversal on financial assets	(2,311,574)	(11,093,560)	(63,921,856)	(6,709,515)	(1,690,609)
Operating income	21,995,400	15,893,720	(30,701,400)	16,964,779	21,966,993
Administrative expenses	(20,727,352)	(28,012,370)	(25,114,822)	(20,552,916)	(19,730,475)
Depreciation and amortisation	(869,126)	(915,049)	(880,693)	(741,316)	(666,464)
Provision	-	-	-	(676,921)	-
Total operating expenses	(21,596,478)	(28,927,419)	(25,995,515)	(21,971,153)	(20,396,939)
Profit/(loss) before tax	398,922	(13,033,699)	(56,696,915)	(5,006,374)	1,570,054
Taxation	(58,539)	7,112,303	6,458,782	2,175,605	(41,902)
Profit/(loss) for the year	340,383	(5,921,396)	(50,238,133)	(2,830,769)	1,528,152

schedule II

statement of financial position

Five Year Summary

Bank

	2016 USD	2015 USD	2014 USD	2013 USD	2012 USD
ASSETS					
Balances with the Central Bank of Malta, Treasury Bills and cash	33,165,601	77,413,470	7,804,628	69,680,966	20,818,657
Financial assets at fair value through profit or loss	19,302,604	18,883,952	20,570,036	18,583,480	56,528,905
Loans and advances to banks	438,799,241	212,123,584	423,146,523	328,578,318	392,215,931
Loans and advances to customers	589,579,473	567,176,993	635,248,176	593,801,221	476,424,777
Investments available-for-sale	327,075,827	274,048,615	30,103,691	26,475,502	92,040
Investments held-to-maturity	-	7,476,940	7,116,353	6,783,621	-
Investments in associates	-	305,641	6,013,425	6,013,425	6,013,425
Investments in subsidiaries	86,305,594	84,678,486	61,278,380	79,234,301	78,234,301
Property and equipment	1,305,432	1,749,101	2,065,906	2,070,762	2,180,246
Intangible assets	2,467,630	1,078,027	1,070,658	715,513	622,001
Current tax assets	1,052,348	-	-	2,064,316	1,416,224
Deferred tax	23,335,459	22,535,293	15,594,796	6,494,506	4,456,996
Other assets	2,613,913	1,852,600	2,297,271	3,984,761	2,581,299
Prepayments and accrued income	6,148,570	3,993,887	3,752,521	2,635,135	1,405,124
Total assets	1,531,151,692	1,273,316,589	1,216,062,364	1,147,115,827	1,042,989,926
LIABILITIES AND EQUITY					
Liabilities					
Financial liabilities at fair value through profit or loss	8,834,092	921,237	1,606,718	506,477	791,622
Amounts owed to banks	426,137,477	665,277,976	580,466,522	593,551,588	412,808,494
Amounts owed to customers	915,367,604	405,611,504	496,006,520	414,846,277	427,387,411
Debt securities in issue	-	20,000,000	-	-	43,141,189
Subordinated liabilities	50,000,000	50,000,000	-	-	40,122,813
Provisions	-	-	-	-	1,733,104
Current tax liabilities	-	-	1,456,521	-	-
Other liabilities	535,339	135,830	2,398,694	368,015	409,346
Accruals and deferred income	7,422,362	7,373,994	4,589,759	5,039,952	5,858,275
	1,408,296,874	1,149,320,541	1,086,524,734	1,014,312,309	932,252,254
Equity					
Share capital	155,239,263	149,268,322	135,698,296	89,599,085	71,471,801
Share premium	2,101,335	8,072,276	21,642,302	19,820,564	8,028,945
Reserve for general banking risks	764,792	1,000,027	415,293	80,893	-
Fair value reserve	(1,891,140)	(409,528)	(789,342)	159,362	(97,470)
Other reserve	2,681,041	2,681,041	2,681,041	2,681,041	2,681,041
Retained earnings/(accumulated losses)	(36,040,473)	(36,616,090)	(30,109,960)	20,462,573	28,653,355
	122,854,818	123,996,048	129,537,630	132,803,518	110,737,672
Total liabilities and equity	1,531,515,692	1,273,316,589	1,216,062,364	1,147,115,827	1,042,989,926
MEMORANDUM ITEMS					
Contingent liabilities	19,782,148	37,002,036	31,805,224	61,549,236	82,152,480
Commitments	120,282,416	117,122,920	157,125,360	237,393,657	173,120,939

schedule III

cash flow statement

Five Year Summary

Bank

	2016 USD	2015 USD	2014 USD	2013 USD	2012 USD
Net cash flows from/(used in) operating activities	211,100,534	(145,013,306)	105,650,593	(49,159,379)	79,368,658
Cash flows from investing activities					
Payments to acquire property and equipment	(307,742)	(400,228)	(656,961)	(434,749)	(776,241)
Payments to acquire intangible assets	(1,672,306)	(264,389)	(585,213)	(292,256)	(176,797)
Proceeds on disposal of property and equipment	550,255	47,281	19,404	7,244	6,806
Payments to acquire shares in subsidiary company	(6,359,342)	(24,906,146)	(21,065,318)	(1,000,000)	(4,752,941)
Payments to acquire shares in associate undertaking	-	(1,504,875)	-	-	(2,800,000)
Payments to acquire shares in other investments	(25,317,000)	-	-	-	-
Payments to acquire available-for-sale financial assets	(30,187,210)	(110,000,000)	(5,237,791)	(25,988,335)	-
Proceeds from maturity of investments held-to-maturity	7,800,000	-	-	-	-
Receipt of dividend	5,455,550	3,324,960	1,523,364	691	699
Cash flows (used in)/generated from investing activities	(50,037,795)	(133,703,397)	(26,002,515)	(27,707,405)	(8,498,474)
Cash flows from financing activities					
Share issue costs	-	-	47,920,950	29,918,903	-
Net movement in debt securities	(20,000,000)	20,000,000	-	(44,263,812)	-
Repayment of subordinated debt	-	50,000,000	-	(42,224,862)	(1,714,285)
Dividends paid	-	-	-	(5,279,120)	(2,029,838)
Net cash flows from/(used in) financing activities	(20,000,000)	70,000,000	47,920,950	(61,848,891)	(3,744,123)
Increase/(decrease) in cash and cash equivalents	141,062,739	(208,716,703)	127,569,028	(138,715,675)	67,126,061
Cash and cash equivalents at beginning of year	(97,386,273)	111,330,430	(16,238,598)	122,477,077	55,351,016
Cash and cash equivalents at end of year	43,676,466	(97,386,273)	111,330,430	(16,238,598)	122,477,077

schedule IV

accounting ratios

Five Year Summary

Bank

	2016 %	2015 %	2014 %	2013 %	2012 %
Net interest income and other operating income to total assets	1.72	2.32	2.90	2.47	2.39
Operating expenses to total assets	1.41	2.27	2.14	2.17	1.96
Profit/(loss) before tax to total assets	0.03	(1.02)	(4.66)	(0.49)	0.15
Pre-tax return on capital employed	0.32	(10.51)	(43.77)	(3.77)	1.42
Profit/(loss) after tax to equity	0.28	(4.78)	(38.78)	(2.13)	1.38

	2016	2015	2014	2013	2012
Weighted average number of shares in issue (000's)	306,204	301,003	265,671	215,304	199,471
Net assets per share (US cents)*	40.12	41.19	48.76	61.68	55.52
Basic earnings per share (US cents)*					
Basic	0.11	(1.97)	(18.91)	(1.31)	0.77
Diluted	0.11	(1.97)	(18.91)	(1.31)	0.77

* Ratios for 2012 to 2015 have been restated to reflect the number of shares in issue as a result of the 2014, 2015 and 2016 bonus issue of shares.

schedule V

additional regulatory disclosures (pillar 3)

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

For the year ended 31 December 2016

1. introduction

1.1 background

This document comprises the Pillar 3 Regulatory Disclosures required by BR/07 as at 31 December 2016 for FIMBank p.l.c. (the "Bank") and its subsidiary undertakings (the "Group").

These Regulatory 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") and of "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" and of "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", and of the "European Banking Authority Guidelines on Disclosure of Encumbered and Unencumbered Assets EBA/GL/2014/03" ("EBA Guidelines", or "Guidelines") and of "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."

1.2 basis and frequency of disclosures

These disclosures are based on 31 December 2016 year-end data and are updated on an annual basis.

1.3 publication and verification

The Pillar 3 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 (IFRS) financial statements. Nonetheless, these disclosures have been internally reviewed by the Group as well as independently reviewed by KPMG so as to ensure their proper preparation and presentation. The Pillar 3 disclosures have been approved by the Bank's Audit Committee and the Board of Directors (the "Board").

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

2. risk governance

2.1 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
- Nomination and Remuneration Committee
- Credit Committee
- Corporate Governance Committee

2 risk governance - continued

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 15 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 Chief Risk Officer (CRO) of the Group 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. All credit and other limits are approved by the relevant approval authorities at Head Office level and usage of such limits is monitored centrally through a number of different systems and platforms. The overall Risk Appetite Statement for the Group is presented by the GCRO for approval by the Board on an annual basis. Reporting of risk issues, exposures and portfolio management takes place on a continuous basis, with formal updates and discussions at each Board meeting.

2.2 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 of Directors, 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 entasked to maintain control over the respective operations' key business decisions. Business reviews of each entity are presented to the Board Risk Committee by the CRO via reports and dashboards that monitor the entities performance in line with the set Risk Appetite. At the next 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.

2.3 risk management profile

The below table and commentary summarises the risk profile of the Group at different reporting dates:

USD Million	31 December 2016	31 December 2015
Gross Portfolio (on-balance sheet)	1,679.7	1,384.1
Gross Portfolio (off-balance sheet)	194.5	160.7
Total Gross Portfolio	1,874.2	1,544.8
Impaired Portfolio (net of suspended interest and collateral)	76.5	101.6
Impaired Portfolio/Gross Portfolio	4.1%	6.5%
Loan Loss Reserves	47.3	55.4
Loan Loss Reserves/Impaired Portfolio	61.8%	54.8%

- *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.*

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 subfunction 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.

additional regulatory disclosures (pillar 3) - continued

2 risk governance - continued

The reduction in impaired assets during the year under review (USD76.5 million at year-end 2016, representing 4.1% of the Group's gross portfolio; 2015: 6.5%) is mainly attributable to the write-off of a number of impaired assets for which all avenues of potential recovery were exhausted during the year, offset by the inclusion of additional assets classified as impaired during the year. The overall gross portfolio remained stable in absolute terms during 2016. Mainly as a result of impaired asset write-offs, loan loss reserves decreased from USD55.4 million at the end of 2015 to USD47.3 million at the end of 2016. Following the reduction in the stock of impaired assets, loan loss reserve coverage increased to a more comfortable 61.8% (from 54.8% in 2015). Various actions are being undertaken to further improve asset quality parameters through the enhancement of the Bank's Risk Management Framework and Risk Appetite Statement. In line with this, in 2016 a number of actions were taken to further strengthen risk management oversight of the subsidiaries activities as well as enhancing the onboarding and selection process of new customers and exposures. Use of credit risk mitigation as well as physical and legal control over the various commodities being financed by the Group were also strengthened. An increased focus on managing targeted capital return is also a key contributor to a better loan book quality.

2.4 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 2016, the Board of Directors consisted of:

	Number of directorships held (including FIMBank p.l.c. and its subsidiaries)
John C. Grech (Chairman)	5
Rogers David LeBaron	2
Masaud M. J. Hayat	13
Mohamed Fekih Ahmed	7
Adrian Alejandro Gostuski	4
Eduardo Eguren Linsen	4
Majed Essa Ahmed Al-Ajeel	5
Rabih Soukarieh	7
Osama Talat Al-Ghoussein	4

As disclosed in Principle 8 of the Statement of Compliance with the Principles of Good Governance (page 18), 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 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 2016 are disclosed in Principle 8 of the Statement of Compliance with the Principles of Good Governance (page 18).

2 *risk governance - continued*

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 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 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.

credit committee

The Credit Committee ("CC") 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 CC records the outcome of all its meetings by keeping record of the approved minutes of meetings held, which are available to CC 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 CC. For the composition and number of meetings held in 2016, please refer to Principle 8 of the Statement of Compliance with the Principles of Good Governance on page 18.

3. scope of application of applicable consolidated requirements

3.1 overall scoping

As disclosed in the Directors' Report in page 9, Group is composed of FIMBank p.l.c., a credit institution licensed under the Banking Act, 1994, and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), FIM Holdings (Chile) S.p.A. ("FHC"), FIMFactors B.V. ("FIMFactors") and The Egyptian Company for Factoring S.A.E. ("Egypt Factors"). As disclosed in Note 29 to the Financial Statements, LFC is the parent company of a number of other subsidiaries, FHC is the parent of Latam Factors S.A., whilst FIMFactors is the parent company of Menafactors Limited ("Menafactors") and India Factoring and Finance Solutions Private Limited ("India Factoring"). A significant interest is also held in the associated entities, BRASILFACTORS S.A. ("BRASILFACTORS" – 50% holding) and Levant Factors S.A.L. ("Levant Factors" - 50% holding). FactorRus LLP ("FactorRus") and CIS Factors Holdings B.V. ("CIS Factors") are wholly owned subsidiaries that are in the process of liquidation.

Both FIMBank p.l.c. and the Group are supervised on a "solo" and "consolidated" basis in terms of the general provisions under Part 1 of the CRR.

basis of consolidation

At 31 December 2016, all Group entities were consolidated as outlined below. For all Companies listed below, there are no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities within the members of the Group, including the parent company.

3 *scope of application of applicable consolidated requirements - continued*

London Forfaiting Company Limited

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

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

FIM Business Solutions Limited and FIM Property Investment Limited

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

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

FPI, a wholly owned subsidiary registered in Malta owns and manages the FIMBank's Head Office in Malta. FIM Property Investment Limited is responsible for the day-to-day management of the building and leasing, if any, of space for commercial purposes.

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

FIM Holdings (Chile) S.p.A.

FHC, a wholly owned subsidiary and registered in Chile, serves as the corporate vehicle for Latam Factors S.A. (51%), registered also under the laws of Chile, to provide all types of factoring, financial leasing and other management services. The other shareholders are Inversiones El Mayorazgo Limitada (32.41%), Marín y Compañía S.A. (7.26%), Asesoría e Inversiones CABS S.A. (4.9%), Compañía de Rentas Epulafquén Ltd. (1.48%), Compañía de Rentas Trigal Ltd. (1.48%) and Compañía General de Rentas Ltd (1.47%).

FIM Holdings (Chile) S.p.A. is fully consolidated within the Group on a line-by-line basis.

The Egyptian Company for Factoring S.A.E.

Egypt Factors, a wholly owned subsidiary registered in Egypt, is active in providing international factoring and forfaiting services to Egyptian and other Middle Eastern exporting companies.

Egypt Factors is fully consolidated within the Group on a line-by-line basis.

FIMFactors B.V.

FIMFactors B.V., a wholly owned subsidiary registered in the Netherlands, is the corporate vehicle for FIMBank's holdings in factoring joint ventures and associated companies. At 31 December 2016, FIMFactors holds the Group's investments in Menafactors, India Factoring and BRASILFACTORS.

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

Menafactors Limited

Menafactors, a wholly owned subsidiary, is incorporated in the United Arab Emirates and is licensed by the Dubai Financial Services Authority to provide international factoring and forfaiting services in the Gulf and MENA region. Menafactors also holds the Group's investment in Levant Factors as set out in the Directors' Report of the Annual Report and Note 28 to the financial statements.

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

3 *scope of application of applicable consolidated requirements - continued*

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

India Factoring is a company incorporated under Indian law and provides factoring, forfaiting and trade finance related activities in India. The Group holds 86.05% of the Company's shareholding. The other shareholders are Banca IFIS (5.1%), Blend Financial Services Limited (0.51%) and India Factoring Employee Welfare Trust (8.34%). India Factoring is regulated by the Reserve Bank of India.

India Factoring is fully consolidated within the Group on a line-by-line basis.

BRASILFACTORS S.A.

BRASILFACTORS is a company incorporated in São Paolo, Brazil, focusing on factoring services and forfaiting, with small and medium-sized companies being its target market. The Group has a 50% holding in the company, with the other shareholder being China Construction Bank. The Group is not deemed to have a controlling interest in the company.

BRASILFACTORS is included to the Group using the "equity method" of accounting and the investment is exempt from Own Funds deductions.

Levant Factors S.A.L.

Levant Factors is a factoring company incorporated in Lebanon. The Group has a 50% holding in the company and it is not deemed to have a controlling interest in the company. The other major shareholder (49.25%) in Levant Factors is The Lebanese Credit Insurer S.A.L., a joint venture between ATRADIUS Re and a group of local and regional insurance companies and investors.

The Group measures its investment in Levant Factors using the "equity method" of accounting and the carrying amount of its investment is Nil.

FactorRus LLC

FactorRus is registered in Russia and ceased operations following a decision to wind down its business. The recoverable amount of the investment is being deemed to be Nil.

FactorRus is in the process of liquidation and is outside the scope of consolidation.

CIS Factors Holdings B.V.

CIS Factors is a company incorporated in the Netherlands and served as the holding vehicle for other factoring companies. Currently the company is not carrying any investments.

CIS Factors is in the process of liquidation and is outside the scope of consolidation.

4 identification of risks

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

a. Credit 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. Equities not included in the trading book;
g. Liquidity risk;
h. Reputational risk;
i. Strategic and business risk; and
j. Information Technology risk

4 *identification of risks - continued*

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 1 and Pillar 2.

4.1 credit risk

Credit risk is the risk that one party to a financial transaction might fail to discharge an obligation and cause the other party to incur a financial loss. The Group finances international trade in many countries worldwide, especially emerging markets, which in turn 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 1: 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 2016.

	Risk Weight Amount	Minimum Capital Requirement (8%)
	2016 USD	2016 USD
Type of exposure:		
Central governments or central banks	50,001,303	4,000,104
Regional governments or local authorities	-	-
Public sector entities	7,618,338	609,467
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	131,432,438	10,514,595
Corporates	412,651,435	33,012,115
Retail	4,559,440	364,755
Secured by mortgages on immovable property	23,211	1,857
Exposures in default	53,007,833	4,240,627
Items associated with particular high risk	17,663,132	1,413,051
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings (CIU)	165,193,698	13,215,496
Equity	41,016	3,281
Other items	80,894,964	6,471,597
	923,086,808	73,846,945

The above exposures relate solely to those subject to credit risk and exclude those subject to counterparty risk. 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.

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 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 15 of the Annual Report.

All on- and off- balance sheet exposures are approved after a thorough review of the counterparties' creditworthiness. This is done by primarily evaluating the risk rating of the counterparty by reference to established Rating Agencies. In the absence of a risk rating by a Credit Rating Agency, an internal rating is given to the counterparty through an internal rating system as provided by a third party vendor. The Group is in the process of implementing Moody's Risk Analytics software to cater for an internal rating. In addition to this, a credit review is also done by means of other assessment

4 identification of risks - continued

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 income statements. 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 determined by the Group and shall not exceed 100% of regulatory capital. It must also be noted that a further prudential rule-of-thumb followed by the Group on large exposures is that initial lending limits for new counterparties are usually set at a much lower level than the Group's legal lending limit. These limits might either remain at the original level, based on ongoing credit research on the name, or build up towards the legal lending limit in a gradual manner, as the knowledge of the counterparty by the Bank consolidates through time.

Concentration risk by geographical region/country is monitored by the Credit Committee 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 Head of Risk at Head office following a thorough review from the local risk managers.

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

For derivative instruments the Group faces a counterparty credit risk, which is the risk that the counterparty to a derivative transaction defaults before the final settlement of the transactions' cash flows. Such a risk is monitored through the setting up of counterparty settlement limits for forward and other derivative instruments. As noted in Section 4.4.3, the Group also has in place operational procedures to mitigate settlement risk. Counterparty credit risk is assigned a capital charge using the marked-to-market method, based on the residual maturities of the contracts.

credit risk exposure by region

The geographic distribution of the Group exposures as at 31 December 2016, broken down in significant areas by the same exposure classes shown in the previous table, is set out in Note 4.2 to the financial statements.

4 identification of risks - continued

credit risk exposure by sector

Note 4.2 to the financial statements also sets out the distribution of the Group's exposures as at 31 December 2016 by sector.

credit risk exposures by maturity

The residual maturity breakdown of the Group's exposures as at 31 December 2016, broken down by exposure classes is set out in Note 4.3 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 4.2 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 (CCR) is defined as the risk that a counterparty to an over-the-counter (OTC) 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 1: counterparty credit risk

	Risk Weight Amount	Minimum Capital Requirement (8%)
	2016	2016
	USD	USD
Type of exposure:		
Institutions	1,287,804	103,024
Corporates	8,344	668
	1,296,148	103,692

4.2.2 counterparty credit risk management strategy and processes

Use of derivatives within the Group is limited to hedging balance-sheet positions and to a lesser extent to satisfy customer requests (for example, for foreign exchange hedging). The Group's Treasury Unit is responsible for the risk management of such instruments. During 2016, the Group carried a higher position of FX derivatives in order to hedge the increase in EUR deposits against USD assets. In addition, as from 2016, wholly-owned subsidiary 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.

4.2.3 credit derivatives

As at December 2016, the amount of Loan Credit Default Swaps stood at USD2.5 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 factors that may contribute to operational risk are set out in detail in Note 4.5 to the financial statements.

4 identification of risks - continued

4.3.1 *minimum capital requirement: operational risk*

The following table shows the Group's overall minimum capital charges for operational risk in accordance with the Basic Indicator Approach:

	2016 USD
Gross income:	
Financial year ending 31/12/2015	46,073,444
Financial year ending 31/12/2014	49,151,947
Financial year ending 31/12/2013	33,471,082
Average gross income	42,898,824
Capital requirement (15%)	6,434,824
Notional Risk Weight	80,435,296

4.3.2 *management and mitigation of operational risk*

In calculating the capital requirement for operational risk, the Group has adopted the Basic Indicator Approach as detailed in the CRR. 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 net interest income and net non-interest income.

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

At 31 December 2016, the Group took an operational risk capital charge as disclosed in Section 4.3.1 to this Schedule and Note 4.6 to the financial statements.

The Group believes that the discipline applied to the more business oriented risks, should also be applied to the management of operational risks. It seeks to continuously develop an appropriate risk management environment which identifies, assesses, monitors and mitigates operational risk inherent in its products, activities, processes, systems and working environment. This is being achieved by establishing policies, processes and procedures which control or far better mitigate operational risks, identified as material, and at the same time setting up proper internal and external control systems which regularly review and monitors compliance with the established policies and procedures, as set out in Note 4.5 to the financial statements. In 2015, the Group embarked on the adoption of an Operational Risk Management (ORM) platform with a view to automate the main processes and procedures related to operational risk. These include an operational risk self-assessment system, the setting and monitoring of adequate operational key risk indicators, as well as the reporting and analysis of operational losses (incident reporting system). The ORM platform is fully implemented and operational for the Bank. The platform will become fully operational for the subsidiaries by the end of 2017.

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 identification of risks - continued

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.

4.4.1 *foreign exchange risk*

Currency risk is mitigated by a closely monitored currency position policy and is managed through matching within the foreign currency portfolio. However, mismatches could arise where the Group enters into foreign exchange transactions (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.

4.4.1.1 *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 2016, the Group took a Foreign Exchange capital charge as follows:

Foreign Currency	Long position USD equivalent	Short position USD equivalent
Euro	-	9,934,491
Pound Sterling	-	1,214,082
Indian Rupee	45,453,859	-
Chilean Peso	10,823,266	-
Russian Ruble	24,653	-
United Arab Emirates Dirham	158,421	-
Saudi Arabian Riyal	92,612	-
Swiss Franc	92,572	-
Kuwaiti Dinar	-	24,860
Other Foreign Currencies	31,600	15,706
Total position	56,676,983	11,189,139
Notional Risk Weight		56,676,983
8% Capital requirement		4,534,159

4.4.2 *position risk*

4.4.2.1 *traded debt instruments*

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 and b) a "general risk" charge based on the maturity profile of the asset.

At 31 December 2016, the Group took a position risk capital charge as follows:

	Risk Weight Amount 2016 USD	Minimum Capital Required 2016 USD
Specific Risk		
Debt securities which would receive a 0% risk weight under the Standardised Approach for credit risk	-	-
Debt securities which would receive a 20% or 50% risk weight under the Standardised Approach for credit risk with a residual term <= 6 months	1,530,829	122,466
Debt securities which would receive a 20% or 50% risk weight under the Standardised Approach for credit risk with a residual term > 6 months and <= 24 months	5,005,574	400,446
Debt securities which would receive a 20% or 50% risk weight under the Standardised Approach for credit risk with a residual term > 24 months	116,474	9,318
Debt securities which would receive a 100% risk weight under the Standardised Approach for credit risk	271,710,334	21,736,827
Debt securities which would receive a 150% risk weight under the Standardised Approach for credit risk	27,111,180	2,168,894
General Risk		
Zone One - Debt securities with a residual term <= 12 months	17,012,352	1,360,988
Zone Two - Debt securities with a residual term > 1 year and <= 4 years	7,018,690	561,495
Zone Three - Debt securities with a residual term > 4 years	953,204	76,256
	330,458,637	26,436,690

4.4.3 *settlement risk*

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

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

4.4.4 *other price risk*

Other price risk arises out of changes in market values not related to changes in interest rates or foreign currency. Generally, these would be factors directly related to the issuer's or exposure's financial stability and performance.

As set out in Note 4.4 to the financial statements, the Group's exposure to other price risk is considered relevant in the case of bonds and credit linked notes portfolios which are both measured by reference to their quoted market values in active markets. 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 4.4 to the financial statements, changes in the market value of marketable securities are recorded in the Group's income statement, directly impacting equity. An increase in the price of instruments would increase the value of the underlying asset and would therefore result in an increase in equity. A decrease in prices would have an opposite effect on both value of instruments and equity.

The Group assesses the requirement for a capital allocation against other price risk under Pillar 2.

4.5 exposures to interest rate risk in the non-trading book

Interest rate risk refers to the exposure of the Group and the 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. 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 and capital to changing interest rates.

A positive, or asset-sensitive, gap arises when assets (both on- and off- balance sheet) exceed liabilities in the corresponding time band, and this implies that the Group's net interest income (and therefore capital) could decline as a result of a decrease in the level of interest. To the contrary, a negative, or liability-sensitive, gap implies that net interest income could decrease as a result of an increase in interest rates. Note 4.4 to the financial statements details the effect to the Group's assets and liabilities as at 31 December 2016 due to a +/- 200 basis point change in interest rates.

Notwithstanding that no capital charge is taken under the Pillar 1 Framework, an additional capital charge is taken under Pillar 2.

4.6 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. There were no sales nor liquidations in the year ending December 2016.

4.6.1 *equity investments less than 10%*

Equity investments comprising less than 10% of the investee company's capital are classified as "available-for-sale". All equity securities carried by the Group are not listed on an exchange and there is no readily available active market. As such these unquoted securities are carried at cost less impairment losses. At 31 December 2016, the Group had USD41,016 in equity investments.

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 2016 USD	Fair Value 2016 USD	Risk Weight Exposure Amount 2016 USD	Minimum Capital Required 2016 USD
Credit Risk	41,016	41,016	41,016	3,281

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 "associates" and are accounted for using the equity method (equity accounted investees) and are recognised at cost less impairment allowances.

4 identification of risks - continued

The Consolidated financial statements include the Group's share of the income and expenses and equity movement of equity accounted investees, after adjustments to align the accounting policies with those of the Group. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to Nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. This accounting treatment is also applied on those investments where the Group has joint control (50%) over the strategic, financial and operational decisions of the investee.
All investments in associates and jointly-controlled entities are made in line with the Group's strategic objectives of investing in trade-finance related companies.

Such assets 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.

	Balance Sheet Value	Fair Value	Risk Weight Exposure Amount	Minimum Capital Required
	2016 USD	2016 USD	2016 USD	2016 USD
Market Risk - Specific Risk	1,161,331	1,161,331	1,161,331	92,906
Market Risk - General Risk	1,161,331	1,161,331	1,161,331	92,906
			2,322,662	185,812

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.

4.6.4 *unit investments in collective investment schemes*

Unit Investments in Collective Investment Schemes are classified as "available-for-sale". 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 funds' net asset values, with fair value movement being recognised, net of deferred tax, in the fair value reserve. At 31 December 2016, the Group had USD165,193,697 in Unit Investments in Collective Investment Schemes.

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	Fair Value	Risk Weight Exposure Amount	Minimum Capital Required
	2016 USD	2016 USD	2016 USD	2016 USD
Credit Risk	165,193,697	165,193,697	165,193,697	13,215,496

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.

4 identification of risks - continued

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 report was first drafted in 2016 and forms part of the Group's management processes. It was 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 4.3 to the financial statements.

4.7.2 *liquidity concentration risk*

Note 4.3 to the financial statements and Note 4.7 of this Schedule set out the Group's policies, tools and other mitigants used in managing liquidity risk. The Group also uses the Herfindhal-Hirschmann Index (HHI) 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.

4.8 reputational risk

Reputational risk is the risk that negative publicity on the Group's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. Reputational risk could be particularly damaging for the Group since the nature of its business requires maintaining the confidence of depositors, creditors, regulatory authorities and of the general marketplace.

Reputational risk arises from operational failures, failure to comply with relevant laws and regulations - especially Anti–Money Laundering ("AML") and Anti-Terrorism Financing ("ATF") regulations - or from other sources, including acts or omissions of misconduct on the part of its Directors and/or officers and/or representatives overseas, even in matters which are unrelated to their mandate or position within the Group. The impact to the Group for non-compliance with the applicable regulations can be substantial and can include formal enforcement actions, monetary penalties, informal enforcement actions, and enhanced supervisory monitoring.

To this purpose, detailed AML, ATF and fraud documentation policies and procedures, a robust Customer Acceptance Policy as well as a strong and capillary oversight by the Group's Board and Management have been devised. The Group uses qualitative research tools to assess the adequacy of prospective clients and transactions and implemented Anti-Money Laundering software for the screening of incoming and outgoing messages and payments as well as rating of corporate and business relationships. Through such rigid procedures, the Group would be able to identify transactions and clients which pose a higher risk compared to others. These include Politically Exposed Persons ("PEPs"), clients and transactions deriving from 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.

In addition to these mitigants, the Group assesses the need for capital allocation against reputational risk under Pillar 2 framework. Capital was allocated against reputational risk at 31 December 2016.

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, included in the Annual Report for 2016. Based on their remit and charters, the various corporate committees provide advice to the Board in taking ultimate strategic and business decisions. The size of the Group enables its corporate structures to have a more "on the ground" approach and positions and decisions can be formulated and taken in a sufficient timely manner. The Board and Committees are assisted by a team of Executive and Senior Management, who have focused on-the ground expertise in their various areas of responsibilities. Executive and Senior Management hold periodical meetings in order to discuss major business decisions, business and economical trends, as well as implement decisions taken by the Board or any of its Committees. Through these meetings, the collective expertise of the management team is brought together and is a determinant factor in the success of identifying and exploiting business opportunities.

In addition to these mitigants, the Group assesses the need for capital allocation against strategic and business risk under Pillar 2 framework. Capital was allocated against strategic and business risk at 31 December 2016.

4.10 information technology risk

Information Technology ("IT") risk arises as a result of inadequate information technology and processing, or from inadequate IT strategy and policy, or inadequate use of Group's information technology. Although IT risk can be considered part of the Group's Operational Risk, its importance and the potential materiality of the risk, merits a separate focus and treatment.

The Group's IT Steering Committee aims to ensure that IT strategic decisions are aligned with the overall Group's business strategy, to prioritise and maximise expenditure incurred on IT projects.

The Group adopts various measures to mitigate 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 risk 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 IT hardware and software which amongst others, safeguards against unauthorised access and breaches of electronic security. The Group also has a back-up site which houses operating systems which the Group identifies as critical. The Group is working on enhancing its Business Continuity Plan which will allow the Group to operate with the least possible interruption in the case of an unexpected or undesirable event.

The Group assesses the requirement for a capital allocation against IT risk under Pillar 2 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:

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

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

The ratings 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:

a. Central governments or central banks
b. Public sector entities
c. Institutions
d. Corporate

At 31 December 2016, the Group classified its on- and off- balance sheet exposures subject to credict risk under the following "exposure classes" as defined in the CRR:

Exposure class	Credit quality step	Exposure Value	Credit Risk Mitigation	Exposure Value after Credit Risk Mitigation
		USD	USD	USD
Central governments or central banks	0%	102,069,463	-	102,069,463
	20%	-	-	
	50%	100,002,606	-	100,002,606
	100%	1,617,026	-	1,617,026
		203,689,095	-	203,689,095
Public sector entities	100%	7,618,338	-	7,618,338
		7,618,338	-	7,618,338
Multilateral Development Banks	0%	47,987,618	-	47,987,618
		47,987,618	-	47,987,618
Institutions	0%	60,717,671	-	60,717,671
	20%	300,686,561	(614,013)	300,072,548
	50%	119,128,283	(169,265)	118,959,019
	100%	36,355,561	(1,208,420)	35,147,140
	150%	6,521,300	-	6,521,300
		523,409,376	(1,991,698)	521,417,678
Corporates	0%	8,257,469	-	8,257,469
	20%	-	1,991,698	1,991,698
	50%	106,018	-	106,018
	100%	397,720,408	-	397,720,408
	150%	48,752,090	-	48,752,090
		454,835,986	1,991,698	456,827,684
Retail	0%	142,450	-	142,450
	75%	6,654,016	-	6,654,016
		6,796,466	-	6,796,466
Secured by mortgages on immovable property	35%	66,316	-	66,316
		66,316	-	**66,316**

5 External Credit Assessment Institutions (ECAI) - continued

Exposure class	Credit quality step	Exposure Value	Credit Risk Mitigation	Exposure Value after Credit Risk Mitigation
		USD	USD	USD
Exposures in default	0%	209,508	-	209,508
	100%	17,565,039	-	17,565,039
	150%	23,628,529	-	23,628,529
		41,403,076	-	41,403,076
Items associated with particular high risk	150%	11,775,421	-	11,775,421
		11,775,421	-	11,775,421
Claims in the form of CIU	100%	165,193,697	-	165,193,697
		165,193,697	-	165,193,697
Equity Exposures	100%	41,016	-	41,016
		41,016	-	41,016
Other items	0%	14,842,573	-	14,842,573
	100%	46,257,522	-	46,257,522
	250%	13,854,977	-	13,854,977
		74,955,072	-	74,955,072

6. credit risk mitigation

In addition, 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

Exposures to both financial institutions and corporate clients are typically secured either by property (including shipping vessels), cash collateral, credit insurance cover, personal or bank guarantees or by pledged goods. 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 2016. 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).

additional regulatory disclosures (pillar 3) - continued

6 credit risk mitigation - continued

The table below shows the total exposure value 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
	2016 USD	2016 USD	2016 USD	2016 USD	2016 USD
Central governments or central banks	102,069,463	-	-	-	101,619,632
Public sector entities	-	-	-	-	7,618,338
Multilateral Development Banks	47,987,618	-	-	-	-
Institutions	60,717,671	1,991,698	-	-	460,700,007
Corporate	8,257,469	-	-	-	446,578,516
Retail	142,450	-	-	-	6,654,016
Secured by mortgages on immovable property	-	-	66,316	-	-
Items associated with particular high risk	-	-	-	-	11,775,421
Exposures in default	209,508	-	-	-	41,193,568
Claims in the form of CIU	-	-	-	-	165,193,697
Equity Exposures	-	-	-	-	41,016
Other items	-	-	-	-	74,955,072
	219,384,178	1,991,698	66,316	-	1,316,329,283

The main source of mitigation for credit and market concentration risk is through the fact that exposures are in the main collateralised by cash. As FIMBank is mainly engaged in structured trade finance related to hard and soft commodities, the value of goods representing collateral for such facilities can be easily determined by monitoring the market prices of such commodities. Screen prices are readily available on several commodities exchanges and monitored on a daily basis by Risk Management. Collateral management is performed on FIMBank's behalf by specialised companies (SGS, Bureau Veritas, Control Union, etc.) appointed ad hoc for a particular transaction. Collateral management agreements are usually tri-partite agreements (between FIMBank, the borrower and the collateral manager) and 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.

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 International Financial Reporting Standards.

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, as revised in December 2016. Specific credit reserve calculations are based on discounted cash flow techniques applied to the expected future cash flows. Whilst the Group's two year average NPL ratio exceeded the threshold as specified in the rule itself, during 2016 the Group experienced an improved NPL ratio and therefore it is expected that the Group's NPL ratio will be within the regulatory threshold in the coming years. Nonetheless the Bank is currently working on submitting an NPL reduction plan to the Regulator by the requested deadline.

general credit risk adjustments

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

additional regulatory disclosures (pillar 3) - continued

7. credit risk adjustments - continued

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 2016:

Exposure Class	Europe	Sub-Saharan Africa	Middle East and North Africa (MENA)	Commonwealth of Independent States (CIS) region	Others
	USD	USD	USD	USD	USD
Central governments or central banks	157,211,840	1,617,026	6,417,377	-	38,442,852
Public sector entities	-	-	4,861,324	-	2,757,014
Multilateral Development Banks	40,262,000	-	-	-	7,725,618
Institutions	160,597,132	189,026,050	85,798,453	20,053,215	67,934,527
Corporate	172,791,355	4,084,972	136,739,599	-	141,220,060
Retail	3,570,324	-	23,210	-	3,202,931
Secured by mortgages on immovable property	66,316	-	-	-	-
Items associated with particular high risk	11,775,421	-	-	-	-
Exposures in default	7,649,467	7,162,126	6,452,794	13,097,247	7,041,444
Claims in the form of CIU	165,193,697	-	-	-	-
Equity Exposures	41,016	-	-	-	-
Other items	-	-	-	-	74,955,072

Exposure Class	Industrial Raw Materials	Ship and Transportation	Wholesale/Retail	Financial Intermediation	Other Services
	USD	USD	USD	USD	USD
Central governments or central banks	-	-	-	106,846,895	96,842,200
Public sector entities	7,526,706	91,631	-	-	-
Multilateral Development Banks	-	-	-	47,987,618	-
Institutions	-	-	-	523,409,377	-
Corporate	118,580,531	10,290,907	208,014,557	62,731,745	55,218,245
Retail	2,136,000	755,241	1,314,703	376	2,590,146
Secured by mortgages on immovable property	66,316	-	-	-	-
Items associated with particular high risk	6,837,011	-	-	-	4,938,411
Exposures in default	7,470,847	3,614,064	5,485,741	19,549,370	5,283,055
Claims in the form of CIU	-	-	-	165,193,697	-
Equity Exposures	-	-	-	-	41,016
Other items	-	-	-	-	74,955,072

additional regulatory disclosures (pillar 3) - continued

7. credit risk adjustments - continued

Exposure Class	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years	No residual maturity
	USD	USD	USD	USD	USD	USD	USD
Central governments or central banks	122,636,369	10,526,316	1,617,026	38,442,852	-	30,466,533	-
Public sector entities	91,631	-	-	4,694,706	2,832,000	-	-
Multilateral Development Banks	-	7,725,618	-	-	-	40,262,000	-
Institutions	295,649,025	71,822,571	38,271,343	15,644,804	55,385,686	46,635,947	-
Corporate	142,442,700	116,255,187	81,907,275	53,237,518	26,178,295	34,815,010	-
Retail	1,160,870	1,278,820	1,256,436	871,575	419,209	1,809,557	-
Secured by mortgages on immovable property	66,316	-	-	-	-	-	-
Items associated with particular high risk	-	-	-	-	1,684,211	10,091,211	-
Exposures in default	27,058,850	452,795	13,368,778	401,181	11,385	110,089	-
Claims in the form of CIU	-	-	-	-	-	-	165,193,697
Equity Exposures	-	-	-	-	-	-	41,016
Other Items	-	-	-	-	-	-	74,955,072

The following tables provides details of the Group's impaired exposures and past due exposures and specific and general credit risk adjustments:

Exposure Class	Industrial Raw Materials	Ship and Transportation	Wholesale/Retail	Financial Intermediation	Other Services
	USD	USD	USD	USD	USD
Individually impaired (net of specific credit risk adjustment)	7,537,163	3,614,064	5,485,741	19,549,370	5,283,055
Past due but not impaired	8,371,308	496,894	29,458,005	32,691,747	1,998,569
Specific credit risk adjustment	3,675,152	1,316,577	12,401,997	12,040,382	230,225
General credit risk adjustment	778,817	57,688	927,325	1,987,806	880,789

Exposure Class	Europe	Sub-Saharan Africa	Middle East and North Africa (MENA)	Commonwealth of Independent States (CIS) region	Others
	USD	USD	USD	USD	USD
Individually impaired (net of specific credit risk adjustment)	7,715,783	7,162,126	6,452,794	13,097,247	7,041,444
Past due but not impaired	8,087,756	15,067,533	29,510,270	28,562	20,322,403
Specific credit risk adjustment	7,483,397	1,209,247	10,957,960	4,468,996	5,544,734
General credit risk adjustment	1,946,833	899,029	891,919	241,262	653,381

additional regulatory disclosures (pillar 3) - continued

7. credit risk adjustments - continued

The table below shows a reconciliation of changes in the specific and general credit risk adjustments for impaired exposures:

	Specific credit risk adjustment	General credit risk adjustment
	USD	USD
Opening Balance	34,078,750	5,886,035
Amounts taken against credit risk adjustments during the year	9,181,842	866,670
Reversals of credit risk adjustments during the year	(5,194,292)	(1,536,280)
Write-offs	(24,682,952)	-
Foreign Exchange differences	16,280,986	(584,001)
Closing Balance	29,664,334	4,632,424

8. asset encumbrance

Encumbered assets of the Group mainly consist of available-for-sale investments and trading assets which are pledged under borrowing arrangements or repoed transactions. Repoed transactions are covered by the ISMA Global Master Repurchase Agreement and involve the sale of financial assets with a simultaneous agreement to repurchase at a pre-determined price at a future date. Other Assets encumbered represent amounts pledged in favour of the Depositor Compensation Scheme or to counterparties under documentary credits.

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	USD	USD	USD	USD
Equity instruments	159,617,902	159,617,902	5,616,811	5,616,811
Debt securities	162,268,620	162,268,620	424,176,230	424,176,230
Other assets	19,217,602	-	970,051,239	-
	341,104,124	-	1,399,844,280	-

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
	USD	USD
Equity instruments	-	-
Debt securities	-	-
Other assets	-	68,568,311
	-	68,568,311

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
	USD	USD
Carrying amount of selected financial liabilities	38,080,130	46,279,023

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.

8. asset encumbrance - continued

Since the last disclosure period, the Group has increased its encumbered assets by USD105,383,230. The increase mainly relates to Equity Instruments and Debt Securities which are pledged under borrowing arrangements.

The Equity Instruments, relating to the investments in the EOS SICAV plc Emerging Market Trade Finance Fund and around 70% of the Debt Securities, that are part of the LFC forfaiting portfolio, are pledged against term funding from a related party. The terms and conditions are at arm's length. The remaining amount of Debt Securities relate to financial assets that are repoed against regulated ECB main refinancing operations facilities.

9. own funds and capital requirements

Detailed analysis on the composition of Tier 1, Tier 2 and Own Funds is disclosed in Note 4.6 of the financial statements as at 31 December 2016.

9.1 full reconciliation of own funds items to audited financial statements in accordance with Article 437(1)(a) of Regulation (EU) No 575/2013

9.1.1 *reconciliation between the balance sheet used to calculate own funds as in the published financial statements and the balance sheet used to calculate regulatory own funds*

	Cross-reference to Notes in Financial Statements	Cross-reference to Statement of Transitional Adjustments	Balance Sheet in accordance with IFRS scope of consolidation 2016 USD	Effect of deconsolidation for regulatory consolidation 2016 USD	Balance Sheet in accordance with regulatory scope of consolidation 2016 USD
Equity					
Share capital	42		155,239,263	-	155,239,263
Share premium	42		2,101,336	-	2,101,336
Retained earnings/(accumulated losses)	42		(487,210)	-	(487,210)
Reserve for general banking risks	42		764,792	-	764,792
Currency translation reserve	42		(6,715,522)	-	(6,715,522)
Fair value reserve	42		(1,891,140)	-	(1,891,140)
Other reserve	42		2,481,760	-	2,481,760
Other reserves			(5,360,110)	-	(5,360,110)
Other transitional adjustments to CET1: Non-controlling interests deductable from own funds		TA1	9,309,634	-	9,309,634
Non-controlling interests not deductable from own funds			13,964,451	13,964,451	-
Non-controlling interests	43		23,274,085	13,964,451	9,309,634

9. own funds and capital requirements - continued

	Cross-reference to Notes in Financial Statements	Cross-reference to Statement of Transitional Adjustments	Balance Sheet in accordance with IFRS scope of consolidation 2016 USD	Effect of deconsolidation for regulatory consolidation 2016 USD	Balance Sheet in accordance with regulatory scope of consolidation 2016 USD
Assets					
Pledged assets in favour of Depositor Compensation Scheme reported under loans and advances to banks	24		-	-	-
Pledged assets in favour of Depositor Compensation Scheme reported under other assets	35		1,189,929	-	1,189,929
Market value of assets pledged in favour of Depositor Compensation Scheme			1,189,929	-	1,189,929
Collective impairment	24/25		(4,632,424)	-	(4,632,424)
Goodwill accounted for as intangible asset			8,817,941	-	8,817,941
Other intangible assets			2,883,994	-	2,883,994
Intangible assets and goodwill	33		11,701,935	-	11,701,935
Deferred tax liabilities associated to other intangible assets			51,648	-	51,648
Deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds			27,976,061	-	27,976,061
Other transitional adjustments to CET1: deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds		TA2	(14,809,406)	-	(14,809,406)
Deferred tax asset that rely on future profitability and arise from temporary differences and not deductible from own funds			28,664,384	28,664,384	-
Deferred taxation	34		41,882,687	28,664,384	13,218,302
Liabilities					
Subordinated liabilities	40		50,000,000	3,369,863	46,630,137

9.1.2 *statement of transitional adjustments*

	Note	2016 USD
Non-controlling interests deductible from own funds	TA 1	9,309,634
Deferred tax asset that relies on future profitability and arises from temporary differences and is deductible from own funds	TA 2	14,809,406
Unrealised gains measured at fair value recycled to Tier 2	TA 3	(16,711)
Transitional adjustments to CET 1		24,102,329
Unrealised gains measured at fair value recycled from CET 1	TA 3	16,711
Transitional adjustments to T 2		16,711

9. own funds and capital requirements - continued

9.1.3 *mapping between own funds statement as reported in Note 4.6 of the financial statements and the balance sheet 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*

Tier 1

	Own Funds 2016	Balance sheet in accordance with regulatory scope of consolidation		Statement of transitional adjustments	
	2016 USD		2016 USD		2016 USD
Paid up capital instruments	155,239,263	Share capital	155,239,263		
Share premium	2,101,336	Share premium	2,101,336		
Retained earnings/(accumulated losses)	(487,210)	Retained earnings/ (accumulated losses)	(487,210)		
Other reserves	(5,360,110)	Other reserves	(5,360,110)		
Deductions:					
Goodwill accounted for as intangible asset	(8,817,941)	Goodwill accounted for as intangible asset	(8,817,941)		
Other intangible assets	(2,883,994)	Other intangible assets	(2,883,994)		
Deferred tax liabilities associated to other intangible assets	(51,648)	Deferred tax liabilities associated to other intangible assets	(51,648)		
Deferred tax asset that rely on future profitability and arise from temporary differences	(27,976,061)	Deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds	(27,976,061)		
Market value of assets pledged in favour of Depositor Compensation Scheme	(1,189,929)	Market value of assets pledged in favour of Depositor Compensation Scheme	(1,189,929)		
Other transitional adjustments	24,102,329			Transitional adjustments to CET 1	24,102,329
Common Equity Tier 1	134,676,035				
Total Tier 1	134,676,035				
Tier 2					
General credit risk adjustments	4,632,424	Collective impairment	4,632,424		
Subordinated liabilities	46,630,137	Subordinated liabilities	46,630,137		
Other transitional adjustments	16,711			Transitional adjustments to Tier 2	16,711
Total Tier 2	51,279,272				
Total own funds	185,955,307				

9. own funds and capital requirements - continued

9.2 description of features of Tier 1 and Tier 2 capital instruments in accordance with Article 437(1)(b) of Regulation (EU) No 575/2013

Paid up capital instruments	FIMBank p.l.c.
Issuer 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	CET 1 as published in the EBA list (art. 26(3))
- amount recognised in regulatory capital	310,478,525 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

Subordinated liabilities	
Issuer	Burgan Bank K.P.S.C.
Unique identifier	N/A
Governing law of the instrument	Maltese Law
Regulatory treatment	
- transitional CRR rules	Tier 2
- post transitional CRR rules	Tier 2
- eligibility for inclusion in own funds	Bank solo and Group consolidated
- instrument type	Tier 2 as per Art. 62(a), 63 and 64 of Regulation (EU) No 575/2013
- amount recognised in regulatory capital	USD 46,630,137
- nominal value of each share	USD 50,000,000
- issue price	N/A
- redemption price	N/A
- accounting classification	Liability – amortised cost
- original date of issuance	28 August 2015
- perpetual or dated	Dated
- original maturity date	29 August 2021
- issuer call subject to prior supervisory approval	N/A
Coupon	
- fixed or floating dividend	Floating
- coupon rate and any related index	3% + LIBOR6M
- existence of a dividend stopper	No
- fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
- fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
- 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

9.3 nature and amounts of specific items on own funds during the transitional period in accordance with Articles 437(1)(d) and (e)

	Amount at disclosure date	Amount subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575/2013
	2016	2016
	USD	USD
Common Equity Tier 1 capital: Instruments and reserves		
Capital Instruments and the related share premium accounts	157,340,599	-
Retained earnings	(487,210)	-
Accumulated other comprehensive income and other reserves	(6,124,902)	-
Funds for general banking risk	764,792	-
Minority Interest (amount allowed in consolidated CET1)	9,309,634	9,309,634
Common Equity Tier 1 (CET1) capital before regulatory adjustments	160,802,913	9,309,634
Common Equity Tier 1 capital: regulatory adjustments		
Intangible assets net of related tax liability	(11,753,583)	-
Deferred tax asset arising from temporary differences above 10% threshold net of related tax liability	(13,166,655)	14,809,406
Market value of assets pledged in favour of Depositor Compensation Scheme	(1,189,929)	-
Unrealised gains measured at fair value	(16,711)	(16,711)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(26,126,878)	14,792,695
Common Equity Tier 1 (CET1) capital	134,676,035	24,102,329
Tier 1 capital	134,676,035	24,102,329
Tier 2 capital: Instruments and provisions		
Credit risk adjustments	4,632,424	-
Subordinated liabilities	46,630,137	-
Tier 2 capital before regulatory adjustments	51,262,561	-
Tier 2 capital: regulatory adjustments		
Unrealised gains measured at fair value	16,711	16,711
Total regulatory adjustments to Tier 2	16,711	16,711
Tier 2 capital	51,279,272	16,711
Total capital	185,955,307	24,119,040
Total Risk Weighted Assets	1,394,276,538	
Capital ratios		
Common Equity Tier 1 (CET1) capital	9.7%	
Tier 1 capital	9.7%	
Total capital	13.3%	
Capital Conservation Buffer	0.625%	
Capital ratios and buffers		
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities below 10% threshold	-	
Direct and indirect holdings of the capital of financial sector entities where the institution has a significant investment in those entities below 10% threshold	1,161,332	
Deferred tax asset arising from temporary differences below 10% threshold net of related tax liability	13,854,977	
Applicable caps on the inclusion of provisions in Tier 2		
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach	4,632,424	
Cap on inclusion of credit risk adjustments in T2 under standardised approach	4,632,424	

9. 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. As at 31 December 2016, the Capital Conservation Buffer stood at 0.625%, whilst, in line with the notification issued on the website of the Central Bank of Malta (the 'designated authority' responsible for setting the countercyclical buffer rate in Malta), the Countercyclical Capital Buffer stood at 0%. 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.

9.4 capital requirements

The Group uses the Standardised Approach under the capital requirements framework, 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 1 is calculated by adding the credit risk charge to that required for operational risk and market risk.

The following table shows both the Group's overall minimum capital requirement and capital adequacy position under Pillar 1:

	Risk weighted assets	Capital required
	2016	2016
	USD	USD
Capital Requirements		
Credit Risk (Section 4.1)	923,086,808	73,846,945
Counterparty Risk (Section 4.2)	1,296,148	103,692
Operational Risk (Section 4.3)	80,435,296	6,434,824
Market Risk - Foreign Exchange Risk (Section 4.4.1)	56,676,983	4,534,159
Market Risk - Position Risk in Traded debt instruments (Section 4.4.2)	330,458,639	26,436,691
Market Risk - Equity Investments between 10% and 50% (Section 4.6.2)	2,322,661	185,813
Total Capital Requirements Pillar 1	1,394,276,535	111,542,124
Tier 1 capital	1,394,276,535	
Total Own Funds	185,955,307	
Capital ratios	%	
Tier 1 capital	9.7	
Total capital	13.3	

9. own funds and capital requirements - continued

9.5 Internal Capital Adequacy Assessment Process ("ICAAP")

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

The 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 1. Part of the Pillar 2 process is the Internal Capital Adequacy Assessment Process ("ICAAP") which is the Bank's self-assessment of risks not captured by Pillar 1.

The ICAAP process is managed by the Group's 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 this ICAAP.

Throughout this process, senior officers from each department provide their input and guidance on how risks are being mitigated and how these risks can be analysed and assessed both in a qualitative as well as quantitative manner. The final document is subjected to a review by the Group's Internal Audit department, and the findings arising from this review are documented in an "Auditors' report".

The final version of the ICAAP is eventually discussed by 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 financial 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.

Since the leverage ratio is a new regulatory tool in the EU, there is a lack of information about the effectiveness and the consequences of implementing it as a binding (Pillar 1) measure. European banks are therefore following a monitoring period, to gather more information before making it a binding requirement. A report on the leverage ratio requirements under Article 511 of the CRR, has been issued by the European Banking Authority, on 3 August 2016 (EBA-Op-2016-13). According to this report, the leverage ratio is expected to be introduced as a Pillar 1 standard by January 2018.

The indicative minimum requirement of the Tier 1 leverage ratio is 3%. This would be in line with the fully-transitioned Basel III standards (which will apply from 1 January 2019), as internationally agreed by the Governors of Central Banks and heads of supervision of Basel Committee member jurisdictions.

The Group's leverage ratio is determined and monitored on a regular basis. As at December 2016, the leverage ratio for the Group stood at 6.4%, which is well above the indicative minimum requirement and, forms part of the ERM framework.

10. leverage ratio - continued

Summary reconciliation of accounting assets and leverage ratio exposures	Balance sheet values 2016 USD
Total assets as per published financial statements	1,740,948,399
Adjustments for derivative financial instruments	2,546,892
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	44,655,883
Other adjustments	(56,554,320)
Total leverage ratio exposure	1,731,596,854

Leverage ratio common disclosure	CRR leverage ratio exposures 2016 USD
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,739,445,696
Asset amounts deducted in determining Tier 1 capital	(56,554,320)
On-balance sheet exposures (excluding derivatives and SFTs)	1,682,891,376
Replacement cost associated with all derivatives	4,049,596
Derivative exposures	4,049,596
Off-balance sheet exposures at gross notional amount	194,548,425
Adjustments for conversion to credit equivalent amounts	(149,892,542)
Other off-balance sheet exposures	44,655,883
Total leverage ratio exposures	1,731,596,855
Tier 1 capital	110,573,706
Leverage ratio	6.4%
Choice on transitional arrangements for the definition of the capital measure	Fully phased in

Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	CRR leverage ratio exposures 2016 USD
Trading book exposures	379,397,964
Central governments or central banks	202,072,069
Public sector entities	55,605,955
Institutions	400,839,724
Secured by mortgages of immovable properties	66,316
Retail exposures	6,068,382
Corporate	385,648,787
Exposures in default	40,956,614
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	212,235,563
Banking book exposures	1,303,493,410
Total on-balance sheet exposures	1,682,891,376

11. remuneration policy

The Nomination and Remuneration Committee (NRC) is charged with overseeing the development and implementation of the Group's Remuneration Policy. This Committee met five times in 2016. The Committee is composed of Masaud M. J. Hayat (Chairman), Majed Essa Ahmed Al-Ajeel (Vice-Chairman), Rogers David LeBaron (Member) and John C. Grech (Member). The Committee is directly accountable to the Board, who has the right to change the Committee's Charter in compliance with the relevant laws and regulations.

The Remuneration Policy ensures that the remuneration is in line with the Group's long-term strategy and performance. It encompasses the remuneration of all employees, including Executive Management and identified staff. The Group bases the definition of Identified Staff on the Commission Delegated Regulation 604-2014 which includes categories of staff including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and whose professional activities have a material impact on their risk profile.

The table below includes total fixed and variable remuneration for Identified Staff in each business area. The fixed remuneration includes all cash allowances advanced to employees, including allowances for car, housing and flights, health and life insurances and other cash payments.

	Supervisory Function	Management Function	Corporate Functions	Independent Control Functions	All Other
Number of identified staff	10	5	15	8	53
	USD	USD	USD	USD	USD
Total fixed remuneration	291,249	1,966,793	1,735,227	818,710	5,206,707
Total variable remuneration	-	21,053	35,279	36,139	234,055
Total remuneration	291,249	1,987,846	1,770,506	854,849	5,440,762

The variable portion of the remuneration represents cash bonuses. In accordance with Article 94(1)(g) of Directive 2013/36/EU, the variable remuneration cannot exceed 100% of basic remuneration, unless approved by the Regulator. The Remuneration Policy stipulates that before the deferred part of the variable remuneration is paid out, the CRO reassesses performance to ensure that this variable remuneration reflects the risks and errors that might have arised or materialised since the component was awarded. This is carried out as part of Group's Performance Management Process. Furthermore, the Remuneration Policy stipulates that in cases where the Group incurs losses payment of any deferred bonuses will be decided by the NRC. 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 bonus pool is divided amongst the employees depending on their individual performance and is based on a percentage of profit. Performance of individuals is mapped through the performance appraisal process. Individual performance is linked to Key Performance Indicators (KPIs) which take into consideration all stakeholders of the Group and are set around people management, internal processes, service/client delivery, financial, market position risk and control, strategic initiatives and Group synergy. The bonus pool is decided by the NRC.

In 2016, no severance payments were awarded. Likewise there were no cases where employees were awarded variable remuneration in excess of 100% of their fixed remuneration or EUR100,000. In 2016, the ratio of variable remuneration to fixed remuneration for the identified staff for the whole group stood at 4%.

No individual was remunerated more than EUR1,000,000. Supplementary information on remuneration is included in the Remuneration Report.

directors and senior management

board of directors

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

company secretary	Andrea Batelli
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senior management – fimbank p.l.c.

group chief executive officer	Murali Subramanian	
first executive vice president	Howard Gaunt	Group Chief Operating Officer
executive vice presidents	Andrea Batelli	Group Head of Legal and Company Secretary
	Michael Davis	Group Chief Compliance Officer/MLRO
	Ronald Haverkorn	Group Chief Risk Officer
senior vice presidents	Gilbert Coleiro	Group Chief Information Officer
	Ronald Mizzi	Group Chief Financial Officer
	Nilanjan Ray	Chief Executive Officer of FIMBank Dubai Branch
	Giovanni Bartolotta	Head of Risk Management
	Bruno Cassar	Group Head of Human Resources
	Michael Davakis	Group Head of Treasury and Capital Markets
	Noel Galea	Group Head of Compliance Operations
	Corinne Lanfranco	Head of Financial Institutions and Deposits
	Carmelo Occhipinti	Head of Financial Management
	Loranne Pace	Head of Banking Operations and Project Management
	Richard Scerri	Group Head of Internal Audit
	Richard Starsmeare	Head of Trade & Commodity Finance
	Chris Trapani	Head of Cash Management and Central Customer Services
	Charles Wallbank	Head of Real Estate Operations and Policy
	Jason Zammit	Head of Real Estate, Marketing and Administration
	Demetris Zouzoukis	Head of Hellenic Branch
first vice presidents	Dennis Camilleri	Trade and Commodity Finance
	Christine Coleiro	Deputy Head of Human Resources
	Tamer Elgohary	Dubai Branch
	Alexia Farrugia	Head of Financial Accounting and Regulation
	Keith Farrugia Galea	Data and Application Management
	Stefan Galea	Head of IT Infrastructure and Information Security
	George Goumassis	Head of Business Development
	Nicolas Henrion	Head of MedFactors
	Gian Carlo Millo	Deputy Head of Internal Audit
	Doreen Saliba	Trade and Commodity Finance
	Peter Zammit	Deputy Head of Risk Management

senior management – london forfaiting company limited

managing director	Simon Lay	
directors	Tony Knight	Head of Trading
	Ian Lucas	Head of UK Marketing
company secretary	William Ramzan	Head of Finance and Company Secretary
senior manager	Sandro Valladares	Trading
subsidiaries and offices	Irina Babenko	Representative, LFC Moscow
	Eric Baillavoine	Representative, LFC France
	Greg Bernardi	President, London Forfaiting Americas Inc.
	Alexandre Ozzetti	Managing Director, London Forfaiting do Brasil Ltda.
	Lorna Pillow	Head of Operations, LFC Malta
	Yonca Sarp	Senior Manager, LFC London
	Wenli Wang	Representative, LFC Germany

senior management – menafactors limited

acting chief executive officer	Sean Aston	
senior vice president	Naushirwan S. Commissariat	Head - Finance and Company Secretary
first vice president	Venkatesh B. Krishnamurthy	Head - Credit Administration and Control

senior management – india factoring and finance solutions (private) limited

chief executive officer	Sandeep Mathkar	
first executive vice presidents	Ravi Valecha	Head of Product and FI Network
	Ganesh Nalawade	Chief Operations Officer
senior vice president	Amol Deshpande	Head of Finance and Treasury

senior management – latam factors

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	Francisco Javier Hormazabal Riquelme	Chief Operations Officer
	Pablo Arturo Frei Partarrien	Chief Financial Officer

senior management – egypt factors

chief executive officer	Ahmed Shaheen	
senior managers	Hesham Amin	Deputy General Manager, Chief Financial Officer Head of Financial and Administrative Sectors and Company Secretary
	Abd El-Rahman Gamal	Assistant Manager, Acting Head of Operations
	Mohammed Essam	Deputy General Manager, Head of Risk and Compliance (AML)

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